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Germany's Post-Reunification Effort to Achieve National Reconciliation: Muddling Through, Routinization, and Policy Failure*

Jörg Michael Dostal

This article reexamines the track record of German unification after three decades. The focus is placed on economic issues, while cultural, social, and geopolitical dimensions are dealt with more briefly. Following the introduction, Section II briefly examines the history of Germany's national division and the East German political events in late 1989 and early 1990 that produced the unification of the two Germanies on 3 October 1990. Sections III to V subsequently discuss the major political and economic events during the Kohl, Schröder, and Merkel Chancellorships, respectively. Section III focuses on the high political and social costs of the initial economic disruption in the East due to the near single-minded focus on the rapid privatization of the former GDR enterprises. In Section IV, the negative feedback of the economic shock is discussed, namely high unemployment, the fiscal crisis of the welfare state, and the demographic collapse in the East. Section V sketches how the Great Recession of 2007-2008, the subsequent Euro currency, and the southern EU states' debt crises collectively crowded out the topic of intra-German reconciliation. The emerging overall picture advanced in Section VI is that a combination of muddling through, routinization (here also termed as "reconciliation by accident"), and policy failure most adequately describes the outcome of Germany's unification experience. Finally, Section VII puts forward some policy suggestions for Korean audiences deriving from the German case. It is argued that the geopolitical situation of the two Koreas is fundamentally different. Thus, South Korea's main focus must be placed on patient inter-Korean engagement, focusing on conflict prevention while also engaging with all relevant external stakeholders.

Keywords: economic unification, German unification, Germany, North Korea, South Korea

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I. Introduction

Reviewing three decades of German unification means highlighting that German citizens in the former Western state (the Federal Republic of Germany, or FRG) and the former Eastern state (the German Democratic Republic, or GDR) continue to strongly disagree on whether the unification process should be evaluated as a success, ambivalent experience, or an overall failure. Every native German author on the topic speaks ultimately as a member of a particular age cohort and is influenced by personal memories, past and current political views, and, in the case of the more mature age groups, one's earlier West German or East German citizenship. Very soon, one can certainly expect a flood of new analysis around 3 October 2020, the 30th anniversary of what is termed *Wiedervereinigung* ("reunification") in the German language. In Germany, this event will be celebrated by some and ignored by many. To be sure, the analytical time frame of three decades is long enough to draw certain conclusions from past experiences. By now, one must accept certain outcomes as final results. To put it in the words of the 2001 Nobel Prize for Literature winner V. S. Naipaul: "There could be no going back; there was nothing to go back to. We had become what the world outside had made us; we had to live in the world as it existed."¹

The current article makes an effort to highlight certain "ideal-typical" approaches and interpretations that are prominent in current-day Germany concerning the unification experience. The author does not necessarily share any of the presented views in their entirety. Instead, the purpose here is to adopt the position of an honest broker in communicating some German experiences to a Korean and perhaps Asian audience. In order to do so, the following order of presentation will be adopted: (I) the period of German division since 1949 and the events of 1989/90 that resulted in the unification on 3 October 1990; (II) the period of the Helmut Kohl Chancellorship concerning post-unification Germany between late 1990 and 1998; (III) the period of the

1 V. S. Naipaul, *A Bend in the River* (New York: Vintage Books, 1979), p. 244.

Gerhard Schröder Chancellorship between 1998 and 2005; (IV) the period of the Angela Merkel Chancellorship since 2005; (V) some conclusions from the German experience; and (VI) potential policy-making lessons for Korean and other non-German audiences. Each section will present a brief account of major events and policy initiatives followed by an evaluation of the outcomes.

II. Germany's Division and the Events of 1989/90

Briefly, the division of Germany into two states belonging to opposite Cold War "blocs" (U.S.-led and Soviet-led) was one of the outcomes of the Second World War. The initial policy of the conservative West German governments toward East Germany since 1949 focused on the principle of non-recognition of the GDR and a "policy of strength" indicating the absence of any official dialogue with the other side. Following the 1969 West German federal election, the newly incoming center-left and reformist government of Social Democratic Chancellor Willy Brandt (the so-called "social-liberal" coalition made up of Social Democrats (SPD) and Liberals (FDP)) started focusing on improving relations with the GDR and the Soviet Union. This strategic initiative was termed the "New Eastern Policy" (Neue Ostpolitik).

The very first protagonist of this new approach was the Social Democratic politician and intra-German "fixer" Egon Bahr (SPD). Bahr's portfolio of activities in the 1960s combined a formal role as spokesman and leading assistant of the then West Berlin mayor Willy Brandt with the informal role of cultivating close relationships with top U.S. and Soviet policy advisers. Bahr termed the new strategic paradigm, indicating political engagement with East Germany, as "change through rapprochement" (*Wandel durch Annäherung*) in a speech delivered in mid-1963.² Beyond improving the intra-German relationship, the policy

2 For the full text of the speech, see Egon Bahr, "Wandel durch Annäherung" (paper presented at the Evangelische Akademie Tutzing, July 15, 1963), <<https://web.ev-akademie-tutzing.de/cms/fileadmin/content/Die%20Akademie/Geschichte/Wandel/Wandeldurchannaehrerung.pdf>> (date accessed November 18, 2019).

was also intended to cultivate West Germany's relationship with Poland and the Soviet Union.³ The Bahr approach, later implemented by Brandt, was successful in the sense that dialogue between the two Germanies as well as the FRG and the Soviet Union continued throughout the 1970s and 1980s in spite of a period of worsening Cold War tensions between the two opposing superpowers.

Regardless of such diplomatic initiatives, however, most West and East Germans did not expect any unification of the two states to occur during their lifetime. In fact, the most popular German word to subsequently describe the events of 1989 and 1990 is "*die Wende*," which translates as "the turning point" (in a political sense) and indicates the sudden miracle-like break-up of the previous fixed state of European and global affairs founded on German division. In order to understand how "the turning point" occurred, one must first focus on global and regional factors. On the global level, the Soviet Union-led alliance of states had run into deep structural economic problems, some of them related to deteriorations in the Soviet Union's balance of trade due to a decline in oil and gas prices in the 1980s that strongly affected the Soviet Union's external revenue.

The appointment of Mikhail S. Gorbachev as General Secretary of the Communist Party of the Soviet Union in 1985 and as first and, as it turned out, last President of the Soviet Union in 1990 resulted in the abandonment of the "Brezhnev Doctrine," namely the Soviet leadership's announcement that it would not hesitate to resort to military force to break up any internal unrest in an aligned country. During the 1980s, the wave of working-class strikes and the rise of an independent trade union movement in Poland already questioned the durability of Eastern European state-socialist regimes. Most of all, the Gorbachev period was characterized by announcements of honesty, transparency, and a renewal of socialism. However, these promises turned sour when what was at the time referred to as the "nationality

3 For details of the "New Eastern Policy," see Jörg Michael Dostal, "Two Koreas, one Germany: Is the German Unification Experience becoming more relevant for today's Koreas?" (Seoul National University Asia Center, Diverse Asia Online Series, vol. 1, no. 2, 2018), <<http://diverseasia.snu.ac.kr/?p=1324>> (date accessed November 18, 2019).

question" increasingly threatened the viability of the Soviet Union's federalist framework. More and more national independence movements demanded secession from the Union and from Russia as the actual backbone of Soviet statehood.

The dramatic decline of the bargaining position of the Soviet Union vis-à-vis the Western powers opened the door for the events of 1989 and 1990 in the GDR and the other Soviet-aligned Eastern European states. It must be stressed that there still exists no full consensus about what actually occurred in 1989 and 1990. The view of events put forward by today's German government is that a "peaceful revolution" introduced democracy, liberal pluralism, and the rule of law in the East. In turn, the subsequent German unification is understood as the accession of the GDR joining the FRG based on the self-dissolution of the former and the introduction of the societal norms of the latter.⁴ In a similar manner, East German events were also described as a "catch-up revolution" based on the GDR society's joining of the economically more developed and culturally more diverse Western way of life. The same author suggested that this particular type of revolution had nothing to offer on its own, stressing a "near-total lack of innovative ideas pointing to the future."⁵

However, such homogenizing narratives continue to be questioned by many of the East German participants in the events of 1989 and 1990

4 Gerhard A. Ritter, "The Social Policy of Unification and Its Consequences for the Transformation of the Economy in the New Eastern States," in *The East German Economy, 1945-2010. Falling Behind or Catching Up?*, eds., Hartmut Berghoff and Uta Andrea Balbier (New York: Cambridge University Press, 2013), pp. 217-31.

5 Jürgen Habermas, *Die nachholende Revolution* (Frankfurt/M.: Suhrkamp, 1990), p. 181. All translations from German sources are by the author. It could be argued, however, that Habermas failed to credit the emergence of the so-called "round tables" (*Runde Tische*), bringing together the representatives of the GDR government and opposition in late 1989 and early 1990 at the GDR-national, regional, and municipal levels for direct talks on all major policymaking issues, as a potentially promising form of deliberative democracy. The round tables increased the number of stakeholders and offered GDR citizens unprecedentedly high levels of transparency. In fact, the current author clearly remembers the GDR's political atmosphere in late 1989 and early 1990, when the old state had lost all authority and no new institutions had yet been formed. During this liminal period everyday life continued as normal, as a short-term realized utopia in which citizens for a brief moment negotiated their affairs as equals.

who still remember the dramatic shifts in political leadership happening between October 1989 and March 1990. In a matter of weeks, sometimes days, the political profile of the GDR protests changed again and again. The starting point was the hope to reform the GDR from within, which included frequent reference to a renewal of socialism. In subsequent stages, especially after the opening of the intra-German border on 9 November 1989, the initial actors and their demands were pushed aside by new actors demanding economic and political equalization with West Germany and the self-dissolution of the GDR. Even in the latter stages, many East Germans still expected that intra-German negotiations were required to equitably agree on terms and conditions of unification. Only weeks before the decisive elections of 18 March 1990, which sealed the political fate of the GDR by handing electoral triumph to the center-right CDU, the opinion polls had suggested that the SPD was on course to win the majority of East German votes. Moreover, many East Germans believed that there would be deliberation about a new German constitution in the event of unification. This debate never happened, however, and a draft constitution written by GDR reformers was shelved without any further discussion in April 1990.⁶ The remainder of this section discusses different phases of the 1989 and 1990 events in detail.

Initially, public protests in the GDR were organized and attended by the so-called “civic activists” (*Bürgerbewegte*) who demanded a reformed GDR society based on democracy, human rights, and transparency. This group of activists included only a couple hundred people across the GDR and was under the close supervision of the GDR security services. The protesters did not expect to bring down the state but wanted to reform the GDR society from within. Joining the initially small rallies and demanding the recognition and legalization of civic activist circles by the GDR authorities was an act of genuine courage.

Due to the relative openness of the GDR to external media

6 “Entwurf Verfassung der Deutschen Demokratischen Republik,” Arbeitsgruppe “Neue Verfassung der DDR” des Runden Tisches, Berlin, April 1990, <http://www.documentarchiv.de/ddr/1990/ddr-verfassungsentwurf_runder-tisch.html> (date accessed November 18, 2019).

commentary—West German TV was available to most GDR citizens—the civic activists became broadly known to GDR citizens. In parallel, the opening of the “Iron Curtain” in Hungary since 2 May 1989 allowed many GDR citizens to leave their country via Hungary to start a new life in the FRG. Last but not least, the GDR leadership faced a severe economic and political crisis. The tipping point proved to be the 40th anniversary of the GDR’s founding on 7 October. Official celebrations became overshadowed by street rallies and skirmishes between protesters and the GDR police force in East Berlin. Subsequently, the leadership of the East German “leading” political force, the Socialist Unity Party (abbreviated SED in German) was exchanged. The new SED leadership quickly decided that they would not use the police or army to attack the protest rallies. Briefly thereafter, the SED’s rank-and-file, and especially the party’s intellectuals, also started their own street protests demanding reform of GDR socialism.⁷

Broadly speaking, the second stage of events was led by pro-GDR intellectuals advocating for new efforts to create a humanistic socialism. On 4 November 1989, a large rally was organized in the central Alexanderplatz Square in East Berlin during which around one million people listened to speeches of representatives of East German society mostly drawn from the cultural sphere. The speakers overwhelmingly demanded internal renewal of the GDR. This event was followed three weeks later by an appeal by the East German novelist Christa Wolf and other pro-socialist GDR intellectuals titled “For our country” (this meant the GDR), which called for “a socialist alternative to the FRG.”⁸ However, such reform efforts quickly fell by the wayside due to the shock announcement by a GDR government spokesman, on 9 November, that the borders between East and West Berlin would be immediately opened. Due to this unexpected event, quickly followed by the opening of all intra-German borders, the future of GDR statehood was cast in doubt—not least because Western political actors could now

7 Sabine Pannen, *Wo ein Genosse ist, da ist die Partei! Der innere Zerfall der SED-Parteibasis 1979-1989* (Berlin: Christoph Links Verlag, 2018), pp. 44, 300.

8 “Für unser Land,” November 26, 1989, <<https://www.ddr89.de/texte/land.html>> (date accessed November 18, 2019).

directly engage with eastern events on the ground.

In the third stage of events, the hopes of the GDR intellectuals were crushed. While workers (and peasants) were notionally the ruling social classes of the GDR, they had in reality always been “represented” by the SED as the “leading party,” which included a strong overrepresentation of intellectuals. It turned out that the intellectuals, still broadly supportive of socialist ideas, were alienated from many members of the social class on whose behalf they advocated socialism.⁹ Once the GDR working class joined the rallies in large numbers, the main rally slogan turned from “We are the people” to “We are one people.” This was particularly noticeable in the Leipzig street rallies when, in November 1989, calls for an “end of [socialist] experiments” and the unification of the GDR with the FRG grew louder while leftist groups appeared isolated. This turned out to be the decisive “tipping point” of the events. Those who still favored the reform of the GDR from within would subsequently refer to the rapid shift in rally slogans as the “turning point of the turning point” (*die Wende der Wende*), namely the political demands now became focused on joining the FRG and abandoning GDR culture and identity as quickly as possible.

In the fourth and final stage of events, the public rallies became dominated by the preparation of the first (and last) free GDR national elections in March 1990. Heavily subsidized by West German political funding, the so-called “Alliance for Germany,” a right-of-center coalition of the East German Christian Democrats (CDU) with two smaller political groups, and indirectly led by the FRG Chancellor and West German CDU chief Helmut Kohl, easily gained the largest vote share of 48 percent based on the promise of rapid unification after the shortest possible transition period. The Social Democrats were soundly defeated with around 22 percent of the vote while the former GDR state party SED, now renamed the “Party of Democratic Socialism” (PDS), gained a respectable 16 percent. All other political forces, especially the citizens’ circles that had organized the initial rallies, failed to make major inroads

9 Mario Keßler, “DDR Historiker – Akteure und Chronisten,” *Das Blättchen*, vol. 22, no. 18 (2019), <<https://das-blaettchen.de/2019/08/ddr-historiker-%e2%80%93-akteure-und-chronisten-49389.html>> (date accessed November 18, 2019).

in the election. In December 1990, two months after unification, the first federal election of unified Germany took place and Kohl defeated the SPD candidate Oskar Lafontaine, who had earlier voiced reservations about the quick speed of unification due to the vast economic differences between the Western and Eastern economies. The next section outlines the major policies that were taken since March and October 1990 and in the remainder of the Kohl Chancellorship until 1998.

III. Unification and Kohl Chancellorship (1990-1998)

Practically all significant path-making decisions concerning the economic and political features of the unification process were introduced under the Kohl government in 1990 and briefly thereafter. The starting point was that “unification” did not mean a political marriage of equals. Rather, the GDR with nearly 17 million citizens “joined” the FRG with around 61 million citizens, giving up all bargaining power in the hope of good treatment by the new authorities. Many critics rejected the term “unification” and instead suggested that the process should be called a “take-over” (“Anschluss” or “Übernahme”) of the GDR by the FRG. The Western political, economic, and legal systems, national symbols and the de-facto Constitution, the *Grundgesetz*, were expanded to incorporate East Germany.

In early 1990, an economic trust body (the “*Treuhandanstalt*”) was founded by the GDR government to deal with the Eastern enterprise structure, which subsequently, after the victory of the CDU-led center-right election alliance in the GDR-wide elections of March 1990, was tasked to privatize around 8500 state-owned GDR enterprises with more than 4 million employees. One major reason for the victory of the CDU-led election alliance was that the Kohl government had promised before the March election to quickly introduce the West German currency (the DM) in the East. This was considered to be inevitable in order to avoid large-scale migration of Eastern workers to West Germany. Conversely, the introduction of the West German currency also meant that GDR enterprises lost the ability to compete under market conditions with

Western companies due to the much lower labor productivity in the East.¹⁰

The *Treuhandanstalt* came under the full jurisdiction of the Kohl government once the GDR ceased to exist on 3 October 1990. This, in effect, meant the disappearance of any kind of separate East German institutional veto. Contrary to some other state socialist societies in Eastern Europe and the Soviet Union, there was no pretense to distribute ownership shares of state enterprise among GDR citizens. Instead, GDR firms and industry were supposed to be privatized by the *Treuhandanstalt* as quickly as possible in line with the concepts of economic “shock therapy.”¹¹ In fact, most Eastern enterprises were quickly closed down due to their lower productivity compared to Western companies. The consumer market of the former GDR was flooded with West German products and services crowding out remaining Eastern producers. From mid-1990, unemployment started to grow very quickly. Thus, GDR citizens no longer had time for philosophical debates about an ideal society, but were instead forced to reorganize their personal lives and relationships under the new conditions of a market society. This meant that people’s ability to have second thoughts about what was going on was effectively blocked since they quickly became overwhelmed by the dramatic societal transformations.

In terms of describing the major events, one might distinguish in order of importance the policy paradigms informing the economic transition (most important), the policy instruments used to implement these paradigms (second-most important), and the instrument settings of each policy instrument (least important and most easily changeable).¹² The major policy paradigm was to rapidly privatize the

10 Ritter, *op. cit.*, pp. 220-23.

11 Andreas Pickel, “The Jump-Started Economy and the Ready-Made State: A Theoretical Reconsideration of the East German Case,” *Comparative Political Studies*, vol. 30, no. 2 (1997), pp. 211-41.

12 For this typology of policy change, see Peter A. Hall, “Policy Paradigms, Social Learning and the State: The Case of Economic Policymaking in Britain,” *Comparative Politics*, vol. 25, no. 3 (1993), pp. 275-96.

GDR economy at all costs. The second paradigm was to return real estate and enterprises that had been expropriated by the GDR since the 1950s to their former private owners, or their descendants, who mostly resided in West Germany. This principle of “compulsory return of property titles” extended to all assets that had not been subject to the immediate post-WW2 expropriations of war criminals by the Soviet occupying authorities. A second qualification was that the results of land reform directly after WW2, in 1945 and 1946, namely the expropriation of large landowners and those closely linked with the Nazi regime, were to be respected. Thus, land titles were not in all cases returned to their former owners. Nevertheless, the policy produced an unexpected return of East German assets to West German former owners, or their descendants, who were now reunited with properties that they had never previously expected to reclaim.

The rapid decision-making on the disposal of GDR state enterprise was supposed to inflict the least amount of pain and deliver the quickest possible economic turnaround. In reality, it resulted in a giveaway of assets since many West German corporations purchased potential East German competitors only to close them down.¹³ In most cases, a slower speed of privatization would have allowed more adequate preparation of GDR enterprises so that they could survive under market conditions. However, such views were disregarded and the *Treuhandanstalt* implemented quick privatization before being closed down in 1994 to be replaced by three successor bodies with similar missions. This course of events, that had initially been put forward in order to “avoid experiments,” ended up as the most radical experiment imaginable.

The outcome of the high-speed privatization process in the former

13 The most high-profile takeover of an Eastern enterprise by a Western competitor in order to “clear the market” was the 1993 fusion of the Eastern “Mitteldeutsche Kali AG” with the Western “Kali and Salz AG” that belongs to the BASF industrial conglomerate. The post-takeover announcement of the closure of the eastern production site in Bischofferode triggered the most visible workers’ protests in the East post-unification. 25 years after the event, the 2018 documentary movie “Bischofferode – Das Treuhand-Trauma” concluded that the traumatic experience still remains very much alive in the minds of the protagonists. For the movie, see <<https://www.youtube.com/watch?v=NYr5rOkT9Nw>> (date accessed November 18, 2019).

GDR was as follows: (1) unprofitable GDR enterprises were quickly closed down triggering high levels of unemployment; (2) an extremely small number of economically promising GDR enterprises were taken over by West German companies (foreign corporate interest was generally discouraged by the West German executives of the *Treuhandanstalt*); (3) many Western takeovers occurred in order to “clear the market,” i.e. eastern enterprise was subsequently closed down; (4) a near full-scale deindustrialization of East Germany occurred; and (5) no East German entrepreneurial class emerged due to GDR citizens’ lack of initial capital ownership, which collectively made them unable to purchase any assets.¹⁴

While Chancellor Kohl initially promised “flourishing landscapes,” the reality was that East Germany turned into a structurally depressed economic emergency zone comparable to other economically disadvantaged regions in Europe such as the southern parts of Italy. The economic and socio-cultural outcomes were both short-term and long-term. Post-unification, there was a dramatic collapse in the East German fertility rate. At one point in the 1990s, it fell to 0.8, the lowest rate ever recorded in a non-city state during peace times. In addition, more and more East Germans left their regions in order to find employment and life prospects elsewhere. Data covering intra-German mobility between East and West shows that more than 3.6 million East Germans (nearly one in four) left the East for the West between 1991 and 2017. There were also 2.4 million moves in the opposite direction.¹⁵ Overall, East Germany

14 One needs to acknowledge a certain circularity in post-hoc German discussions of GDR enterprise privatization. There is agreement that “shock therapy”—the liberalization of prices, the introduction of the West German currency, and the cuts in subsidies—triggered the collapse of East German industry and resulted in the decline of the Eastern labor force from close to ten million in 1989 to barely six million some years later. However, opinion differs widely on whether alternative policy choices would have delivered better outcomes. See e.g. Helmut Wiesenthal, “German unification and ‘Model Deutschland’: An adventure in institutional conservatism,” *West European Politics*, vol. 26, no. 4 (2003), pp. 37-58, and Wolfgang Streeck, *Re-Forming Capitalism. Institutional Change in the German Political Economy* (Oxford: Oxford University Press, 2009), pp. 210-16.

15 Christian Bangel et al., “East-West Exodus: The Millions Who Left,” *Zeit Online*, May 30, 2019, <<https://www.zeit.de/politik/deutschland/2019-05/east-west-exodus->

experienced a dramatic demographic decline that became structurally entrenched due to the tendency of younger and better-educated people to leave for good.

The disappointing outcome of the economic transition would have resulted in large-scale social upheaval in the absence of side payments to placate the situation. In order to manage the socio-economic changeover, the existing FRG welfare state and social insurance policies were quickly extended to the East. In a memorable phrase, this policy mix was described as “shock therapy combined with anti-shock guarantees.”¹⁶ The most significant immediate measure concerned “short hour” work payments (*Kurzarbeitergeld*), which referred to de facto wages for workers who were either winding down their own workplaces or were actually unemployed. This measure covered at one point around 2 million people in the East. In addition, early retirement policies for workers above the age of 55 (approx. 850,000 people) allowed the older generation to withdraw from the labor market for good. This measure was a very effective way to silence potential dissenters.¹⁷ On the other hand, Western employees newly appointed to leadership positions in the East were offered generous special allowances to top up their pay and to compensate them for their labor mobility.¹⁸

migration-east-germany-demography> (date accessed November 18, 2019).

16 Wiesenthal, op. cit., p. 41.

17 Ritter, op. cit., pp. 223-28.

18 Yana Milev, “Was heißt hier Transformation? Tatbestände der Verwerfung, Abwicklung und Löschung in Ostdeutschland seit 1989/90. Zum Forschungsprofil des vorliegenden Bandes,” in *Entkoppelte Gesellschaft – Ostdeutschland seit 1989/90: TATBESTÄNDE*, eds. Yana Milev and Franz Schultheis (Frankfurt/M.: Peter Lang Verlag, 2019), p. 20. This publication is one of nine published or projected monographs on what the main initiator Yana Milev terms “the social and cultural disappearances in East Germany since 1989/90.” Overall, Milev stresses that the “policy of memory” in post-1990 Germany mostly excludes East German academics of the age cohort born between 1945 and 1975. In addition, she highlights the “devaluation of everyday culture and the cultural heritage of the GDR” as an “act of colonial violence.” Her effort to research against the grain is enabled by the Zurich University of the Arts and other institutions. It will be interesting to observe to what extent her monumental and dissident “Remembrance of Things Past” will be recognized as a significant contribution to the “policy of memory” in the German media and cultural landscape.

Post-unification, East Germans were added to the FRG pension insurance system. Subsequently, some Eastern retirees received relatively high pensions in comparison to West Germans because the GDR employment system had allowed male and particularly female workers to acquire pension contribution records based on full-time work. This sometimes resulted in higher female pensions for Eastern women in comparison to their Western compatriots.¹⁹ In order to manage record unemployment levels among younger and middle-aged workers, benefits were paid for participation in state-organized employment schemes or retraining measures. These public employment policies bought time but failed to create any sustained economic recovery due to the low level of private sector investment in Eastern job creation. No self-supporting economic upturn occurred, and the economic depression in the East became a chronic condition.

On the political plane and with regard to “reconciliation” (or absence of it), the major event was the large-scale removal of the former GDR elite from positions of influence in the post-1990 Eastern political system. Practically all newly created top leadership positions in the East were filled with West Germans—and this mostly continues to be the case at the moment of writing. This sets East Germany apart from the other post-socialist transformation societies in Eastern Europe and the post-Soviet space where former elites usually partially retained their positions of influence, allowing them to play a significant role under the new socio-economic circumstances.

By contrast, East German political, academic, and administrative elites were often forced to leave their positions of influence, without any clear-cut alternative fields of employment being available. Thus, the middle-aged GDR-generation that was fully socialized in the East but

19 However, introducing the Western pension system in the East also produced new gender injustices. In particular, Eastern women who were divorced during GDR times were not offered any equalization measures with regard to their pension prospects, although such measures had previously been in place in West Germany before 1989 (*Lastenausgleich*). Thus, this particular cohort of Eastern female pensioners suffers from disadvantages in comparison to West German women. For more detail on this long-standing policy controversy, see <<http://www.verein-ddr-geschiedener-frauen.de/index.html>> (date accessed November 18, 2019).

too young to retire lost the most in the transformation process. The main losers were those with political leadership functions, those in sectors that were most decimated due to economic restructuring, and in particular female leadership personnel. On the other hand, elites with specialist knowledge and a lower degree of political exposure fared comparatively better. Yet these groups also faced increasing competition from Western elites.²⁰ However, the hardest-hit group overall consisted of rank-and-file Eastern workers, i.e. the social group that had initially in many cases been the loudest proponent in favor of rapid economic transition fell victim to that very same process in turn.

Subsequently, the new "post-socialist" East German political class, which had only emerged in late 1989 and early 1990 as an alliance partner of the Kohl-CDU (or the West-SPD), fell victim to the "reappraisal" of the past. It increasingly became apparent that many of those now active in higher-level East German politics had previously cooperated to some extent with the GDR's secret police, the Stasi. One politician after another saw his or her "Stasi file" (secret police file) published. In the early 1990s, this was generally considered sufficient to exclude the person in question from further participation in professional politics. The fact that many of these files were the result of people being pressured to cooperate, in order to qualify for places at university or due to workplace conflicts, was not considered as a remedial factor. Due to this policy of exclusion of "secret police informants," most newly-prominent East German politicians fell by the wayside. Perhaps the only prominent politicians still standing with name recognition in the East turned out to be Angela Merkel and Vera Wollenberger, the former

20 Anne Goedicke, "Fachexperten und Leitungskader: Karrieren von Angehörigen der oberen Dienstklasse der DDR nach der Wende," *Historical Social Research*, vol. 28, no. 1/2 (2003), pp. 247-69. For recent analysis of East German underrepresentation in leadership positions in German society today, see Ronald Gebauer, Axel Salheiser, Lars Vogel, "Bestandsaufnahme Ostdeutscher Eliten 2017," in Deutsche Gesellschaft e. V. [no stated place of publication], ed., *Ostdeutsche Eliten: Träume, Wirklichkeiten und Perspektiven*, pp. 14-33, <https://www.deutsche-gesellschaft-ev.de/images/veranstaltungen/konferenzen-tagungen/2017-pb-ostdeutsche-eliten/Deutsche_Gesellschaft_eV_Broschuere_Ostdeutsche_Eliten.pdf> (date accessed November 18, 2019).

apparently without any record of previous political activism and the latter a prominent victim of Stasi surveillance.

IV. Schröder-Chancellorship 1998-2005

Following the German federal election of 1998, a new center-left coalition government of SPD and Green Party entered office at a moment in time when high levels of unemployment and concern about Germany's future economic competitiveness in world markets—the “globalization shock”—triggered an increasing influence of neoliberal ideas in public discourse. This was particularly evident in the pro-deregulation coverage of economic news on public television and in print newspapers, which back then still held a large share of the public's attention. Because of this situation—a left of center government facing a neoliberal *Zeitgeist*—the new administration initially suffered from the absence of any clear policy paradigms. Initially, traditional leftists in the government demanded more state intervention at the macroeconomic level in the German and the European Union (EU) contexts. This policy paradigm was advanced by the then German finance minister Oskar Lafontaine suggesting investment in public infrastructure, education, and research to facilitate economic growth (referred to as Euro-Keynesianism).²¹

A somewhat similar idea—located between policy paradigm and policy instrument—was to directly support remaining Eastern enterprise. This policy initiative was termed “industrial growth core” (or “regional growth core”) and was supposed to bring together Eastern firms with regional policy actors, civil society, and universities and research bodies in order to facilitate “regional value chains”—by retaining a skilled workforce and by strengthening local research and development capacities. These activities were generally evaluated to

21 Jörg Michael Dostal, “From ‘Moderniser’ to ‘Traditionalist’: Oskar Lafontaine and German Social Democracy in the 1990s,” *Debatte: Journal of Contemporary Central and Eastern Europe*, vol. 8, no. 1 (2000), pp. 23-37.

enjoy a degree of success.²² However, the funding levels for “growth core” policies were very modest in comparison to what had been destroyed in terms of the break-up of Eastern industrial enterprise directly after the economic transition.

Because of the dominance of neoliberal ideas in Germany around the end of the millennium, the government of Chancellor Schröder dramatically changed course in 1999 and again in 2003. It began focusing on consolidating the public budget through austerity measures before turning to neoliberal supply-side reform in the labor market and retrenchment of the welfare state. Finally, taxes for employers and the wealthy were cut while the general sales tax—the least progressive tax—was increased. Among these measures, the most dramatic policy change was the 2003 drastic curtailment of unemployment benefits for the long-term unemployed (the so-called “Hartz 4 reforms,” named after a Volkswagen personnel manager and then personal friend of Schröder).

This policy shift, which was hitting the high-unemployment East German regions the most, produced the second major policy schism after unification. Subsequently, large-scale street protests occurred in practically all urban centers of Germany. A newly emerging nationwide “anti-Hartz movement” started rallying against the retrenchment of unemployment insurance. These protests, the largest since the events of 1989/1990, underlined that significant popular sectors in East and West now feared social precarity. Many people, including middle-class audiences, felt that the welfare state would not protect them adequately in the event of job loss. As a reaction to the extremely unpopular welfare cuts, the Social Democrats experienced a collapse in their level of electoral support, losing more than half of their former voters. Since 2003, many working-class sectors and the urban poor have either stopped participating in elections or, similar to other European

22 Sonja Kind, Martina Kauffeld-Monz, Michael Nerger, Daniel Thiele, Jan Wessels, Christian von Drachenfels, “Evaluation der Förderinitiative Innovative regionale Wachstumskerne im Rahmen der BMBF-Innovationsinitiative für die Neuen Länder ‘Unternehmen Region,’” (Institut für Innovation und Technik, Berlin, 2016), <<https://vdivde-it.de/de/publikation/evaluation-der-foerderinitiative-innovative-regionale-wachstumskerne>> (date accessed November 18, 2019).

countries, have switched their allegiance to right-wing populist parties.

In parallel, the leftist opposition party, the PDS, also increasingly gained electoral support by assuming the role of advocate of Eastern interests and defender of welfare state principles. One core group of SPD members deriving from the trade union and social policy wing decided to split from the Schröder-SPD in protest against the chancellor's welfare retrenchments and later, in 2007, unified with the PDS to form a new political party named "The Left" (Die Linke). Due to this development, the PDS ceased to be a predominantly Eastern regional party and also gained parliamentary representation in some West German regional parliaments. In the East, the PDS represented social milieus that considered unification as biased in favor of Western interests. However, PDS supporters were not simply protesting: most backing came from groups with higher educational levels, sometimes above-average earnings, and from public sector employees with managerial responsibilities.²³ In other words, the PDS enjoyed more support from middle-class rather than working-class audiences and continued to represent cohorts of the GDR "state class" that had been employed in

23 Here, the analytical difference between "narrow" and "broad" definitions of "employees with managerial responsibilities" (*Führungskräfte*) is the crucial factor. While the post-1990 leadership of eastern public sector institutions—ministries, administrative bodies, and the legal system—was exclusively recruited from a pool of West German applicants, this was not necessarily the case in other sectors such as business or cultural fields. Applying a broader definition of employees with "managerial responsibilities," namely one that includes the self-employed, small business leaders, high-ranking public sector, and white-collar employees (*Angestellte mit Leitungsfunktionen*), highlights the fact that East Germans still held a significant share of eastern managerial positions. However, this group of "lower leaders" also faced severe competition from West Germans. In the first 20 years after unification, the eastern share of representation in such eastern managerial roles constantly declined while the West German share went up. This helps to understand the tendency of eastern "lower leaders" during this period to support the PDS (since 2007 "The Left"). See Peter Krause, Jan Goebel, Martin Kroh, Gert G. Wagner, "20 Jahre Wiedervereinigung: Wie weit Ost- und Westdeutschland zusammengerückt sind," *DIW Berlin Wochenbericht*, 44, 2010, p. 4, <https://www.diw.de/documents/publikationen/73/diw_01.c.363221.de/10-44-1.pdf> (date accessed November 18, 2019).

supervisory capacities in the former GDR.²⁴

In electoral terms, the PDS peaked in 2001, gaining a 48 percent vote share in the eastern part of Germany's capital Berlin (and 23 percent across the city), following the former center-right city government's collapse due to corruption scandals. However, this electoral success, which allowed the PDS to join a regional coalition government with the SPD in Berlin, also proved to be a Pyrrhic victory. In fact, the PDS politicians' support of public housing privatization and cuts in public sector wages, which were undertaken in order to balance the regional budget, meant that the party lost nearly half of their electoral support in the subsequent 2006 elections. Entering government meant that the PDS started to become a "normal" party in the sense of disappointing their voters in a manner that was comparable with the example of the Schröder-SPD.

V. Merkel Chancellorship Since 2005

Due to the unpopular "Hartz reforms," the "red-green" government was voted out of office in early federal elections in 2005. Since then, Chancellor Merkel of the center-right CDU has governed Germany in "grand coalitions" with the SPD (2005-2009, 2013-2017, and since 2018), while there was a single center-right coalition of Christian Democrats with the market-liberal FDP party between 2009 and 2013. It is fair to stress that the Merkel-led administrations have not focused much on the special economic conditions in East Germany. Nor has Merkel's eastern biographical background had any noticeable effect on the conduct of public policy. Instead, the government was preoccupied with various emergency measures in reaction to the global financial crisis starting in 2007. In 2008 and 2009, Commerzbank, a major German bank that had just taken over Dresdner Bank, another major German bank, asked to be bailed out by public emergency funds. After a partial state takeover of Commerzbank, subsequent policies of the Merkel government were

24 Inka Jörs, *Postsozialistische Parteien: Polnische SLD und ostdeutsche PDS im Vergleich* (Wiesbaden: Verlag für Sozialwissenschaften, 2006), pp. 79-81.

dubbed the “banking rescue.” This new-style crisis management by the state was soon, in 2010, followed by what was termed the “Greece rescue,” which turned into some larger “rescues” of several Euro currency member countries experiencing large-scale budget deficits.²⁵

In reaction to the Greek bailout, intended to avoid a default of Greece on its debt mostly held by other euro currency member countries, the creditor states, primarily Germany, demanded severe austerity measures such as privatizing public enterprise and welfare cost-cutting. Subsequently, these measures were also applied in some other countries hit by economic crises such as Portugal, Ireland, and Spain. The subsequent retrenchment shared features of the earlier East German post-unification policies. However, the rather surprising outcome of these contradictory activities, principally concerned with managing the southern states’ debt problem in a way that avoided short-term losses for creditors, was the emergence of a new Eurozone policy of “monetary Keynesianism.”²⁶

In particular, in order to avoid a default of southern EU states, the European Central Bank introduced zero-interest policies (and, since 2014, negative interest rates in some instances) that served to allow the southern states to continue carrying high nominal debt levels. At the same time, creditor countries, namely Germany, experienced economic stimulus due to the fact that capital savings became unattractive. The zero-interest policies forced savers to invest their capital in assets other than government bonds or bank deposits. This triggered rapid stock market gains and a housing price bubble, which in turn resulted in a

25 For a brief summary, see Nicholas Busse, “Kurze Geschichte der Euro-Rettung,” *Frankfurter Allgemeine Zeitung*, August 31, 2011, <<https://www.faz.net/aktuell/wirtschaft/konjunktur/euro-krise-kurze-geschichte-der-euro-rettung-11128868.html>> (date accessed November 18, 2019).

26 The term highlights the fact that most economic gains are realized by those investing in the stock market or real estate (the so-called asset price inflation). On the other hand, cuts in public services and public infrastructure investment might occur in parallel. This is certainly true in the case of the southern EU states. Thus, “monetary Keynesianism” fundamentally differs from the “Euro-Keynesianism” advanced by traditional social democrats at the turn of the millennium and, in fact, might dramatically increase social inequality.

construction boom and an expansion of the real economy.

Turning back to the economic situation in East Germany, the policies of the German government since 2007 have produced various complementary and overall expansionist outcomes. Directly after the outbreak of the global financial crisis, traditional countercyclical policy instruments at the national level were reintroduced, namely workers received grants from the government in the case of crisis-triggered cuts in working hours in order to retain their skills. In addition, a financial incentive was introduced for people to purchase new cars and dispose of old ones. However, more significant were the subsequent monetary stimulus measures deriving from the EU level and sketched in the previous paragraph. Finally, German labor unions became more assertive in recent years in demanding wage increases that directly increased peoples' purchasing power and stimulated the economy.

Looking specifically at East Germany, it should be acknowledged that more recent years have been characterized by some degree of structural economic recovery. This was due for two reasons. First, the negative feedback from the structural decline in the East had already worked itself through the system. It simply could not get any worse any longer. The extremely low birth rates after 1990 produced much smaller age cohorts in the education system and the labor market, while the extremely high levels of outward migration from the East to the West (estimated to amount to at least two million former GDR citizens leaving the East for good) nominally decreased unemployment in regions that had already lost large shares of their economically active population.

Second, the recovery and economic upturn in the East is mostly limited to some urban centers and the areas around the national capital of Berlin where "regional growth cores" have resulted in the rise of new enterprise, although still with rather modest shares of industrial employment. These areas have also profited from improvements in public infrastructure and the recovery and sometime boom in real estate prices. However, since many assets are owned by West Germans or foreign investors, this does not necessarily mean that East Germans actually share in the economic recovery.

Briefly summing up the Eastern socio-economic situation three

decades after unification, all major indicators suggest that there will never be any full economic equalization with the West. The economic structure in the East continues to be based on small-scale companies, while an industry with global competitiveness and research and development capacities is largely absent. Employees in the East are much less likely to be covered by collective wage setting procedures (*Tarifbindung*) that involve unions and employer associations. In 1998, 76 percent of western and 63 percent of eastern employees were covered by collective wage bargaining, indicating adequate and stable wages, while this share had declined in 2018 to 56 percent and 45 percent, respectively.²⁷

In 2018, the productivity of East German workers was still a third lower in comparison to West Germans, due to the predominance of small companies and lower levels of capital stock per workplace. In terms of the intra-German wage gap, Eastern full-time wages (*Vollzeitentgelte*) are currently still around 22 percent lower in comparison to Western wages. Moreover, unemployment levels in the East remained in mid-2018 with 7.4 percent, substantially higher in comparison to the Western level of 5.2 percent, while these levels had been at 20.4 percent and 10.8 percent in June 2005 during the peak of the post-unification employment crisis.²⁸ Overall, the demographic decline in the East has reduced the size of the cohort of people who are of working age. On the other hand, the West German labor pool has been growing substantially due to sizable intra-German, EU, and global migration flows. Partially due to such underlying demographic changes, most projections assume that economic differences between the eastern and western parts of Germany are likely to once again increase in the future.

As for the representation of East Germans in leadership positions in the unified country, one inquiry in 2010 highlighted that no top-30 stock

27 See WSI-Tarifarchiv, <https://www.boeckler.de/wsi-tarifarchiv_2257.htm> (date accessed November 18, 2019).

28 Uwe Blien, Van Phan thi Hong, Ludwig von Auer, Sebastian Weinand, "Wächst die Kluft zwischen den Regionen?," *IAB Forum*, September 4, 2019, <<https://www.iab-forum.de/waechst-die-kluft-zwischen-den-regionen/>> (date accessed November 18, 2019).

market listed German company (*DAX-Unternehmen*) was led by an East German, while only three out of 88 university presidents were from the East. Only one out of 213 generals in the armed forces had East German roots (a female medical services general).²⁹ In 2019, this situation had not changed in any significant manner. According to a former high profile East German CDU politician, the Federal Republic does not employ a single ambassador of East German origin, while there is also no Eastern university president employed in the East. In turn, 80 percent of employees in Eastern state ministries are from the West, and similar figures also apply to Eastern university personnel. In an appearance on an East German TV show, a retired CDU politician argued, to applause from the audience, that “this cannot go on, this is against the Constitution.”³⁰ To sum up, the prospects of young people born in the East after unification to ever gain access to the higher ranks of administrative and economic sectors are still lower than those of their Western-born fellow citizens.

VI. Evaluating Germany's Unification Experience Since 1990

In this section, three ideal-typical patterns of policymaking in the unification process will be briefly sketched, namely (1) “muddling through;” (2) routinization policies that could also be described as “reconciliation by accident;” and (3) policy failure in the sense of lasting disappointment with the outcomes of unification. As for muddling through, the most significant observation is that there never was an explicit effort to develop reconciliation policies as a separate field of policy-making. Instead, unification was considered as the addition of the East to the West in the sense of adapting the former to the latter. This was well-put in the spontaneous coinage, in 1990, of the new West

29 Peter Krause et al., op. cit.

30 These numbers derive from Peter-Michael Diestel, the CDU interior minister of the transitional GDR government between March and October 1990, and were voiced on MDR television on September 6, 2019, see <<https://www.mdr.de/riverboat/riverboat-gesamt-avplus-590.html>> (minutes 30:04-31:02) (date accessed November 18, 2019).

German word of “*Beitrittsgebiet*” which means “joining-up area” or “accession territory.” This Western term clarified that Easterners had joined the West on the understanding that Western rules would apply without any further follow-up negotiations between the two sides. As already indicated above, unification was considered as a socio-economic managerial task, expected to be conducted in a fairly limited period of time, and delivering an equalization of living conditions in both parts of Germany. Many sections of East German society were, in fact, willing to trust the new authorities: “They felt that they did belong to and wished for the quickest possible joining-up (*Anschluss*) with the Federal Republic; they extended respect and confidence to the Western state’s citizenry.”³¹

However, the path-making decisions taken by West German elites at the beginning of the process in 1990 have failed to produce many of the desired outcomes—especially when judged from the Eastern perspective. Thus, recent analysts have correctly stressed that “agreement can only be reached between equals” and that “feelings of having been cheated” continue to circulate widely in the East.³² Moreover, the theme of “demographic decline” in Germany’s East, since the turn of the millennium, triggers a “deficit-demographic decline-disaster feedback loop.”³³ This conveniently conceals from critical analysis the political role of the *Treuhandanstalt*, which turned Eastern public assets into Western-owned private assets. On the other hand, a lot of Westerners still believe that Eastern grievances were settled a long time ago. “In principle, one does not really know what actually happened [in the East] during the 1990s. One knows the buzzwords, but it seems a very exhausted topic.”³⁴ Many Westerners also think that they

31 Wolfgang Engler, *Die Ostdeutschen als Avantgarde* (Berlin: Aufbau Verlag, 2000), p. 28.

32 Andreas Willisch, “Über den Osten sprechen: Wege aus der Disaster-Rhetorik,” *tageszeitung (taz)*, September 8, 2019, <<https://taz.de/Ueber-den-Osten-sprechen/!5621559/>> (date accessed November 18, 2019).

33 *Ibid.*

34 Anja Maier [Interview with Marcus Böick], “Historiker über die Treuhand: Es gab Proteste, Streiks, Drohbriege,” *tageszeitung (taz)*, July 15, 2018, <<https://taz.de/Historiker-ueber-die-Treuhand/!5517592/>> (date accessed November 18, 2019).

contributed to the unification process by paying higher taxes and by accepting that many state-led public infrastructure activities were focusing on the eastern part of the country while the relative quality of public infrastructure in the western regions stagnated or experienced decline.

Turning to the second category of policy routinization and “reconciliation by accident,” one might stress that the rapid transition from Eastern to Western political structures succeeded in avoiding a “power vacuum.” There was no instance of sustained resistance on the part of Eastern elites rejecting the new structures. The East Germans were quickly split into different groups of “winners” and “losers” of the unification process. For some time, many Easterners were not sure to which side they would ultimately belong. Moreover, the emerging market economy quickly imposed a new kind of discipline on people’s everyday behavior and made them focus on complex new challenges concerning (un)employment, social security, and health and safety. This was very effective in crowding out efforts by Eastern elites to retain institutions of collective self-representation in order to extract concessions from West German elites.

The exception from this general observation was, to the surprise of many observers, the political comeback of the PDS as a new kind of East German people’s party in the 1990s and again after 2003 due to the protests against the welfare retrenchment policies of the Schröder-SPD. As a result of this development, a divided party system developed in which the “Western” smaller parties, namely the Greens and the Liberals (FDP), were much less visible in the East and mostly absent from regional parliaments, while the Eastern party system (the one prevalent in the five Eastern regional states of the unified country) was characterized by three medium-sized parties, the CDU, SPD, and PDS, competing for primacy.

In more recent times, since the 2013 foundation of the rightist Alternative for Germany (AfD), the party system has again undergone major restructuring. The AfD’s foundation was initially advanced by those rejecting the Merkel government’s euro currency policies and bailout of southern EU countries. Since 2015, however, the AfD has

mostly focused on opposing the chancellor's policy to open Germany's borders for high numbers of refugees and migrants. At present, the AfD has gained entry to all 16 regional German parliaments and is also the strongest opposition party at the federal level. Initially mostly rooted in the West, the AfD's subsequent rise has been particularly pronounced in the East. Many eastern rural areas have turned into AfD electoral strongholds, while the party scores below average in eastern urban centers that are economically more prosperous.³⁵ The AfD is now the second-largest party in terms of electoral support in all of the five Eastern regional parliaments. At the same time, levels of support for CDU, SPD, and especially the Left Party (former PDS) have all declined in recent times, pointing to the emergence of a four-party system in the East.

In the past, the German political system demonstrated a remarkable ability to integrate "extreme" wing parties. It transformed them over time into "normal" parties, in the sense of making them join regional and sometimes national coalition governments. This was the case with regard to the Greens in the 1980s, the PDS in the 2000s, and it remains to be seen whether or not the AfD is going to proceed along a similar trajectory. In any case, German political parties and especially their sets of professional politicians share interests concerning the current generous taxpayer-financed funding for their political work and party-affiliated educational foundations. This system of party funding, shared amongst all parties with a parliamentary presence, has over time incorporated the Greens and the PDS (and currently the AfD) into the unified Germany's political system, which points to routinization as a process of "reconciliation by accident."

Finally, there remains the issue of policy failure concerning unification. Of course, truth is very much in the eye of the beholder. However, it is beyond a reasonable doubt that most East Germans, as a group, continue to express less satisfaction and more grievances

35 Larissa Deppisch, Andreas Klärner, Torsten Osigus, "Ist die AfD in ländlichen Räumen besonders erfolgreich?," (Institut für Demokratie und Zivilgesellschaft, Jena, June 12, 2019), pp. 83-85, <https://www.idz-jena.de/fileadmin/user_upload/PDFS_WsD5/Text_Deppisch_Kl%C3%A4rner_Osigus.pdf> (date accessed November 18, 2019).

concerning the outcomes of unification. They are also more critical in evaluating the current-day policymaking of federal and regional governments and the way in which the democratic system in Germany functions.³⁶ It is clear that along all crucial dimensions, such as judging the economic situation, the degree of equalization of living conditions between western and eastern regions, or regarding new major political conflicts such as the Merkel government's handling of the refugee and migration issues, East Germans voice higher degrees of dissatisfaction.

Crucially, East Germans, as a group, continue to experience structural disadvantages compared to West Germans with regard to salary levels and personal wealth, property ownership, and the likelihood to inherit wealth. Moreover, they have faced structural pressures either to migrate to the West on a permanent basis or to regularly commute from eastern to western regions in order to earn a living. Some analysts describe East German long-term experiences with unification outcomes in terms of "cultural colonialism."³⁷ They stress "biographical devaluation" due to East Germans' collapse of previous social status and social rights, followed by collective discrimination in the labor market and the legal system of the unified country. Based on longitudinal opinion polls, a cohort of former GDR citizens born between 1945 and 1975 is held to have suffered the most severe negative long-term consequences of unification, including long-term dislocation from the labor market and a high likelihood of facing old age without adequate pension provisions.³⁸

36 Survey questions on satisfaction with the functioning of democracy in Germany revealed that 49.5 percent of West Germans and 35.6 percent of East Germans stated that they were "very satisfied" or "pretty satisfied." A majority in both parts of Germany stated that they were "less satisfied" or "not at all satisfied." See Frank Decker, Volker Best, Sandra Fischer, Anne Küppers, "Vertrauen in Demokratie: Wie zufrieden sind die Menschen in Deutschland mit Regierung, Staat und Politik?," Friedrich-Ebert-Stiftung, Bonn, 2019, pp. 30-32, <<http://library.fes.de/pdf-files/fes/15621-20190822.pdf>> (date accessed November 18, 2019).

37 Ulrich Busch, "Über Postdemokratie und kulturelle Kolonisierung," *Das Blättchen*, vol. 22, no. 7 (2019), <<https://das-blaettchen.de/2019/03/ueber-postdemokratie-und-kulturelle-kolonialisierung-47822.html>> (date accessed November 18, 2019).

38 Milev, op. cit., pp. 23-31.

One might conclude that the rapid economic transformation in East Germany in the 1990s produced the subsequent decline of the former West German “Rhenish capitalism” since the turn of the millennium—away from its earlier consensus-oriented and welfarist features and toward a more market-liberal, deregulated, and politically much less stable system.³⁹

VII. What Policy Lessons Can Be Drawn from the German Experience for the Korean Case?

This paper has deliberately sought to avoid mixing up the German and Korean cases in the previous sections. Instead, an effort has been made to faithfully report various voices on the outcomes of German unification from which Korean audiences might draw their own conclusions. Each nation is divided (and unified) in its own unique ways. Starting with the most obvious point, the geopolitical background facilitating Korea’s national division is completely different from the German case. In 1989, one of the major external actors, the Soviet Union, had entered an existential crisis that was deep enough to trigger the decision of (some) Soviet leaders to give up on the results of the outcome of the Second World War. To put it in the words of former U.S. Secretary of State Condoleezza Rice, “the Soviets were so confused that they no longer knew what their interests happened to be.”⁴⁰ Short of the appearance of an East Asian Gorbachev, such a window of opportunity

39 For changes in the economic structure of German capitalism around the turn of the millennium, see Wolfgang Streeck, “Nach dem Korporatismus: Neue Eliten, neue Konflikte,” (Working Paper 05/4, Max Planck Institute for the Study of Societies, Cologne, 2005) <<http://www.mpifg.de/pu/workpap/wp05-4/wp05-4.html>> (date accessed November 18, 2019). For recent political repercussions, see Jörg Michael Dostal, “The German Federal Election of 2017: How the Wedge Issue of Refugees and Migration Took the Shine of Chancellor Merkel and Transformed the Party System,” *The Political Quarterly*, vol. 88, no. 4 (2017), pp. 589-602.

40 Spiegel interview with Condoleezza Rice, “Es ging um den Jackpot,” *Der Spiegel*, September 27, 2010, <<https://www.spiegel.de/spiegel/print/d-73989791.html>> (date accessed November 18, 2019).

appears rather unlikely in the Korean context. Some might argue that one could always hope that North Korea (the DPRK) might collapse at some future point due to internal economic problems or political disturbances. Yet these expectations, which were entertained in South Korea under the previous presidency of Park Geun-hye, also appear not very likely. To paraphrase Rice, countries in the proximity of the DPRK might still happen to “know what their interests are.”

Thus, rather than speculating about geopolitical scenarios, it might be more useful to reconsider the patient long-term strategy of West German politicians, such as Social Democrat Egon Bahr. His initiatives were based on the policy paradigms of “change through rapprochement” and the “policy of small steps.” Since the 1970s, such visionary activities helped the two Germanies to first re-engage and then remain in close dialogue during all the remaining episodes of the Cold War. The intra-German policies also allowed for the reopening of cultural flows, thus avoiding further alienation of the two populations from each other. In the shadow of the great powers, the two German states started engaging in mutual cooperation in the economic field while also increasing political dialogue at the elite level.

From the current South Korean perspective, such policies are still to be achieved at some future point. Only patient long-term efforts in this respect vis-à-vis the North might deliver substantial outcomes. After all, the behavior of the North is mostly determined by tactical considerations regarding the country’s interaction with the great powers, namely China and the U.S. Moreover, South Korea is also under the influence of external actors. All past Southern efforts at inter-Korean dialogue followed a cyclical “stop-and-go” and “on-again, off-again” pattern. They were quickly interrupted or collapsed altogether “due to North Korean provocations.” It must be understood, however, that the two Koreas always share a mutual interest to avoid escalation toward armed conflict on the Korean Peninsula. Such a scenario could plausibly arise due to external factors and would only deliver large-scale destruction to the Korean people on both sides of the border.

What is to be done? First, one should simply acknowledge the deep divisions between the two Koreas in all spheres and the degree of

alienation that many members of the younger generation in South Korea feel when the “national question” is discussed. The much longer period of strict separation in comparison to Germany, the extreme differences in terms of economic development, and the absence of convenient ways of communication across the inter-Korean border—the ability of most East Germans to watch West German TV helped them to follow what happened on the other side—all constitute objective barriers against quick progress.⁴¹ One might argue, of course, that South Korean culture could potentially exercise a similar “pull” on the imagination of North Koreans comparable to the West German media’s role before 1989. However, the capacity of South Korean culture to accommodate outsiders, including North Koreans, is very much in doubt. In particular, the fairly poor South Korean track record with regard to integrating refugees from the North suggests that the country is still one of the most closed societies in comparison with other OECD democracies.

Thus, raising the attractiveness of the South Korean societal model, by expanding welfare provisions and strengthening solidarity, and by reorganizing the education system to make it truly inclusive, could strengthen the “soft power” of the South in the medium and long term. After all, one of the reasons for the good image of West Germany in the East pre-1989 was the view that the Western state’s “social market economy” had managed to civilize capitalism. By contrast, South Korea’s hypercompetitive culture fails to provide incentives to extend solidarity to newcomers, and any negative feedback of Northern refugees regarding their southern experiences is likely to find its way back to Northern publics. One of the easiest ways for South Korea to create a better image is to immediately improve the treatment of North Korean refugees.

Furthermore, advancing consistent policies of Southern engagement with Northern audiences must now become a permanent part of the policymaking agenda. This concerns all kinds of inter-Korean exchanges, no matter how difficult and no matter how one-sided they

41 For recent analysis of the economic gap between the two Koreas, see Jong-Wha Lee, Warwick J. McKibbin, “Korean Unification: Economic Adjustments under German Assumptions,” *Asian Economic Policy Review*, vol. 14, no. 2 (2019), pp. 262-81.

might appear at present. Thus, South Korea should make all efforts to expand exchanges and engagement and should push hard for it—even if the Northern authorities impose many preconditions on such projects. Bringing together “epistemic communities” of Northern and Southern background, namely from sectors such as the arts, education, and youth is the practical meaning of the “policy of small steps” and of “change through rapprochement,” as earlier put forward by Egon Bahr and other West German politicians.

The timeframe for such efforts might concern decades to come and miracles should not be expected (although they might still occur). To be sure, many advocates of traditional “maximum pressure” strategies will criticize consistent inter-Korean engagement policies originating from the Southern side as a “surrender.” Unfortunately, the current style of South Korean politics, based on standoffs rather than dialogue between “conservatives” and “liberals,” short-termism, and winner-takes-all principles, is a poor framework to deliver consistency in policymaking. Yet in reducing the danger of conflict escalation on the Korean peninsula, inter-Korean engagement is, in fact, practical and applied patriotism. It is reasonable on the grounds that all other strategies are worse.

Last, the German case holds many crucial lessons regarding reconciliation efforts in the event of Korean unification. Yet these lessons will have to be studied only in the unlikely event of basic changes in Korea’s geopolitical environment. Thus, the current task is avoiding further deterioration first and foremost—rather than to engage in wishful thinking. This means keeping inter-Korean channels of communication open, no matter how the external context will develop. In addition, South Korea must consistently engage with all the external stakeholders and veto players in order to preemptively stop any drift toward standoffs and mutual war threats.

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Prolonged Conflict and Reconciliation between India and Pakistan*

Sandip Kumar Mishra

The paper looks at the sources and trajectory of the conflicts between India and Pakistan which have colonial and post-colonial elements. The paper identifies religious identity, partition, border disputes, and Pakistan's quest for symmetry with India through various arrangements as the primary causes of the India-Pakistan conflict. The paper also talks about various governmental and non-governmental reconciliation attempts between the two countries in the last seven decades. Although these reconciliation attempts have not been very successful, they have maintained some minimal exchange between the two countries. Finally, the paper analyzes the causes of the prolongation of the India and Pakistan conflict by enumerating various spoilers in the process. These spoilers have been the domestic politics of India and Pakistan, terrorist groups operating from Pakistan, the domestic political power structure of Pakistan, and the rise of Hindu nationalism in India along with economic backwardness. Finally, the paper concludes that the prospect for peace between the two countries in the short-term appears improbable.

Keywords: India-Pakistan Relations, Conflict between India and Pakistan, Reconciliation between India and Pakistan, Trajectory of Conflict between India and Pakistan, Spoilers in India-Pakistan Relations.

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I. Introduction

The conflict between India and Pakistan since the very emergence of two states has been one of the most destabilizing factors in South Asia. Until now, both countries have fought three full-scale wars in 1948, 1965, and 1971 and had a half-war in Kargil in 1999.¹ Apart from these three and half wars, both countries have had thousands of ceasefire violations and almost on a daily basis their armed forces open fire at each other on the border. The border between both countries, which has been demarcated by the Radcliffe Line, is contested on the ground. The territorial control of India and Pakistan at present is not on the basis of the Radcliffe Line but rather on the basis of the Line of Control (LOC). Part of the state of Jammu and Kashmir, which officially got acceded in the Indian union, is occupied by Pakistan and it remains one of the several bones of contention between India and Pakistan.² In 1998 both countries tested their nuclear arsenals and now are de-facto nuclear powers. Apart from the issue of Jammu and Kashmir, both countries also have several border disputes such as the Siachen glacier, Sir Creek, and river-water distribution.

It is reported that Pakistan adopted a policy of proxy war against India after its realization that India's capacity in conventional arms is superior to Pakistan. Pakistan adopted a policy of destabilizing India through sabotage and supported subversive groups through money, training, and arms-ammunitions in various provinces of India, including Jammu, Kashmir, and Punjab. Under its strategy of proxy war, Pakistan not only provided financial and military help to various disgruntled groups in Indian politics but also allowed religious terrorist groups to use Pakistani soil for organization, training, and

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1. For the history of the India-Pakistan Conflict see, T.V. Paul, ed. *The India-Pakistan Conflict: An Enduring Rivalry* (Cambridge: Cambridge University Press, 2005).
 2. Kanti P. Bajpai, P. R. Chari, Pervaiz Iqbal Cheema, Stephen P. Cohen, and Sumit Ganguly, *Brasstacks and Beyond: Perception and Management of Crisis in South Asia* (New Delhi: Manohar, 1987).

financing terrorist activities in India.³ India claims that these terrorists and terrorist groups are encouraged, supported, funded, and protected by the Pakistani state. Pakistan also alleges that India supports subversive groups in Pakistan, especially in Karachi, Baluchistan, and Sindh.⁴

The state of conflict between India and Pakistan is so entrenched and inscrutable that both countries forget to appreciate their common historical experiences and their cultural commonality. Even though there have been attempts at reconciliation between the two countries, these attempts have not gone very far. For several years, both countries have not been directly talking to each other while their respective leaders keep challenging each other in various public pronouncements. Apart from state-to-state attempts at reconciliation, there have also been a plethora of track-2 and track 1.5 processes which sought to connect the government, business and people between the two countries. But all these attempts have not had much of an effect on the state of affairs.

The paper attempts to delineate the source and trajectory of the conflicts between India and Pakistan. In the process, there have been several agreements and other reconciliation measures between the two countries and these reconciliation attempts will also be described. After identifying spoilers in the reconciliation process between India and Pakistan, the paper concludes that the prospect for peace between the two countries in the short-term appears improbable.

II. Theoretical Arguments

It is a challenge to comprehend the course of the conflicts between India and Pakistan through any single theoretical framework available

3 Navnita Chadha Behera, *Demystifying Kashmir* (Washington D.C.: The Brookings Institution, 2006).

4 Grumeet Kanwal, *Pakistan's Proxy War* (New Delhi: Lancer Publishers, 2002) and Kanti Shankar Bajpai, "Untangling India and Pakistan," *Foreign Affairs*, vol. 82, no. 3 (2003), pp. 112-126.

in the literature of international relations theory. There are also limitations in international relations theory in explaining the lack of success in the attempts to reconcile the conflicts between both countries in the past and present. The conflict and reconciliation processes between India and Pakistan make sense in part by applying various theoretical streams of international relations theory such as neo-realism, neo-liberalism, and constructivism. Furthermore, several other middle range theories such as the regional security complex theory of Barry Buzan and Ole Waever,⁵ the theory of subaltern realism of Mohammed Ayoob⁶ and the two-level game theory of Robert D. Putnam⁷ could also help in understanding the few important parts of India-Pakistan relations. Actually, most of the existing theories of international relations are largely ahistorical in their application to the third world countries and thus have limited explanatory values.⁸ In the above context there have been arguments to articulate a global international relations theory, which is historical, contextual, and heterogeneous.⁹ However, such a quest is still a distant goal and the paper, meanwhile, tries to take an eclectic approach and brings in specific components of existing theories to explain various aspects of conflict and reconciliations between India and Pakistan. Constructivism

5 Barry Buzan and Ole Waever, *Regions and Powers: The Structure of International Security* (Cambridge: Cambridge University Press, 2003).

6 Mohammed Ayoob, "Inequality and Theorizing in International Relations: The Case for Subaltern Realism," *International Studies Review*, vol. 4, no. 3 (2002), pp. 27-48.

7 Robert D. Putnam, "Diplomacy and Domestic Politics: The Logic of Two-Level Games," *International Organization*, vol. 42, no. 3 (1988), pp. 427-460.

8 See Mohammed Ayoob, "Subaltern Realism: International Relations Theory Meets the Third World," pp. 31-49, Carlos Escude, "An Introduction to Peripheral Realism and its Implications for the Interstate System: Argentina and the Condor II Missile Project," pp. 55-76, and Amitav Acharya, "Beyond Anarchy: Third World Instability and International Order After the Cold War," pp. 159-212, all in Stephanie G. Neuman, ed., *International Relations Theory and the Third World* (London: Macmillan, 1998).

9 Amitav Acharya, "Global International Relations (IR) and Regional Worlds: A New Agenda for International Studies," *International Studies Quarterly*, vol. 58, no. 4 (2014), pp. 647-659.

is probably the most important theory capable of understanding the complex and multilayered relations between India and Pakistan. It brings in variables such as history, identity, and memory in its explanatory scheme, which are quite salient in India-Pakistan relations.¹⁰ Neo-realist theory is also instructive in the India-Pakistan relations. The theory emphasizes that states are located in an anarchic international system and observes that states try to protect themselves through self-strengthening and making alliances.¹¹ The neo-realist theory of international relations is also useful as it propounds that a lack of institutions and economic exchanges pose important challenges to reconciliations between states and prolong conflicts between them.

There are elements of both soft and hard issues intertwined in the India and Pakistan conflicts. The colonial past as well as the process of decolonization of India led to the emergence of several ideational issues between the two countries such as the issues of national identity, religious identity, and the memory of loss, suffering, and humiliation. These issues are still very significant in the bilateral exchanges of the two countries. The constructivist theory is quite useful in underlining the importance of such factors in the bilateral relations of the two countries. These variables are very contestable and complex between the two countries, and they could be used to understand the prolonged conflict between India and Pakistan. Even though there have been several attempts of reconciliations from both sides at the state and civil society levels, there has been no significant forward movement.

Another dimension of the India-Pakistan rivalry in the post-colonial era could be understood better by applying the neo-realist theory of international relations. Given the asymmetry between India and Pakistan, Pakistan has tried to use external alliances and strategic cooperation with third countries to counterbalance India. There has been a shift in the main strategic partner of Pakistan from the U.S. to China in

10 For the importance of theories of constructivism along with realism in explaining India-Pakistan conflicts, see Arndt Michael, "Realist-Constructivism and the India-Pakistan Conflict: A New Theoretical Approach for an Old Rivalry," *Asian Politics and Policy*, vol. 10, no. 1 (2018), pp. 100-114.

11 Kenneth Waltz, *Theory of International Politics* (New York: McGraw-Hill, 1979).

last seventy years, but Pakistan's strategy has been consistent in this regard. Furthermore, apart from external alliances, Pakistan has disproportionately used its valuable resources for its military augmentation¹² and thus both the elements of self-help postulated in the neo-realist theory—self-strengthening and external alliance have an obvious presence in Pakistan's foreign policy behavior. Pakistan has also tried to balance India through its strategy of proxy war and acquiring nuclear weapons. Such behavior on the part of Pakistan has been responsible for the escalation of its conflicts with India. Pakistan's attempts to protect itself against India have led to a situation of 'security dilemma.' The theory of security dilemma postulates that between two rival states, one state's quest for security is considered a source of insecurity by the other one and when there is a similar response by the other state, the first state becomes less rather than more secure.¹³

The prolongation of India-Pakistan conflicts could also be explained by a lack of institutions, regimes, and insufficient economic exchanges between the two countries. These variables are considered important by the neo-liberal theory of international relations. Although, it is difficult to ascertain whether the lack of effective institutions in South Asia is a cause or consequence of India-Pakistan conflict, it definitely has an important role in determining the nature and outcomes of conflicts and reconciliations between India and Pakistan.¹⁴ Actually, on various occasions, when leaders of India-Pakistan set out to resolve their conflicts, both of them negotiate to each other along with a parallel dialogue with their own domestic audiences. Robert D. Putnam has carefully deciphered such double layers of negotiations in the inter-state negotiations, which complicate the process of reconciliation and the insight of his theory is quite useful

12 M. K. Hassan, M. Waheed Uzzaman and A.Rahman, "Defense Expenditure and Economic Growth in the SAARC Countries," *The Journal of Political, Social and Economic Studies*, vol. 28, no. 3 (2003), pp. 275-293.

13 Ghulam Qumber, Waseem Ishaque, and Saqib Riaz, "Security Dilemma in South Asian Context," *South Asian Studies*, vol. 33, no 1 (2018), pp. 303-313.

14 Ahmad Raza Khan, "Impediments to the Success of SAARC," *South Asian Studies*, vol. 30, no. 1 (2015), pp. 291-302.

to understand India-Pakistan relations. There are a few other theories such as deterrence theory, which is applicable to India-Pakistan relations, especially after 1998.¹⁵

By taking an eclectic approach, a variety of factors, which have been responsible for the prolonged conflict between India and Pakistan, could be brought in together to explain the source and trajectory of their conflicts as well as the failure of reconciliation so far. There could be a genuine complaint against such an eclectic approach in that it is incoherent and sometimes inconsistent. However, it is far more important to capture the reality of India-Pakistan relations than being coherent. India-Pakistan relations as mentioned earlier are complex and multilayered, and it would be appropriate that its comprehension should also not be necessarily made prisoner of any one existing theoretical framework.

III. Source and Trajectory of Conflict

1. Religious Identity, Partition, and Border

India and Pakistan emerged out of the partition of India at the eve of India's independence. Britain's colonial rule in India survived by playing through various fault-lines in Indian society and one such fault-line was religion. It is said that British rule followed a policy of 'divide and rule' in the process; they tried to juxtapose the two largest religious groups in India—Hindu and Muslim. Through the actions of various governments of India, Britain re-imposed religious distinctiveness between the Hindu and Muslim population of India. Soon, a theory of two-nations was propagated which essentially meant that Hindu and Muslim could not live together peacefully and with dignity in one nation.¹⁶ Although the leaders of the Indian National

15 E. Sridharan, "International Relations Theory and the India-Pakistan Conflict," *India Review*, vol. 4, no. 2 (2005), pp. 103-124.

16 Frederic Grace, "Pakistan: The Resurgence of Baluch Nationalism," *Carnegie Papers*, no. 65 (January 2006), p. 9.

Congress, which was the main agent in the anti-freedom struggle, thoroughly rejected the two-nation theory, a few Hindu and Muslim political formations such as Hindu Mahasabha and Muslim League adopted and propagated the theory.¹⁷ Muslim League demanded a separate country for Muslims and in spite of strong opposition from the Indian National Congress and leaders like Mahatma Gandhi, Britain admitted demand of a separate country for Muslim in the form of Pakistan.

Just a few months before India's independence, a one-member Boundary Commission of Sir Radcliffe Brown was constituted to decide the border of India and Pakistan and hurriedly the partition of India was done.¹⁸ The birth of India and Pakistan is thus a colonial design, which was supported by only few political groups in India. The source of conflict between India and Pakistan was fundamentally born from two concepts of nation. Whereas Pakistan was based on the idea that Muslims needed a separate country, the Indian constitution was based on the idea of secularism, which means that all the religious identities might live with peace and dignity in a liberal, democratic, and secular India. It is interesting to note that even today, India is home to more Muslims than Pakistan. Thus, the conflict between India and Pakistan is fundamentally about two ideas of nationhood.

India and Pakistan had to face large-scale violence and displacement because of partition. According to estimates, lakhs of people lost their lives through violence and displacement.¹⁹ It also happened that the support for a separate country of Pakistan was largely concentrated in the central part of India, but Pakistan itself was assigned to the western and eastern parts of the Indian territories. According to one of the estimates based on district level census data, 10 to 18 million people had to migrate from India and Pakistan

17 Anand K. Veram, *Reassessing Pakistan: Role of Two Nation Theory* (New Delhi: Lancer Publishers, 2001).

18 Joya Chatterji, *The Spoils of Partition: Bengal and India, 1947-1967* (Cambridge: Cambridge University Press, 2007), p. 14.

19 Vinod K. Chopra, *Partition Stories: Mapping Community, Communalism and Gender* (New Delhi: Anamika Publishers, 2009), p. 255.

between 1947 and 1951²⁰ and almost 2 million people lost their lives in the process. Before 1947 there were also several communal clashes in India between Muslims and Hindus in which many people lost their lives. Thus, the process of making Pakistan created hatred between the two communities and the memory of lost lives and displacement caused by each other which continues to this day.

Furthermore, the partition was so hastily done that it divided villages, homes, and cities into two parts, and one part was given to Pakistan and another part remained in India. It created huge suffering and disruption in community lives of India and Pakistan. For example, the Bengal province was divided into West Bengal and East Bengal. Whereas, West Bengal remained in India, East Bengal became East Pakistan. Similarly, Punjab is also divided between India and Pakistan. It is important to note that there was no clear divide among the Hindu, Sikh, and Muslim population in Punjab as per territory and it was a religiously mixed state. The division between East and West Punjab led to huge suffering for the people. The partition meant the cutting of 'road, rail communications, irrigations schemes, electric power systems and even individual landholdings.'²¹ All these artificial processes of partition and demarcation created huge disruptions as well as a source of conflict between India and Pakistan.²²

Another problematic part of the partition was that Britain stipulated that after independence the princely states of India, of which there were more than 600 in India, would be free to choose to become part of India or Pakistan along with having a third option to become an independent country.²³ Because of political pressure, most of the

20 Yasmin Khan, *The Great Partition: The Making of India and Pakistan* (New Haven: Yale University Press, 2007), pp. 128-143.

21 Prashant Bharadwaj, Asim Khwaja and Atif Mian, "The Big March: Migratory Flows after the Partition of India," *Economic and Political Weekly* (August 30, 2008) p. 39.

22 Anthony Read and David Fisher, *The Proudest Day: India's Long Road to Independence* (London: Jonathan Cape, 1997), p. 483.

23 Gowher Rizvi, *South Asia in a Changing International Order* (New Delhi: Sage Publications, 1993), p. 149.

rulers of these princely states joined either India or Pakistan, but a few of them tried to remain independent. The princely state of Jammu and Kashmir (J&K) was one of them. It first tried to remain independent but when Pakistani fighters attacked J&K, the king asked for help from India and acceded to join the Indian union. It is important to note that the majority population of J&K was Muslim while the king was Hindu and since the king joined India, J&K was considered to have acceded to join India.²⁴ However, many critics and Pakistan claim that it was an invalid decision, as popular opinion was not sought before India integrated J&K into India. J&K has arguably been the central issue of conflict between India and Pakistan from then on.²⁵ There are also several other territorial disputes along with river water sharing issues between India and Pakistan, which make any reconciliation between the two countries very difficult. The issue of J&K was taken to the United Nations by India, but the issue remained unresolved.

2. Domestic Politics in India and Pakistan

Another important variable in the India-Pakistan conflict is the nature of domestic politics in both countries. Even though India became a constitutionally secular country, the relationship between Hindus and Muslims within India has not been settled. In the democratic polity, political parties have used communal cards for political mobilization and to garner votes. The Indian National Congress (INC), which became a political party in independent India

24 Ian Copland, *The Princes of India in the Endgame of Empire, 1917-1947* (Cambridge: Cambridge University Press, 1997) and Istiaq Ahmed, *State, Nation and Ethnicity in Contemporary South Asia* (London & New York: Pinter, 1998), p. 99.

25 Sugata Bose, *Kashmir: Roots of Conflict, Paths to Peace* (Cambridge, Mass.: Harvard University Press, 2003); Sumit Ganguly, *Conflict Unending: India-Pakistan Tensions Since 1947* (New York: Columbia University Press and Woodrow Wilson Press, 2001); Verghese Koithara, *Crafting Peace in Kashmir: Through a Realist Lens* (New Delhi: Sage Publications, 2004); and T. V. Paul, ed. *The India-Pakistan Conflict: An Enduring Rivalry* (Cambridge: Cambridge University Press, 2005).

and remained in power for several decades, adhered ideologically to secularism, but there are allegations that it pursued a policy of appeasement towards Muslims and treated them as a vote-bank. It led to resentment both by true secularists as well as the Hindu rights organizations. Hindu rights organization argued that if a separate country for Muslims was to be created, India must express itself exclusively by Hindu symbols and culture.

With the decline of INC and emergence of identity politics in India, the issue of India-Pakistan relations was seen by connecting it with the Indian Muslims. The rise of Hindu right-wing groups and political parties led to demand for a tough, uncompromising posture towards Pakistan. It led to a situation when advocating an engagement policy or soft policy towards Pakistan is branded as an anti-national position in India. Several reconciliation attempts by the Indian state and civil society such as an initiative called Aman ki Asha (Hope for Peace) has been ridiculed by right-leaning groups in India.²⁶

Similarly, Pakistani domestic politics failed in its democratic experiment and in the last seventy years, it has been ruled by military dictators such as Ayub Khan, Yahya Khan, Muhammad Zia-ul-Haq, and Parvez Musharraf for a long period of time.²⁷ There have been several long phases of political instability, which has led to economic backwardness in Pakistan. The ruling elites (both civilian and military) find it easier to blame India for all their failures and mismanagement. Sometimes to divert attention from their failure and consolidate and prolong their rule, they unduly raise the issue of India. It led to the slim possibility of reconciliation between the two countries. It cannot be just a coincidence that out of the four battles between India and Pakistan, three happened while authoritarian rulers

26 Aman M. Hingorani, *Unraveling the Kashmir Knot* (New Delhi: Sage Publication, 2016), p. 157 and Victoria Schofield, *Kashmir in Conflict: India, Pakistan and the Unending War* (New York: I.B. Tauris, 2003).

27 It is a campaign jointly started by two leading media houses, The Jang Group of Pakistan and the Times of India Group in India. The campaign aims for mutual peace and the development of diplomatic and cultural relations between the two nations in South Asia. It was established on January 1, 2010.

were in power in Pakistan.

It is also alleged that India was the main architect of dividing Pakistan and Bangladesh in 1971. Actually, Pakistan argues that India tried to prove that the religious basis for the making of a state is invalid. When the eastern part of Pakistan became a different country, separate from the western part, though both the parts had predominantly Muslim population, India could have claimed that the idea of a two-nation theory was incorrect.²⁸ Pakistan alleges that India instigated, supported, and helped separatists in Eastern Pakistan, which resulted in the division of Pakistan. However, India says that there was already discontent in the eastern part of Pakistan because of a lack of sufficient representation in Pakistan's government along with a sense of exploitation and humiliation among the people of eastern Pakistan. In such a context, the movement to create the new state of Bangladesh took birth spontaneously, and India had no role in it. When Pakistan tried to clamp down on these voices, the movement for a separate country became stronger. As per India, when millions of refugees from Bangladesh started moving to India, India had no choice but to take part in the developments in the neighborhood.²⁹ Whatever the precise course of events was, the making of Bangladesh remains important in the domestic politics of both India and Pakistan even today.

3. Pakistan's Quest of Symmetry- U.S. Alliance, Proximity with China, State Sponsored Terrorism, and Nuclear Weapons

Indian is two and a half time bigger than Pakistan in terms of land

28 M.V. Naidu, "Models of Conflict-Generation and Conflict-Resolution: India and Pakistan as Case Studies," *Peace Research*, vol. 33, no. 1 (May, 2001), p. 15.

29 Ayesha Jalal, *The Sole Spokesman: Jinnah, The Muslim League and the Demand for Pakistan* (Cambridge, UK: Cambridge University Press, 1985), p. 262; Hussain Haqqani, "Pakistan's Endgame in Kashmir," *India Review*, vol. 2, no. 3 (July, 2003), pp. 34-54; George Tanham, "Indian Strategic Culture," *Washington Quarterly*, vol. 15, no. 1 (Winter, 1992), pp. 129-42; Stephen P. Cohen, "India, Pakistan and Kashmir," *Journal of Strategic Studies*, vol. 25, no. 4 (December, 2002).

mass and almost seven times bigger in terms of population. At present, India's GDP is almost ten times bigger than Pakistan and India's defense expenditure is almost six times that of Pakistan. The asymmetry has been there from the very beginning, though it has further widened in recent decades. In the given structural constraints, from the very beginning, Pakistan has aspired to compete with India through using various means. Pakistan tried to overcome its asymmetry of power through aligning itself with the U.S. in its initial years and became a member of the Central Treaty Organization (CENTO) and the Southeast Asia Treaty Organization (SEATO).³⁰ Pakistan received important financial and technical aid from the U.S., largely unaffected by several non-democratic leaders in Pakistan. The U.S. considered its relations with Pakistan important in the context of its contest with the Soviet Union during the Cold War era. More importantly, in the late 1970s, when Afghanistan became the hotbed of conflict between the U.S. and Soviet Union, the strategic importance of Pakistan was underlined by the U.S.

Contrary to Pakistan, India from its very inception aspired to have independence in its foreign policy-making and adopted the policy of non-alignment. India was not in favor of joining a bipolar rivalry between the two superpowers and rather wanted to create a neutral space which it considered important for all the newly independent countries of the third world. India and Pakistan's conflict in this period was also expressed in their different outlooks for global politics.

In the post-Cold War era, Pakistan's relations with the U.S. gradually got strained and India's relations with the U.S. started improving. After September 11, 2001, the issue of terrorism became important in the foreign policy discourse of the U.S. The U.S. realized that terrorism is indeed a pressing issue, and it must be dealt with strongly. Although, to deal with Al Qaeda, the U.S. took support from Pakistan, but the U.S. could not shut its eyes to the terrorism emanating from Pakistan's soil, which destabilized the region.³¹ Even

30 Srinath Raghavan, *1971: A Global History of the Creation of Bangladesh* (Cambridge, Massachusetts: Harvard University Press, 2013), p. 176.

31 Eric H. Arnett, ed., *Military Capacity and the Risk of War: China, India, Pakistan*

though there could be a debate about how far the U.S. has drifted away from Pakistan in recent decades, it is undeniable that their bilateral relations have not been as close as they used to be in the Cold War days. Furthermore, India has forged multilayered comprehensive relations with the U.S., which has increasingly got strengthened. Furthermore, in the context of China's rise, which appears to be revising the international relations of the Asia-Pacific, the U.S. considers India as one of its key allies in dealing with China.³² India is part of a quadrilateral network along with the U.S., Japan, and Australia, which has postulated an Indo-Pacific Strategy and Pakistan's sense of being left out has further deepened.

When Pakistan realized that the proximity between India and the U.S. had been increasing seamlessly, it tried to balance India by focusing on its friendship with China. In last few decades China and Pakistan have been cooperating in multiple areas. China played an important role in the nuclear program of Pakistan. In 1986, Pakistan and China signed an agreement on the cooperation in the field of nuclear energy, and China handed over the technology of producing a nuclear warhead (its yield was 25 kilotons) to Pakistan. In recent years, both countries have also been cooperating in China's Belt and Road Initiative (BRI). One of the strands of BRI is the China-Pakistan Economic Corridor (CPEC), and China has been in the process of investing around \$60 billion in Pakistan. Pakistan has also provided the Gawadar port to China. India feels that these activities are meant to encircle it.³³ In response, India has also acquired the Chabahar port in Iran, which is a matter of discomfort for Pakistan. Given the long-standing rivalry of India and China, New Delhi has been quite upset with growing Pakistan-China relations. India and China fought a war

and Iran (New York: Oxford University Press, 1997), p. 150.

32 Shubhangi Pandey, "US Sanctions on Pakistan and Their Failure as Strategic Deterrent," *ORF Issue Brief*, Issue 251 (August 2018), p. 2.

33 Vladislav Gulevich, "India and the Indo-Pacific: Challenges and Near-Future Agenda," *Modern Diplomacy*, February 6, 2019, <<https://moderndiplomacy.eu/2019/02/06/india-and-the-indo-pacific-challenges-and-near-future-agenda/>> (date accessed October 12, 2019).

in 1962, and India claims that part of its territory is illegitimately occupied by China. India has also been unhappy as part of the CPEC passes through an Indian territory. India also complains that China has provided various important arms, ammunitions, missiles, and even nuclear technologies to Pakistan to encircle India on both sides.

Along with its increasing closeness with China, Pakistan has also tried to bridge the gap in the conventional weapons capacity vis-à-vis India by pursuing a two-pronged strategy. First, it tried to compensate with a proxy war and, secondly, by working on its nuclear weaponization program. During the Muhammad Zia-ul-Haq period, there were reports that Pakistan started supporting by various means subversive activities in India. Various discontents in India were supported by Pakistan to 'bleed India from inside.'³⁴ There have been several separatist movements in India where the role of Pakistan was proven. Pakistan provided these disgruntled groups with finance as well as arms to fight against the Indian state. Pakistan's support of separatist movements has caused huge damage to Indian human and other resources. It led to popular anger in India against Pakistan, and it has been reflected in India's mistrust towards any peace and reconciliation attempts by Pakistan.

Pakistan also spent its important technological, diplomatic, and financial resources in developing nuclear weapons. After 1971, the gap between India and Pakistan's defense capabilities in conventional arms started growing. Gradually, India's defense expenditure, which was just two times that of Pakistan in 1971 has gone up to six times at present. India's growing military power has increased its security threat to Pakistan.³⁵ India's nuclear weapons program also further

34 Alok Ranjan, "The China-Pakistan Economic Corridor: India's Option," *Institute of Chinese Studies Occasional Paper*, no. 10 (May 2015).

35 Scott Gate and Kaushik Roy, *Unconventional Warfare in South Asia: Shadow Warriors and Counterinsurgency* (London: Routledge, 2016), Chapter 4. Also see, Srinivasan, "South Asia: Conflict, Hegemony and Power Balancing," in Kristen P. Williams, Steven E. Lobell, Neal G. Jesse (eds.), *Beyond Great Powers and Hegemons: Why Secondary States Support, Follow, or Challenge* (Stanford: Stanford University Press, 2012), p. 181.

heightened Pakistan's security concerns and it decided to go nuclear as well. Finally, along with India, Pakistan also tested its nuclear weapons in 1998. Through nuclear weapons, Pakistan seeks to have parity with India. For the same reason, even though the Indian nuclear doctrine talks about 'no-first-use,' Pakistan does not accept any such self-restraint.³⁶

India also alleges that Pakistan actively supports terrorist activities in India. Indian claims might be exaggerated but at least there is enough evidence that Pakistan has been soft on lots of terrorist leaders and organizations, which have perpetrated many terrorist activities and created huge damage in India. India has suffered a lot due to such terrorist acts. There are cases such as the 1990s Punjab problem, 1993 Bombay serial blasts, 2000 Red-Fort attack, 2003 Mumbai bombing, 2005 and 2008 Delhi serial bombings, 2006 Mumbai train bombing, 2008 Mumbai attacks, January 2016 Pathankot Air Force Stations attack, September 2016 Uri Attack, and February 2019 Pulwama Attacks.

Pakistan has been trying to take some actions against the terrorist groups who were involved in those attacks, but India claims that Pakistan has not been doing 'enough.' India assumes that Pakistan has been using terrorism as a tool of state policy and any reconciliation attempt amidst the continuation of such policy could not be reliable and worth reciprocity. Both countries keep arguing about the issue of terrorism but at the same time, it must also be noted that Pakistan, too, has been a victim of terrorism. It is said that Pakistan, being a victim of terrorism, has the incapacity to deal with it. However, the point is not being appreciated enough in India and a blame game continues.

36 R.W. Jones, "Conventional Military Imbalance and Strategic Stability in South Asia," *South Asia Strategic Stability Unit (SASSU)*, Research Paper, no. 1 (2005), pp.1-48.

IV. Attempts of Reconciliation:

1. UN Resolution on the Issue of J&K

Reconciliation between India and Pakistan first began when the issue of J&K went to the United Nations. The UN Security Council passed resolutions 47 on April 21, 1948 and set up the United Nations Commission for India and Pakistan (UNCIP). The resolution asked for an immediate ceasefire and called on Pakistan to withdraw from J&K and asked India to have minimum forces in J&K. The UN also asked for a plebiscite in J&K and, because of it, a ceasefire finally happened between the two countries.³⁷ In the resolution it was also directed that there would be a plebiscite in J&K to find out whether people wished to be part of India or Pakistan. However, for any plebiscite to happen, both countries had to remove their troops from the respective zones of control. Pakistan still raises the issue of plebiscite in J&K and responds by saying that India did not withdraw its soldiers from Pakistan-controlled J&K and thus the issue of a plebiscite has become irrelevant. Furthermore, India claims that there have been periodic elections in J&K and popular participation in these elections are symbolic of the fact that they want to live within the Indian union. India also claims that J&K formulated its own constitution, which came into effect in 1957 and it means that J&K has legally and constitutionally become a part of India. Actually, the UN has not been a successful platform to have reconciliation between India and Pakistan so far. At the United Nations General Assembly, both countries express their grievances against each other regularly and such acts further sharpen the conflict between them rather than pacifying them.

2. Tashkent Agreement

After the 1965 India-Pakistan war, both countries had the Tashkent

³⁷ J. Lamont and F. Bokhari, "Pakistan in Trade and Arms Offer to India," *Financial Times*, November 24, 2008, <<https://www.ft.com/content/e2005010-b9ab-11dd-99dc-0000779fd18c>> (date accessed October 13, 2019).

Agreement, which was signed with the mediation of the Soviet Union. The agreement demanded from both countries to pull back to their pre-conflict positions and not to interfere in each other's internal affairs. It was also decided that both countries would restore economic and diplomatic relations as soon as possible.³⁸ The agreement had to face lots of challenges from the very beginning, as the Indian Prime Minister mysteriously died after the Agreement, and India was unhappy that Pakistan was not forced to cease its guerrilla warfare against India. It is also important to understand that the Tashkent Agreement was largely a peace agreement in the context of the 1965 India-Pakistan War and even though it was expected that such an initiative would make both countries further devise a peace mechanism, the process became just a one-time meeting between the two countries.

3. Shimla Agreement

After the next India-Pakistan War, the Shimla Agreement was signed by India and Pakistan in July 1972. An important achievement of the Agreement was that the ceasefire line between the two countries was designated as a 'Line of Control' and it is still known by the same name. Both countries agreed that none of them would try to alter it unilaterally. It led to the demand from India that now the UN Military Observer Group in India and Pakistan was redundant and must be abandoned, though Pakistan did not agree with it. Through the Agreement, both countries also agreed that in the future all bilateral disputes between them must be settled by diplomatic means only, and Pakistan must also diplomatically recognize Bangladesh.³⁹

38 Shabir Choudhry, *Kashmir Dispute, Pakistan and the UN Resolutions* (Bloomington: Author House, 2017); Farzana Shakoor, "UN and Kashmir," *Pakistan Horizon*, vol. 51, no. 2 (1998), pp. 53-69; For contemporary commentary see, Tarakanth Das, "The Kashmir Issue and the United Nations," *Political Science Quarterly*, vol. 65, no. 2 (1950), pp. 264-282.

39 D. C. Jha, "Indo-Pakistan Relations since the Tashkent Declaration," *The Indian Journal of Political Science*, vol. 32, no. 4 (1971), pp. 502-521; Mukhtar

After the Shimla Agreement in 1978, Pakistan proposed to limit its nuclear race between themselves and India and also to establish South Asia Nuclear Weapons Free Zone (SANWFZ), but India gave a cold response and the talks never actually began.⁴⁰ After ten years, in 1988, India and Pakistan signed the Non-Nuclear Aggression Agreement (NNAA) treaty. But it had no effective influence in the nuclear race between India and Pakistan.

4. Lahore Declaration

Before the Kargil war, a declaration was signed between India and Pakistan in February 1999, which was called the Lahore Declaration. It was basically an extension of the NNAA in the context of both the countries becoming nuclear weapon powers. Through the Declaration, both countries agreed to avoid accidental and unauthorized operational use of the nuclear weapons along with their commitment to peace, stability, and mutual progress. Both countries also agreed to provide advance notification to each other about their ballistic missile tests as well as nuclear tests. The Declaration was one of the few reconciliation attempts, which was recognized by both in India and Pakistan. However, in May 1999, the Kargil War started between the two countries and relations again became sour. All the confidence-building measures (CBMs), which were planned between the two countries, became irrelevant. In 2001, again a summit meeting was arranged between the leaders of India and Pakistan, which occurred in Agra and which led to both countries extending their bans on nuclear tests as well as agreeing to set up a hotline between their foreign secretaries. After 2004, both countries had several CBMs, which included high-level talks and establishing India-Pakistan bus services. However, after the Mumbai attack in November 2008, the process got discontinued. There have been several other attempts by both countries to reach out

Zaman, "Thoughts on Indo-Pakistan Relations in the Tashkent Era," *Pakistan Horizon*, vol. 22, no. 2 (1969), pp. 127-134.

40 P. R. Chari and Pervaiz Iqbal Cheema, *The Simla Agreement 1972: Its Wasted Promise* (New Delhi: Manohar Publishers, 2001).

to each other but due to a multiplicity of spoilers, the process has been ineffective.

Apart from state to state attempts, there have been several Track Two initiatives between India and Pakistan to improve their bilateral relations. One of the most prominent Track Two initiative was the Neemaran dialogue which was organized by the United States Information Services (USIS) in 1990. Later on, American foundations and German nongovernmental organizations also joined it. In October 1991, the first meeting to hold dialogues happened in India. Retired diplomats, military personnel, media persons, NGO workers, and academicians joined the dialogue. In subsequent years, many such initiatives such as the Chaophraya Dialogue, the WISCOMP annual workshop, the Pugwash Conferences, and Ottawa Dialogue were organized to achieve reconciliation between India and Pakistan. As per one study, there are around 12 Track Two groups, as well as over 20 other people-to-people exchange programs operating between India and Pakistan.⁴¹ However, these attempts at reconciliation have not been able to bring any substantial change in the India-Pakistan rivalry. Critiques of these Track Two process point out that most of these dialogues are sponsored and initiated by western countries and they do not have enough domestic support either in India or in Pakistan. Furthermore, retired officials of both India and Pakistan who are the main participants in these dialogues tend to take their official positions, and they have not been flexible enough to make compromises.⁴²

Another issue with the Track Two reconciliatory efforts is that they have not been able to decide whether they should focus to resolve the conflict or to manage the conflict. The first goal appears to be maximalist and the second one insufficient. Furthermore, the Track Two processes do not have enough resonance with the popular political moods in India and Pakistan and, ultimately, the governments

41 Devin T. Hagerty, ed., *South Asia in World Politics* (New York: Rowman and Littlefield Publishers, 2005). p. 167.

42 Samir Ahmad, *India-Pakistan Relations: Role of Track Two Process Since 1990* (PhD diss., Kashmir University, 2014).

in both India and Pakistan hardly give any ear to their efforts or resolutions. Unlike formal Track Two initiatives, there have been sporadic civil society exchanges between India and Pakistan that have created some hope. But because of persistent events of terrorism and border clashes, these efforts have also been difficult to sustain. In fact, the importance of these non-state attempts of reconciliations between India and Pakistan cannot be overlooked as they have been helpful in several critical junctures. For example, around the time of the Kargil War in 1999, when official channels of communications ceased to exist, these non-state communications prevented the situations to exacerbate further.⁴³ Even after the 2008 Mumbai terror attacks, such channels helped both countries to find out ways to normalize their relations again.

V. Spoilers of India-Pakistan Reconciliation

India and Pakistan share a complex relationship, which has, after more than 70 years, still remained unchanged. In the previous sections, a brief description of the complexities as well as an attempt to reconcile has been presented. There are various spoilers in the process who do not allow forward movement; the most important among them is the nature of domestic politics in both countries. Actually, given the structural constraints, it becomes difficult for any political leader of a political party in both countries to appear 'soft' to each other. It is very difficult to articulate a critical mass in both countries that supports any process of reconciliation as any concession to the other country is perceived as appeasement and a 'sell-out' in the domestic politics, and it has huge cost in the domestic politics of both countries.

The continuation of right-wing political forces in Pakistan and the rise of similar right-wing politics in India have further complicated the conflict between the two countries. Both countries have been sensitive or over-sensitive about their claims to J&K and in all possible bilateral

43 Shantanu Chakrabarti, "The Relevance of Track II Diplomacy in South Asia," *International Studies*, vol. 40, no. 3 (2003), pp. 265-276.

and multilateral platforms, and both of them try to make their points. It is unfortunate but interesting to see media coverage in both countries about their disagreements on the J&K issue. For the same reason, the most important regional organization, South Asian Association for Regional Cooperation (SAARC), has been ineffective, ever since its inception in 1985.⁴⁴

Another important spoiler in India-Pakistan relations has been vested interests such as terrorist groups and their networks. Reportedly, whenever CBMs have been started by the leaders of both countries, these groups become uncomfortable, and they resorted to some terrorist activities and derail the process. When the current Indian Prime Minister Narendra Modi came to power in 2014, he wanted to explore the possibilities of reconciliation with Pakistan. To work for this, Indian and Pakistan Foreign Secretaries had a few secret meetings in third-party countries. There were also speculations that both countries were trying to reach out through mediators from the business community. Indian Prime Minister Narendra Modi had a surprise stop over journey to Pakistan to attend a private function of the Pakistani Prime Minister Nawaz Sharif. However, spoilers attacked the Pathankot Airbase of India and the process could not take off.⁴⁵ There have been two other attacks at Uri and Pulwama supposedly conducted with Pakistan's support, and the relations have become more strained between the two countries.⁴⁶ In response to these terrorist attacks in India, a surgical strike and an air-strike have been conducted by India, and the tension between the two countries has become more intense.

44 Balraj Puri, "Lessons of Kargil," *Economic and Political Weekly*, vol. 36, no. 51 (2001), pp. 4715-4717.

45 Rohitashwa Dubey, "Indophobia as the Ailment of SAARC," *The Indian Journal of Political Science*, vol. 49, no. 1 (1988), pp. 71-82; A Majid, "India-Pakistan Rivalry Hampering the SAARC to Become a Worthwhile Forum," *Journal of the Research Society of Pakistan*, vol. 54, no. 2 (2017), pp. 1-15.

46 "Terrorists Storm Air Force Base, First Challenge to Modi's Pak Outreach," *The Hindu*, January 2, 2016, <<https://www.thehindu.com/news/national/other-states/Terrorists-storm-air-force-base-first-challenge-to-Modi%E2%80%99s-Pak-outreach/article13976989.ece>> (date accessed October 12, 2019).

In August 2019, India passed a resolution in its parliament, which diluted article 370 of the Indian constitution that provided special status to J&K. Pakistan has been very upset by India's action, and it has tried to raise the issue in a possible forum. There have been almost daily exchanges of rhetoric between the leaders of both countries as well as the defense establishment, including the threat of use of nuclear weapons in any future armed conflict between the two countries. Recently, Indian Defense Minister Rajnath Singh stated that India would not be bound by its self-proclaimed principle of 'no first use,' and it might decide its response as per its strategic requirements.⁴⁷

Another important variable as per India is the lack of clarity in Pakistan about which institution is having a final say in the decision-making of Pakistan. India claims that there are at least three power centers in Pakistan, namely, the government, the army, and terrorist groups and generally there is no certainty that any one of them is in full control of the situation.⁴⁸ India suggests that Pakistan's government must restore order in its decision-making so that India could have talks and on the basis of quid pro quo could have some deal. For the same reason, India keeps repeating its demand that until Pakistan stops cross-border terrorist activities in India, New Delhi will not have talks with Islamabad. India also insists that important terrorist leaders, who are staying in Pakistan territories, must also be punished as a symbol of Pakistan's sincerity to have reconciliation with India. Pakistan on the other hand also alleges that India has been supporting subversive activities in some areas of Pakistan such as Baluchistan and it must be stopped before any process of rapprochement between the two countries begins.

47 "Was Chowkidar Sleeping When Uri, Pathankor, Pulwama Happened, Asks Kapil Sibal," *Outlook India*, March 24, 2019, <<https://www.outlookindia.com/website/story/india-news-was-chowkidar-sleeping-when-uri-pathankot-pulwama-happened-asks-kapil-sibal/327495>> (date accessed October 12, 2019).

48 "No First Use Nuclear Policy May Change in Future, Says Rajnath Singh on India's Defense Strategy," *India Today*, August 16, 2019, <<https://www.indiatoday.in/india/story/india-no-first-use-nuclear-policy-may-change-rajnath-singh-1581403-2019-08-16>> (date accessed October 12, 2019).

To name another spoiler in the process, a lack of sufficient economic development could also be cited. Both countries but more so Pakistan have been less successful in bringing sufficient welfare to their people, and it has been said that to divert attention from their failure, the leaderships in both countries have resorted to creating an 'external culprit' in each other.⁴⁹ The role of each other in their own failure to provide welfare is trivialized in the domestic politics of both countries up to an absurd level, and it has created a popular myth in both countries that they are each other's number one enemy.

VI. Conclusion

Overall, India and Pakistan are divided countries which have multiple layers to their conflicts, from cultural to historical, political to strategic, domestic politics to international equations, and security to national pride. Thus, the military clashes between these two countries, as manifestations of their conflicts, have been in abundance both in qualitative and quantitative terms. The issue has been so intractable that even though there have been multiple attempts from both sides to reconcile with each other, most of them have been ineffective.

The interplay of the international and domestic variables has also made it impossible for a reconciliation attempt to succeed. The political cost of reconciliation for any leader in both India and Pakistan is so high that they don't want to take a risk and look 'weak.' Even though at civil society level, there have been various exchanges between the two countries, these exchanges have not been able to bring any change in the inter-state relations between them. Problem is that the bilateral conflicts between India and Pakistan have strong connection with domestic players in both India and Pakistan, and that irrespective to the behavior of the other parties, India and Pakistan decided to compete with each other as per their own domestic political imperatives.

49 Husain Haqqani, *Pakistan: Between Mosque and Military* (Washington D.C.: Brooking Institution Press, 2010).

In recent years, the conflict between India and Pakistan has flared up further and both countries have been flexing their muscles. There are Indian reports that Pakistan has violated the ceasefire more than 2,000 times in the first eight months of 2019. Similarly, Pakistan has also reported various violations by Indian troops. In such a scenario, while looking at the state of conflicts and reconciliation between India, it is almost impossible to be anything except pessimistic.

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Value Systems and Adaptation: A Typology of North Korean Defectors*

Kwon Jung, Stephan Haggard, Changyong Choi

The total number of North Korean defectors living in South Korea topped 33,247 in 2019. Yet research finds that many are experiencing difficulties adapting to South Korean society. This study, based on a survey of 1,010 defectors, outlines a new typology of the value systems of North Korean defectors. Using a combination of factor and cluster analysis, we identify five major groups of North Korean defectors: (1) nation-oriented authoritarians, (2) community-oriented materialists, (3) family-oriented traditionalists, (4) conservative entrepreneurs, and (5) individualist conservatives. We show that value orientations are associated with distinctive political views and have demonstrable effects on adaptation and life satisfaction levels, with conservative entrepreneurs faring best. Although all groups adapt reasonably well to operating in a very different political and economic system and in their personal lives, defectors report significant problems at the social level, particularly in the form of discrimination. These findings suggest that more ‘customized policy’ be developed and implemented for North Korean defectors which ultimately helps them adjust more smoothly to South Korean society.

Keywords: North Korean defectors, value orientation, value segments, adaptation, life satisfaction

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I. Introduction

Since the death of Kim Il Sung in 1994, who ruled North Korea for forty years, and natural disasters that desolated the country during 1994-95, North Korea has been dealing with political and economic turmoil within the country. Especially, the worst natural disasters during 1994-95 exacerbated food shortages and caused an unprecedented death toll by starvation.¹ Kim Jong Il, who succeeded Kim Il Sung, called the period the '*Arduous March*,' which is the same depiction of the time of difficulty endured during Japanese colonialism. A large number of North Korean people, with the collapse of the public distribution system (PDS), then crossed the border in search of food and a means of survival. At the same time, the Kim Dae Jung and Roh Moo Hyun administrations of South Korea embraced North Korean defectors under progressive initiatives toward the North with the 'Sunshine policy.' This opened the so-called era of mass influx of North Korean defectors to the South, more than 2,000 defectors per year since 2000.

Although the flow of North Korean defectors into the South has slowed under Kim Jong Un, the total number now living in the country reached 33,247 by September of 2019 (Korean Ministry of Unification, 2019). As the number of North Korean defectors has increased, so has awareness of the substantial challenges they face in adapting. Some of these problems can be traced to discrimination and caution on the part of South Koreans, but the problems are ultimately rooted in the difficulties of adjusting to life in a modern capitalist democracy. Among these challenges are material ones, such as a mismatch of skills, and psychological ones ranging from guilt and depression and even those that resemble post-traumatic stress syndrome. Approximately 8% of

1. For detailed food crisis and economic hardship in the mid 1990s, see reports from World Food Programme(WFP), United Nations Development Programme(UNDP), and United Nations Office for the Coordination of Humanitarian Affairs(OCHA). <<https://reliefweb.int/report/democratic-peoples-republic-korea/world-food-programme-north-korea-wfp-has-fed-millions>> (date accessed November 19, 2018).

the North Korean defectors who initially enter South Korea end up leaving South Korea to seek asylum in third countries: some have even returned to North Korea.² According to another report, as many as 14% of defectors who die each year do so as a result of suicide, a rate three times higher than that of South Koreans.³

The prospects for unification remain highly uncertain, but even if North-South relations do improve, it is likely that the flow of defectors will continue. And, of course, if some unexpected event were to occur leading to more rapid unification, the South would face daunting decisions about how—and how many—Northerners could be integrated. What effect would a large inflow of defectors have on the integrity of the political system and social relations? Are there limits on the country's absorptive capacity?

We now have numerous refugee studies covering a variety of features of their entry into South Korean life: they are reviewed in the first section. Yet most either treat North Korean defectors as a homogeneous group or rely on standard demographic variables to understand their behavior: prior employment, age, education and so on. Yet as the number of North Korean defectors increases—with exit experiences that span quite different time frames—their diversity also increases, and not simply along with these standard parameters. Rather, we need to be alert that this population is increasingly characterized by a diversity of fundamental value systems and political outlook as well.

The objective of this study is to identify and validate a representative typology of North Korean defectors that goes beyond simple demographic characteristics to psychographic value systems and associated views of the South Korean political economy. In doing so, we first identify meaningful dimensions of North Korean defectors' value systems. The

2. Young Jae Lee, "North Korean Refugees Leaving South Korea: The Endless Defection," *Yonhap News*, October 3, 2013, <<http://www.yonhapnews.co.kr/politics/2013/10/02/0511000000AKR20131002211800014.HTML>> (date accessed January 26, 2018).

3. See, e.g., Stephen Evans, "Korea's hidden problem: Suicidal defectors," *BBC News*, November 5, 2015, <<http://www.bbc.com/news/magazine-34710403>> (date accessed January 26, 2018).

resulting clusters are then further analyzed to account for differences in their adaptation and life satisfaction after defection, including with respect to the South's democratic capitalist political economy.

II. Background and Theory

The challenges facing North Korean defectors start with the nature of economic, political and social life in the North, extend to the traumas associated with their lives and decision to exit, extend into third country experiences and end with the very different nature of life in the South.⁴ First, and most obviously, North Korea is a relatively underdeveloped state socialist system, although with an increasingly substantial private sector.⁵ The education system is adequate with respect to basic literacy and numeracy, but is highly ideological in nature. Daily life is highly structured and surveilled,⁶ even for those who are engaged in market activity, and the skills demanded in such an economy are both different and lag behind those that are required to live in an advanced capitalist country.

In addition, the defectors themselves represent a highly-selected group, a fundamental challenge to all refugee studies. The decision to leave is taken by only a very small share of the total population and no doubt reflects quite peculiar features of these individuals. Some are simply geographical: there have been higher flows from the Northeast than from other parts of the country because of the proximity to the Chinese border. But other features are harder to observe, for example,

4. Stephan Haggard and Marcus Noland, *Witness to Transformation: Refugee Insights into North Korea* (Washington D.C.: Peterson Institute for International Economics, 2011).

5. Andrei Lankov, *North of the DMZ: Essays on Daily Life in North Korea* (Jefferson, N.C. McFarland & Company, 2007); James Pearson and Daniel Tudor, *North Korea Confidential: Private Markets, Fashion Trends, Prison Camps, Dissenters and Defectors* (North Clarendon Vermont: Tuttle, 2015).

6. Andrei Lankov, In Ok. Kwak, and Choong Bin Cho, "The Organizational Life: Daily Surveillance and Daily Resistance in North Korea," *Journal of East Asian Studies*, vol. 12, no. 2 (2012), pp.193-214.

the particular disaffection, propensity for risk-taking or even trauma that might have motivated defectors to exit in the first place.

Once out of the country, defectors are subject to a variety of shocks, including in many cases forced return to North Korea. Those living in China as illegal immigrants are continually under threat and in some cases trafficked and abused. Once in the South, an honest effort is made on the part of South Korean authorities in integrating these individuals. But they are nonetheless “strangers in a strange land,” a circumstance that is even more frustrating because of the apparent similarities associated with a shared mother tongue. The adjustments range from navigating a new education system and peer pressures for children, to an economy in which individuals are largely held responsible for themselves to a cultural milieu that can be not only unwelcoming but suspicious and hostile.

We now have a very substantial literature on the North Korean defectors at various stages of their journeys, starting with the exit from North Korea and their living experiences abroad. These works include a growing number of memoirs by defectors themselves,⁷ syntheses of their experiences based on open-ended interviews, and more structured analysis.⁸ With respect to adaptation in the South, studies have looked at employment,⁹ psychological health,¹⁰ adaptation of female and youth

7. Eunsun Kim, *A Thousand Miles to Freedom: My Escape from North Korea* (New York: St. Martin's Press, 2015).

8. Sandra Fathy, *Marching Through Suffering: Loss and Survival in North Korea* (New York: Columbia University Press, 2015); Stephan Haggard and Marcus Noland, *Witness to Transformation: Refugee Insights into North Korea* (Washington D.C., Peterson Institute for International Economics, 2011)

9. Ho S. Park, “A Study of Problem Concerning the Support on the Settlement of North Refugees to South Korean Society,” *The Journal of International Relations* vol. 7, no. 2 (2004), pp.1-24; Han Seung Sun et al., *A Study of Employment of North Refugees and Policy Implications*, Korea Labor Institute, 2005.

10. U Taek Jeon et al., “The Patterns and Formation of National Identity among North Korean Refugees in South Korea: A Grounded Theory Study,” *Unification Policy Studies*, vol. 20, no. 2 (2011), pp.1-35; Tae Wan Eom, “A Phenomenological Approach to Traumatic Experiences Among North Korean Defectors,” *Korean Journal of Social Welfare*, vol. 61, no. 2 (2007), pp.189-213.

defectors,¹¹ cultural shock, discrimination, and identity,¹² and support programs and institutions.¹³ Some have started to look at defectors' distinctive political views as well.¹⁴ Despite the increasing volume of studies on North Korean defectors, most of the past studies used a simplistic approach. They either treat North Korean defectors as one homogeneous group or use a simple classification of demographic characteristics to examine and understand their behaviors. As the number of North Korean defectors increases, diversity within them also increases. The increasing number of North Korean defectors who experience difficulties in their adaptation to South Korean society is evidence of the increased diversity that exists among them. In this situation, any attempt to understand this diversity by using simple demographic characteristics is not enough to comprehend them fully.

11. Young A Cho and U Taek Jeon, "A Qualitative Study of North Korea Students' Adaptation to South Korean College Life," *The Korean Journal of Counseling and Psychotherapy*, vol. 16, no. 1 (2004), pp.167-186; Jung A Jung et al., "A Study on Defecting Motive and Social Adaptation of North Korean Defectors in South Korea: Focusing on Moderating Effect of Resilience," *Unification Policy Studies*, vol. 22, no. 2 (2013), pp.215-248; Gung C. Nam and Yea R. Kim, "Moral Economy of Female North Korean Refugees," *Journal of Communication Research*, vol. 53, no. 1 (2016), pp.105-148.
12. Yun Kyung Chung, Hee Jin Kim, and Jee Hyun Choi, "The Relationship between Discrimination and Social Adaptation among North Korean Refugees: Mediating Effects of Self-Support Efficacy," *Social Science Research Review*, vol. 31, no. 2 (2015), pp.157-182; Jung A Jung et al., "A Study on Defecting Motive and Social Adaptation of North Korean Defectors in South Korea: Focusing on Moderating Effect of Resilience," *Unification Policy Studies*, vol. 22, no. 2 (2013), pp.215-248; Seok-Hyang Kim, *A Review of Daily life of North Korean Refugees*, Korea Institute for National Unification, 2012.
13. Hwa Soon Kim and Dae Seok Choi, "Perception and Task of Policies on the Settlement of North Korean Migrants: Going beyond Settlement Support to Social Integration," *Unification Policy Studies*, vol. 20, no. 2 (2011), pp.37-73; Geum Soon Lee et al., *Supporting System for North Korean Refugees by Sector*, Korea Institute for National Unification, 2004; Ho S. Park, "A Study of Problem Concerning the Support on the Settlement of North Refugees to South Korean Society," *The Journal of International Relations*, vol. 7, no. 2 (2004), pp.1-24.
14. Arum Hur, "Adapting to Democracy: Identity and the Political Development of North Korean Defectors," *Journal of East Asian Studies*, vol. 18, no. 1 (2018), pp.97-115.

Our approach differs from these previous studies in assuming—and focusing on—the *heterogeneity* of defectors, particularly *with respect to underlying psychological values and political orientation*. A recurrent error in our views of North Korea is to assume that rigid authoritarian rule is associated with a homogenous, even robot-like population that shares similar outlooks. Yet we know from the defectors themselves that they differ not only along with many basic demographic dimensions from education and employment through lived experiences, but also psychological values including political orientation. North Koreans are no different than humans anywhere in being diverse, and it is this diversity that we want to explore. Values can be defined as the whole constellation of a person's attitudes, beliefs, opinions, hopes, fears, prejudices, needs, desires, and aspirations.¹⁵ Taken together, they govern how one behaves. Therefore, a study focusing on the value orientation aspect would not only improve our understanding of North Korean defectors but also help us derive useful implications for government policies to deal with them. To do this, we focus on relevant value orientations of North Korean defectors, using those both to categorize the defectors and to test for their effects on the adjustment process.

III. Constructs and Survey Method

1. Dimensions of Value Systems

To measure relevant dimensions of value systems, we turned to past literature on political psychology,¹⁶ lifestyle and values' studies¹⁷ and relevant studies that sought to scale such concepts making

15. Arnold Michell, *The Nine American Lifestyles* (New York: Macmillan, 1984)

16. Jost Stellmacher and Thomas Petrzal, "Authoritarianism as a Group Phenomenon," *Political Psychology*, vol. 26, no. 2 (2005), pp.245-274.

17. Ah Keng Kau, Kwon Jung, Siok Kuan Tambyah, and Soo Jiuan Tan, *Understanding Singaporeans: Values, Lifestyles, Aspirations and Consumption Behaviors* (Singapore: World Scientific Publishing Company, 2004)

necessary additions and modifications based on the peculiarities of a defector population.¹⁸ Given our presumption that broader national and social values were likely to matter given the nature of the North Korean political economy, we sought to tap measures of values at the national or ideological level as well as at the society and individual level. A total of 36 survey items were used based on eight concepts, each of which captured values at one of our three organizing levels of analysis:

- National level: orientation toward the political and economic system (six items).
- Society level: communal value orientation (four items) and family value orientation (three items).
- Individual level: traditional value orientation (four items), entrepreneurial orientation (five items), and materialistic inclination (five items)—Simply measuring and clustering these values constitutes the first step in the analysis. But these values were then conceived as independent variables that help explain individual adaptation at a broadly parallel number of levels.
- Macro Level: adaptation to—and acceptance of—democracy and a market-oriented economic system (three items).
- Mezzo or Society Level: adaptation in terms of language, value system, and overcoming social prejudice (three items).
- Micro or Individual Level: personal feelings such as happiness and confidence with respect to South Korean society (three items).

North Korean defectors' satisfaction is measured in terms of their satisfaction with respect to current income, employment, consumption, cultural & leisure activities, health, participation in social activities, housing, and overall satisfaction. These aspects are identified from the

18. Ronald. E. Goldsmith and Charles F. Hofacker, "Measuring Consumer Innovativeness," *Journal of Academy of Marketing Science*, vol. 19 (Summer 1991), pp.209-221; Marsha L Richins, "Special Possessions and the Expression of Material Values," *Journal of Consumer Research*, vol. 21 (December 1994), pp.522-53.

annual Social Survey by the Korean Statistics Department.¹⁹

A total of 1,010 North Korean defectors were surveyed, excluding those younger than 20 years of age. We also focused on defectors who left North Korea from 2003. This timeline is used to select defectors who experienced the first experiment with economic reform by the North Korean government in July 2002 that provided some experience with a market economy. Respondents were identified using snowball sampling methods due to the special nature of the target population. A professional research company, Nielsen Korea, collected the data with a face-to-face interview method and all value, lifestyle, adaptation, and life satisfaction items are measured using a standard five-point Likert type scale. Data was collected during June and July of 2016.

2. Finding Types: Factor, Cluster, and Discriminant Analysis of Values

Since the goal of this study is to construct a meaningful typology of North Korean defectors' worldviews and values, the first step was to undertake an explanatory factor analysis on value measures. This step permits us to identify underlying dimensions of North Korean defectors' value systems and to assure that the postulated dimensions are in fact adequately independent to provide the basis for later analysis and inference. The second step was to undertake a cluster analysis to identify meaningful groupings using the factor scores identified in the explanatory factor analysis. Finally, discriminant analysis was conducted to validate differences among the clusters in terms of key demographic and other psychographic variables. In the subsequent section, we turn to the differences that these value clusters might generate in terms of adaptation and life satisfaction.

19. Korean National Statistics Office (2016), *The Summary Result of 2016 Social Survey: Family, Education, Health, Safety, and Environment*, Statistics Korea, 2016, <http://kostat.go.kr/portal/korea/kor_nw/2/1/index.board?bmode=read&aSeq=357457> (date accessed January 26, 2018); Korean National Statistics Office, *The Summary Result of 2017 Social Survey: Welfare, Social Participation, Culture & Leisure, Income & Consumption, and Labor*, Statistics Korea, 2017, <http://kostat.go.kr/portal/korea/kor_nw/2/1/index.board?bmode=read&aSeq=364361> (date accessed January 26, 2018).

The exploratory factor analysis was performed on the 31 items that measure the various dimensions of values identified above. The Bartlett test of sphericity ($\chi^2=8154.40$, $p<0.00$) and the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy (0.87) provide sufficient justification for using factor analysis on the data set.²⁰ The final number of factors is ideally determined after considering the latent root criterion, the scree plot test, and the interpretability of factor solutions. Based on the latent root criterion, six factors were identified as having an eigen value greater than one and the scree plot identifies an elbow point at which the curve first begins to straighten out around the 6th factor. We then compared the interpretability of five, six and seven factor solutions by examining items that are highly loaded to each factor.

Consistent with the initial conceptualization, the results did, in fact, show that the six-factor solution provided the most coherent interpretability among the three possible solutions considered and it was thus selected as the final factor solution. In the process, four items were excluded from the analysis due either to their low or high loadings on several factors. Thus, 27 items were ultimately used to obtain the final six-factor solution of types, using principal component analysis with varimax rotation. The six factors explain 58.2% of the variance. The rotated factor matrix is examined to interpret and name the factors. Since the sample size is sufficiently large (i.e., greater than 350), factor loadings greater than 0.30 are used to identify significant loadings.²¹ The items loaded on each factor and their loadings are summarized in Table 1. Based on the examination of the factor loadings of each variable, the six factors were identified as capturing the following value orientations:

20. Kaiser suggested the following guideline for interpreting KMO: 0.90 or above is marvelous, 0.80 is meritorious, 0.70 is middling, 0.60 is mediocre, 0.50 is miserable, and below 0.50 is unacceptable. Quoted from Henry. F. Kaiser, "An Index of Factorial Simplicity," *Psychometrika*, vol. 39 (1974), pp.31-36.

21. Joseph F. Hair, William C. Black, Barry J. Babin, and Rolph E. Anderson, *Multivariate Data Analysis*, 7th edition, Engelwood Cliffs (NJ: Prentice Hall, 2009)

**<Table 1> Six Value Dimensions of North Korean Defectors:
Related Survey Items and Factor Loadings**

Items	Factor Loadings
Factor 1: Group Authoritarianism (14.8%, Alpha=.86)	
1. A member of a nation should always obey that nation's rules (Conventionalism)	.804
2. A member of a nation who has counteracted that nation's norms should always be called to account (Aggression)	.765
3. A member of a nation who has violated that nation's rules should be punished severely (Aggression)	.756
4. A member of a nation should do nothing that contradicts that nation's norms or rules (Conventionalism)	.697
5. A member of a nation has to respect and obey that nation's leader in any case (Submission)	.696
6. The instructions of nation's leader should be obeyed under all circumstances (Submission)	.648
Factor 2: Entrepreneurial Spirit Orientation (9.9%, Alpha=.74)	
1. I like stimulation and changes (Stimulation)	.751
2. I often try new products before my friends do (Try new)	.744
3. I don't mind taking high risks if the chances of success are good (Risk-taking)	.658
4. I am creative in solving problems (Creative)	.554
5. If I spot an opportunity, I usually act on it (Opportunity)	.508
Factor 3: Traditional Value Orientation (8.8%, Alpha=.68)	
1. Divorce is unacceptable (Moral: divorce)	.749
2. It's wrong to have sex before marriage (Moral: pre-marital sex).	.697
3. I like to stick to traditional ways of doing things in most of my life (Traditional method)	.603
Factor 4: Family Value Orientation (8.7%, Alpha=.70)	
1. One should strive to provide the best for one's children (Support)	.730
2. Family members should be prepared to make sacrifices to help each other (Sacrifice)	.714
3. One should support one's parents in their old age (Support)	.695
4. Family members should cherish one another and show mutual love (Mutual love)	.536
Factor 5: Communal Value Orientation (8.4%, Alpha=.68)	
1. I am willing to do volunteer work if there is an opportunity (Volunteering)	.731
2. I am willing to pay more for products that are friendly to the environment (Environment)	.701
3. I often donate money to charitable causes (Donation)	.631
Factor 6: Materialistic Inclination (7.6%, Alpha=.56)	
1. Being rich is one of the most important objectives in my life (Acquire wealth)	.805
2. I like to own things that impress people (Impress)	.733
3. Money can solve most people's problems (Money is everything)	.538
4. If possible, I want to live a simple life without owning too many things (Simple life)	-.401

- **Factor 1: Authoritarianism:** This factor had six loaded items and explained 14.8% of the variance. We adopted the label “Authoritarianism” because most of the highly loaded items were related to conventionalism, aggression, and submission to an authoritative political order or leader.
- **Factor 2: Entrepreneurialism:** This factor had five loaded items and explained 9.9% of the variance. Most of the highly loaded items are related to characteristics associated with entrepreneurial activity, such as willingness to take risks and preference for change and new things. It also captured a tendency for opportunism and creativity.
- **Factor 3: Traditional Value Orientation:** This factor had three loaded items and explained 8.8% of the variance. The loaded items represented conservative moral perceptions on marriage, pre-marital sex, and the value of maintaining traditional ways of doing things.
- **Factor 4: Family Value Orientation:** This factor had four loaded items and explained 8.7% of the variance. The loaded items represent core family values in terms of support, sacrifice, and mutual love of family.
- **Factor 5: Communal Value Orientation:** This factor had three loaded items and explained 8.4% of the variance. The loaded items represent people’s willingness to contribute to society through donations, volunteering, and an interest in environmental protection.
- **Factor 6: Materialism:** This factor had four loaded items and explained 7.6% of the variance. It was labeled materialism as most of the loaded items captured interest in money, wealth, and status.

Once we identified these six value dimensions, the next step was to consider how they combine to generate different types of defectors: those with worldviews that were similar within the group but distinctive across groups. This was done through a cluster analysis using the factor scores of the identified six value orientations.

Although cluster analysis is a sophisticated statistical technique, there is no clear standard for deciding the appropriate number of clusters, which will depend in part on the purpose of the study. We

followed the procedure recommended by Punj and Stewart (1983),²² which endorsed a validation approach suggested by McIntyre and Blashfield (1980) to determine the appropriate number of clusters. The procedure involves dividing the sample into halves and carrying out cluster analysis on each half. The first half is used as a test sample, and the second half is used as an internal validation sample. The test sample is utilized to generate the possible alternative cluster solutions, and the internal validation sample is then used to select the best solution based on the stability and reproducibility of cluster membership in the test sample. After the elimination of a small number of respondents,²³ the remaining 999 cases were randomly divided into two data sets, D1 and D2, containing 502 and 497 cases respectively. D1 was used as a test sample and D2 as a validation sample.

The next step is to obtain an initial idea of the number of plausible clusters, which was done through hierarchical cluster analysis using Ward's method and Euclidean distances. The changes in agglomeration coefficients, which represent increases in the within-cluster variance for each step of combining clusters, were examined to identify initial alternative cluster solutions. A big change in the agglomeration coefficient is an indicator that two heterogeneous clusters are being combined and such a jump in the agglomeration coefficient can be observed in the five to eight-cluster solution range. Therefore, four to nine clusters were considered as alternative cluster solutions.

The test sample (D1) was then analyzed using a hierarchical clustering method for the alternative number of clusters (i.e., $n=4, 5, 6, 7, 8,$ and 9), the cluster centers for each cluster were calculated and the

22. Robert. M. McIntyre and Roger. K. Blashfield, "A Nearest-Centroid Technique for Evaluating the Minimum-Variance Clustering Procedure," *Multivariate Behavioral Research*, vol. 2 (April, 1980), pp.225-238; Girish Punj and David. W. Stewart, "Cluster Analysis in Marketing Research: Review and Suggestions for Application," *Journal of Marketing Research*, vol. 20 (May, 1983), pp.134-148.

23. Since cluster solutions are very sensitive to outliers, potential outliers were identified prior to the cluster analysis. For each factor, we identified respondents whose factor scores were higher than 3 or lower than -3. Since factor scores are standardized, the probability of occurrence of those values is less than 99.9% and as a result 11 respondents were eliminated as outliers.

cross-validation procedure utilizing constrained and unconstrained solutions for each alternative number of clusters was performed on the validation sample (D2).²⁴ The chance corrected coefficient of agreement, kappa, is computed using two solutions of D2 for each of the six alternatives. The kappa value for 4, 5, 6, 7, 8, and 9 cluster solutions are 0.38, 0.46, 0.46, 0.43, 0.44, and 0.39, respectively. Considering the kappa values, the interpretability of clusters, and the preference for fewer rather than more clusters ceteris paribus, the five-cluster solution was selected as the optimal solution. The cluster centers of each factor are presented in Table 2, and a graphical representation of the cluster is presented in Figure 1.

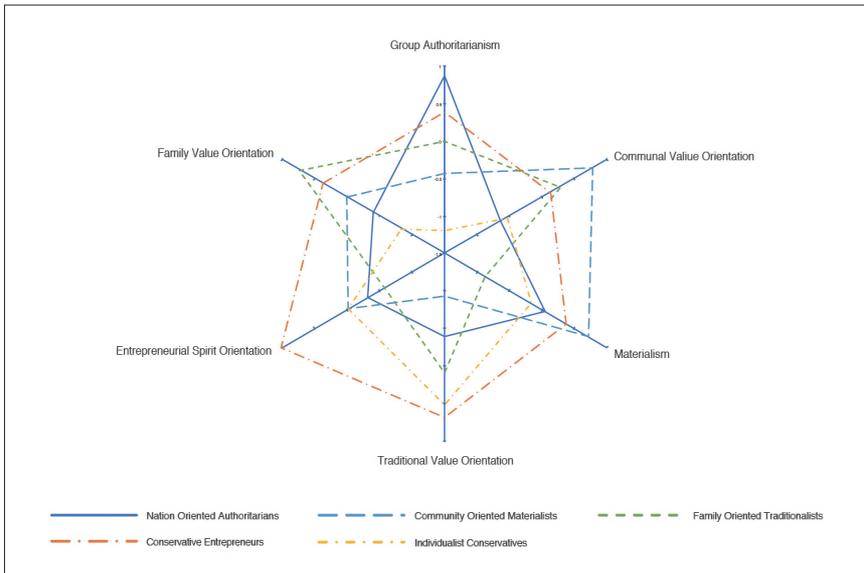
<Table 2> Difference in Value Orientation (Cluster Centroids) among North Korean Defector Clusters

Clusters/ Value Dimension	Nation-oriented Authoritarians	Community-oriented Materialists	Family-oriented Traditionalists	Conservative Entrepreneurs	Individualist Conservatives
Group Authoritarianism	<u>.88</u>	<i>-.43</i>	<i>-.01</i>	<u>.38</u>	<i>-1.20</i>
Communal Value Orientation	<i>-.64</i>	<u>.78</u>	<u>.28</u>	.13	<i>-.54</i>
Family Value Orientation	<i>-.41</i>	.00	<u>.73</u>	<u>.37</u>	<i>-.84</i>
Traditional Value Orientation	<i>-.39</i>	<i>-.93</i>	.10	<u>.68</u>	<u>.53</u>
Entrepreneurial Spirit Orientation	<i>-.32</i>	<i>-.02</i>	<i>-.57</i>	<u>1.01</u>	<i>-.02</i>
Materialistic Inclination	.04	<u>.72</u>	<i>-.87</i>	<u>.38</u>	<i>-.17</i>
Number of Cases	226	181	222	210	160
% of Respondents	22.6	18.1	22.2	21.0	16.0

Note: The highest values for each factor are in bold and underlined and the second highest values are underlined. The lowest values for each factor are in bold and italic, and the second highest values are in italic.

24. For each given number of clusters, the constrained solution classifies cases in D2 using K-means method with the cluster centers of the test sample, whereas the unconstrained solution generates clusters using a hierarchical clustering method without any restrictions. The cluster solution that has the closest agreement between the constrained and the unconstrained solutions of D2 is selected as the final solution.

<Figure 1> Differences in Value Orientation among North Korean Defector Clusters



Discriminant Analysis

To validate the identified clusters, a discriminant analysis was conducted to examine whether they could be differentiated by demographic and other psychographic variables. Three groups of demographic variables were examined: basic demographics (age, gender, and marital status), those related to life in North Korea (education, perceived income level, and communist party membership), and those related to life in South Korea (time in South Korea, perceived income level and employment status). All the categorical demographic variables were dummy-coded before they were used in the discriminant analysis. As psychographic variables, nine terminal values developed by Kahle (1983) were also examined.

The univariate tests for the equality of group means for demographic and psychographic variables are all significant except education in North Korea and employment in South Korea, suggesting that the identified

five clusters are in fact different in terms of key demographic and other psychographic aspects.²⁵ A stepwise discriminant analysis procedure further identified variables that have significant discriminating power. Five demographic variables (age, gender, lower-income status in North Korea, lower-middle-class status in South Korea, and time in South Korea) and four List of Value (LOV) variables (i.e., warm relationship with others, sense of belonging, self-respect, and being well-respected) were retained in the discriminant functions, suggesting that they were significant variables in discriminating the clusters.

3. Characterization and Description of the Clusters

A key challenge of cluster analysis is to characterize the clusters. We found that value orientations of the identified clusters did to a significant degree align well along the three basic social levels (i.e., nation, community, and family). The five clusters can thus be broadly characterized by those who were nation-oriented, community-oriented, family-oriented, balanced among the three, or displayed no strong identification with any of these orientations. Yet the clusters are also distinctive on the remaining three personal level value orientations. Based on the cluster centers of the five-factor scores presented in Table 2 and Figure 1, the clusters are labeled as (1) nation-oriented authoritarians, (2) community-oriented materialists, (3) family-oriented traditionalists, (4) conservative entrepreneurs, and (5) individualist conservatives. The demographic and psychographic make-up of the cluster is shown in Tables 3 and 4.

25. The overall hit ratio of discriminant functions was 42.8%. This hit ratio exceeds the proportional chance criterion (20.3%) by more than the required 25% cut-off (i.e., exceeded 25.4%) suggested by Hair et al. (2009), allowing predictive validity of the discriminant function and thereby further legitimizing conclusions based on the univariate test results.

- **Nation-oriented authoritarians** (22.6% of respondents). This cluster has the highest orientation toward the nation but also on authoritarianism. By contrast, they score low on communal (lowest) and family values (second lowest). In terms of individual-level value orientation, they are low on both entrepreneurial orientation (second lowest) and with respect to traditional values (second lowest) with an average orientation toward materialism. This means that they are not exactly conservative with respect to traditional values, yet they are not entrepreneurial either. Demographically, this group has relatively more females (88.1% compared to the average of 79.3%) and is one of the older groups (average age of 45.4 years old) with the biggest share in their 40s (42.5%). Their time living in South Korea is relatively longer than other groups (average living period of 7.6 years), with 34.5% of them living in South Korea for more than 10 years. Despite their relatively longer living period in South Korea, their perceived income level in South Korea is low (76.5% of them think that their income is at the lower-class level compared to the average of 68.0%).
- **Community-oriented materialists** (18.1%). This group scored high on community value orientation (highest), but was neutral on family and relatively low on nation value orientation. These respondents were also the most materialistic (highest), with about average scores on entrepreneurship but low on traditional values (lowest). Demographically, this group is younger than other groups (average age of 35.5 years old) with the largest share in their 20s (30.4%) and 30s (34.3%) with a relatively shorter time in South Korea (6.4 years).
- **Family-oriented traditionalists** (22.2%). As the name suggests, these respondents were most oriented toward family with moderate to neutral orientations toward nation and community. Demographically, this group was not distinctive, but it did have the highest percentage actually living with family in South Korea (75.7%). In terms of individual-level value orientation, they are the least materialistic and entrepreneurial (lowest) and somewhat more traditional value oriented, which seems consistent with a family orientation.
- **Conservative entrepreneurs** (21%). This group showed a balanced orientation on nation, community, and family but was the group with

the highest orientation toward both entrepreneurial and traditional values and the second-highest orientation toward materialism: they also consistently scored higher than all other groups on terminal values. Demographically, this group has slightly more male (27.1 % compared to the average of 20.7%) and had the highest proportion of former communist party members (14.8%).

- **Individualist conservatives** (16%). This group scored relatively low on all three levels of social orientation: nation (lowest), communal (second lowest) and family values (lowest): thus we labeled them individualists. Yet surprisingly, they scored somewhat lower than average on materialism and somewhat higher on traditional value orientation (second highest). Interestingly, this group appears to be upwardly mobile. The group's perceived income level in North Korea was lower than other groups (the proportion of the lower-income category was 54.4 % compared to the average of 43.8%), but its perceived income level in South Korea is better than the others with the lowest proportion of the lower-class category (58.1%) and the highest proportion of the lower-middle-class category (31.9%).

<Table 3> Demographic Characteristics across North Korean Defector Clusters

	Total	Nation-oriented Authoritarians	Community-oriented Materialists	Family-oriented Traditionalists	Conservative Entrepreneurs	Individualist Conservatives
Number of cases	999	226	181	222	210	160
Gender						
Male	20.7	<u>11.9</u>	22.7	19.8	<u>27.1</u>	23.8
Female	79.3	<u>88.1</u>	77.3	80.2	<u>72.9</u>	76.3
Age						
20s	17.4	<u>6.2</u>	<u>30.4</u>	15.3	15.7	23.8
30s	23.6	21.7	<u>34.3</u>	18.9	21.9	23.1
40s	33.3	<u>42.5</u>	27.1	36.0	31.0	<u>26.9</u>
50s	17.4	19.9	7.7	19.4	19.0	<u>20.0</u>
60+	8.2	9.7	0.6	10.4	<u>12.4</u>	6.3
Ave. age (F=21.41, p<.00)	42.4	<u>45.5^c</u>	<u>35.5^a</u>	44.2 ^c	44.0 ^c	41.2 ^b
Education at (in) North Korea						
No education	1.3	1.5	<u>.0</u>	2.0	1.1	<u>2.0</u>
Elementary	5.3	<u>2.5</u>	4.4	<u>6.9</u>	6.4	6.5
Middle	3.7	<u>2.0</u>	3.8	3.5	4.3	<u>5.2</u>
High	74.0	75.0	76.1	72.3	<u>70.6</u>	<u>77.1</u>
College +	15.6	<u>19.0</u>	15.7	15.3	17.6	<u>9.2</u>
Income at (in) North Korea						
Lower	43.8	46.9	<u>28.2</u>	47.7	41.9	<u>54.4</u>
Middle Lower	19.6	<u>22.6</u>	22.1	<u>15.3</u>	19.5	18.8
Middle Middle	26.4	21.2	<u>36.5</u>	29.3	26.2	<u>18.8</u>
Middle Upper	8.1	8.0	<u>11.0</u>	<u>6.3</u>	8.6	6.9
Upper	2.0	1.3	2.2	1.4	<u>3.8</u>	<u>1.3</u>
Communist Party Member						
Yes	10.2	11.5	<u>6.1</u>	9.9	<u>14.8</u>	7.5
No	89.8	88.5	<u>93.9</u>	90.1	<u>85.2</u>	92.5
Living Period in South Korea						
1~5 years	28.3	<u>20.8</u>	28.7	25.7	<u>38.6</u>	28.7
6~10 years	44.3	44.7	<u>49.7</u>	45.9	<u>37.1</u>	45.0
10+ years	27.3	<u>34.5</u>	<u>21.5</u>	28.4	24.3	26.3
Avg. period (F=4.49, p<.01)	6.8	<u>7.6^b</u>	6.4 ^a	7.0a ^b	<u>6.4^a</u>	6.6 ^a
Family in South Korea						
Yes	70.0	<u>65.0</u>	74.0	<u>75.7</u>	65.7	70.0
No	30.0	<u>35.0</u>	26.0	<u>24.3</u>	34.3	30.0
Income in South Korea						
Lower	68.0	<u>76.5</u>	64.6	64.0	73.3	<u>58.1</u>
Middle Lower	21.8	<u>17.3</u>	22.7	23.9	16.2	<u>31.9</u>
Middle Middle	7.5	<u>4.4</u>	<u>9.9</u>	9.0	8.6	5.6
Middle Upper	1.4	<u>1.8</u>	1.7	1.4	<u>1.0</u>	1.3
Upper	1.3	<u>0.0</u>	1.1	1.8	1.0	<u>3.1</u>
Job in South Korea						
Yes	32.9	<u>35.8</u>	34.8	31.5	<u>30.0</u>	32.5
No	67.1	<u>64.2</u>	65.2	68.5	<u>70.0</u>	67.5

Note: The highest values for each factor are in bold and underlined, and the lowest are in bold and italic.

^{a,b,c,d}: Means with different alphabets are significantly different (p<.05) based on post-hoc Duncan contrasts analysis.

<Table 4> Differences in Aspiration Level across North Korean Defector Clusters¹

	Total	Nation -oriented Authoritarians	Community- oriented Materialists	Family-oriented- Traditionalists	Conservative Entrepreneurs	Individualist Conservatives	F
Number of cases	999	226	181	222	210	160	
Important Values in Life²							
Self-respect	4.54	4.44(1) ^b	4.62(1) ^c	4.45(2) ^b	<u>4.63</u> (1) ^c	4.07(1) ^a	18.23 **
Warm relationship with others	4.27	4.23(2) ^b	4.33(4) ^{bc}	4.46(1) ^{cd}	<u>4.49</u> (3) ^d	3.74(6) ^a	31.14 **
Security	4.27	4.15(3) ^b	4.38(2) ^{cd}	4.30(3) ^{bc}	<u>4.50</u> (2) ^d	3.94(2) ^a	11.72 **
Sense of accomplishment	4.21	4.12(4) ^b	4.38(2) ^{cd}	4.23(4) ^{bc}	<u>4.40</u> (4) ^d	3.87(3) ^a	13.08 **
Fun & Enjoyment	4.12	3.98(5) ^a	4.23(5) ^b	4.16(5) ^b	<u>4.30</u> (7) ^b	3.86(4) ^a	9.70 **
Self-fulfillment	4.03	3.82(6) ^a	4.17(6) ^b	4.06(6) ^b	<u>4.34</u> (6) ^c	3.71(7) ^a	18.66 **
Being well-respected	3.97	3.77(7) ^a	4.01(7) ^b	3.93(7) ^{ab}	<u>4.35</u> (5) ^c	3.76(5) ^a	16.99 **
Excitement	3.88	3.70(8) ^a	3.87(8) ^a	3.85(8) ^a	<u>4.26</u> (8) ^b	3.70(8) ^a	13.84 **
Sense of belonging	3.68	3.39(9) ^a	3.54(9) ^a	3.81(9) ^b	<u>4.08</u> (9) ^c	3.57(9) ^a	15.78 **

*: $p < .05$, **: $p < .01$

a,b,c,d: Means with different alphabets are significantly different ($p < .05$) based on post-hoc Duncan contrasts analysis.

¹ The highest values for each aspect of aspiration are in bold and underlined, and the lowest are in bold and italic.

² Every item was measured with a 5-point scale (1 = Not important at all, 5 = Very important). Numbers in parenthesis represent the ranking of the value within each cluster.

4. Political Views, Adaptation and Life Satisfaction Across Clusters

Do the clusters we have identified provide any insight into the propensity for adaptation and life satisfaction after defection, including with respect to the South’s democratic capitalist political economy? Table 5 reports responses to a series of statements measuring adjustment experiences, grouped by the three levels of social interaction—macro, mezzo, and micro—and by the five clusters.

Overall, North Korean defectors arguably adapt relatively well at the macro level: with respect to support of democracy ($M=3.63$) and a capitalist, market-oriented economy ($M=3.70$ for support and $M=3.86$ for understanding). They also adapt relatively well at the micro-level as measured by happiness ($M=3.70$), confidence ($M=3.75$) and liking South Korea ($M=3.83$). However, they seem to find more difficulties in adapting at the social level due to different value systems ($M=3.16$) and different language styles ($M=3.05$). The defectors report particular difficulties due to prejudice ($M=2.41$).

The five clusters, however, also show different patterns in their adaptation to the South Korean political, economic and social system. The conservative entrepreneurs consistently score higher on measures of adaptation to and acceptance of a democratic capitalist system. This may not be surprising with respect to the economy, but it is noteworthy that they also exhibit the most positive reception of democracy as well. However, they face more difficulties at the mezzo level in adjusting to the different language and value system and experiencing more prejudice.

The individualist conservatives show the opposite pattern. Their adaptation at the macro and micro levels are lower than the other groups, but their mezzo level adaptation is not. Particularly noteworthy is that this group shows the weakest acceptance of South Korea's capitalist economic system. Nonetheless, they also report less prejudice than the other groups ($F=7.56$, $p<.01$), perhaps because of lower expectations.

Although the adaptation level of the remaining three groups lies between these two in general, they show some unique response patterns. A particularly important finding is that the nation-oriented authoritarians who hold a strong authoritarian ideology showed a lower level of support for a democratic system ($F=4.20$, $p<.01$).

The community-oriented materialists are particularly interesting because they show a higher level of adaptation on different value systems ($F=4.72$, $p<.01$) and language style ($F=16.56$, $p<.01$), but not on prejudice. This finding suggests that prejudice by South Koreans is a serious obstacle found even among those who exhibit a strong community orientation and overall capacity to adapt.

<Table 5> Differences in Adaptation Level across North Korean Defector Clusters¹

	Total	Nation-oriented Authoritarians	Community-oriented Materialists	Family-oriented Traditionalists	Conservative Entrepreneurs	Individualist Conservatives	F
Number of cases	999	226	181	222	210	160	
<u>Adaptation to South Korea²</u>							
<u>Macro Level:</u>							
I have become more supportive of democracy now than when I first came to South Korea	3.63	<u>3.46^a</u>	3.64 ^{ab}	3.73 ^b	<u>3.77^b</u>	3.53 ^a	4.20 **
I understand the market economy system better than when I first came to South Korea	3.86	3.81 ^b	3.87 ^b	3.89 ^b	<u>4.08^c</u>	<u>3.61^a</u>	8.22 **
I have become more supportive of the market economy system than when I first came to South Korea	3.70	3.63 ^b	3.67 ^b	3.70 ^b	<u>4.03^c</u>	<u>3.41^a</u>	13.67 **
<u>Mezzo Level:</u>							
I am confused by the value system of South Korea after my defection ³	3.16	3.15 ^{ab}	<u>3.37^c</u>	3.24 ^{bc}	<u>2.96^a</u>	3.11 ^{ab}	4.72 **
I have difficulty in understanding the South Korean language style ³	3.05	2.92 ^b	<u>3.48^c</u>	3.14 ^b	<u>2.68^a</u>	3.14 ^b	16.56 **
South Koreans have negative prejudice towards North Korean defectors ³	2.41	2.34 ^{ab}	2.29 ^{ab}	<u>2.47^b</u>	2.27 ^a	<u>2.73^c</u>	7.56 **
<u>Micro Level:</u>							
I like South Korea more now than when I first came to South Korea	3.83	3.83 ^{bc}	3.66 ^b	3.88 ^c	<u>4.18^d</u>	<u>3.47^a</u>	17.14 **
I have become more confident since I came to South Korea	3.75	3.66 ^b	3.65 ^b	3.77 ^b	<u>4.14^c</u>	<u>3.45^a</u>	17.08 **
I am happier now than when I first came to South Korea	3.70	3.66 ^{ab}	3.62 ^{ab}	3.77 ^{bc}	<u>3.91^c</u>	<u>3.49^a</u>	5.43 **

*: $p < .05$, **: $p < .01$

a,b,c,d: Means with different alphabets are significantly different ($p < .05$) based on post-hoc Duncan contrasts analysis.

¹ The highest values for each aspect of aspiration are in bold and underlined, and the lowest are in bold and italic.

² Every item was measured with a 5-point scale (1 = Strongly disagree, 5 = Strongly agree).

³ Revers coded to represent high number means (and) higher level of adaptation.

<Figure 2> Difference in Adaptation Level by North Korean Defector Clusters

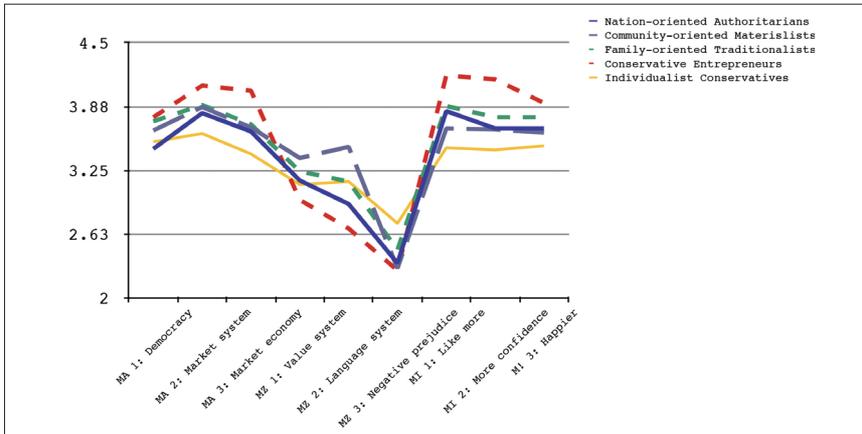


Table 6 shows the response of the five clusters to questions on life satisfaction. Although the level of overall satisfaction is not higher than we expected ($M=3.23$ and only 32.4% “satisfied”), the level is comparable with that of South Koreans (29.7%, Statistics Korea 2017b). The satisfaction level is even lower when it comes to specific categories of life satisfaction. Except for housing, the satisfaction level is significantly lower than the level of overall satisfaction in all other specific life satisfaction aspects.

The five clusters reveal differences in their levels of personal satisfaction. Although the pattern of overall life satisfaction is similar to the result of adaptation levels (i.e., the highest level for the conservative entrepreneurs, the lowest level for the individualist conservatives), overall satisfaction levels of both the nation-oriented authoritarians and the individualist conservative are significantly lower than that of the other groups ($F=5.83, p<.01$). Again, the lower level of overall life satisfaction of the nation-oriented authoritarians is particularly interesting and can be explained by their lowest level of satisfaction in most of the specific categories of life including health. On the other hand, the low level of individualist conservatives might be attributed to their lower level of adaptation to South Korean society, together with a relatively lower level of satisfaction in most of the specific aspects of life.

<Table 6> Differences in Life Satisfaction Level across North Korean Defector Clusters¹

	Total	Nation-oriented Authoritarians	Community-oriented Materialists	Family-oriented Traditionalists	Conservative Entrepreneurs	Individualist Conservatives	F
Number of Cases	999	226	181	222	210	160	
Life Satisfaction in South Korea²							
Housing	3.20	3.16 ^{ab}	3.11 ^{ab}	3.28 ^b	<u>3.31^b</u>	3.06 ^a	2.56 *
Participation in Social Activities (e.g., org. membership, volunteering, etc.)	3.04	2.74 ^a	<u>3.27^b</u>	3.22 ^b	3.11 ^b	2.88 ^a	15.79 **
Cultural & Leisure Activities	2.92	2.67 ^a	2.92 ^{bc}	<u>3.14^d</u>	3.01 ^{cd}	2.81 ^{ab}	8.27 **
Consumption Life	2.86	2.70 ^a	2.75 ^{ab}	<u>2.99^c</u>	2.97 ^c	2.89 ^{bc}	4.83 **
Health Condition	2.85	2.54 ^a	<u>3.11^b</u>	2.89 ^b	2.89 ^b	2.89 ^b	8.01 **
Income	2.78	2.66 ^a	2.72 ^{ab}	2.88 ^{bc}	<u>2.92^c</u>	2.70 ^{ab}	3.13 *
Overall Life Satisfaction	3.23	3.12 ^a	3.30 ^b	3.31 ^b	<u>3.38^b</u>	3.01 ^a	5.83 **

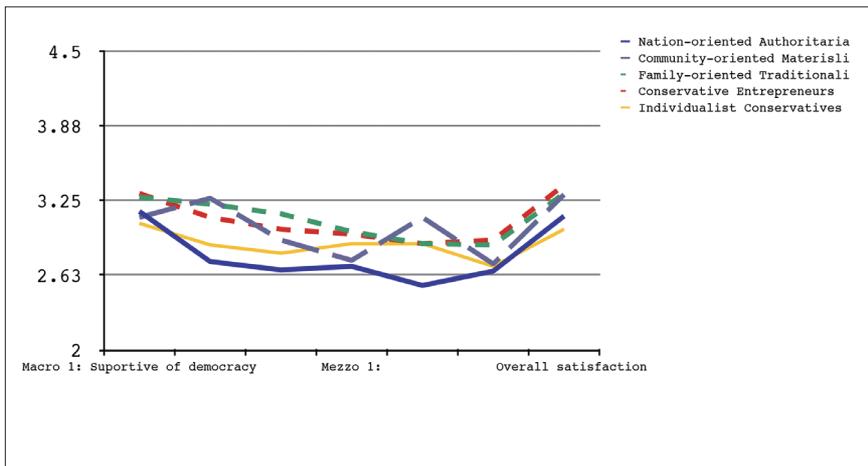
*: $p < .05$, **: $p < .01$

a,b,c,d: Means with different alphabets are significantly different ($p < .05$) based on post-hoc Duncan contrasts analysis.

¹ The highest values for each aspect of aspiration are in bold and underlined, and the lowest are in bold and italic.

² Every item was measured with a 5-point scale (1 = Very unsatisfied, 5 = Very satisfied).

<Figure 3> Difference in Satisfaction Level by North Korean Defector Clusters



Overall, our analysis of the five clusters in terms of their adaptation to South Korea's political and economic system and overall life satisfaction after defection shows that significant differences do exist among the value types. These differences in adaptation and life satisfaction are consistent with the traits and attitudes of the respective clusters and provide support for the labels given to these clusters.

IV. Discussions and Conclusions

We identify five major clusters of North Korean defectors based on their value systems. In the process, we find several interesting results that require further discussion. The most important finding is the simple fact that North Korean defectors are surprisingly heterogeneous in their underlying value orientations, including in their political outlook. Although there have been many studies on North Korean defectors, research that goes beyond the simple classification of demographics is relatively new. Public policies need to be attentive to this diversity and the fact that different groups of defectors face somewhat different challenges in adjusting to their life in the South. The findings of this study can thus help policymakers develop more targeted policies and to avoid a one-size-fits-all approach that fails to recognize the diversity among North Korean defectors. Any future policies toward North Korean defectors should consider the heterogeneity in its planning stage and prepare various positions within the policy. In other words, policymakers should consider the heterogeneity among North Korean defectors in the planning stages, so that policies should include as many options as possible to deal with the diversity among policy recipients, that is, a more 'customized policy' or 'social service' for North Korean defectors, which ultimately help them adjust more smoothly to South Korean society.

We can reiterate our more specific findings by underlining patterns of adaptation at the macro, mezzo, and micro levels. It is often thought that North Korean defectors are motivated by political objectives. However, it is important to underscore that there is a group of North

Korean defectors—the nation-oriented authoritarians—that show skepticism with respect to both democracy and the market economy.²⁶ The implications of this finding are potentially profound: a significant group of defectors with anti-system views may run risks for the political system as a whole, for example, in the potential for populism or even anti-system appeals.

Second, it is clear that the most difficult aspect of North Korean defectors' adaptation to South Korean life lies at the social level, especially in the prejudice shown by fellow South Koreans. Moreover, although some groups showed slightly more resilience, these problems were apparent across the board. Recognizing the importance of the integration between North and South Koreans, the South Korean government announced a policy change for North Korean defectors in 2016, shifting from a policy focused on the settlement to an integrationist approach that emphasizes communication and involvement with South Koreans.²⁷

Finally, we see differences in adaptation at the individual level as well. The conservative entrepreneurs showed the highest level of adaptation whereas the individualist conservatives showed the lowest level of adaptation at the individual level. The success of the conservative entrepreneurs could be attributable to their balanced orientation among nation, community, and family. Their balanced view might help them adjust to the vast differences between the two Korean societies and could be used in developing adaptation guidelines for other groups. On the other hand, special care has to be paid to the individualistic conservatives. To our surprise, they proved the most vulnerable group by having a solitary mentality and the lowest level of

26. See Arum Hur, "Adapting to Democracy: Identity and the Political Development of North Korean Defectors," *Journal of East Asian Studies*, vol. 18, no. 1 (2018), pp.97-115.

27. Ministry of Unification, *Press Release: Embracing North Korean Defectors as Friendly Neighbors to Make Unification Together (in Korean)*, Ministry of Unification, 2016, <http://www.unikorea.go.kr/unikorea/news/release/?boardId=bbs_0000000000000004&mode=view&cntId=47020&category=&pageIdx> (date accessed February 20, 2018).

aspiration and self-confidence. As a result, they show the lowest level of adaptation in their South Korean life. Special efforts should be given to help them improve their self-respect and confidence first before we encourage them to build a balanced view for better adaptation to their life in the South.

This study seeks to advance the study of North Korean defectors by showing not only their demographic diversity but the variance in terms of values, including but not limited to political ones. Looking forward, there is a need for more longitudinal work. People's value systems and the resulting behaviors do change as time passes. It will help us understand how North Korean defectors evolve from one type to another over time. Despite these limitations, the findings of this study provide meaningful insights not only for South Korean policymakers but also for policymakers in transitional economies or in other countries that have to deal with defectors from authoritarian regimes.

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***Byungjin* and the Sources of Pyongyang's Paranoia**

Er-Win Tan

While 2017 ended amid fears that the “war of words” between the American President, Donald Trump, and the North Korea Supreme Leader, Kim Jong Un, would escalate out of control, 2018 and early 2019 were marked by a series of summits between Kim Jong Un on one side and Moon Jae-in and Trump on the other. With Pyongyang’s continued ballistic missile tests and its increasingly chilly diplomatic tone towards Seoul, it is apparent that Kim Jong Un’s apparent show of diplomacy in 2018 and early 2019 were part of a wider delaying tactic arising from Pyongyang’s fear that Trump was reckless enough to start a war on the Korean Peninsula. Broadly speaking, the *Byungjin* doctrine serves as a more useful indicator of Kim Jong Un’s policy priorities, including his identification with a nuclear arsenal in ensuring regime survival.

Keywords: North Korea, paranoia, Trump, 1992 Trap, Nuclear

I. Introduction

Despite the temptation to see the series of diplomatic summits between U.S. President Donald Trump and North Korean Supreme Leader Kim Jong Un since 2018 as creating hope for a path towards the denuclearization of North Korea, the reality is that such expectations are overblown. Upon deeper investigation, and moving beyond the media frenzies that have accompanied the various Trump-Kim summits, it is apparent that the diplomatic platitudes between Trump and Kim are more accurately described as attention-grabbing exploits, rather than holding any actual substance insofar as the denuclearization of North Korea is concerned. A more convincing explanation behind Kim Jong Un's apparent willingness to dismantle his nuclear arsenal is that the North Korean leader is simply stalling for time.

The logical implication of this is that the underlying tensions behind U.S.-North Korean relations will remain in place for the foreseeable future. This should come as little surprise, given the North Korean leadership's undiminished paranoia towards ensuring regime security, the Trump-Kim Jong Un summits notwithstanding. The following six sections will explore the roots of their fears, beginning with an examination of the evolution of North Korean political philosophy that has culminated in Kim Jong Un's adoption of the *Byungjin* policy shortly after his rise to power, which functions as a useful indicator of his regime's policy priorities. Based on this, the three following sections separately consider the factors that underpin the paranoia of the North Korean leadership: 1) longstanding North Korean fears of a U.S.-led war of regime change; 2) North Korea's fear of unification by absorption by the ROK; and 3) North Korea's fear that it, too, may face a fate similar to other authoritarian regimes that collapsed internally. A fifth section integrates these three disparate factors to underscore the extent to which paranoia has become so deeply internalized in the collective psyche of the North Korean government, such that Pyongyang has come to see its nuclear program as the surest means of ensuring regime security. Based on this analysis, this manuscript will conclude by considering the diplomatic and security policy implications for the ROK and the U.S.

II. Kim Jong Un and *Byungjin*

Some notion of the driving forces behind Kim Jong Un's diplomatic and security policy can be gleaned through a careful review of his adoption of the *Byungjin* or "Parallel Development" policy following his rise to power in 2011. As noted by Brian Myers, an earlier iteration of the "*Byungjin* Line" was propagated by North Korea's Founding Father, Kim Il Sung, in 1962 as a militarist slogan in conjunction with the economic development of the country.¹ In this regard, Myers argued that Kim Il Sung's unveiling of *Byungjin* was intended to ensure that the North Korean military could exploit any possible strain in the U.S.-ROK alliance to launch a surprise invasion of the South and thus unify the country. Moreover, Myers underscored that the succeeding generations of the North Korean leadership have never wavered from this long-held objective.²

While it is likely that Kim Il Sung continued to seek the unification of the Korean Peninsula after the 1953 Armistice Agreement, there is much debate over the plausibility of Myers' argument within the context of North Korean diplomatic and security policy since the end of the Cold War. In particular, it is difficult to overstate the extent by which the loss of superpower patronage by the Soviets and Chinese has upended North Korean strategizing since the 1990s. The period from 1989 to 1991 saw both Moscow and Beijing establishing diplomatic ties with Seoul, as well as the collapse of the USSR. Particularly serious for Pyongyang was the loss of Soviet patronage, the one-time provider of the kind of arsenal needed to fight a second Korean War.

Seen in this light, the more recent incantation under Kim Jong Un

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1. Brian R. Myers, "A Note On *Byungjin*," personal website of Brian R. Myers, July 30, 2017, personal website of Brian R. Myers, <<https://sthelepress.com/index.php/2017/07/30/a-note-on-byungjin-b-r-myers>> (date accessed November 16, 2019).
 2. Max Fisher, "North Korea's Nuclear Arms Sustain Drive for 'Final Victory'," *New York Times*, July 29, 2017, <<https://www.nytimes.com/2017/07/29/world/asia/north-korea-nuclear-missile.html>> (date accessed November 1, 2019)

is more plausibly understood as an effort to introduce two layers of regime security for Pyongyang. Kim Jong Un's iteration of *Byungjin* has envisaged the simultaneous commitment of North Korea's nuclear program alongside efforts to modernize the North Korean economy.³ This is evident based on the 2013 plenary session that saw the official unveiling of the *Byungjin* policy, calling for a "strategic guideline for the construction of a "strong and prosperous nation where the people can enjoy the wealth and splendor of socialism" through strengthening defensive capacity and focusing on economic construction."⁴

As Kim Jong Un's signature foreign policy, *Byungjin's* equal attention to military security and economic development points to his attempts to consolidate two lines of defense for his regime's security. On one hand, the continued development of the nuclear weapons program provides North Korea with a strategic equalizer that offsets the obsolescence of its conventional arsenal against the U.S.-ROK alliance (hence strengthening North Korea's external security posture). On the other hand, Pyongyang's concurrent efforts to introduce state-managed economic reforms with an eye to increasing the circulation of foodstuffs and consumer goods in the country are clearly aimed at improving living standards in the country, in a clear nod to China's combination of authoritarian political leadership and rapid economic growth.⁵ On the surface, the construction of new consumer-oriented

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3. William Rooks, "Walking the *byungjin* line: North Korea in the Eurasian century," *ASPI*, June 12, 2019, <<https://www.aspistrategist.org.au/walking-the-byungjin-line-north-korea-in-the-urasian-century/>> (date accessed August 31, 2019).
 4. Seong-Whun Cheon, "The Kim Jong-un Regime's '*Byungjin*' (Parallel Development) Policy of Economy and Nuclear Weapons and the 'April 1st Nuclearization Law'," *Korea Institute for National Unification*, April 23, 2013, <<http://repo.kinu.or.kr/bitstream/2015.oak/2227/1/0001458456.pdf>> (date accessed September 1, 2019).
 5. Scott Snyder, "The Motivations Behind North Korea's Pursuit of Simultaneous Economic and Nuclear Development," *Council on Foreign Relations*, November 20, 2013, <<https://www.cfr.org/blog/motivations-behind-north-koreas-pursuit-simultaneous-economic-and-nuclear-development>> (date accessed October 1, 2019).

theme parks, ski resorts, cafes, and restaurants seeks to fulfill the dual objective of generating entertainment for the lives of the North Korean people (and thus distract the masses from such “undesirable” ideas as an uprising against his regime), while at the same time increasing the country’s capacity for earning foreign exchange from tourists.⁶

In this sense, it is notable that April 2018 saw Pyongyang’s *Byungjin* policy incorporate an increased “economic-focus” emphasis that sought an easing of international sanctions on North Korea. Based on these developments, Ruediger Frank has suggested that Kim Jong Un, having ensured his country’s external security through the development of a nuclear arsenal, is now attempting to consolidate regime survival through authoritarian-led economic reform in a manner similar to the Asian Economic Tigers of the 20th century (South Korea, Taiwan, Singapore, and China).⁷ Yet, there remains a significant obstacle to the possibility of North Korea becoming the next East Asia’s Tiger Economy. It is important to note that the aforementioned states have numerous social, economic, and political characteristics that, if fully transplanted into the North Korean context, would likely spell the demise of Kim Jong Un’s regime.

To begin with, the Tiger Economies owed their prosperity to strong Export-Oriented Industries (EOIs) as well as encouraging investment from foreign Multi-National Corporations (MNCs). By tying these countries’ fates to the external forces of globalization, such economic activity runs the risk of opening a Pandora’s Box of political dissent—ultimately, South Korea and Taiwan both became full-fledged democracies, while Singapore was at least compelled to ease up on aspects of its political authoritarianism. Although China has

6. Jung H. Pak, “The Education of Kim Jong Un,” *Brookings Institution*, February 2018, <https://www.brookings.edu/essay/the-education-of-kim-jong-un/?utm_source=FB&utm_medium=BPIAds&utm_campaign=EssayNK2&utm_term=SeNoCty-18%5E65-NoListNoCAnoBHV&utm_content=149384173> (date accessed September 15, 2019).

7. Ruediger Frank, “North Korea’s Economic Policy in 2018 and Beyond: Reforms Inevitable, Delays Possible,” 38 NORTH, August 8, 2018, <<https://www.38north.org/2018/08/rfrank080818/>> (date accessed November 17, 2019).

been able to combine political authoritarianism with a thriving export-oriented economy, it should be stressed that North Korea's ability to replicate the Chinese economic model is extremely limited, given that Pyongyang cannot hope to match the sheer size of China's internal market and its sense of national cohesion.

Absent the kind of sizeable internal domestic market that has kept the PRC's economy afloat, North Korea would have little recourse but to open itself up to the kind of external forces of globalization that would likely bring about the internal destabilization of the country by exposing North Korean society to such politically inconvenient ideas like democracy. The North Korean leadership is doubtless aware of these pitfalls: under these circumstances, it is apparent that Kim Jong Un's shift to an "economic line" in his implementation of *Byungjin* underscores that his leadership's vision is not so much an economic transformation of North Korea, but rather a shake-up of the country's antiquated economic structure in order to revitalize it and place it on a stronger footing to resist U.S. sanctions over its nuclear weapons program. In other words, while it is possible that the North Korean leadership believes that the economic component of *Byungjin* may help to revitalize its economy, Pyongyang doubtless sees such an outcome in strictly functional terms aimed at enabling Kim Jong Un to further consolidate control of the country against the prospective scenario of an internal uprising against his rule.

Moreover, lest there is any doubt concerning the extent of Kim Jong Un's commitment to his nuclear weapons program, as opposed to economic modernization, as the cornerstone of his regime's survival strategy, it is worth noting that the 2013 plenary session refers to a "precious sword that will advance the construction of a socialist strong and prosperous nation and Korean unification" and a "banner of safeguarding the autonomy and dignity of the people."⁸ This is further reinforced by Pyongyang's July 2019 constitutional amendment that also identified the country as a nuclear-armed state.⁹ As noted by

8. Cheon, "The Kim Jong-un Regime's '*Byungjin*'."

9. *South China Morning Post*, "North Korea changes constitution to strengthen Kim Jong-un's power," August 29, 2019, <<https://www.scmp.com/news/asia/>

Cheon Seong-Whun, the "*Byungjin* policy of economy and nuclear weapons signifies that North Korea will no longer differentiate its nuclear energy for peaceful use from military use."¹⁰ Such observations contradict the notion that Kim Jong Un has any plan to dismantle his nuclear program.¹¹

Rather, the notion that its nuclear weapons program stands as a key instrument of regime security for Kim Jong Un is further reflected by the events of early 2012, shortly after his succession to power that highlighted continued efforts to develop North Korea's operational nuclear arsenal. Presumably in the expectation that the Western-educated Kim Jong Un would be more enlightened and seek closer ties with the outside world, the Obama Administration sent Special Envoy Glyn Davies for talks with Pyongyang. During this period, Davies clearly underscored to North Korea the Obama Administration's willingness to provide increased economic and humanitarian aid in exchange for Pyongyang's cessation of any further conventional and nuclear weapon tests.¹²

Although North Korea initially agreed to these terms, resulting in the "Leap Year" Agreement of February 29, 2012, just weeks later, Pyongyang announced plans to resume a testing of the highly provocative Kwangmyongsong rocket. Ignoring the Obama Administration's warnings that such a course of action would void U.S. aid that had been agreed to under the "Leap Year" Agreement, Pyongyang went ahead with its missile test in April 2012, to mark the centenary of the

east-asia/article/3024963/north-korea-changes-constitution-strengthen-kim-jong-uns-power> (date accessed September 15, 2019).

10. Cheon, "The Kim Jong-un Regime's '*Byungjin*'."
11. Josh Smith, "'Defiant message' as North Korea's Kim rides white horse on sacred mountain," *Reuters*, October 16, 2019, <https://www.reuters.com/article/us-northkorea-kimjongun/defiant-message-as-north-koreas-kim-rides-white-horse-on-sacred-mountain-idUSKBN1WV08G?fbclid=IwAR3Bd_ACi23AA6GcPg2OngzpzNvxTr1ckUnQLxVyCmjDKhapLkwP6ZyV1ug> (date accessed October 16, 2019).
12. North Korean Economy Watch, "US-DPRK 'leap day deal' announced," April 18, 2012, <<http://www.nkeconwatch.com/2012/02/29/us-announces-new-deal-with-dprk/>> (date accessed October 1, 2019).

birth of Kim Il Sung.¹³ Although claimed as a test of a civilian satellite launch, the Kwangmyongsong rocket is a dual-use platform that can also be used for delivering nuclear warheads. Such an act signified the North Korean leadership's willingness to forego economic aid promised under the "Leap Year" Agreement as the price for continued development of its missile and nuclear programs—a trend supported by other developments that included multiple rocket tests in the period from 2013-18 that followed, along with a highly aggressive "war of words" with Seoul in the spring of 2013.¹⁴ In other words, while a *prima facie* interpretation of the *Byungjin* policy suggests that North Korea is undertaking economic development as an equal policy alongside its nuclear program, the underlying intention of both components of *Byungjin* point to Kim Jong Un's resolve to ensure regime survival. Yet, as explored elsewhere in this article, the fact that the North Korean leadership sees its nuclear arsenal as a critical instrument of regime survival means that it is highly unlikely that it will ever seriously contemplate its dismantlement.

In particular, from 2015 onwards, North Korea began attempts to develop and test the Pukkuksong series of ballistic missiles. A particularly notable characteristic about the latter class of weaponry was that it was designed for launch from submarines.¹⁵ In conjunction with North Korea's concurrent large Sinpo class submarine—a platform designed for the deployment and launch of nuclear missiles—it is apparent that Pyongyang remains intent on the

13. Ankit Panda, "A Great Leap to Nowhere: Remembering the US-North Korea 'Leap Day' Deal," *The Diplomat*, February 29, 2016, <<https://thediplomat.com/2016/02/a-great-leap-to-nowhere-remembering-the-us-north-korea-leap-day-deal/>> (date accessed October 1, 2019).

14. Rudy de Leon and Luke Herman, "North Korea and the War of Words," *Center for American Progress*, April 4, 2013, <<https://www.americanprogress.org/issues/security/news/2013/04/04/59324/north-korea-and-the-war-of-words/>> (date accessed October 1, 2019).

15. Helen Regan, Jake Kwon, and Yoko Wakatsuki, "North Korea launches ballistic missile a day after agreeing to US talks," *CNN*, October 2, 2019, <<https://edition.cnn.com/2019/10/02/asia/north-korea-missile-launch-intl-hnk/index.html>> (date accessed October 3, 2019).

development of an operational Submarine-Launched Ballistic Missile (SLBM) capability.¹⁶ Seen in this light, it is apparent that *Byungjin*, by marking Kim Jong Un's commitment to the country's nuclear weapons program, can be seen as a logical extension of the preceding *Songun* ("Military First") policy adopted by his father and predecessor, Kim Jong Il. For the older Kim, fears over the prospect of a U.S.-led war of regime change made North Korea's external security environment Pyongyang's policy priority:¹⁷ for the younger Kim, the acute awareness of the possibility of an Arab Spring-like scenario is the clear rationale behind his concurrent attempts to improve the standards of living in the country as an additional line of defense in ensuring regime security.¹⁸ Moreover, as the following sections detail, it is likely that the level of paranoia within the North Korean leadership has become so deeply internalized that it is difficult to imagine any plausible scenario wherein Pyongyang can seriously contemplate a long-term improvement in relations with Washington and Seoul, or in undertaking any form of political liberalization.

III. Pyongyang's Fears of the U.S.

Some insight into the extent of the North Korean leadership's paranoia in viewing the U.S. is reflected in what the authors of *Going Critical*, Joel Wit, Daniel Poneman, and Robert Gallucci, refer to as the "1992 Trap." The three men, who were directly involved in the 1993-94

16. H.I. Sutton, "North Korea Appears To Have Built Its First Real Ballistic Missile Submarine," *Forbes*, August 13, 2019, <<https://www.forbes.com/sites/hisutton/2019/08/13/north-korea-appears-to-have-built-its-first-real-ballistic-missile-submarine/#f39053c14e20>> (date accessed October 1, 2019).

17. Byung Chul Koh, "'Military-First Politics' and Building A 'Powerful and Prosperous Nation' in North Korea," *Nautilus Institute*, April 14, 2005, <<https://web.archive.org/web/20070927012049/http://www.nautilus.org/fora/security/0532AKoh.html>> (date accessed October 1, 2019).

18. Yonhap News Agency, "N. Korean newspaper calls Arab pro-democracy movement 'Arab Winter'," November 19, 2018, <<https://en.yna.co.kr/view/AEN20181119007100315>> (date accessed September 1, 2019).

North Korean nuclear crisis, coined the term to reflect their speculation over one possible motive behind Pyongyang's adoption of an increasingly inflexible posture from 1993 onwards, as arising from Pyongyang's belief that concessions made to the U.S. would not lead to reciprocal U.S. concessions. As the authors of *Going Critical* note in 1992,

The North was told to meet certain conditions before the Americans would [hold] another session [of talks]. The North took real steps – ratifying its safeguards agreement with the IAEA, embarking on a lengthy effort to implement that agreement, and negotiating with South Korea on an inspection regime for the Denuclearization Declaration. But these efforts came to naught in North Korean eyes. The IAEA discovered discrepancies in Pyongyang's initial declaration and inter-Korean dialogue broke down. As a result, the United States would not meet with the North again, Team Spirit was rescheduled, and Pyongyang faced the prospect of international sanctions as a result of its disagreement with the IAEA.¹⁹

In this regard, the events that followed since the war scare of June 1994 have likely caused fears of a "1992 Trap" writ large to have become deeply internalized in the collective psyche of the North Korean leadership. In particular, it is likely that the following three periods of Pyongyang's interaction with Washington have become so deeply seared into the minds of the North Korean leadership in illustrating the danger to North Korean interests that arise from making concessions to the U.S., which risk non-reciprocation from the White House.

The first of these episodes concerns the aftermath of the 1993-94 nuclear crisis, with the U.S. and North Korea signing the Agreed Framework, under which North Korea suspended activity at the Yongbyon nuclear reactor, for which the Clinton Administration agreed, as a *quid pro quo*, to supply Heavy Fuel Oil (HFO) and Light Water Reactors (LWRs) to provide Pyongyang with alternative sources

19. Joel Wit, Daniel Poneman, and Robert Gallucci, *Going Critical: The First North Korean Nuclear Crisis* (Washington: Brookings Institution, 2004), pp.89-90.

of energy that could not be diverted to nuclear weapons production.²⁰ In addition, North Korea later claimed that the Clinton Administration also agreed to the lifting of U.S. sanctions on North Korea as part of the Agreed Framework.²¹

Yet, just weeks after the signing of the agreement, the strongly hawkish Republican Party won control of both houses of the U.S. Congress, the Senate and the House of Representatives, and in turn vociferously condemned such diplomatic engagement with Pyongyang as "appeasement" of a "rogue state."²² Moreover, by controlling the purse strings of a White House Administration dogged by personal controversies and disliked by conservatives over an entire range of policy issues, the Republican Party was in a strong position to sabotage the Clinton Administration's attempts to implement the Agreed Framework.²³ Rather than stirring domestic controversy by investing political time and energy in getting the agreement implemented, the Clinton Administration instead placed its implementation on the backburner, most notably with delays to Washington's lifting of sanctions on North Korea. In this regard, it has been speculated by left-leaning academics such as Gavan McCormack that the Clinton Administration had been deliberately half-hearted in its implementation of the Agreed Framework, in the expectation that North Korea would collapse of its own accord, similar to how the Communist regimes of Eastern Europe had in 1989-91.²⁴ Such predictions were understandable, in light of the severity of the famine

20. The LWRs promised to North Korea were designed to provide civilian nuclear power, and would have been impractical for reconfiguration for the reprocessing of nuclear material to a level necessary for the production of nuclear bombs. See Leon Sigal, *Disarming Strangers: Nuclear Diplomacy with North Korea* (Princeton: Princeton University Press, 1998), pp.68-69.

21. Gavan McCormack, *Target North Korea: Pushing North Korea to the Brink of Nuclear Catastrophe* (New York: Nation Books, 2004), p.156.

22. Wit et al., *Going Critical*, p.336.

23. Don Oberdorfer and Robert Carlin, *The Two Koreas: A Contemporary History* (New York: Basic Books, 2014), p.281.

24. McCormack, *Target North Korea*, p.156.

that hit North Korea during this period.²⁵ While the validity of such a perspective is debatable, it is notable that throughout 1997, the state-run Korea Central News Agency became increasingly shrill in its condemnation of the Clinton Administration's failure to implement the agreement. This was made further evident by North Korea's first test of a Taepodong rocket in 1998 as a show of defiance against the Clinton Administration, as well as showing the beginning of its interest in undertaking its Highly Enriched Uranium (HEU) nuclear program.²⁶ In this sense, the convergence of growing North Korean criticisms of Clinton's half-hearted implementation of the Agreed Framework suggests some level of plausibility behind Pyongyang's growing concerns of the possibility that Washington would not honor its obligations under the Agreed Framework.

The second period that aroused North Korean fears of a "1992 Trap" was the transition from the Clinton to the Bush Administration from 2000 to 2001. Although the Clinton Administration stepped up the process of diplomatic engagement with Pyongyang in 1999-2000, it was a case of "too little, too late." The last months of the Clinton Administration saw an exchange of high-level envoys (with Marshal Jo Myong Rok's visit to Washington being reciprocated by Secretary of State Madeleine Albright's visit to Pyongyang), culminating in Pyongyang declaring a moratorium on missile testing, as well as signing the Joint Communiqué of 2000, spelling out that "neither government would have hostile intent toward the other."²⁷ Had the trajectory of cautious diplomatic engagement by the White House with Pyongyang continued after the end of the Clinton Administration's second term of office, it is plausible to imagine a radically different outcome, one in which a sufficient critical mass of moderates in Pyongyang might have continued to block demands from military

25. Oberdorfer and Carlin, *The Two Koreas*, pp.289-93.

26. Leon Sigal, "Bad History," *38 NORTH*, August 22, 2017, <<https://www.38north.org/2017/08/lsgal082217/>> (date accessed August 1, 2019).

27. *US State Department*, "U.S.-D.P.R.K. Joint Communiqué," October 12, 2000, <https://1997-2001.state.gov/www/regions/eap/001012_usdprk_jointcom.html> (date accessed September 1, 2019).

hardliners for a resumption in nuclear reprocessing.

Yet, from the perspective of Pyongyang hardliners, the concessions that it made to Washington towards the end of 2000 did not translate into any meaningful improvement in relations with the U.S. Instead, 2000 saw the electoral victory of George W. Bush—an unexpected outcome, and one that was rather controversial as Bush defeated his Democratic opponent, Al Gore, on the basis of electoral college votes rather than the popular vote.²⁸ In this regard, Bush's inauguration signified a departure from the previous White House administrations that had been guided by pragmatism in the conduct of American foreign policy. From the beginning in 2001, Bush and his advisors repeatedly voiced skepticism of North Korean trustworthiness, thereby criticizing not only the Clinton Administration's turn to diplomatic engagement with Pyongyang, but also ROK President Kim Dae Jung's concurrent process of diplomatic engagement through the adoption of the Sunshine Policy.²⁹

In this, the influence of the neoconservative movement—a stridently hawkish school of thought within the Republican Party that is based on ideologically-driven hostility towards authoritarian regimes and advocates the spread of democracy—must be emphasized.³⁰ The Bush Administration's controversial invasion of Iraq in 2003 over an unproven nuclear weapons program led to speculation that Washington's real agenda was the toppling of Saddam Hussein in order to pave the way for the installation of an American-style democracy in its place.³¹ Such concerns on the part of Pyongyang are not surprising, given the increasingly hawkish foreign

28. *Constitution Daily*, "On this day, Bush v. Gore settles 2000 presidential race," December 12, 2018, <<https://constitutioncenter.org/blog/on-this-day-bush-v-gore-anniversary>> (date accessed June 1, 2019).

29. Mike Chinoy, *Meltdown: The Inside Story of the North Korean Nuclear Crisis* (New York: St Martin's Press, 2008), pp.55-63.

30. Charles Pritchard, *Failed Diplomacy: The Tragic Story of How North Korea Got the Bomb* (Washington: Brookings Institution Press, 2007), p.50.

31. Brandon K. Gauthier, "How Kim Jong Il Reacted To The 2003 Invasion of Iraq," *NK News*, March 20, 2003, <<https://www.nknews.org/2013/03/how-kim-jong-il-reacted-to-the-2003-invasion-of-iraq/>> (date accessed August 1, 2019).

policy statements emanating from Washington as early as January 2002, when Bush's State of the Union Address referred to North Korea, along with Iraq and Iran, as part of an "Axis of Evil." Given that the same speech made reference to the 9/11 terrorist attacks on the U.S. even while the Bush Administration was ramping up its preparations for the invasion of Iraq, Pyongyang began to fear that the emerging "Bush Doctrine" was using the threat of nuclear proliferation to justify the initiation of a war of regime change, with North Korea set to be one of Washington's next targets after Iraq.³² Moreover, the Bush Administration itself gave further credence to Pyongyang's concerns, first by terminating its supply of HFO to North Korea under the Agreed Framework—the only part of the latter agreement that Washington had actually implemented³³—and in the subsequent Six Party Talks, repeatedly insisted on complete dismantlement of North Korea's nuclear facilities as a precondition for any direct North Korean negotiations with the U.S.³⁴ Given that such a demand would have deprived North Korea of significant leverage in negotiations, it is not surprising that these terms were rejected by Pyongyang.

The abrupt turnaround in the U.S. posture over the course of 2000-02, from tentative diplomatic engagement to a renewal of hostility and threats of war, have doubtless impressed on the North Korean leadership the unpredictability of the vagaries of the U.S. election system. Under such circumstances, the possibility that a comparatively benign White House may be unexpectedly replaced by a more hardline administration at short notice reinforces the North Korean government's belief in the need to maintain a fallback security position to guard against the contingent scenario of prolonged U.S. hostility. In this context, the appeal of the nuclear weapons program as a contingency strategy for North Korea in the event of continued U.S. hostility made perfect sense—Clinton had contemplated the initiation of airstrikes to destroy Yongbyon in June 1994, but then backed down due to the prospective devastation that a non-nuclear-armed North

32. Chinoy, *Meltdown*, p.121.

33. Chinoy, *Meltdown*, pp.136-37.

34. Chinoy, *Meltdown*, pp.217-19.

Korea was capable of inflicting on the U.S.-ROK alliance.³⁵ Transplanted within the context of the Bush Administration's invasion of a non-nuclear-armed Iraq, the logical implication for North Korea was that development of its nuclear arsenal would grant Pyongyang an instrument of regime security that Saddam Hussein did not have. Moreover, the prudence of maintaining a credible threat of nuclear proliferation was further underscored by the fact that, in the aftermath of the North Korean 2006 missile and nuclear tests, the Bush Administration took a more flexible negotiating posture in the period 2007-08, leading to the signing of the February 13, 2007 Agreement, under which Pyongyang supposedly committed itself to the dismantlement of its nuclear facilities.³⁶ From the North Korean perspective, the fact that the Bush Administration adopted a more flexible negotiating posture in the Six Party Talks was evidence that North Korea's de facto nuclear status after 2006 was a formidable source of leverage against Washington.

The third period of interaction that evoked fears of a "1992 Trap" began in the immediate aftermath of the February 2007 Agreement, alongside Barack Obama's Presidential campaign, and lasted all the way through President Obama's two terms in office. While it remains unclear if Kim Jong Il intended to follow through with the terms of the February 2007 Agreement, it is very likely that hardliners in the North Korean military saw Washington's adoption of a more flexible negotiating position after 2006 as evidence of the extent to which Pyongyang had gained negotiating leverage as a result of having undertaken its first nuclear test. Moreover, given that the abrupt turnaround in U.S. policy towards Pyongyang from cautious engagement in 2000 to renewed hostility the year after, it is likely that North Korean hardliners saw the need to maintain a hedge against the possibility of prolonged hostility from the U.S. Such calculations were reflected in how Pyongyang prepared for Washington's transition to the Obama Administration in 2009. During his 2008 election campaign,

35. Wit et al., *Going Critical*, pp.243-246.

36. Chinoy, *Meltdown*, pp.328-30.

Obama had repeatedly promised to hold dialogue without preconditions with adversaries of the U.S., and that he was willing to “outstretch the hand if you unclench your fist”.³⁷ Such an effort at diplomatic outreach was presumably aimed at North Korea as one of Washington’s various adversaries. Yet, within months of Obama’s inauguration, Pyongyang made clear its disinterest in negotiations with the new administration. As early as February 2009, American intelligence saw signs that Pyongyang was preparing a resumption of missile testing, with the April test of a Taepodong rocket being followed by its second nuclear test in May that year. With such explicit rejection of his effort at diplomatic outreach occurring amidst mounting Republican criticism over his ambitious domestic political agenda, Obama instead shifted back to a default position of deterrence against North Korea. Although Obama made a modest attempt to restart diplomatic engagement with Pyongyang after Kim Jong Un’s succession to power in early 2012, such efforts came to naught, as reflected in North Korea pressing ahead with yet another rocket test, the “Leap Year” Agreement of February 2019 notwithstanding.

Taken together, the overall track record of Pyongyang’s interaction with the U.S. since Washington’s suspicions of North Korea’s nuclear program has very likely caused a “1992 Trap” writ large version to have become deeply internalized in the minds of the North Korean leadership. When North Korea suspended activity at the Yongbyon nuclear reactor under the Agreed Framework, the Clinton Administration implemented the latter agreement in a half-hearted manner, with repeated delays to the delivery of HFO and the LWR reactor project. When North Korea announced its moratorium on missile testing under the Joint Communiqué, such a tentative bid to improve relations was not reciprocated following the transition to the George W. Bush Administration. When Obama offered tentative feelers towards peace to Pyongyang, the North Korean leadership was

37. Maria Rosaria Coduti, “The limits of ‘strategic patience’: How Obama failed on North Korea,” *NK News*, November 2, 2016, <<https://www.nknews.org/2016/11/the-limits-of-strategic-patience-how-obama-failed-on-north-korea/>> (date accessed October 3, 2019).

not impressed by his lack of staying power in seeking to sustain the process of diplomatic engagement. The remaining voices within the North Korean government that had previously favored continued diplomacy doubtlessly found their influence within Pyongyang weakened.³⁸ In this regard, it is notable that North Korean negotiators have increasingly referred to U.S. offers of economic aid as a “Trojan Horse,” reflecting Pyongyang’s conviction that apparent American offers of aid are saddled with ulterior motives.³⁹

Taken together, it is likely that the North Korean leadership, recalling the repeated explicit threats of war made by successive White House administrations, has presumably come to the conclusion that Washington’s hostility will continue to endure in the long term, regardless of whether the White House is held by the Democratic or the Republican Parties. Given the idea that it faces the threat of forced regime change no matter what, Pyongyang apparently has come to the conclusion that its nuclear arsenal, by forcing Washington to contemplate the prospect of an extremely costly conflict, functions as the surest instrument of regime security against the de facto status of long-term U.S. hostility.⁴⁰ As then-U. S. Director of National Intelligence Dan Coats noted, North Korea has observed “what has happened around the world relative to nations that possess nuclear capabilities and the leverage they have...If you have nukes, never give them up. If you don’t have them, get them.”⁴¹

38. Oberdorfer and Carlin, *The Two Koreas*, p.431.

39. Hyung-Jin Kim, “North Korea says it won’t surrender to U.S.-led sanctions,” *The Associated Press*, June 26, 2019, <<https://www.ctvnews.ca/business/north-korea-says-it-won-t-surrender-to-u-s-led-sanctions-1.4482941?cache=yes%3FclipId%3D375756%3FclipId%3D89531%3FclipId%3D89578%3FautoPlay%3Dtrue%3FautoPlay%3Dtrue%3FautoPlay%3Dtrue%3Fot%3DAjaxLayout%3Fot%3DAjaxLayout%3FautoPlay%3Dtrue%3FautoPlay%3Dtrue%3Fot%3DAjaxLayout%3Fot%3DAjaxLayout>> (date accessed September 1, 2019).

40. Robert Carlin, “Distant Thunder: The Crisis Coming in Korea,” 38 NORTH, October 17, 2019, <https://www.38north.org/2019/10/rcarlin101719/?fbclid=IwAR3fKKOlqA0CPVX_d6I9_zxiOv-gbo8YlhqKJ-Cn9p6bkSD-kWxzCQjJbk8> (date accessed October 17, 2019).

41. Pak, “The Education of Kim Jong Un.”

IV. Pyongyang's Fears of the ROK

Moon Jae-in's efforts to restart the process of diplomatic engagement with Pyongyang notwithstanding, it is likely that North Korea also fears the possibility of similar dynamics in its interaction with Seoul as those reflected in the "1992 Trap," albeit for different reasons. In this sense, Pyongyang has reasons to be wary of Seoul, regardless of whether the ROK is led by a pro-engagement administration, or a hawkish, conservative one.

Pyongyang recalls the period from 1998 to 2007, during which time Seoul was led by the pro-engagement administrations of Kim Dae Jung and Roh Moo Hyun. Kim, an advocate of diplomatic rapprochement with the North, unveiled the "Sunshine Policy," under which his administration granted the reunion of families that had been left divided since the 1953 Armistice Agreement, increased ROK economic and humanitarian aid to the North, and established the Kaesong Industrial Complex.⁴²

Inasmuch as his aspirations to bring about the unification of the Korean Peninsula were concerned, Kim Dae Jung and his advisors saw two potentially negative scenarios arising from the possible collapse of North Korea. The first concerned the possibility of North Korea collapsing from within, in a manner similar to how the East European Communist regimes had in 1989-91. Although the Velvet Revolutions of Eastern Europe were largely peaceful, the possibility of such an outcome is not a foregone conclusion in the context of the Korean Peninsula. Rather, in the event of a collapse from within, there is the possibility of a struggle for power in Pyongyang between rival military factions, with the potential to lead to all-out conflict on the Korean Peninsula. Second, even if a North Korean collapse were peaceful (leading to unification of the peninsula under Seoul), the ROK would still face the challenge of rehabilitating the moribund economy of the North. In light of the economic challenges faced in eastern Germany since unification, it was apparent to Seoul that too abrupt a Korean

42. Roland Bleiker, *Divided Korea: Toward A Culture of Reconciliation* (Minneapolis: University of Minnesota Press, 2005), pp.85-87.

unification would impose a significant burden for the South.

Under such circumstances, it is apparent that the economic objective of Kim Dae Jung's Sunshine Policy was to promote a "soft landing" for North Korea. This would not only mitigate the impact of economic desperation in the North, but also, by bridging the gap in levels of economic development between the two Koreas, help to cushion the impact of unification.⁴³ In this sense, then, the underlying long-term plan of both Kim Dae Jung and Roh Moo Hyun was to plan for the contingency of North Korea's collapse. Pyongyang thus likely had reasons to view the flow of aid from Seoul under the Sunshine Policy as yet another "Trojan Horse"—that reflected Pyongyang's belief that gifts from the outside world came with strings attached that would function contrary to North Korean interests.

From Pyongyang's perspective, such fears were doubtless underscored by the events that followed its missile and nuclear tests in 2006. These tests were more likely intended as a signal of defiance against the Bush Administration's imposition of sanctions on Pyongyang's offshore financial assets with the Banco Delta Asia rather than Seoul⁴⁴—it is notable that the 2006 Taepodong test coincided with the Independence Day holiday in the U.S. Nonetheless, the fact that the 2006 missile and nuclear tests came on the bank of a growing corruption scandal surrounding Roh Moo Hyun discredited the progressives in Seoul, as reflected in Lee Myung Bak's electoral victory during the 2007 ROK elections.

Citing the failure of his predecessors to bring an end to North Korea's missile and nuclear ambitions, Lee adopted a more hardline posture toward North Korea and stronger security relations with Washington—actions that provoked North Korea into retaliating by sinking the ROK corvette Cheonan in March 2010 (causing 46 fatalities), leading to Lee retaliating by imposing the "May 24 Measures," a set of harsh punitive sanctions on Pyongyang that prohibited North Korean ships from entering ROK waters, froze

43. Bleiker, *Divided Korea*, pp.86-87.

44. Chinoy, *Meltdown*, pp.252-81.

government-level interactions with Pyongyang, blocked further expansion of inter-Korean economic cooperation, and cut back on inter-Korean family reunions. Such measures in turn led to a further round of the vicious circle in inter-Korean hostility, as reflected in the North Korean bombardment of Yeongpyong Island (causing 4 fatalities) in November 2010, and an increasing number of missile and nuclear tests since 2012.⁴⁵

Responding to the stand-off that developed between Lee Myung Bak and Pyongyang, his successor, Park Geun Hye, daughter of Park Chung Hee, unveiled what initially appeared to be an effort to adopt a more balanced ROK foreign policy approach to Pyongyang—Trustpolitik. In 2011, Park had written an article in *Foreign Affairs*, hinting at her willingness to undertake diplomatic engagement with Pyongyang. In spite of the childhood trauma she experienced with the death of her mother at the hands of a Pyongyang-backed agent in 1974 (the assassin's actual objective was President Park Chung Hee, but stray bullets struck First Lady Yuk Young-Soo),⁴⁶ President Park wrote of her desire for "enduring peace" on the Korean Peninsula, but her efforts at "genuine reconciliation" had failed to evoke trust between Seoul and Pyongyang."

These diplomatic platitudes notwithstanding, it is apparent that Park Geun Hye's Trustpolitik also incorporated elements of coercion, hence Pyongyang's refusal to reciprocate. In outlining her vision of Trustpolitik, Park called for the adoption of "two coexisting strands: first, North Korea must keep its agreements made with South Korea and the international community to establish a minimum level of trust, and second, there must be assured consequences for actions that breach the peace."⁴⁷ Hence, Park's vision for Trustpolitik was buttressed by an "alignment" policy that envisaged "a tough line

45. Elias Groll, "North Korean Missiles Just Keep Getting Better," *Foreign Policy*, October 3, 2019, <<https://foreignpolicy.com/2019/10/03/north-korean-missiles-just-keep-getting-better/>> (date accessed October 10, 2019).

46. Oberdorfer and Carlin, *The Two Koreas*, p.39.

47. Geun Hye Park, "A New Kind of Korea: Building Trust Between Seoul and Pyongyang," *Foreign Affairs*, September/October 2011.

against North Korea sometimes and flexible policy open to negotiations other times.”⁴⁸

Furthermore, even the carrots that Park dangled before Pyongyang in seeking North Korea's cooperation also carried implicit costs to the interests of the North Korean government. In her New Year's Address in January 2014, President Park referred to the prospect of Korean unification as a Daebak (jackpot). It was apparent that Park had been inspired by the German experience of reunification following the end of the Cold War. On March 28, 2014, in the city of Dresden in the former East Germany, Park had proposed the Dresden Initiative, incorporating a range of humanitarian, economic, and other dimensions to assist in the gradual rehabilitation of North Korea.⁴⁹ This envisaged humanitarian assistance, inter-Korean economic projects, and the setting up of a “World Eco Peace Park” along the Demilitarized Zone on the Korean Peninsula. There was no coincidence in Park's decision to visit Dresden, which was devastated by bombing during World War II and came under the control of the Communist East German state. Yet, the subsequent rebuilding of Dresden as a center of culture and industry has enabled the city to emerge as the fastest economically growing region in the former East Germany.

While such a vision for the future of a unified Korean Peninsula may appear attractive, the North Korean leadership was doubtless aware that there would be little place for them in such a scenario. Rather, the North Korean leadership was well aware of the extent to which its rule has been buttressed by a reign of terror enforced by the secret police and the threat of concentration camps. Under such circumstances, Kim Jong Un was, without a doubt, aware that he and his supporters would be pariahs in any scenario involving Korean unification. It was thus hardly surprising that Park Geun Hye's Trustpolitik failed to elicit any significant improvement in inter-

48. Park, “A New Kind of Korea.”

49. Yonhap News Agency, “Full text of Park's speech on N. Korea,” March 28, 2014, <<https://en.yna.co.kr/view/AEN20140328008000315>> (date accessed October 1, 2019).

Korean relations. In particular, Park's emphasis on the conditional nature of engagement under *Trustpolitik*, in linking any further ROK concessions to Pyongyang to the denuclearization of North Korea, was a non-starter for Kim Jong Un.⁵⁰

V. North Korea Observations of Other Authoritarian Regimes

Moreover, Pyongyang has observed international trends elsewhere in the world in seeking to anticipate socio-economic trends that have unseated other authoritarian regimes. Such a strategy is logical as part of an early-warning strategy to preemptively identify internal socio-economic trends that may threaten its grip on power. In this regard, the North Korean government has seen, and been particularly disturbed by, two other waves of internal uprisings against authoritarian rule, these being the Velvet Revolutions that swept the Communist regimes of Eastern Europe from power in 1989-91, and the Arab Spring that has been underway since 2011.

While the opaque nature of North Korean politics and media necessitates caution against excessive speculation about the inner workings of the North Korean government, some insight into its paranoia can be gleaned from foreign observers who have spent significant periods of time residing in Pyongyang. Two notable anecdotes are particularly fascinating. John Everard, a former British Ambassador in Pyongyang, noted that senior North Korean officials are regularly shown videos of former East German civil servants reduced by poverty to selling pencils on the streets, a clear signal to government technocrats of the fate they can expect should they fail to ensure the Kim family's hold on power.⁵¹ Equally interesting, Chung Mong-joon, a former Chairman of the Grand National Party in Seoul,

50. Nicholas Wheeler, *Trusting Enemies: Interpersonal Relationships in International Conflict* (Oxford: Oxford University Press, 2018), pp.86-88.

51. Mark McDonald, "North Koreans Struggle, and Party Keeps Its Grip," *New York Times*, February 26, 2011, <<https://www.nytimes.com/2011/02/27/world/asia/27northkorea.html>> (date accessed March 1, 2011).

cited his father's conversations with the late Kim Jong Il, in which the late North Korean leader reportedly "had nightmares at times in which his people threw stones at him."⁵²

The vividness of such anecdotes, if they can be verified, underscores the extent to which the North Korean leadership may have grounds to be genuinely fearful of their grip on power when other like-minded authoritarian regimes have failed to do so. Under these circumstances, it is likely that Kim Jong Un regards the North Korean military as the most important political instrument for ensuring his regime's security, for two reasons. First, faced with the continued U.S. military presence in Northeast Asia, Kim Jong Un's possession of a fledgling nuclear arsenal functions as an "insurance policy" that enables Pyongyang to threaten nuclear devastation against the U.S. and its allies, in the event that Washington were to initiate a war of regime change against Pyongyang.⁵³ Although no one is in any doubt that the U.S. and its allies would emerge triumphant in such a conflict, there is also doubt that such an outcome would be a pyrrhic victory for the U.S., in light of the likely scale of U.S. and allied casualties. Absent a nuclear arsenal, however, North Korea's ability to deter a U.S.-led war of regime change is particularly weak, given the obsolescence of its conventional military arsenal.

Second, given the nuclear arsenal's status as the crown jewel of the North Korean military, it is extremely doubtful if it will ever voluntarily relinquish it.⁵⁴ Given the Kim Jong Un regime's concurrent

52. Sangho Song, "Kim Jong-il dreamed of stoning," *Korea Herald*, March 27, 2011, <<http://www.koreaherald.com/view.php?ud=20110327000236>> (date accessed April 1, 2011).

53. Bruce Klingner and Sue Mi Terry, "We participated in talks with North Korean representatives. This is what we learned," *Washington Post*, June 22, 2017, <https://www.washingtonpost.com/opinions/we-participated-in-talks-with-north-korean-representatives-this-is-what-we-learned/2017/06/22/8c838284-577b-11e7-ba90-f5875b7d1876_story.html?tid=ss_fb&utm_term=.26b37f0f4aa3> (date accessed July 1, 2017).

54. Van Jackson and Stephen Epstein, "North Korea/US Summit – Don't Hold Your Breath," Victoria University Wellington, May 15, 2018, <<https://www.victoria.ac.nz/news/2018/05/north-koreaus-summit-dont-hold-your-breath>> (date

fear of the possibility of regime collapse from within (in a manner similar to the Velvet Revolution or the Arab Spring), it is clear to Kim Jong Un that the military, as the one entity with a monopoly of force within North Korea, is a particularly crucial state organ to crush any uprising against his rule. Under such circumstances, it is unthinkable that Kim Jong Un would be seriously prepared to undermine the military's loyalty to his regime through the country's denuclearization.

VI. Kim Jong Un's North Korea: Past the Point of Nuclear No Return?

In dealing with previous administrations, Kim Jong Un and his predecessors relied heavily on bluster and the deliberate instigation of crises in an effort to increase negotiating leverage over the U.S. and its allies, thereby compensating for Pyongyang's position of weakness and isolation.⁵⁵ While such tactics may have worked for Pyongyang in previous years, Trump's combination of ego, belligerent bluster, and foreign policy inexperience meant that such negotiating tactics nearly backfired on Pyongyang. It should be recalled that Trump's reckless "war of words" nearly led Washington into launching military action on the Korean Peninsula in 2017, a scenario for which neither Pyongyang nor Seoul (nor the majority of the U.S. security establishment) had any particular appetite due to the recognition that such an enterprise would entail extremely heavy casualties.

Thus, rather than trying to "out-Trump" in aggressive bluster, it is apparent that in early 2018, the North Korea leadership identified Trump's ego as his "Achilles heel"—so long as superficial efforts to placate Trump's ego are in place, it is possible for Kim Jong Un to deflect the prospective scenario of U.S. military actions against his regime. In addition, the long technical process that would be required to ensure verification of the complete dismantlement of the North

accessed June 1, 2018).

55. Snyder, *Negotiating on the Edge: North Korean Negotiating Behavior* (Washington: USIP, 1999), pp.69-74.

Korean nuclear weapons program provides Kim Jong Un with multiple opportunities that can be exploited to delay and stall, while waiting for Trump to serve out what is left of his term in office.⁵⁶

VII. Conclusion

Faced with this pessimistic assessment, what are the available policy prescriptions that can be plausibly contemplated in addressing the likelihood that Pyongyang's paranoia has become so deeply embedded as to be virtually set in stone? The poor prospects for the denuclearization of North Korea notwithstanding, the necessity of formulating diplomatic and security policy towards Pyongyang remains. This challenge is all the more reinforced by the fact that policymakers, scholars and the international community alike do not have the benefit of hindsight in ascertaining Pyongyang's intentions. Under the circumstances of there being no good options in dealing with North Korea, it is hence necessary for policy towards Pyongyang to be formulated on the basis of which course of action leads to the "least bad" outcome, while simultaneously maintaining a fallback position against worst-case scenarios.

The logical starting point of this is the necessity of affirming the continued relevance of the ROK-U.S. alliance network. The latter has come under strain in recent years due to the Trump Administration's lack of coherence in North Korea policy (ranging from threats of war in 2017 to referring to "love letters" to Kim Jong Un in 2018⁵⁷) as well as U.S. threats to downgrade the alliance in an attempt to demand improved U.S. access to the ROK's imports market. Nonetheless, it

56. Bret Stephens, "Kim Jong-un and the Art of Tyranny," *New York Times*, September 7, 2017, <<https://www.nytimes.com/2017/09/07/opinion/kim-jong-un-north-korea-nuclear.html>> (date accessed October 1, 2017).

57. Uri Friedman, "The Disturbing Logic of Trump's Lovefest With Kim Jong Un," *The Atlantic*, June 1, 2019, <<https://www.theatlantic.com/politics/archive/2019/06/why-doe-donald-trump-keep-praising-kim-jong-un/590830/>> (date accessed June 2, 2019).

remains important for ROK policymakers to maintain a long-term perspective in reviewing Seoul's relations with Washington. In this regard, the continued maintenance of a firm deterrence posture against North Korea remains necessary, both to warn Pyongyang against excessive brinkmanship, and also to guard against attempts by Pyongyang to sow discord between the U.S. and the ROK. Moreover, given that the Trump administration has demonstrated a certain willingness to abandon longstanding U.S. allies on a whim, it remains necessary for Seoul to hedge against the possibility of an increase in pro-isolationist sentiments in the U.S. that leads to further American disinterest in the alliance. Nonetheless, in so affirming the continued relevance of a strong military posture and the U.S. military presence in Northeast Asia, such a policy prescription has the concurrent effect of continuing to feed North Korea's paranoia. In this regard, the possibility of a return to war-mongering on the part of Washington cannot be ruled out, particularly in light of the continued debates and uncertainty over the outcome of the 2020 U.S. presidential elections. Such an outcome may arise as a result of the mercurial nature of Trump, should he win the 2020 elections: alternatively, in the event that the Democratic Party emerges triumphant in the 2020 elections, it poses the possibility that the post-Trump White House, in seeking to affirm its national security credentials, may again attempt to confront North Korea over its missile and nuclear programs.

Under such circumstances, it is necessary for the ROK to maintain a proactive role in defusing the occasional tendency of the White House to contemplate unilateral military action against North Korea. The Clinton Administration planned to do so in June 1994, but was persuaded not to go ahead with airstrikes on the Yongbyon nuclear reactor by ROK President Kim Young Sam. Likewise, Trump's "war of words" with Kim Jong Un during the second half of 2017 gave rise to fears that his administration was prepared to ride roughshod over ROK objections to unilateral U.S. military action against North Korea. Set against this backdrop, Moon Jae-in's "Winter Olympics diplomacy" with Kim Jong Un was crucial in boxing Trump into a diplomatic corner from which the White House could not plausibly

justify unilateral U.S. military action against North Korea. In seeking to hedge against the possibility of a future White House administration that is prepared to ride roughshod over the interests of the ROK, it is Seoul's moment to shine in adopting a measured diplomatic posture in line with its growing aspiration as a rising power in international relations.

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The Impact of North Korea Threats on Stock Return Volatility

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We use media news reports concerning North Korea threats from 2016 to 2017 to measure the magnitude of geopolitical risk on the Korean Peninsula and analyze the impact of the geopolitical risk on the risk components of Korean stocks. Our result shows that the North Korea risk significantly increases the volatility of domestic stock returns, which is mainly attributable to an increase in systematic risk rather than unsystematic risk of the stocks. This finding remains robust when alternative measures of the systematic risk are used. The evidence in this study suggests that geopolitical risk on the Korean Peninsula is an important factor that can affect stock prices by increasing the systematic risk of stocks.

Keywords: North Korea threats, Geopolitical risk, Stock return volatility, Systematic risk, News reports

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I. Introduction

The presence of North Korea is an inherent risk factor in the Korean capital markets. Since a ceasefire in the Korean War was called in 1953, North Korea has frequently made military provocations against South Korea and some of them have had the potential to lead to a full-scale war. Particularly over the past few years, North Korea has significantly escalated geopolitical tensions on the Korean Peninsula since Kim Jong-un became the leader of North Korea in April 2012. During this period, North Korea's military actions have intensified in frequency and strength. For example, Kim Jong-un conducted more ballistic missile launches and nuclear weapon tests between 2012 and 2017 than his predecessor, Kim Jung-il.¹ Due to this North Korea risk factor, Korean stocks tend to be undervalued and face the "Korea discount" phenomenon according to the Wall Street Journal.² Nomura Securities also reported in 2012 that Korea is ranked the fifth highest geopolitical risk country in the world.³ For this reason, it is important to examine the link between the North Korea risk and the domestic capital market and to further quantify the potential influences of the North Korea risk on domestic stocks.

In this study, we investigate whether geopolitical risk on the Korean Peninsula affects risk components (systematic vs. unsystematic risk) of stocks in the Korean market. In traditional asset pricing theories, political or geopolitical risk is regarded as a systematic risk that cannot be diversified because the risk affects the overall capital market. To our knowledge, however, there is little research about how the North Korea risk affects risk components of Korean stocks. In this study, we use a novel measure that reflects the seriousness of North

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1. Kim Jong-un conducted a total of 20 ballistic missile launches (including intercontinental ballistic missiles) and four nuclear weapon tests between 2012 and 2017.
 2. Mohammed Hadi and James Simms, "As ties go south, Korean investors shrug," *The Wall Street Journal*, November 24, 2010, <<https://www.wsj.com/articles/SB10001424052748703572404575633921601247064>> (date accessed October 2, 2019)
 3. Nomura Securities International Inc., 2011, Global FX Outlook 2012.

Korea's threats using news media reports. Specifically, we use a ratio of the number of news articles mentioning North Korea to the total number of news articles on that day as a proxy for the magnitude of the North Korea risk.

Using the sample period of 2016–2017, we find that the North Korea risk indeed only affects systematic risk (estimated using the Capital Asset Pricing Model) of Korean stocks, and the effect is positive and statistically significant at the 1 percent. This finding suggests that the systematic risk of Korean stocks increases as geopolitical tensions on the Korean Peninsula are escalated. However, we do not find a statistically significant effect of the North Korea risk on the unsystematic risk of the Korean stocks. In robustness, we also test the effect of the North Korea risk when systematic risk is measured in an alternative asset-pricing model (Fama-French three factor model). We show that the baseline results remain unchanged when alternative measures of systematic risk are used. Evidence in our study lends support to a common notion among academics who specialize in finance that the North Korea risk affects the systematic risk of Korean stocks.

This study contributes to the literature in following ways. First, according to a traditional finance theory, a (total) risk of a firm's stock is decomposed into two different types of risk: systematic and unsystematic risk. The uncertainty of the geopolitical relation with North Korea is theoretically considered a systematic risk because the risk is likely to affect a majority of the domestic stocks. Evidence in this study confirms the theoretical view of the North Korea risk as it provides insights on how geopolitical uncertainty affects risk components of Korean stocks.

Second, this study contributes to the existing literature on the effect of North Korea risk on the stock markets. Ahn *et al.* (2010) explore the impacts of good/bad news regarding North Korea risk on the domestic stock markets (KOSPI and KOSDAQ) and show that domestic stocks respond positively to news that relieve the tensions and negatively to news that escalate the tensions on the Korean

Peninsula.⁴ Lee (2006) also finds consistent evidence with Ahn *et al.* that domestic stocks are negatively affected by North Korea's nuclear weapon tests.⁵ Pak *et al.* (2015) identify good/bad news regarding the North Korea risk using the U.S. media reports and show that the media news reports affect a volatility of prices of Korean stocks that are listed in the U.S. stock market.⁶ In this study, we also find the consistent negative impacts of North Korea risk on the domestic stocks: North Korea risk increases the volatility of domestic stock prices and the increase of the volatility of stock prices is attributed to the increase in the systematic risk of the stocks.

Third, our study employs an accurate and effective measure of the seriousness of the North Korea risk on a daily basis. The existing studies analyze the impact of the North Korea risk using an event study methodology where these studies only focus on specific North Korea military actions such as nuclear tests and missile launches. Thus, these studies fail to gauge the dynamics of the North Korea risk and ignore the importance of the events in their analysis. However, in this study, we quantify the magnitude of the North Korea risk every day and use the measure to investigate the impact of the North Korea risk even on days when North Korea military actions are not present. Therefore, our novel measure enables us to conduct a more comprehensive analysis on the effect of the North Korea risk on the domestic equity markets.

Lastly, our study sheds light on a plausible channel through which the "Korea discount" phenomenon occurs. Theoretically, discounted prices of assets may be caused by either decreases in expected cash flows of the assets or increases in investors' required rate of return on

4. H. J. Ahn, S. P. Jeon, and J. B. Chay, "The Impact of News about Relations between North and South Korea on the Stock Market," *Korean language paper of Korean Institute of Finance*, vol. 16 (2010), pp.200-238.

5. K. Lee, "The impact of news about North Korea on the stock and foreign exchange markets," *Journal of North East Asian Economic Studies*, vol. 18, no. 1 (2006), pp.61-90.

6. Yunjung Pak, Young-Jin Kim, Min Song, and Yong-Hak Kim, "Shock Waves of Political Risk on the Stock Market: the Case of Korean Companies in the U.S.," *Development and Society*, vol. 44, no. 1 (2015), pp.143-165.

the assets. Pastor and Veronesi (2012, 2013) contend that political uncertainty drives stock prices to drop and the decreases in prices are attributed to an investors' higher risk premium for bearing a high political risk.^{7 8} Liu *et al.* (2017) find that the decline in stock prices due to the Bo Xilai political scandal in 2012 in China was driven not by decreases in expected cash flows of politically-connected firms but by increases in the discount rate following the escalated political uncertainty arising from the scandal.⁹ Consistent with Pastor and Veronesi (2012, 2013) and Liu *et al.* (2017), evidence in our study suggests that investors will demand a higher risk premium for bearing the increased systematic risk following the North Korea threats, and the stock market tends to discount domestic firms' expected cash flows at a higher discount rate. As a result, domestic stocks sell at a lower price than other similar stocks in foreign countries.

The rest of this paper is organized as follows. In section II, we review the previous literature related to impacts of geopolitical risk and media news reports on the stock markets. Section III describes the sample, data, variable constructions, and our methodology. We present the main regression results and a robustness test in Section IV. The last section provides concluding remarks.

II. Theoretical Background

1. North Korea Risk and the Stock Market

The majority of the studies regarding North Korea risk are those investigating whether and how geopolitical tensions on the Korean

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7. L. Pastor and P. Veronesi, "Uncertainty about Government Policy and Stock Prices" *Journal of Finance*, vol. 67 (2012), pp. 1219-1264.
 8. L. Pastor and P. Veronesi, "Political Uncertainty and Risk Premia" *Journal of Financial Economics*, vol. 110 (2013), pp. 520-545.
 9. X. L. Liu., H. Shi, and J. K. C. Wei, "The Impacts of Political Uncertainty on Asset Prices: Evidence from the Bo Scandal in China," *Journal of Financial Economics*, vol. 125 (2017), pp. 286-310.

Peninsula affect the South Korean financial markets. Pak *et al.* (2015) employ a novel approach to classify media news from major U.S. newspapers into negative and positive news regarding the geopolitical risk on the Korean Peninsula and investigate the impact of this risk on Korean stocks listed on the New York Stock Exchange (NYSE).¹⁰ They find that the sentiments created by the U.S. media significantly increase the volatility of Korean stock returns in NYSE. Ahn *et al.* (2011) examine the effects of news reports related to North Korea on the South Korean stock markets. They show that bad (good) news negatively (positively) affects stock prices of Korean firms that are closely related to North Korea.¹¹ Lee (2006) also documents the negative consequences of news reports regarding North Korea's nuclear weapons in the South Korean stock market.¹² Using 13 North Korean military provocations, Gerlach and Yook (2016) show that domestic individual investors tend to decrease whereas foreign investors tend to increase the value of their Korean portfolios during the periods of high geopolitical risk.¹³ Further analysis in their study shows that the performance of foreign investors does not improve following the North Korea attacks whereas domestic institutions improve their performance following the North Korea attacks. They conclude that domestic institutions take advantage of aggravated information asymmetry between domestic and foreign investors. In their recent study, Kim *et al.* (2019) create a novel measure of North Korea risk and use it to examine the impact of North Korea risk on

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10. Yunjung Pak, Young-Jin Kim, Min Song, and Yong-Hak Kim, "Shock Waves of Political Risk on the Stock Market: the Case of Korean Companies in the U.S.," *Development and Society*, vol. 44, no. 1 (2015), pp.143-165.
 11. H. J. Ahn, S. P. Jeon, and J. B. Chay, "The Impact of News about Relations between North and South Korea on the Stock Market," *Korean language paper of Korean Institute of Finance*, vol. 16 (2010), pp.200-238.
 12. K. Lee, "The Impact of News about North Korea on the Stock and Foreign Exchange Markets," *Journal of North East Asian Economic Studies*, vol. 18, no. 1 (2006), pp.61-90.
 13. Jeffrey Gerlach and Youngsuk Yook, "Political Conflict and Foreign Portfolio Investment: Evidence from North Korean Attacks," *Pacific-Basin Finance Journal*, vol. 39 (2016), pp.178-196.

trading patterns of domestic institutional investors and foreign investors.¹⁴ They find that domestic institutional investors increase whereas foreign investors decrease the value of their Korean portfolios during periods of high North Korea risk, supporting the view that domestic investors have informational comparative advantages over foreign investors due to aggravated information asymmetry arising from the escalated geopolitical risk on the Korean Peninsula.

2. Media and Stock market

Extant studies have also investigated financial and economic impacts of news media on the stock markets. Investors gather information from the news media when valuing a stock and the impact of the news media on investors' investment decisions has been increasing over the past two decades because of the rapid growth of internet technology.

Tetlock (2007) examines the effect of the media on the U.S. market using one of the main daily columns ("Abreast of the Market") from *The Wall Street Journal*.¹⁵ The author shows that media sentiment can predict stock prices and trading volume: high media pessimism predicts a decline in stock prices and unusually high or low pessimism predicts a rise in trading volume. The author concludes that this finding does not support the theory that investors gather new information on fundamental asset values from the media and, rather, it is consistent with the theory that investors are noise and liquidity traders. Fang and Peress (2009) explore the impact of news coverage on expected stock returns.¹⁶ They find that stocks with no media coverage earn higher risk-adjusted returns than those with high media

14. Young Sik Kim, Keun Jae Park, and Oh Byung Kwon, "Geopolitical Risk and Trading Patterns of Foreign and Domestic Investors: Evidence from Korea," *Asia-Pacific Journal of Financial Studies*, vol. 48 (2019), pp.269-298.

15. Paul Tetlock, "Giving Content to Investor Sentiment: The Role of Media in the Stock Market," *Journal of Finance*, vol. 62, no. 3 (2007), pp.1139-1168.

16. Lily Fang and Joel Peress, "Media Coverage and the Cross-section of Stock Returns," *Journal of Finance*, vol. 64, no. 5 (2009), pp.2023-2052.

coverage. In further cross-sectional analyses, they show that the effect of media coverage on returns is larger for small stocks, stocks with high individual ownership, ones with fewer analysts following, and high idiosyncratic risk. They conclude that news media can lower informational frictions and, as a result, affects stock returns.

Peress (2014) examines influences of news media on financial markets using national newspaper strikes in several countries.¹⁷ The author finds that the trading volume declines by 12% on these strike days, stock returns are less dispersed, and intraday volatility falls by 7%. The author concludes that news media promotes an efficiency of the stock market by alleviating information asymmetry among investors and by incorporating information into current stock prices.

Several studies in Korea have also explored a casual relation between news media and the Korean stock market. Kim *et al.* (2012) examine the impact of news media on stock prices in the Korean stock market and find that sentiment values derived from news contents are significantly associated with the stock price index.¹⁸ In their additional test, they also show that news about the stock market information and foreign news affect stock prices in the Korean market. Seong and Nam (2017) posit that deep learning techniques using online news contents and macroeconomic factors are superior to other techniques when predicting stock prices.¹⁹

3. Big Data and the Stock Returns

Extant literature has examined whether stock prices can be predictable using big data. Most of the studies largely focus on models

17. Joel Peress, "The Media and the Diffusion of Information in Financial Markets: Evidence from Newspaper Strikes," *Journal of Finance*, vol. 69, no. 5 (2014), pp.2007-2043.

18. Yoo-Sin Kim, Nam-Gyu Kim, and Seung-Ryul Jeong, "Stock-Index Invest Model Using News Big Data Opinion Mining," *Korea Intelligent Information System Society*, vol. 18, no. 2 (2012), pp.143-156.

19. Nohyoon Seong and Kihwan Nam, "Combining Macro-economical Effects with Sentiment Analysis for Stock Index Prediction," *Entrue Journal of Information Technology*, vol. 16, no. 2 (2017), pp.41-54.

that predict stock prices through data mining and sentiment analysis. Bollen *et al.* (2011) find that sentiment analysis based on daily Tweeter feeds can predict 87.6% of the daily up and down changes of the Dow Jones Industrial Average.²⁰ Preis *et al.* (2013) argue that human interaction creates enormous amounts of new data that can explain the behaviors of individual investors in the financial markets.²¹ Using Google query volumes for search terms, the authors show that the behavioral data sets can predict stock price movements. Bank *et al.* (2011) document that search volume in Google is positively correlated with trading volume and liquidity of stocks, and further with higher yields in the future.²² Da *et al.* (2010) also claim that search frequency in Google has a predictive power for future stock prices.²³

Among domestic studies, Lee *et al.* (2014) investigate whether online stock discussion forums can predict stock prices in the Korean stock market.²⁴ They find that the correlation between the number of posts on the forums and stock prices has a significant predictive power for future returns. Using big data from January 2011 to January 2013, Lee *et al.* (2013) analyze the impact of the nine sentiments on Korean stock market. They show that the sentiments have a certain pattern that explains stock prices.²⁵

20. Johan Bollen, Huina Mao, and Xiaojun Zeng, "Twitter Mood predicts the stock market," *Journal of Computational Science*, vol. 2, no. 1 (2011), pp.1-8.

21. Tobias Preis, Helen Susannah Moat, and Eugene Stanley, "Quantifying Trading Behavior in Financial Markets using Google Trends," *Scientific Reports*, vol. 3 (2013), pp.1-6.

22. Matthias Bank, M. Larch, and G. Peter, "Google Search Volume and Its Influence on Liquidity and Returns of German Stocks," *Finance Market Portfolio Management*, vol. 25, no. 3 (2011), pp.239-264.

23. Zhi Da, Joseph Engelberg, and Pengjie Gao, "In Search of Attention," *Journal of Finance*, vol. 66, no. 5 (2011), pp.1461-1499.

24. Yunjung Lee, Gunwoo Kim, and Gyun Woo, "Web Science: The Stock Portfolio Recommendation System based on the Correlation between the Stock Message Boards and the Stock Market," *KIPS Transactions on Software and Data Engineering*, vol. 3, no. 10 (2014), pp.441-450.

25. Deuk Hwan Lee, Hyoung Goo Kang, and Chang Mi Lee, "Autocorrelation Analysis of the Sentiment with Stock Information Appearing on Big-Data," *Korean Journal of Financial Engineering*, vol. 12, no. 2 (2013), pp.79-96.

III. Research Design, Data, and Sample Selection

1. Sample

In this study, we examine whether North Korea risk affects risk components of the Korean stocks. Different from existing studies that rely on either sentiment analysis using big data or event study methodologies, we employ a unique and novel measure to reflect the magnitude of geopolitical tensions on the Korean Peninsula each day and examine whether the geopolitical tensions affect a stock's risk. We use daily media news reports during 2016-2017 to quantify the seriousness of the geopolitical risk. We select this sample period because North Korea's military provocations (e.g. missile launches and nuclear weapon tests) occurred more frequently than in any other given period in the past.²⁶

When quantifying the seriousness of the North Korea risk, we extract daily news data from a news platform, BigKinds.²⁷ The news platform is operated by a Korean quasi-government organization and offers media news reports from various media sources (e.g., major TV broadcasters, newspapers, and economic magazines) to the public. We only extract daily news data from four major TV broadcasters (MBC, OBS, SBS, and YTN) for our study because these broadcasters have established the highest brand value and public trust and had higher news productivity and competitive advantages compared to other news media (Park and Oh, 2016).²⁸ Big data from news reports is not only massive in size, but also contains a mix of different types of data. Due to this, the data should be controlled for potential bias, missing information, and any errors that the data can possibly generate (Park, 2016). As a result, a total of 431,867 news reports are identified in the sample. After we exclude irrelevant and duplicated reports, a total of

26. In 2017, North Korea launched missiles 15 times, and this number is unusually higher than in any other previous year.

27. www.kpf.or.kr

28. We exclude KBS as Bigkinds does not provide its news data.

393,219 news articles are finally used for our study.²⁹ Table 1 reports a number of news articles that are excluded and finally used for our analysis.

<Table 1> Number of Articles Used for Analysis

Year	Total articles	Excluded articles	Sample articles
2016	215,334	19,579	195,755
2017	216,533	19,069	197,464
N	431,867	38,648	393,219

Note: This table describes the total number of news articles available from the major four Korean broadcasting stations (MBC, OBS, SBS, and YTN) and the number of news articles excluded from the sample from 2016 to 2017.

To investigate the impact of the North Korea risk on risk components of individual stocks, we select the sample firms if a firm is listed on the Korean stock markets as of the end of 2017. A firm is excluded if it is a financial firm, acquired, or delisted during the sample period. We only include firms whose fiscal year is December to use consistent accounting information across the sample firms. The final sample includes 697 firms, and it consists of 509,507 firm-day observations. We extract firm-level financial data from Data Guide.

2. Variables

a. Risk Components of Stocks

In finance, risk is defined as uncertainty of future returns on investments, and it is empirically measured by a volatility of returns. The (total) risk is then largely decomposed into two types of risks: systematic and unsystematic risk. Systematic risk refers to a market risk that cannot be eliminated through diversification because this type

29. A typical example of an irrelevant news report is a routine report such as weather news reports. An example of a duplicate article is one that is rebroadcasted with the same subject by the same broadcaster.

of risk affects all or a majority of the stocks in the market. For example, unexpected changes in an inflation rate, interest rate, economic conditions, and unanticipated natural disasters are likely to affect the entire financial market. In contrast, unsystematic risk refers to firm-specific risk or idiosyncratic risk, and it can be eliminated through diversification because this type of risk is not likely to affect a majority of the stocks. The unsystematic risk can be diversifiable because unexpected negative (positive) firm-specific events are likely to be cancelled out with unexpected positive (negative) events of other constituent stocks within a well-diversified portfolio. For instance, a fire at a company's headquarters, a labor strike, a lawsuit, a sudden death of a CEO, etc. are not likely to affect the rest of the stocks in the market.

$$\text{TRISK} = \text{SRISK} + \text{URISK}$$

TRISK : Total risk

SRISK : Systematic risk

URISK : Unsystematic risk

Total risk, systematic risk, and unsystematic risk are measured as follows. First, the total risk (*TRISK*) is computed as the standard deviation of daily returns. A standard deviation of daily returns is calculated based on a window of the previous 22 business days. For example, to compute the total risk of stock *i* on January 1, 2016, we calculate a standard deviation of daily returns of stock *i* from December 10, 2015 to January 1, 2016. Similarly, we obtain the total risk of stock *i* on January 2, 2016 by computing a standard deviation of daily returns from December 11, 2015 to January 2, 2016. In this way, we calculate the total risk of the sample firms to the end of the sample period, December 31, 2017. Second, systematic risk and unsystematic risk are estimated using the Capital Asset Pricing Model (Sharpe, 1964; Lintner 1965, CAPM hereafter).^{30 31} They are estimated using the

30. William Sharpe, "Capital Asset Prices: A Theory of Market Equilibrium under Conditions of Risk," *Journal of Finance*, vol. 19, no. 3 (1974), pp.425– 442.

31. John Lintner, "The Valuation of Risk Assets and the Selection of Risky

following regression equation.

$$[E(R_i) - R_f]_t = \alpha_i + \beta_i[E(R_m) - R_f]_t + \varepsilon_{i,t}$$

$E(R_i)$: Daily return of stock i

$E(R_m)$: Daily return of the market portfolio, m

R_f : Risk-free rate

$\varepsilon_{i,t}$: Residual of stock i

The left-hand side of the equation (dependent variable) is the excess return of stock i that is calculated by subtracting a daily risk-free rate from stock i 's return. We use the 91-day monetary stabilization bond rate as a proxy for a risk free rate. An independent variable in the regression is the market risk premium where the market risk premium is computed as a difference between the true market portfolio return and a risk-free rate. We use the Korea Composite Stock Price Index (KOSPI) as a proxy for the market portfolio. We obtain estimates using the same estimation window (22 days) as the total risk. The estimated coefficient on the market premium (β_i) represents a stock i 's systematic risk and the estimated residual (ε_i) represents unsystematic risk. For example, to estimate unsystematic risk of stock i on January 1, 2016, we calculate the excess return of the stock i and the market risk premium by using the data from December 10, 2015 to January 1, 2016. We then regress the excess return on the market risk premium to estimate the systematic risk (β_i) and unsystematic risk (ε_i) of the stock i on January 1, 2016. In a similar way, we estimate the systematic and unsystematic risk of the 697 sample stocks until the end of the sample period, December 31, 2017.

b. News Reports Related to North Korea

We use media news reports to quantify the magnitude of the North Korea risk (NKR). The variable used in this study regarding the North Korea risk is a ratio of the number of news reports mentioning

Investments in Stock Portfolios and Capital Budgets," Review of Economics and Statistics, vol. 47, no. 1 (1965), pp.13-37.

North Korea to the total number of news reports on that day.

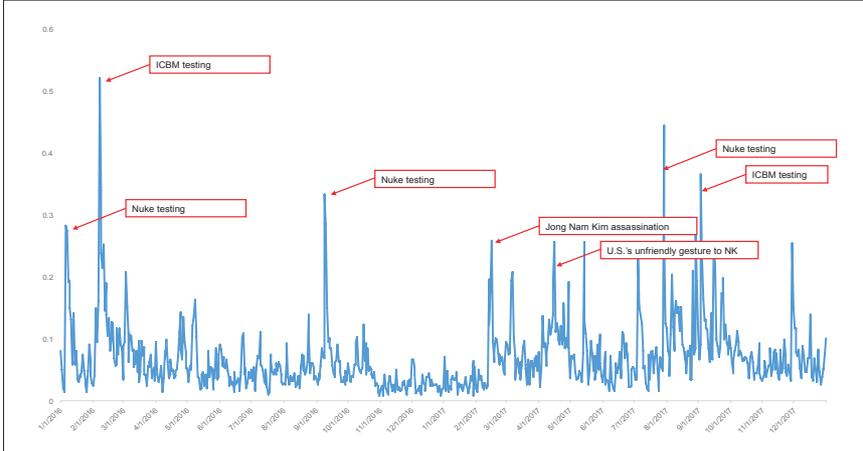
$$\text{NKR}_t = \frac{\text{Total number of news articles mentioning North Korea on day } t}{\text{Total number of news articles on day } t}$$

We identify North Korea-related news reports using the keyword of ‘North Korea’ after extracting news reports from the political section in a media item because the political section is the most relevant to North Korea. We employ a three-stage filtering method in order to ensure that we do not omit any news reports related to North Korea. For example, some North Korea-related articles in the political section may be searched in the first stage. However, others may be classified in other sections in the first stage (and second stage) but reclassified in the political section in the second stage (third stage). Using the three-stage filtering method, we make sure that no North Korea news report is missing from our analysis.

Figure 1 shows the percentage of North Korea news reports relative to the total number of news reports on that day. The media tends to release more North Korea-related news reports when tensions on the Korean Peninsula are high and release fewer when tensions are low. For example, North Korea’s nuclear tests and intercontinental ballistic missile (ICBM) launches generate a high volume of news articles related to North Korea on these dates. Figure 1 clearly shows that our proxy for the North Korea risk accurately reflects a magnitude of the geopolitical risk on the Korean Peninsula.³²

32. We do not differentiate a direction of the sentiment (positive/negative) of the news reports related to North Korea because the North Korea risk had been consistently increasing during the sample period. After checking individual daily news reports, we confirm that most of the news reports during the sample period have negative sentiments. For example, CNN summarizes North Korea’s military actions related to its nuclear weapons and capability between 1985 and 2019. From the CNN reports, we do not find any positive incidents that relieve the tension on the Korean Peninsula. <<https://www.cnn.com/2013/10/29/world/asia/north-korea-nuclear-timeline---fast-facts/index.html>> (date accessed October 2, 2019)

<Figure 1> Time-series Trend of the North Korea Risk Measure



Note: This figure illustrates a time-series trend of the NKR variable during the period 2016–2017. Major North Korea military provocations including nuclear weapon tests and ballistic missile launches are labeled.

c. Control Variables

Control variables used in this study are those potentially affecting the uncertainty of stock returns. We use size, illiquidity, and foreign ownership as a control variable. Size (*SIZE*) is proxied by a firm’s market capitalization in KRW (in logarithm). Since small stocks have a higher return volatility than large stocks, we expect *SIZE* to be negatively related to a stock’s risk.

$$SIZE_{i,t} = \ln(SIZE_{i,t})$$

$SIZE_{i,t}$: Market capitalization (KRW) of a stock *i*

We use Amihud (2002)’s illiquidity measure to control for the illiquidity effect on a firm’s risk.³³ Illiquidity (*ILIQ*) is calculated as absolute value of a stock *i*’s daily return divided by trading volume in

33. Yakov Amihud, “Illiquidity and Stock Returns,” *Journal of Financial Markets*, vol. 5, no. 1 (2002), pp.31-56.

KRW on that day. A stock with a high ratio indicates that the stock is thinly traded in the market. Therefore, we expect illiquidity to be inversely related to a firm's risk.

$$ILLIQ_{i,t} = \frac{[R_{i,t}]}{TA_{i,t}}$$

$[R_{i,t}]$: Daily return of stock i

$TA_{i,t}$: Total trading volume in KRW

Foreign ownership (*FOR*) can affect a firm's risk. Foreign investors tend to have superior ability and techniques to evaluate a firm's fundamental value and to manage investment risk over domestic investors. Due to informational asymmetry, foreign investors are likely to invest more in stocks with more information transparency. Therefore, we expect that foreign ownership is negatively associated with a stock's risk.

$$FOR_{i,t} = \frac{FS_{i,t}}{OS_{i,t}}$$

$FS_{i,t}$: Number of shares of stock i owned by foreign investors

$OS_{i,t}$: Total number of shares outstanding of stock i

In addition, we include an indicator variable of year 2017 (*YEAR*) to control for any time-invariant macroeconomic shocks during the sample period 2016–2017.

3. Regression Model

We use the following regression model to investigate whether geopolitical risk arising from North Korea threats (*NKR*) affects a stock's total risk (*TRISK*), systematic risk (*SRISK*), and unsystematic risk (*URISK*) in the South Korean market.

$$RISK_{i,t} = \beta_0 + \beta_1 NKR_t + \beta_2 SIZE_{i,t} + \beta_3 ILLIQ_{i,t} + \beta_4 FOR_{i,t} + \beta_5 YEAR_t + \varepsilon_{i,t}$$

IV. Empirical Results

1. Summary Statistics and Correlation Matrix

Table 2 reports summary statistics of the variables used for our analyses. The average ratio of the number of news reports mentioning North Korea to the total number of news reports on that day during the sample period is 7%. The average size of the sample firms in the logarithm is KRW 3.78 trillions in KRW, and the illiquidity of the sample stocks is 0.1%. The foreign ownership of the average sample stocks is approximately 10%.

The correlation matrix shows that correlation coefficients among the three types of risks are highly statistically significant at the 1 percent. The total risk is negatively correlated with news reports mentioning North Korea, and the coefficient is statistically significant at the 1 percent, suggesting that a stock's total risk decreases with the ratio of the number of news reports mentioning North Korea to the total number of news reports on that day. The negative correlation coefficient is somewhat surprising and is opposed to our prediction. However, the result may be changed if we implement a regression model that controls for effects of other variables. The signs, magnitudes, and statistical significances of the correlation coefficients between other types of risks (systematic and unsystematic risk) and North Korea news reports are similar to the total risk.

<Table 2> Descriptive Statistics and Correlation Matrix

Variable	Mean	<i>TRISK</i>	<i>SRISK</i>	<i>IRISK</i>	<i>NKR</i>	<i>SIZE</i>	<i>ILQ</i>	<i>FOR</i>
<i>TRISK</i>	0.148	1						
<i>SRISK</i>	0.103	0.998***	1					
<i>IRISK</i>	0.044	0.796***	0.740***	1				
<i>NKR</i>	0.069	-0.014***	-0.015***	-0.007***	1			
<i>SIZE</i>	14.375	-0.075***	-0.072***	-0.089***	0.001	1		
<i>ILQ</i>	0.001	-0.029***	-0.030***	-0.016***	-0.001	-0.063***	1	
<i>FOR</i>	0.103	-0.131***	-0.130***	-0.104***	0.001	0.579***	-0.016***	1
<i>YEAR</i>	0.499	-0.140***	-0.147***	-0.053***	0.149***	0.007***	0.000	0.020***

Note: This table presents a correlation matrix among variables used in our analysis. ***, **, and * represent statistical significance at the 1%, 5%, and 10% levels, respectively.

The signs of the correlation coefficients between the total risk and all other control variables are the same as discussed in section III.2.c. The total risk is inversely correlated with a firm's market value, illiquidity, and foreign ownership and all of the correlation coefficients are statistically significant at the 1 percent. The signs, magnitudes, and statistical significances of the correlation coefficients between other types of risks and control variables are also similar to the total risk.³⁴ The negative coefficient of a dummy variable of year 2017 across all types of risks indicates that a firm's risk is lower in 2017 than in 2016, and the difference is statistically significant at the 1 percent.

2. Impact of North Korea-related News Reports

Table 3 presents results of our main regression result. The first, second, and third column show how the North Korea risk affects the sample stocks' total risk, systematic risk, and unsystematic risk respectively. The results in Table 3 show that the North Korea risk variable (*NKR*) positively affects the sample stocks' total risk while

34. Since none of the correlation coefficients among the independent variables are greater than 0.6, we do not expect our regression analysis to have a multicollinearity problem.

systematic risk and the effects are statistically significant at the 1 percent. However, the North Korea risk does not statistically significantly affect unsystematic risk. The coefficient of *NKR* suggests that the North Korea risk is considered to be those unexpected events that increase a stock’s systematic risk rather than unsystematic risk because they affect almost all stocks in the market.

A firm’s market size is statistically and negatively associated with only unsystematic risk at the 1 percent confidence level. The coefficients of *SIZE* indicate that a firm’s size can be a diversifiable risk factor that does not affect universal stocks in the Korean market. Illiquidity (*ILIQ*) and all types of risks of the sample stocks are negatively associated and its coefficients are all statistically significant at the 1 percent, indicating that investors perceive illiquid stocks as risky stocks. Foreign ownership (*FOR*) negatively affects all types of risks and its coefficients are all statistically significant at the 1 percent confidence level, suggesting that foreign investors tend to invest in stocks with lower risk.

<Table 3> Impact of North Korea News on the Risk of Stocks

<i>Variables</i>	Expected Sign	Total Risk	Systematic Risk	Unsystematic Risk
<i>NKR</i>	(+)	0.003(6.09)***	0.003(6.46)***	0.000(1.41)
<i>SIZE</i>	(-)	-0.000(-1.11)	0.000(1.08)	-0.000(-20.85)***
<i>ILQ</i>	(-)	-0.054(-18.39)***	-0.050(-18.65)***	-0.004(-11.69)***
<i>FOR</i>	(-)	-0.014(-62.89)***	-0.013(-64.08)***	-0.001(-36.75)***
<i>Year</i>		-0.004(-82.15)***	-0.004(-85.99)***	-0.000(-29.46)***
Cons		0.025(108.45)***	0.024(111.97)***	0.001(53.18)***
R2		0.039	0.041	0.015
N		327,150	327,221	327,221

Note: Table 3 reports the results of the baseline regression models. The t-statistics are reported in parentheses. ***, **, and * represent statistical significance at the 1%, 5%, and 10% levels, respectively.

The evidence in Table 3 offers two important implications. First, geopolitical risk on the Korean Peninsula has been well known as a

systematic risk in academia for affecting the universe of Korean stocks, and that it cannot be eliminated through diversification. Therefore, the finding in Table 3 is consistent with the general perception regarding the North Korea risk in that it increases the volatility of the Korean stock prices and the increase is only attributed to the increase of the systematic risk. We posit that the North Korea risk has a predictability power for a path of the systematic risk change of the Korean stocks. Second, we show that the measure used in our study is a good proxy for the North Korea risk. The extant literature on the effects of geopolitical risk (or North Korea risk) has investigated a predictability of the stock risk by employing sentiment measures based on text mining techniques. In this study, however, we show that the number of news articles mentioning North Korea in the media (relative to the total number of news articles on that day) also accurately captures the North Korea risk.

3. Robustness: Alternative Measures of Systematic Risk

In this section, we investigate whether the baseline results in Table 3 hold when an alternative measure of the systematic risk is used in the regression model. In the previous section, we estimate the systematic risk based on the CAPM. However, a drawback of the CAPM is that it considers the market factor the only risk factor predicting stock returns. Fama and French (1992, 1993) introduce a three-factor model (FF-3 model) in which they further include size and value/growth effects of stocks in addition to the market factor.^{35 36} In their regression model, Fama and French use a size premium, value premium, and the market risk premium as independent variables and estimate coefficients of the variables. The coefficient of our interest (systematic risk) is that of the market risk premium. We use the following regression model to estimate the systematic risk.

35. Eugene Fama and Kenneth French, "The Cross-section of Expected Stock Returns," *Journal of Finance*, vol. 47, no.2 (1992), pp.427–465.

36. Eugene Fama and Kenneth French, "Common Risk Factors in the Returns of Stocks and Bonds," *Journal of Financial Economics*, vol. 33, no. 1 (1993), pp.3–56.

$$[E(R_i) - R_f]_t = \alpha_i + \beta_i[E(R_m) - R_f]_t + s_iSMB_t + h_iHML_t + \varepsilon_{i,t}$$

$E(R_i)$: Daily return of stock i

$E(R_m)$: Daily return of the market portfolio m

R_f : Risk-free rate

$\varepsilon_{i,t}$: Residual of stock i

SMB_t : Return difference between small-cap stock portfolio and large-cap stock portfolio

HML_t : Return difference between high B/M stock portfolio and low B/M stock portfolio³⁷

Table 4 reports the results using the FF-3 model. The first two columns of Table 4 show estimated coefficients and corresponding t-statistics (in a parenthesis) when a dependent variable is the systematic risk or unsystematic risk respectively. Similar to the baseline results discussed in the previous section, a ratio of news reports mentioning North Korea to the total number of news articles released on the same day positively affects the systematic risk of the Korean stocks. The coefficient of *NKR* is statistically significant at the 1 percent, suggesting that the North Korea risk will increase the systematic risk. However, we do not find a statistically significant change of the unsystematic risk in response to a change in the North Korea risk. We also test the hypothesis using the estimated coefficient of the market risk premium based on the CAPM as a dependent variable rather than computing the systematic risk by subtracting the unsystematic risk from the total risk. The result is reported in the last column in Table 4. It shows that the coefficient of *NKR* remains positive and statistically significant at the 1 percent.

37. *SMB* is a proxy to reflect size risk premium as small stocks historically earned higher abnormal returns than large stocks. *HML* is a proxy to capture risk related to the growth potential of a firm. *B/M* is defined as the book value of equity divided by the market value of equity. The book value of equity is directly obtained from a firm's balance sheet while the market value of equity is a market price per share times the number of shares outstanding for a stock i . High *B/M* stocks (value stocks) have been reported to earn higher abnormal returns than low *B/M* stocks (growth stocks) historically. Please see Fama and French (1992, 1993) for more details about variable and portfolio constructions.

In sum, findings in Table 4 indicate that the North Korea risk increases the risk of the stocks in the Korean market overall but the increase is only attributed to an increase in the systematic risk even when alternative proxies for the systematic risk are used.

<Table 4> Robustness Test

Variables	Systematic Risk (FF3)	Unsystematic Risk (FF3)	Systematic Risk (CAPM)
<i>NKR</i>	0.003(6.43)***	0.000(1.52)	0.866(22.70)***
<i>SIZE</i>	0.000(1.24)	-0.000(-22.14)***	0.050(35.34)***
<i>ILQ</i>	-0.050(-18.67)***	-0.004(-11.69)***	-1.415(-6.60)***
<i>FOR</i>	-0.013(-64.26)***	-0.001(-36.75)***	-0.229(-13.77)***
<i>Year</i>	-0.004(85.96)***	-0.000(-27.36)***	-0.274(-75.94)***
<i>Cons</i>	0.024(111.56)***	0.001(53.44)***	0.139(8.02)***
R2	0.041	0.015	0.022
N	327,150	327,150	320,960

Note: Table 4 presents the results of robustness tests. The t-statistics are reported in parentheses. ***, **, and * represent statistical significance at the 1%, 5%, and 10% levels, respectively.

V. Conclusion

This study examines the impact of geopolitical tensions on the Korean Peninsula on the risk of stocks in the Korean stock market. Using media news data, we construct a novel measure of the seriousness of the North Korea risk. During the sample period of 2016–2017, we find that geopolitical risk positively affects the systematic risk component of stocks but does not affect the unsystematic risk component of stocks. These results are robust when we employ alternative measures of the systematic risk.

Evidence in this paper provides two important implications on the relation with North Korea and possibly on Korean reunification in the future. First, this study analyzes the influences of the North Korea threats in the domestic capital markets. Despite great interests in a

peaceful relation with North Korea and Korean reunification, there exist only a few studies investigating the potential impact of the North Korea threats on the domestic capital markets. This study provides helpful insights to practitioners and politicians in that it shows that North Korea threats cause domestic stock prices to be more volatile, and they increase the systematic risk of the domestic stocks. As a result, investors require a higher risk premium for bearing the increased systematic risk following North Korea threats. This study, therefore, helps the government to form constructive and effective policies regarding its relation with North Korea. Additionally, evidence in this study also contributes to the literature on North Korea risk in that we employ a novel measure of the North Korea risk and quantify the impact of the risk on domestic stocks.

Second, if one looks at relationships with North Korea in the past, geopolitical tensions on the Korean Peninsula were low (high) when domestic firms' contributions to the North Korea economy were increased (decreased or discontinued). In other words, economic cooperation between the two Koreas plays an important role in relieving geopolitical tensions on the Korean Peninsula. Currently domestic stocks tend to be undervalued compared to otherwise similar stocks in foreign countries because the North Korea risk is present (so called "Korea discount"). This is because investors require a higher rate of return on domestic stocks than similar foreign stocks because they have to bear additional systematic or undiversifiable risk arising from the tensions in inter-Korean relations. Therefore, in order to alleviate the "Korea discount" phenomenon, a peaceful relationship between South and North Korea should be established in the future. To support the idea, future research should be followed by extending the sample period and investigating how differently North Korea risk affects the domestic capital markets during peaceful periods and high geopolitical tension periods.

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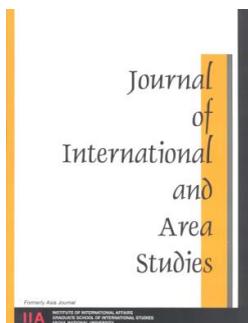
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