

USAPC Washington Report
Interview with Hon. James A. Kelly
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USAPC: North Korea's defiant decision to test a nuclear weapon on October 9 has created a very dangerous situation in Northeast Asia. Although North Korea agreed on October 31 to return to the Six-Party Talks,¹ there are no easy solutions—diplomatic, economic, military, or otherwise.

Kelly: Yes, this is a very difficult problem, and we must be patient even recognizing the substantial risks. The U.S. strategy has been to use multilateral diplomacy via the Six-Party Talks and it should continue to use diplomacy because the military options are so poor. Importantly, the nuclear test has intensified what should be the dread of most Americans—the potential marriage of a terrorist group and fissile materials or nuclear weapons.

Recently, the North Koreans maintained that they would not engage in proliferation, but we cannot be certain. Kim Jong Il and his senior officials must understand that the United States will respond to a nuclear terrorist incident within its border, particularly one involving a device or technology that can be sourced to North Korea, in a way that literally would be devastating.

Beyond this kind of deterrence, we must continue to work very closely with allies that have real stakes in this crisis. Japan certainly is more directly threatened by North Korean nuclear capabilities than the United States. South Korea currently is undergoing a lot of political change and therefore is internally conflicted about what to do about North Korea. Seoul needs patient help from the United States, not lectures or threats.

China has a key role to play in resolving this crisis. Leaders in Beijing are genuinely infuriated by North Korea's actions. They did not take the test lightly. But I believe they want to see through events before taking precipitous action. The Chinese are very concerned about the kind of roaring instability that might get rid of Kim Jong Il but would not necessarily eliminate the nuclear program and very well might flush millions of refugees into Northeast China. So, as always, they seek stability and are trying to handle this situation in a cautious way.

There are no guarantees that China's measured approach will work. But I believe that Beijing has a long-term strategy aimed at changing North Korea from within, which has important elements we have never seen before.

USAPC: How has China tried to affect internal change in North Korea? Could one go so far as to say that China is pursuing “regime change” in Pyongyang?

Kelly: Beijing is not trying to affect regime change so much as it is trying to realize a kind of regime “transformation.” Notwithstanding other perceptions, that always has been the policy of the U.S. government.

Perhaps North Korea can change its orientation. It is being pressured in ways that it was never pressured before. For example, North Korea was, in practice, not a cash economy until about four years ago. The government issued rice and other food to families. It assigned houses and apartments to individuals and families in Pyongyang as well as in the countryside. It

¹ The Six Party Talks, launched in August 2003, are multilateral negotiations aimed at ending North Korea's nuclear program. Participants include: China, Japan, North Korea, Russia, South Korea, and the United States.

assigned people to “work units.” The food, at least, and some of the rest changed with the advent of more of a cash economy.

In the past four years, small businessmen from northeast China have been traveling back and forth across the border between China and North Korea making small joint ventures with local North Korean cadres, both civilian and military. By now, some of them are making a lot of money. They enjoy driving into Pyongyang and spending it in new ways.

This is the sort of insidious change that probably is of high concern to North Korea leader Kim Jong Il and the military officials that surround him. The money is eating into Kim’s control because it is going to erode the instruments of that control. I think some Chinese leaders believe these cross-border business arrangements will change North Korea over time in what they hope will be a stable and peaceful way.

In this regard, I would speculate that Pyongyang may regard United Nations sanctions aimed at restricting its border with China in a positive light as this may help Kim tighten control over his people. The sanctions will have the effect of isolating North Korea in the international community. But in many ways, North Korea wants to be isolated even though it depends on food, fuel, and money from external sources. North Korea does not possess much of value to give its external providers, so Pyongyang is trying to threaten them so they will continue to pass food, fuel, and money “through the window slot.” We never should lose sight of such basic internal factors.

USAPC: On October 14, the U.N. Security Council imposed punitive sanctions on North Korea in response to the nuclear test [see box on page four]. Some observers maintain that China was more influential in bringing North Korea back to the negotiating table than the deprivation and isolation caused by the sanctions. What is your take?

Kelly: The post-sanctions environment provides a great opportunity for the United States to work with China. The Chinese are seriously concerned by North Korea’s nuclear test. I think our best chance of applying pressure on North Korea to return to the Six-Party talks and ultimately abandon its nuclear efforts lies in continuing to work closely with China, but also Japan, South Korea, and Russia. But the North Koreans have a history of reacting badly.

USAPC: If Pyongyang defies the international community again and conducts a second nuclear test—perhaps out of displeasure with how the Six-Party talks proceed—is diplomacy still an appropriate U.S. response?

Kelly: The United States does not have many choices. If North Korea indeed tests another nuclear device, that certainly would be a defiant thrust at the international community. But it is also true that another test is not the same thing as an attack on the United States or on one of the Northeast Asian nations. A test is bad indeed, but should not be confused with a direct attack.

We should bear in mind that North Korea has been seeking nuclear weapons for more than 40 years. This is not a new effort. North Korea is not Libya. For many years, it has been training numerous nuclear engineers. It has derived benefits from Pakistan’s nuclear program as well as from the nuclear efforts of Russia and the Eastern European countries during the Soviet era.

The North Korean leadership must generate tensions with countries in Northeast Asia and most of all with the United States in order to justify the hardships that ordinary North Koreans must endure as a result of Pyongyang's "military first" or *songun* policy. Kim imposed this policy only about eight years ago when tensions were not especially high. By putting military interests and access to all resources above all else, this policy priority naturally has delayed much needed economic improvements.

The United States by itself simply cannot bring sufficient pressure to bear on North Korea to return to the negotiating table. That is why close cooperation with China, South Korea, and Japan is so critical.

USAPC: Some observers have argued that the United States should be more explicit in offering security guarantees to North Korea.

Kelly: Security guarantees indeed are important in an eventual solution. But please recall that in all three of the Six-Party Talks in which I participated, the United States made clear that security assurances were available to North Korea. At the fall 2003 meeting of the Asia Pacific Economic Cooperation (APEC) forum in Bangkok, Thailand, President Bush also clarified that the United States was willing to offer security guarantees as part of an agreement ending North Korea's nuclear program. So while quite a few observers now contend that the North Koreans are really after security guarantees, that is not what my North Korean counterpart raised during the early Six-Party sessions—notwithstanding the efforts of the U.S. side to engage on this issue.

USAPC: Other experts have urged Washington to ease sanctions it imposed on Macao-based Banco Delta Asia (BDA) in September 2005 ostensibly for facilitating North Korean entities that traffic weapons of mass destruction or otherwise engage in counterfeiting of U.S. currency and money laundering. They say that by freeing up North Korean assets in BDA that are used for legitimate commercial transactions, the United States would have greater success with the North Koreans. [At press time, it was not clear whether Washington had proposed easing BDA sanctions as a way to bring Pyongyang back into the Six-Party process.]

Kelly: The financial sanctions are targeted administrative measures that the U.S. Treasury Department, as I understand it, suggested it might impose on just one bank. However, the reaction of depositors and other banks was surprising and quite sweeping, and froze many North Korean assets. Financial institutions in Asia, particularly Chinese institutions, immediately became leery that they might lose business over their dealings with North Korean entities, so some followed BDA's lead. North Korea, in reality, is not very important to these institutions—especially shady, cash business—but American business is.

Rather than preemptively easing sanctions on BDA, I think we should make clear that the financial sanctions would be addressed as part of the economic discussions that could be parallel the Six Party Talks.

USAPC: Some influential U.S. lawmakers, such as Senate Foreign Relations Committee Chairman Richard Lugar (R., Indiana), have urged "intensification of diplomacy" to include direct talks between the United States and North Korea.

Kelly: We have had direct negotiations with the North Koreans in the past within the context of the Six-Party Talks. I think we can and should now have some direct talks with respect to the financial sanctions and/or to articulate deterrence to them. But nuclear nonproliferation is not solely an issue between the United States and North Korea. It is an issue in which arguably the most important stakeholders are Japan, South Korea, and China. Those three countries really have to be part of discussions pertaining to North Korea's nuclear program. It would be highly inappropriate for the United States to effectively turn our backs on them.

USAPC: Congress passed the FY07 Department of Defense authorization bill before recessing for the midterm elections. President Bush subsequently signed it into law. It includes a provision that requires the designation of a North Korea policy coordinator within 60 days of enactment. Do you think such a coordinator would be effective, either as a complement to the Six-Party process or acting alone as part of a whole new approach to North Korea policy?

Kelly: Since the bill passed, the North Koreans conducted the nuclear test, which changes the situation considerably. And now we have the prospect, at least, of the Six-Party Talks. I certainly would have no problem if the Bush Administration identified a reasonably eminent person to go to Pyongyang and discuss the implications of proliferation.

This person hopefully would make clear that a terrorist explosion in the United States of a nuclear device that could be sourced to North Korea would result in the latter's total and immediate destruction. That person might also point out other beneficial reasons why the North Koreans should remain in the Six-Party Talks.

There are many people both in and out of government who are trying to tell my successor, Ambassador Christopher Hill, what to do. I am not sure that he really needs another advisor or supervisor. But the clause in the legislation is good in expressing serious concern by the Congress.

USAPC: Would it be appropriate for the United States to offer China and South Korea substantial refugee assistance as a means of assuaging their concerns about a potential flood across their borders if conditions in North Korea take a dramatic turn for the worse? Could the United States provide that level of refugee assistance?

Kelly: No, the United States does not have that capability. China now has 200,000-300,000 North Korean refugees, many of whom go back and forth across the border between China and North Korea.

But both China and South Korea are deeply concerned that chaotic instability in North Korea will launch millions of refugees across their borders. The sheer scale of that kind of outflow is not something the United States could handle. The chaos would be overwhelming. There certainly is some level of assistance the United States could provide in the event of a crisis like that, but first we would want to ascertain what kind of support China and South Korea really need.

USAPC: Should the United States call upon South Korea to decrease its involvement in the Kaesong industrial park [the economic development project slightly north of the demilitarized zone] until the renewed Six-Party process is on sounder footing?

Kelly: Some Bush administration officials indeed have called upon the Seoul to shut down the Kaesong project, although I am not sure that Secretary Rice or Assistant Secretary Hill has asked this of South Korea.

I would go a little slower. I do not think the Kaesong project is providing any serious strategic or monetary advantage that sustains North Korea. But I think the South Koreans should demand more reciprocity in their relations with North Korea. Pyongyang takes, takes, and takes without ever giving back. South Korea should work with persistence to rectify that imbalance.

Seoul also should be careful about allowing unrestricted transfers of cash to North Korea. During the past eight or nine years, billions of dollars of hard cash have crossed the border. In the 1980s, large amounts of cash also made their way North Korea from Japan, although my guess is that most of that stopped long ago, and most of what remains will stop as a result of the Japanese government's enforcement of the U.N. sanctions.

South Koreans generally feel they have worked hard and built a strong economy and a fine life for themselves. They understandably are very reluctant to assume the burden of bailing out their pathetically poor northern neighbor that lacks a modern infrastructure. At the same time, though, South Koreans are conflicted because they see North Koreans as brothers and recognize that sooner or later they will have to come to their aid—they just do not want to do it now.

There has been a tendency of South Korean politicians to ignore the political realities. The United States should gently, quietly, and calmly help them to become more focused on the politics of the situation. We should not limit our attention to a weak South Korean government that is facing elections, but broaden the dialogue to include other politicians as well. There is much disquiet across all ends of the South Korean political spectrum.

USAPC: In a recent op-ed, former Defense Secretary William Perry challenged the decision of the Bush Administration in 2002 to stop fuel deliveries to North Korea that had been provided under the 1994 Agreed Framework. I understand the administration took this action when it learned that North Korea had been pursuing a uranium enrichment program in violation of the Agreed Framework.

Dr. Perry criticized the White House for simply deploring the uranium enrichment program but not setting a “red line” that threatened military action if that line was crossed. We would not be facing the current situation, he suggested, if that episode had been handled differently.

Kelly: For whatever reasons, Secretary Perry does not ascribe much credit to North Korea's uranium enrichment effort even though it potentially is larger and more dangerous than the plutonium-based nuclear program. Dr. Perry focuses almost entirely on North Korea's plutonium program, which certainly was the proper focus in 1994.

With respect to the imposition of “red lines,” I think it is unclear whether the Clinton administration really would have launched an attack on North Korea—with little regard for South Korea's interests and concerns—if it had uncovered evidence that North Korea had resumed plutonium reprocessing.

The 1994 Agreed Framework froze “new” plutonium that had been reprocessed in the early 1990s. That was a big plus, but it did not deal in any useful way with plutonium that had been reprocessed earlier. It set a vague path into the future wherein North Korea would come

under full safeguards of the International Atomic Energy Agency (IAEA), but before then it created only a limited task for the IAEA.

The Agreed Framework was useful, but it was incomplete, only partially verifiable, and as we have seen, easily reversible. That is why the Bush administration, especially after information of large-scale cheating was discovered, felt that the subsequent agreement must meet a higher standard. It must be complete, meaning it must deal with old plutonium, possible new plutonium, and the proceeds, large or small, of uranium enrichment.

North Korea's uranium enrichment program is not insignificant and would be very risky to ignore. It has been underway for quite a few years and involves skilled people. To assume that this is not a problem is dangerous. The reason why nations undertake uranium enrichment programs is because they are far easier to conceal than plutonium programs.

USAPC: How did we uncover the covert uranium enrichment program?

Kelly: In 2002, information about the uranium enrichment program became available to the U.S. government from a variety of sources. Some older information had touched on small efforts along these lines. But 2002 revealed that North Korea had been at work on a potentially large-scale uranium enrichment effort since the late 1990s and possibly earlier. After learning of Pyongyang's deception in October 2002, it would have been politically impossible for the Bush Administration to continue the fuel shipments and other "rewards" provided to North Korea under the Agreed Framework. I do not think a Congress controlled by either party would have supported that.

USAPC: Was the sole purpose of your October 2002 trip to Pyongyang to confront the North Koreans about their deception with respect to the covert uranium enrichment program?

Kelly: The purpose of my October 2002 trip was to explain the possibility of undertaking a new "bold approach" to U.S.-North Korea negotiations, which would cover weapons of mass destruction, ballistic missiles, human rights, and other issues, and could lead to full normalization of relations. Most important, though, we needed Pyongyang to know that (1) we were aware of a large uranium enrichment program and (2) the nature and scale of that effort posed a serious problem and created an obstacle to our "bold approach" discussions and to improved relations. I suggested that we had a great opportunity to improve bilateral relations if the North Koreans could find a way to quietly do away with the uranium enrichment program.

I was not seeking a quick reply and the visit was not to be a negotiation. But for two or three of the Pyongyang meetings, the North Koreans repeatedly denied that they had a uranium enrichment program. Finally, as part of a lengthy presentation, a senior interlocutor acknowledged the uranium program, but said it—and other nuclear efforts—were undertaken because President Bush named North Korea to the axis of evil in his January 2002 State of the Union address. I pointed out that our information indicated the program began years earlier, well before President Bush entered office.

The United States in consultation with its partners KEDO [Korean Peninsula Energy Development Organization] then halted compensating fuel deliveries to North Korea. Pyongyang not only refused to end the uranium enrichment program, but in December 2002 also expelled

IAEA inspectors and began to reactivate the nuclear reactor at Yongbyon. In January 2003, North Korea withdrew from the Nuclear Nonproliferation Treaty.

USAPC: Secretary Rice reiterated Washington's commitment to defend Japan in the event of an attack during her swing through Tokyo on October 18 to discuss implementation of U.N. resolution 1718. Can we correctly assume, then, that the United States would launch a retaliatory strike at North Korea if, for example, Pyongyang fired another Taepodong [long-range ballistic] missile and it hit Hokkaido?

Kelly: Yes. Under the U.S.-Japan Mutual Security Treaty, an attack on Japan would be treated as an attack on the United States. If North Korea attacks Japan using nuclear weapons, the United States would retaliate in a similar fashion. I believe strongly that we should honor this commitment to Japan. It was important for Secretary Rice to reaffirm this support.

If the Japanese begin to doubt the United States, they would feel they must greatly increase their defense spending, acquire offensive power projection capabilities, and even develop nuclear weapons. In the days following North Korea's nuclear test, however, Japanese Prime Minister Shinzo Abe made clear that Japan would not develop nuclear weapons.

USAPC: The U.S.-South Korea Mutual Defense Treaty provides the same security guarantee to South Korea. Correct?

Kelly: Yes. One of the reasons that North Korea is interested in developing nuclear weapons is because it is concerned that the conventional arms balance is less in its favor. North Korea has the ability to inflict enormous destruction on South Korea, but it is not at all clear whether North Korea could successfully attack, invade, and conquer South Korea.

South Korea has very effective, capable armed forces. U.S. ground forces in South Korea provide important reinforcement. But the idea of South Korea invading the North is absurd. And the U.S. has no such intent or capability at hand.

James A. Kelly is president of EAP Associates, Inc., which provides international business consulting services. From 2001-2005, Mr. Kelly was Assistant Secretary of State for East Asian and Pacific Affairs. From 1994-2001, he was president of Pacific Forum, the Honolulu-based Asia-Pacific arm of the Center for Strategic and International Studies (CSIS). Under President Ronald Reagan, Mr. Kelly served at the White House as senior director for Asian affairs and was earlier deputy assistant secretary of defense for international security affairs (East Asia and Pacific). He is a former U.S. Navy captain and is a graduate of the Harvard Business School, the National War College, and the U.S. Naval Academy.