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The Two Koreas 30 Years After the Armistice

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An Intelligence Assessment

NGA Review Complete

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*EA 83-10116
July 1983*

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The Two Koreas 30 Years After the Armistice

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An Intelligence Assessment

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**The Two Koreas 30 Years
After the Armistice**

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Key Judgments

*Information available
as of 16 June 1983
was used in this report.*

The absence of war in Korea during the 30 years since the signing of the Armistice Agreement on 27 July 1953 must be seen as a major accomplishment in itself. With the exception of the late 1960s, when skirmishes along the Demilitarized Zone resulted in hundreds of casualties each year, the Korean people have been spared major bloodshed. Nonetheless, easing tension and reducing the risk of war on the peninsula have proved elusive.

Indeed, North Korea is continuing the major buildup of its military forces that began in the early 1970s. And since 1980 it has conducted a series of large-scale military and paramilitary exercises, "war preparations" campaigns, and alerts that appear designed to ready North Korea's military forces and civilian population for combat. The North still seems to be hoping to achieve reunification on its own terms.

But neither P'yongyang nor Seoul has been free to pursue its own course without reference to the major powers. The United States, Japan, China, and the USSR all have a stake in developments on the peninsula:

- The US security commitment to Seoul, with US forces along the DMZ constituting a "tripwire" that would assure US involvement in any fighting, has deterred aggression from the North and permitted South Korea to focus its energies on economic development as well as self-defense.
- China and the USSR have contributed to both economic and military development in the North but have shown no enthusiasm for another war that could draw them into a direct confrontation with the United States.

Although the major powers have had a mutual interest in avoiding confrontation on the peninsula, there has been no agreement on even the first concrete steps toward an inter-Korean political resolution. Indeed, the two societies have developed along such different lines over the course of a generation that they are further now from a settlement than ever. Political elites and strong military establishments in both Koreas have acquired a stake in the status quo and would resist any change in which they might lose their privileged positions.

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The growing international acceptance of two Koreas also tends to reinforce the status quo:

- South Korea has diplomatic relations with 116 countries, the North with 105, and 67 recognize both.
- Seoul has been named as the site of increasingly important international events, including the 1988 Summer Olympic Games, which dramatically underscores South Korea's coming of age and enhanced standing.

For the next several years tension probably will continue at the present level or perhaps increase some. North Korea will cling tenaciously to the hope that US forces will be withdrawn and that the political fabric in the South will then start to unravel—giving P'yongyang an opportunity to impose its will on the South. Seoul will continue to hope that US forces remain, permitting South Korea to concentrate on economic development without diverting resources to an all-out effort to strengthen its military.

Reunification thus seems a receding dream. The best that realistic Korean nationalists can hope for may be a "German model" in which each side recognizes the other's right to exist, communicates directly with the other, and engages in various cultural and economic exchanges. Even this is probably out of reach for now, however, as it would require some measure of trust between the two Koreas and a consensus by the major powers on the ideological coloration of the arrangements—problems that seem as intractable today as ever in the 30 uneasy years of "no war, no peace" on the peninsula.



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The Two Koreas 30 Years After the Armistice

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Origin of the Two Koreas

The basic problem in Korea—the division of the peninsula—dates back to a hastily prepared plan implemented by the allies at the close of World War II. Writing in his memoirs, former President Harry Truman noted that the United States had proposed the division of Korea at the 38th parallel in 1945 “as a practical solution when the sudden collapse of the Japanese war machine created a vacuum in Korea.” The division was intended essentially as a temporary military expedient to provide for the surrender of Japanese forces to the Soviets in the northern part of Korea and to the United States in the southern area. There was no intent to partition the peninsula permanently. The leaders of the allied powers had repeatedly endorsed the idea—at the Cairo, Tehran, and Yalta Conferences among others—that Korea would eventually become a united and independent state after the defeat of Japan.

Such an intent was appropriate in view of the history of the Koreans as a homogeneous people who had lived on the same territory, used the same language, and shared a common culture and political tradition since as early as the seventh century. The division of Korea hardened with the onset of the Cold War and the emergence of Korean political groupings in the North aligned with the Soviet Union and in the South aligned with the United States.

At a recent academic conference in the United States, an American scholar noted that it was difficult to foresee any real prospects for movement toward Korean reunification within anything less than 10 years. A South Korean colleague countered that 50 years would probably be a more realistic time frame—a view shared by many experienced Korea watchers. Despite these perceptions, reunification has remained a dominant theme in North Korea's official policy statements, and it is a theme that has been given increasing prominence since 1980 by the government of Chun Doo Hwan in the South. It is clear that—the

enormous obstacles aside—leaders in both P'yongyang and Seoul sense that reunification is still strongly desired by the Korean people and no government in the North or South can publicly abandon this ultimate goal.

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P'yongyang's Long March

North Korea has doggedly pursued reunification on its own terms since 1945. Although P'yongyang has demonstrated considerable flexibility in shifting from one tactical approach to another, it has constantly kept its objective in view. It tried conventional military means in 1950-53 and then undertook a brief period of reconstruction in the late 1950s. But by the early 1960s the North was again active on the reunification front, trying to build an underground Marxist-Leninist political organization in the South. When this failed, it shifted in the late 1960s to guerrilla and commando attacks, which peaked with the raid on the presidential mansion in Seoul in 1968. This phase produced hundreds of casualties annually on both sides.

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The years 1969 and 1970 brought major changes in North Korea's tactics. In 1969 P'yongyang stopped the shooting along the DMZ and, beginning in 1970, adopted a series of new initiatives across a broad front:

- Political overtures toward South Korea, resulting in a brief period of dialogue in the early 1970s.
- A major diplomatic offensive among the nonaligned countries in the mid-1970s, aimed at isolating South Korea internationally and creating pressure for the withdrawal of US forces from Korea.¹
- An economic policy that for the first time included efforts to obtain modern industrial technology from Japan and the West.
- Probably of greatest importance, a major buildup of its conventional military forces, which it continues to pursue.

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¹ Appendix A provides a detailed account of the protracted diplomatic competition between Seoul and P'yongyang.

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A variety of domestic and international considerations appear to have prompted the North's new approach. Also, the guerrilla campaign against the South failed. South Korean villagers quickly reported guerrilla bands from the North to local authorities, who called in militia and army units to round them up. [redacted]

P'yongyang's political initiatives toward the South appear to have been encouraged by shifts under way in the international arena in the early 1970s—primarily the Sino-US rapprochement and the improvement in US-Soviet relations. The North Koreans—and the South Koreans to some extent—apparently were concerned that improving relations among the major powers might lead them to impose some form of political arrangement on the two Koreas. Thus they began a dialogue of their own to preempt such a move and keep the political initiative in Korean hands. [redacted]

P'yongyang and Seoul engaged in exploratory discussions that culminated in a joint communique on broad principles of reunification in July 1972, but soon thereafter the dialogue snagged. The distrust on both sides was too great to allow movement toward an accommodation. [redacted]

The North's gambits in the international arena achieved limited gains, but fell short of P'yongyang's maximum goals. Capitalizing on a mood of heightened militancy among the nonaligned countries, the North succeeded in 1975 in getting a resolution through the United Nations General Assembly calling for the withdrawal of US forces from Korea. The impact of the move was weakened when pro-US and pro-South Korean forces secured the passage of a counterresolution. [redacted]

P'yongyang's economic initiative resulted in the acquisition of some \$600 million worth of Western equipment and technology as well as nearly \$1 billion worth of industrial and raw materials on credit in the mid-1970s. The move helped the North modernize some industries and achieve a spurt of fairly rapid growth. Plans did not pan out, however, as the northerners proved inept in fully exploiting the new equipment and unable to pay off their debts. [redacted]

The Military Buildup

The one area where North Korea achieved significant and sustained success was in the buildup of its military forces. [redacted]

P'yongyang had been carrying out a major expansion of its conventional forces dating back to the start of the decade. The North expanded its ground forces from fewer than 400,000 in 1970 to nearly 800,000 late in the decade and increased the number of its major infantry units by about 40 percent. Aid from China and from the Soviet Union was substantial in the early stages of the buildup; both provided sizable quantities of aircraft, tanks, and armored personnel carriers. The Soviets also supplied a large number of surface-to-air missile systems. But overall, the North built most of its weapons in its own defense industries. The buildup was carried out in secret, and it gave P'yongyang a decisive military advantage over the forces of the South.² [redacted]

North Korea's motivation for undertaking this large-scale effort may have been influenced by several developments:

- The Nixon Doctrine, announced at Guam in June 1969, calling for a retrenchment of US military operations overseas.
- The US announcement in 1970 that it would withdraw one of two infantry divisions in Korea and official hints that additional withdrawals would follow.
- By the early 1970s strong domestic US sentiment, fueled by the war in Vietnam, against any further military involvement in Asia. [redacted]

From these signals, P'yongyang may well have calculated that the United States would pull out of Korea at some point in the late 1970s and that a strong conventional force would give the North the option of taking the offensive when the time was opportune. [redacted]

² Appendix B discusses the inter-Korean military balance in greater detail. [redacted]

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P'yongyang probably had some defensive concerns as well. In 1969 the Sino-Soviet dispute intensified sharply, with armed clashes taking place along the Ussuri River. P'yongyang probably worried that Beijing and Moscow would be less than reliable allies if they were preoccupied with fighting one another. More important, P'yongyang may well have feared that the South could present a formidable challenge later in the 1970s because:

- When the United States announced it was beginning to withdraw units from South Korea, it also publicly promised to furnish major assistance to modernize Seoul's armed forces.
- By the early 1970s the South Korean economic takeoff was well under way. [redacted]

The force structure P'yongyang built in the 1970s, however, considerably exceeds defensive requirements—a fact that supports the view that offensive thinking dominated P'yongyang's calculations. [redacted]

When President Carter won the election in 1976 and soon thereafter announced that he would begin a phased withdrawal of US ground forces from Korea, some elements within the P'yongyang leadership probably concluded that their long-sought goal might finally materialize. [redacted]

Kim's reservations proved well founded. During 1977 P'yongyang became increasingly impatient with the clarifications and adjustments to the withdrawal policy. In the spring of 1978 it reacted angrily to the large-scale US-South Korean joint military exercise "Team Spirit 1978," which was carried out as a confidence-building measure for Seoul, and to the US announcement that the rate of US withdrawal was being slowed down. Following President Carter's visit to Seoul in the summer of 1979, the North Korean Foreign Ministry charged that:

... Carter's recent South Korean trip was not a "peace" trip as he claimed, but a powder-reeking trip of a hypocrite agitating for aggression and war. [redacted]

Following President Reagan's election in 1980, North Korean ambitions for reunification received further telling blows. The troop withdrawal plan that had been pending was categorically rejected, and President Chun Doo Hwan was warmly welcomed as one of the first foreign heads of state the new administration invited to Washington. [redacted]

P'yongyang now faces a formidable array of obstacles. These include a reinforced set of military deterrents:

- US forces, which constitute a "tripwire" along the DMZ itself.
- The US security commitment to Seoul, which ultimately entails possible US use of nuclear weapons to repel an attack.
- The growing strength and sophistication of South Korea's own armed forces. [redacted]

The Role of the Major Powers

In a broader setting, North Korea's uncertainty about the reliability of its major allies—China and the Soviet Union—should it take an adventurist action is another inhibiting influence. Throughout Korea's history the policies of its larger neighbors have often had a decisive influence on the peninsula. The Koreans have repeatedly been invaded, occupied, and subjected to foreign intervention. In modern times, the major powers contributed decisively to the partition of the peninsula in 1945, China and the Soviet Union supported the North during the 1950-53 war, the United States intervened to prevent forceful reunification, and Sino-US rapprochement in the early 1970s prompted a parallel—albeit short-lived—inter-Korean thaw. [redacted]

Since the Japanese occupation of Korea ended at the close of World War II, developments in the triangular relationship between China, the Soviet Union, and the United States have been especially important. Throughout most of the 1960s the North Koreans were able to draw some benefits from the steadily growing friction between Beijing and Moscow. P'yongyang played one major ally off against the other, thereby obtaining substantial political, economic, and military assistance from both as they competed

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with one another for influence in P'yongyang. The North Koreans were also able to wrest a considerable degree of independence for themselves as a result of the Sino-Soviet differences. [redacted]

By the late 1960s, however, the dispute between China and the Soviet Union intensified. Both Beijing and Moscow began to try to improve relations with the United States, and this resulted in a strategic disadvantage for North Korea. The Soviets made clear their lack of support for adventurism in Korea when they refused to endorse P'yongyang's aggressive actions in 1968-69. Moscow clearly wanted to avoid a new war with the United States over Korea. And as the Chinese moved toward rapprochement with the United States, they apparently sought to moderate North Korean policy. They, too, did not want to become involved in a confrontation with the United States on the Korean Peninsula. Instead, they sought to use the US presence in the region as a strategic counterweight to their principal adversary, the USSR. [redacted]

Both Moscow and Beijing seem to recognize that the Korean Peninsula remains the most critical danger point in East Asia. It is the one area where the direct interests of all the major powers in the region converge and is the single place where US forces would become directly involved in the early stages of a conflict. Because of Korea's strategic setting and the strength of the opposing Korean forces, China and the USSR could also be quickly drawn into a shooting war on the peninsula. Indeed, both Beijing and Moscow seem to view the US security commitment to Seoul as an important ingredient in the mix of factors that keeps peace on the peninsula. [redacted]

In large part as a result of Moscow's stance, there are abundant signs that the current relationship between the Soviet Union and North Korea is marked by coolness and distrust. On the political side, the Soviets have made no effort to smooth the way for a visit by Kim Il-song. Kim, who has not been to Moscow since 1961, undoubtedly would like to have a summit with the Soviet leadership to balance his highly publicized trips to China in 1975 and 1982. Moscow's modest contacts with South Korea are another irritant. In the past these flirtations appear to have been timed in part to signal Soviet displeasure with North Korea's

tilt toward China, but P'yongyang remains worried that Soviet contacts with South Korea will assume permanence [redacted]

China, which has a common border with North Korea that is longer than the USSR's, has a strategic stake in the region that is greater than the USSR's. As the Korean war demonstrated, China is determined to keep a friendly—or at least nonhostile—power on its eastern flank. Soviet gains in recent years along China's periphery, particularly in Vietnam and Afghanistan, have no doubt bolstered China's desire to shore up its equities and prevent Soviet inroads on the Korean Peninsula. [redacted]

There are many indications that China's relations with North Korea are healthier than Moscow's. There has been a regular exchange of high-level visitors. China's present leaders, Hu Yaobang and Deng Xiaoping visited P'yongyang in April 1982—a trip which was not publicized until Kim Il-song's visit to China in September 1982. On the international front, North Korean sympathies usually lie more with China than the USSR. For example, North Korea has supported Kampuchean forces fighting Moscow's Vietnamese ally and has failed to endorse Soviet actions in Afghanistan. [redacted]

Nevertheless, there are frictions in Sino-North Korean relations. Like Moscow, Beijing has opened modest contacts with South Korea. P'yongyang made vigorous private protests over the sharp increase in indirect trade between China and South Korea in 1979-80. In 1981-82 this trade was cut back substantially, but in recent months it has been increasing again—largely through intermediaries in Hong Kong. [redacted]

P'yongyang is especially uncomfortable with China's tendency to view the US and Japanese military presence in Northeast Asia as a useful counter to Soviet expansionism. Although North Korea has not engaged in public polemics with China, it frequently reminds Beijing that Sino-US rapprochement has jeopardized China's claim to Taiwan. [redacted]

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Kim Il-song probably believes that China and the Soviet Union would provide military support if North Korea were invaded by South Korean and US forces, but he is likely also to judge that he cannot count on such support in an unprovoked attack against the South. P'yongyang's military buildup and its indigenous defense industry attest to the strength of its commitment to preserve the option for independent action. Thus, we believe that, although Moscow and Beijing probably would try to discourage any North Korean drive to reunify the peninsula by force, they probably would not be able to veto it. [redacted]

The Beijing-Moscow talks were renewed this past winter but do not appear at this time to be having a major impact on either North or South Korea. As long as the Chinese and Soviets continue to desire stability on the Korean Peninsula, major shifts in policy—such as providing greater support for North Korea's reunification policy—would not serve their interests. [redacted]

Nonetheless, P'yongyang almost certainly hopes for a Sino-Soviet rapprochement accompanied by a significant intensification of anti-US policies in Beijing and/or Moscow. Such a development could—ideally from the North's perspective—entail stronger Sino-Soviet support for P'yongyang's reunification schemes and pressure for a US withdrawal from South Korea. The North Koreans have yet to make any official comment on the talks, however—a sign that they are uncertain how they may be affected. [redacted]

In South Korea, officials are even more uneasy than the North Koreans are about the Sino-Soviet talks. Seoul sees a greater likelihood of harm than good resulting from them. During the 1970s Seoul ultimately became convinced that the improved Sino-US relationship was a positive development, mainly because it believed that Washington could—through Beijing—restrain and perhaps moderate North Korean behavior. Now the South sees some danger that the Washington-Beijing connection has been loosened, that Sino-US strategic cooperation may now be difficult to achieve, and that in the longer term there will be a retrogression toward the hard alignments of the Korean war. [redacted]

Since 1953, the United States and South Korea have developed a full range of political, economic, and cultural ties. The scope and vitality of these ties reflect the emergence of South Korea as an important and dynamic newly industrialized state. Over the years, nevertheless, a number of issues—including US troop withdrawals and Seoul's human rights record—have strained bilateral relations. From time to time such strains have prompted Seoul to seriously consider following a go-it-alone policy. [redacted]

[redacted] However, the realization that it has no other major power it can turn to for comparable support limits the South's options. [redacted]

Cross-Recognition

Since the mid-1970s, the United States has publicly espoused "cross-recognition" as a way to reduce tensions on the peninsula and foster an environment in which the two Koreas might begin working toward a settlement.³ As a formal process, cross-recognition has made little headway. Both Koreas have found fault with the concept. North Korea has been more vociferous, arguing it is just another scheme by outside powers to legitimize the "two-Koreas" status quo. In public China and the Soviet Union have generally supported North Korea, but in private they have occasionally indicated some flexibility—provided that the United States takes the lead in contacts with North Korea. South Korea is less adamant than North Korea—indeed, in the past year, it has endorsed exploratory cross-recognition probes by both Washington and Tokyo—but is keenly intent on ensuring that any steps taken by the major powers are, in fact, reciprocal so that P'yongyang does not make disproportionate gains. [redacted]

As an informal process, cross-recognition has been under way for some years. Japan has had a longstanding, if not particularly satisfying, trade relationship

³ Cross-recognition in this context is a process that involves Chinese and Soviet recognition of South Korea in exchange for US and Japanese recognition of North Korea. The concept envisions a step-by-step process leading to the establishment of full diplomatic relations. It could involve simultaneous initiatives by all four major powers or some pairing off along mutually acceptable lines. [redacted]

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with North Korea. The Soviets upped their modest contacts with South Korea a bit last fall when Soviet officials visited Seoul for the first time since the Korean war. Seoul used the occasion of the hijacking of a Chinese civilian aircraft to South Korea in May to seek more enduring mechanisms for joint handling of such incidents in the future. The Chinese did cooperate in establishing a cordial negotiating atmosphere, but Beijing has since played down the political implications of these dealings in order to limit the damage to their relations with P'yongyang. [redacted]

The North Koreans oppose even these limited Soviet and Chinese gestures. From P'yongyang's perspective the simple, straightforward key to reducing tension on the Korean Peninsula remains in Washington. P'yongyang continues to argue that the US presence in the South is the critical problem. Once the United States withdraws, in P'yongyang's view, the critical prop will be removed from the South and a "settlement" will naturally follow. [redacted]

P'yongyang's periodic overtures for talks with the United States since the mid-1970s have received some support in recent years from intellectuals in South Korea, Japan, and the United States. They contend that the North is isolated and fearful of a US attack and that US communications with P'yongyang—and possibly some economic enticements—could be the catalyst needed to break the 30-year deadlock. [redacted]

Such contacts would unnerve South Korean leaders. A negative reaction from Seoul might be tempered somewhat if there were extensive US-South Korean consultations in advance and if Beijing and Moscow agreed to make corresponding moves toward Seoul. [redacted]

From Seoul's perspective the key to a settlement is in P'yongyang: the North must simply abandon its goal of taking over the South. But above all, the South Koreans believe it is essential for the two Koreas to engage in a dialogue and to move step by step toward building mutual trust. Officials in Seoul contend that US-North Korean contacts could in fact reinforce P'yongyang's determination to ignore South Korean authorities. And South Korean authorities insist—probably correctly—that, even if they acquiesced in

talks between the United States and North Korea, P'yongyang's essential aim would probably remain the same—a US pullout. [redacted]

The Current Impasse

The core of the current impasse remains the conflicting national goals of P'yongyang and Seoul—and their respective allies. Despite the North's proposals for a loose confederation, it clearly still hopes to extend its system throughout the peninsula, absorbing South Korea. Seoul, meanwhile, despite its detailed proposals for reunification based on compromise, certainly intends to ensure that any settlement scheme would ultimately give the South—with its stronger economy and with twice the population of the North—the upper hand. [redacted]

The growing international acceptance of "two Koreas" also works to reinforce the division of the peninsula:

- South Korea has diplomatic relations with 116 countries, the North with 105, and 67 recognize both Seoul and P'yongyang (see figure 1).
- Seoul has been named as the site of significant international events, including the 1988 Summer Olympic Games, a development that dramatically underscores South Korea's coming of age and its enhanced international standing. [redacted]

There are other important factors that would complicate any scheme for a peaceful inter-Korean political settlement:

- The two societies have developed along divergent lines over the course of a generation. In the South there has been halting movement toward pluralism and a more open society, while in the North a totalitarian system centered on the Kim Il-song personality cult has been firmly established.
- Political elites and strong military establishments in both Koreas have acquired a stake in the status quo and would resist any change in which they might lose their privileged positions. [redacted]

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Competing Reunification Proposals**North Korea**

Formation of a Democratic Confederal Republic of Koryo (DCRK) (Announced by Kim Il-song at the Sixth Congress of the North Korean Workers Party, October 1980)

Initial Steps

*Democratization of South Korean politics
 Repeal of South Korea's anti-Communist laws
 The conclusion of a US-North Korean peace treaty and withdrawal of US troops from South
 A North-South conference of representatives of political parties and social organizations to discuss formation of the DCRK*

Organization of the DCRK

*The creation of a Supreme National Federal Assembly with equal representation for North and South
 The creation of a Standing Committee under the SNFA to serve as a united government of the confederal state
 Recognition and acceptance of the ideologies and systems of North and South
 Separate regional governments in North and South with local autonomy within the limits of the interests and demands of the entire nation*

Administrative Guidelines for the DCRK

*Adherence to independent national policies
 Pursuit of democracy and great national unity
 Economic cooperation . . . development of independent national economy
 Cultural and educational cooperation
 Traffic and communications between North and South
 Pursuit of economic well-being for the entire people
 Creation of a combined national army
 Protection of the national rights and interests of overseas Koreans
 Coordination of foreign activities
 Peaceful, nonaligned foreign policy; friendly relations with all countries*

South Korea

Peaceful Unification Through National Reconciliation and a Democratic Process (Issued by President Chun Doo Hwan in his 1982 New Year's policy statement)

Initial Steps

A South-North summit meeting to discuss reunification issues without preconditions

Provisional Agreement on Basic Relations

*South-North relations to be based on equality and reciprocity, pending unification
 South and North shall renounce violence and resolve problems through dialogue and negotiation
 South and North shall not interfere in the other's political order and social institutions
 South and North shall maintain existing armistice arrangements pending measures to end military confrontation
 South and North shall progressively open their societies to each other—including free travel and technical, cultural, and economic cooperation
 South and North shall respect the other's treaties until unification is achieved
 South and North shall appoint plenipotentiary envoys to deal with liaison issues*

Unification Formula

*Formation of a Consultative Conference for National Reunification (CCNR) to draft a unified constitution
 A democratic referendum throughout North and South to ratify the constitution
 Democratic general elections under the constitution to form a unified government
 Establishment of a unified democratic republic pursuing the ideals of nationalism, democracy, liberty, and well-being*

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A case can be made that the impasse P'yongyang has faced in recent years—including the reaffirmation of the US commitment to South Korea, the restoration of relative political stability and fairly rapid economic growth in the South, and tentative gestures by both Beijing and Moscow toward Seoul—could have prompted another major policy reappraisal in North Korea at the outset of the 1980s such as happened in the early 1970s. The major policy statements at the North Korean Sixth Party Congress in October 1980 strongly emphasized the need to revitalize the North's economy and to improve living standards, in contrast to the need to build up the armed forces that was stressed at the Fifth Party Congress in 1970. It could be argued that logic must impel the North to set aside indefinitely the goal of imposing its will on the South. There is no evidence this has happened. [redacted]

Indeed, North Korea appears to be continuing on the basic course it set in 1969-70. The military buildup has continued. The expansion of the North's military manpower appears to have become more gradual beginning in the late 1970s, but it has continued nonetheless, and additional upgraded weapons—particularly tanks, armored personnel carriers, and self-propelled artillery—appear to be reaching units in the field at a steady pace. Since 1975, for example, the North's artillery has increased by nearly 80 percent and P'yongyang has added more than 1,000 tanks and 75 jet combat aircraft to its inventory. [redacted]

Additionally, since at least 1980 P'yongyang has conducted a series of military and paramilitary exercises, "war preparations" campaigns, and other alerts on an increasingly large scale. Such activities probably reflect a measure of concern in the North about the annual joint US-South Korean "Team Spirit" maneuvers, which have grown each year in scale and sophistication. Nonetheless, the top leadership in the North is, in our judgment, generally well informed on US and other international affairs and has no illusions that the United States wants another war in Asia and is planning an actual attack. [redacted]

We believe that, instead, the North's training and alarms are intended mainly to strengthen its overall military readiness, reinforce strict political discipline among the civilian population, and buttress P'yongyang's charge that the United States is the prime

source of tension on the peninsula. The North appears to be clinging to the hope that the Americans will eventually go away, that the political fabric in the South will then start to unravel, and that P'yongyang will yet have an opportunity to achieve reunification on its own terms. [redacted]

The 1980s: A Convergence of Uncertainties

If armed confrontation can be avoided for the next few years, there will be time for a variety of factors that could reduce tension on the Korean Peninsula to have greater effect. Speculating about potential tension-reducing factors is risky, however, because most factors generally cited are, in reality, two-edged swords. [redacted]

One such factor is the succession issue in North Korea, where Kim Il-song, 71, has been grooming his son, Kim Chong-il, as a replacement. The second generation of leadership could be somewhat more pragmatic than the founding father of the revolution and could place a higher priority on modernization and economic development than on completing the Korean Workers Party revolution by extending its control over the South. Many longtime North Korea watchers, however, strongly suspect that the younger Kim—or any other likely successor—will, at least initially, adopt an assertive policy toward the South to establish himself as Kim's rightful heir. Lacking the charisma and stature of his father, Kim Chong-il may well be inclined to defer to the powerful North Korean military establishment. [redacted]

A succession is in the offing in South Korea as well. President Chun Doo Hwan has succeeded in filling the political vacuum created when Park Chung Hee was assassinated late in 1979. Chun has consolidated power, put his opponents off balance through a series of liberalization gestures, presided over an economic recovery, and made a series of impressive achievements in foreign policy. At the same time, there remain significant political vulnerabilities in South Korea. The emerging middle class is likely to press for a greater political role as the decade progresses, but it is not clear that the current military-backed government is sufficiently flexible to adapt by sharing power. Of key importance, Chun has promised to hold an

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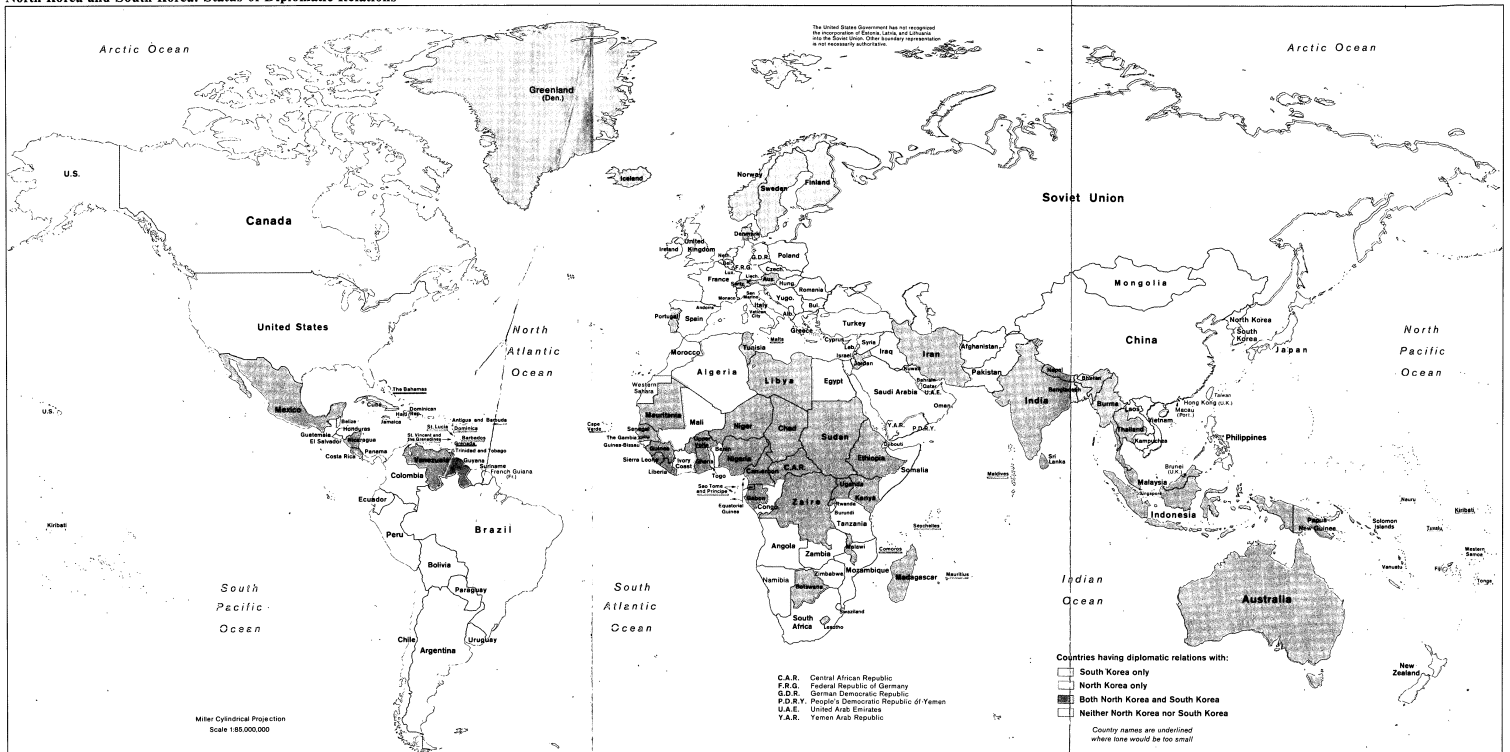
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Figure 1
North Korea and South Korea: Status of Diplomatic Relations



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President Kim Il-song gives on-the-spot guidance as his son and heir apparent, Kim Chong-il, observes. [redacted]



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election and step down by the end of his seven-year term in 1988. There has not, however, been a peaceful transfer of power in the South in the 30 years since the armistice. The likelihood of major political instability does not appear to be high, but the potential exists and should it happen P'yongyang might be tempted to intervene. [redacted]

Economic issues also could cut either way. One of the most significant trends in East Asia in recent years has been South Korea's rapid and generally sustained economic growth. As the North Koreans fall further and further behind their southern kin, they could recognize a need to shift emphasis from military to civil production. Conceivably they could then seek to defuse tensions on the peninsula—at least as a tactical measure for a few years—to permit them to focus on economic development and keep the gap in living standards between North and South from becoming

wider. The potential for mutually advantageous economic exchanges between North and South has increased somewhat over the past 10 years, despite the widely divergent development paths in the two countries, strengthening the case for inter-Korean trade.* Alternatively, we can envision the North's leadership shifting to a more openly interventionist policy in an effort to derail the South's rapid economic development. [redacted]

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And the outlook for the North-South military balance over the longer term is clouded with uncertainty. South Korea has increased its defense spending since

* See appendix C for a more detailed discussion of economic performance in the two Koreas and the increased potential for economic exchanges. [redacted]

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the mid-1970s and is making efforts to modernize its armed forces—there have been major advances in the South's fighter aircraft fleet. Under the most favorable circumstances Seoul might begin to narrow the gap in other respects by the late 1980s. In view of the faster growth of its economy, the South, if it continues defense expenditures at the current rate, would be outspending the North by a considerable amount at the end of the decade. Such spending does not automatically translate into a military advantage. The South pays much more for both military manpower and equipment. Moreover, if the North continues to expand its troop formations and weapons inventories at the present rate, its military lead will increase, not diminish, over the next several years. [redacted]

Finally, shifts in the policies of the major powers could have an important impact, as has so often been the case throughout Korea's history. It is possible, for example, that recent gestures by Moscow and Beijing toward South Korea—the Soviet visitors to Seoul and the Sino-South Korean hijacking negotiations in particular—could be the harbinger of a stabilizing trend. The USSR's and China's concerns for their respective equities in North Korea limit how far and how fast they will go in developing contacts with Seoul, but each seems to have concluded that South Korea is an increasingly important middle power in the region. This recognition might contribute to a reduction of tension on the peninsula should P'yongyang become convinced that Sino-Soviet support for strong action against the South had waned even further. [redacted]

At the same time, other—less comforting—scenarios are plausible. Should the current Sino-Soviet talks be accompanied by a serious deterioration in the USSR's or China's relations with the United States at some point in the 1980s, one or the other or both might feel freer to aid North Korean causes. Both the Soviets and the Chinese would have to weigh carefully the risk of provoking a clash with the United States in Korea and of prompting a major rearmament policy in Japan. China in particular would be wary of setting in motion actions that could result in expanded Soviet influence in North Korea. The Soviet Union, on the other hand, could conclude that heightened tension in Korea would force Beijing to support P'yongyang and thereby damage its relations with Japan and the United States. In any event, intensified strains in US

relations with the Soviet Union and China could embolden P'yongyang to adopt more aggressive initiatives, perhaps without explicit Chinese and Soviet approval. [redacted]

Scenarios for the Future

Thirty years after the Korean Armistice Agreement, a wide range of possible futures can be envisioned for the Korean Peninsula, some more improbable than others but all with their roots in the past:

- *Renewed war.* Should the Chun government stumble badly or the United States be diverted elsewhere militarily, a new invasion is possible; such a scenario is unlikely, however, as long as US forces remain on the line and the US commitment remains credible.
- *Renewed guerrilla warfare.* A frustrated P'yongyang might see this option, perhaps reinforced with terrorism, as its only means of derailing the South's success—particularly in the economic and international arenas. Although such tactics failed to unsettle the South in the late 1960s, foreign investment is more important in South Korea now than it was and Seoul is hosting many more international events.
- *More of the same.* The most likely scenario over the next several years is continued drift toward a de facto "two-Koreas" solution, with occasional violent incidents and tension continuing at the present level or perhaps slightly higher. P'yongyang has been patient for a long time and can probably wait some more for a better opportunity for decisive action. This course has the advantage of generally avoiding bloodshed, although it holds a considerable potential for a renewed flareup of fighting as well.
- *Reunification.* This outcome—despite the continuing series of proposals from both P'yongyang and Seoul—is becoming an increasingly remote and ephemeral goal. But movement, however slight, toward a more amicable inter-Korean modus vivendi may be possible. This alternative would perhaps result in progress toward a "German model," in which the two sides would recognize each other's

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right to exist, communicate directly with one another, and engage in various cultural and economic exchanges; it would be difficult to achieve—because it would require at least tacitly coordinated moves by both Koreas and all the major powers. [redacted]

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In the past 30 years, new forms of Korean nationalism have been fashioned in support of two separate regimes. There are signs, nonetheless, that the historical nationalism of the ethnic Koreans remains a strong undercurrent on the peninsula. It is possible that this force could be harnessed in the future to buttress moves toward an inter-Korean political settlement. A solution would require a consensus by the major powers on the ideological coloration of such an arrangement—something that seems as elusive today as ever in the 30 uneasy years of “no war, no peace” on the peninsula. [redacted]

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Appendix A

Diplomatic Rivalry

When the Armistice Agreement was signed in 1953, both North and South Korea had diplomatic relationships with a few friendly regimes. Seoul had ties with five countries—the United States and its principal allies, P'yongyang with 12 countries—China, the Soviet Union, and other Communist states. Following the coup in South Korea in 1961, Seoul steadily expanded its official relationships as President Park Chung Hee sought to elevate South Korea's international standing and prestige. By 1970 South Korea was recognized by 70 countries, as compared to the North which had expanded its official relationships to only 27.

North Korea then launched a major effort to broaden its diplomatic relations with the non-Communist world. Between 1970 and 1975, the number of countries recognizing P'yongyang climbed to 89. The gains occurred against a backdrop of emerging detente in East-West relations that lent legitimacy to establishing relations with Communist countries. At the same time, P'yongyang began to present a more reasonable image to the world by entering into a dialogue with South Korea and by reducing its support for subversive movements abroad.

Dual Recognition

In broadening its diplomatic ties, P'yongyang compromised its "one-Korea" principle and established relations with 67 countries—mainly in the Third World—that had already recognized South Korea. In accepting the concept of dual recognition, North Korea weakened its claim to being the only legitimate government in Korea. P'yongyang, however, vigorously continues to oppose any effort by its major allies, China and the USSR, to develop political ties with Seoul.

Today the competition between the two Koreas for power, influence, and legitimacy continues to extend well beyond the peninsula. Diplomats from North and South Korea are involved in a worldwide rivalry to

foster relations with foreign countries. At last count South Korea had established diplomatic relations with 116 countries, the North with 105.

The effort that the two governments expend in these diplomatic sweepstakes is out of proportion to the resources available to two middle-sized developing countries. From time to time, Seoul has considered refocusing its efforts to emphasize the quality of its overseas ties rather than their number. Seoul, however, has never relinquished its lead, and no South Korean leader is likely to willingly permit North Korea to go ahead.

International Organizations

Both Koreas have actively sought membership in international organizations and their rivalry has frequently marred the proceedings. In the UN General Assembly, where both Koreas have observer status, the Korean question was heatedly debated in the early and mid-1970s. North Korea, with the help of its backers, succeeded in 1975 in passing a resolution calling for the dissolution of the UN Command and the withdrawal of US troops from Korea. The impact of the resolutions was greatly diminished, however, when the General Assembly on the same day passed a rival resolution supporting South Korea's call for inter-Korean talks aimed at developing alternative arrangements for maintaining the armistice.

In the fall of 1976 North Korea quietly ended its efforts to raise the Korean issue at the UN General Assembly. The slaying of two US officers by North Korean guards at Panmunjom in August 1976 had tarnished P'yongyang's image, and the North probably calculated that it could not improve on the voting results at the 30th General Assembly in 1975. The resolutions passed in 1975 are not binding on the Security Council.

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North Korea has had somewhat greater success in mobilizing support in the Nonaligned Movement (NAM). P'yongyang gained membership in the NAM in 1975 and at the same time successfully undermined Seoul's bid for membership. Since joining the movement, P'yongyang has been able to have language favorable to its position on the Korean issue regularly inscribed in the formal documents issued at periodic NAM summit meetings.

As long as US military forces remain in South Korea, P'yongyang probably will be successful in denying Seoul membership in the NAM by exploiting South Korea's alleged dependence on "foreign troops." Even so, South Korea, because of its substantial political and economic ties with individual NAM member states, has been able to influence NAM proceedings. For example, at recent NAM summit meetings South Korea, through its allies in the movement, has managed to water down the language on the Korean issue or, failing that, to have many NAM members enter written reservations.

Hosting International Events

The rivalry between North and South Korea on the diplomatic front recently moved into a new phase. Both countries are now seeking opportunities to host prestigious international events. North Korea has helped its cause by transforming its formerly dreary capital of P'yongyang into a genuinely attractive city with many parks, impressive buildings and monuments, wide avenues, and an opulent subway system. Nevertheless, South Korea, with its deeper political and economic ties with a larger number of countries, a well-developed tourist industry, and a more open society, is far ahead in this competition.

In October 1983 South Korea will host the annual conference of the Inter-Parliamentary Union (IPU). In 1986 the 10th Asian Games will be held in Seoul, and in 1988 the 24th Summer Olympic Games. North Korea in 1979 hosted a World Table Tennis Championship, and it has also organized several specialized conferences of the NAM. P'yongyang is making a determined bid to host the next NAM summit.

The intensity of the rivalry between the two Koreas already is having an adverse impact on these international gatherings. North Korea, having failed to deny South Korea the opportunity to host the IPU conference in the autumn of 1983, is now trying to organize a boycott. South Korea, by publicizing its concerns about a possible North Korean terrorist operation to scuttle the IPU conference, is not helping its own image as conference host. The two Koreas, because of their constant wrangling, are negating to an important degree the legitimacy and good will they seek in hosting these events.



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Appendix B

Trends in the North-South Military Balance

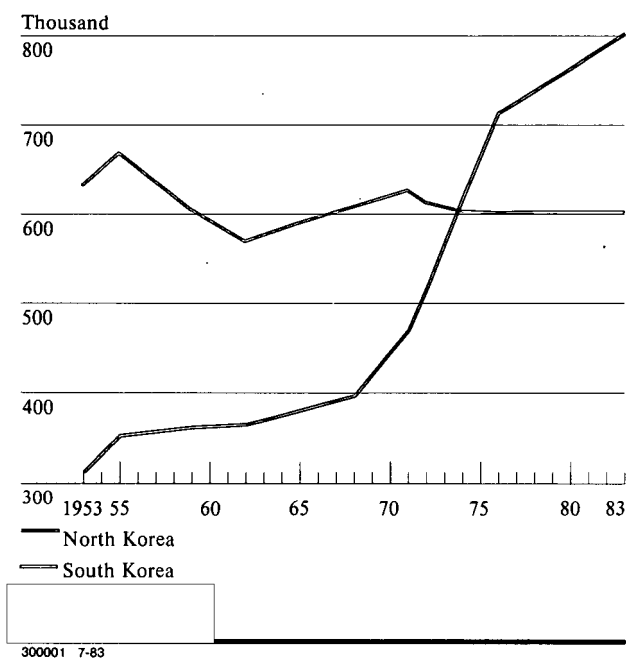
One of the most striking changes on the peninsula over the past 30 years has been the growth of North Korea's military machine. P'yongyang has essentially reversed the military balance during this period and now has a significant advantage in nearly every measure of combat power. As figure B-1 shows, its forces outnumber those of the South by nearly 200,000 men (nearly 800,000 in the North to some 600,000 in the South); it has both quantitative and qualitative advantages in most types of weapons and equipment. [redacted]

At the end of the Korean war, North Korea's armed forces numbered some 300,000. These forces consisted largely of conscripted replacements for the well-equipped, Soviet-trained troops who had suffered heavy casualties during the advances of US and South Korean forces in the early months of the war. In the immediate postwar period P'yongyang reconstituted and reequipped its forces to assume the defense responsibilities of the 200,000 Chinese troops who remained in North Korea after the war. The Soviet Union continued to supply economic and military aid and to provide a security screen so that P'yongyang could concentrate on reconstruction and economic development. [redacted]

South Korea's armed forces numbered 630,000 in 1953. Seoul's forces have actually contracted slightly since then in terms of manpower; improvements made since the war have been in equipment acquisitions and training. Through the 1950s and 1960s, upgrading took place gradually with US aid, while the United States maintained a military presence that deterred any military ambitions of the then weaker North Korean forces. By 1970 it was generally acknowledged that an inter-Korean force parity existed on the peninsula. Although the North had a substantial edge in number of combat aircraft, the South was at least equal in the capability of its ground forces and had a larger potential for mobilization of reserves. [redacted]

The South has made significant gains in the past 13 years in the firepower of its ground forces and has offset the North's numerical lead in combat aircraft

Figure B-1
North Korea-South Korea:
Armed Forces Personnel Strength, 1953-83

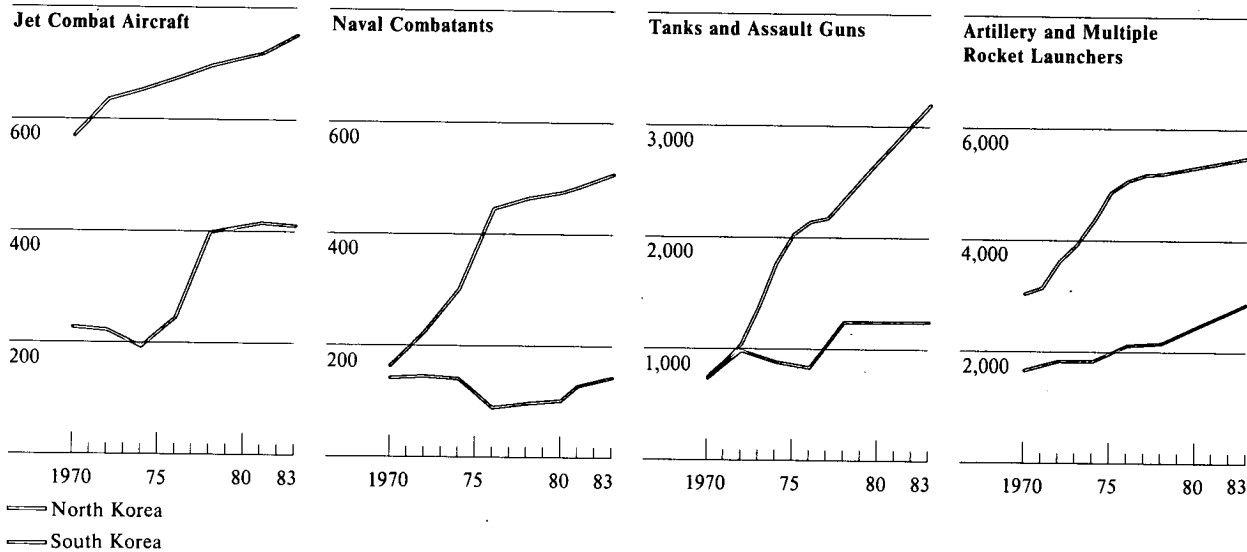


by acquiring better quality aircraft and weapons systems. But P'yongyang's massive force expansion and modernization have far surpassed Seoul's efforts, resulting in a shift in the military balance in favor of the North (see figure B-2). [redacted]

The North's expansion program was supported by direct transfers of Soviet and Chinese equipment during the late 1960s and early 1970s. North Korea received large numbers of armored vehicles, aircraft, and surface-to-air missiles, as well as technical aid for the expansion of its own arms production base. Domestic production increased at a rapid rate in the early 1970s, and the North now meets most of its own military production requirements for ground forces and naval equipment, with continuing technical aid from its allies. [redacted]

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Figure B-2
North Korea-South Korea:
Weapons Inventories, 1970-83



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The Ground Forces

North Korea has taken the lead in numbers of personnel and maneuver units, as well as in firepower and mobility. New maneuver units have been formed and both new and existing units have grown larger, conscription has increased, and personnel have been kept in the services longer. At the same time, unit firepower has been improved with more and better weapons. In 1970 a typical South Korean infantry division held an advantage in firepower, but by 1980 the North Korean division held the edge, in spite of steady improvements made by the South.

There has been a similar shift in unit mobility and armor protection. In 1970 the North was not known to have armored personnel carriers (APCs) in infantry divisions. By 1980 it had three divisions mechanized with 300 APCs and 100 tanks each. The North is continuing to equip divisions with domestically produced tanks and APCs and now appears to be reorganizing its mechanized units to form mixed APC and truck-mobile divisions, perhaps better suited to the Korean terrain. Although the final organization of

these units cannot yet be determined, at least seven infantry divisions show evidence of this new mobile, firepower-heavy configuration. South Korea has only one mechanized infantry division and is forming a second using wheeled APCs.

The North also holds a marked advantage in tanks. It maintains a 2.4 to 1 advantage in the total number of medium tanks, and model for model its tanks are rated more effective and more heavily armed than most of the South's. North Korea's tanks are organized into large units. The North has two armor divisions, and eight or nine armor brigades and regiments. The South has three armor brigades.

The North's lead in artillery has also increased. Although both sides have added to their artillery inventories, the North's has grown at a much faster pace, more than doubling since 1970. North Korea now has the fourth-largest artillery force in the world,

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with 2.3 times as many weapons as the South. Although the South's US-designed weapons are slightly more accurate, they are at a critical disadvantage in range. The North has over 1,600 weapons that can fire at ranges in excess of 18,000 meters, the South only 42. [redacted]

The Air Forces

The North Korean Air Force has grown throughout the decade; the number of jet combat aircraft has increased from 570 in 1970 to some 760 today. Gains in recent years, however, have been in models older and less capable than the aircraft the United States has provided South Korea. The South's quality fighters make its Air Force more than a match for the North Koreans in air combat, but the force still appears too small to provide air defense against the North's numerically superior force and at the same time supply close air support for the ground forces called for in current defense planning. Moreover, the North continues to get new F-7 (MIG-21) fighters from China and MI-2 helicopters from Poland. [redacted]

The Naval Forces

North Korea's Navy has tripled in size since 1970, outnumbering the South by about 4 to 1 in total combatants. It has progressed from a force devoted almost exclusively to coastal defense to one that can carry out antishipping, amphibious raiding, and mining operations in South Korean waters, albeit on a limited scale. North Korea is expanding the production of naval combatants at the expense of civilian shipbuilding. The South Korean Navy, by contrast, has grown little. Its antiship missiles are better than those of the North, but it has fewer missile attack boats, no operational submarines, and a limited number of minesweepers. Many of its major combatants were built in World War II and are increasingly difficult to maintain; many of the North's were built in the last 12 years. [redacted]

Both sides have expanded their reserves and militia forces over the past decade. The North is believed to have reorganized and augmented its reserves and militia beginning in the late 1970s to achieve a current strength of over 4 million. The South has twice the population and thus a greater potential for mobilization, but it has only 3.8 million trained reserves and militia. [redacted]

Defense Industries

The North's force buildup has been accompanied and promoted by the rapid growth of its defense industry since 1970. In the early part of the 1970s, both China and the Soviet Union aided the buildup by providing military equipment and technical assistance. Notable among the several projects involving technical aid are the tank plant built with Soviet assistance [redacted] and the submarine production yard constructed with Chinese help. In recent years, our estimate of the North's military production technology has been raised. It now seems likely that for several years the North has been making wire-guided antitank missiles, heat-seeking antiaircraft missiles, and fire control radars for antiaircraft guns. Thus, the North can produce almost all of its ground forces and naval weapons, ammunition, and equipment, and remains dependent on outside sources only for aircraft, sophisticated electronics, and perhaps some missiles. [redacted]

South Korea began forming its defense industries from almost nothing in the 1970s and expanded them rapidly. It now produces a wide variety of small arms, infantry heavy weapons, and artillery. An indigenous tank is in development, and F-5E fighters and Hughes 500MD helicopters are being coproduced with US assistance. Although the defense industries are developing further to produce more sophisticated equipment, including some indigenous designs, they are not developing at a rate necessary to overtake the North's defense industry. South Korean plants are operating well below capacity—the South's forces are not growing beyond the current 600,000-man ceiling, and requirements for many basic weapons have been met. [redacted]

The Buildup in Perspective

During the early years of the buildup, P'yongyang completed a program begun in the mid-1960s to fortify the North's rear areas and industrial base against air attack. The program consisted of the construction of hardened and underground facilities for key military units and industrial establishments and the deployment of large numbers of SA-2 surface-to-air missile systems imported from the Soviet Union. In 1972 Kim Il-song announced that the

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“Fortress Korea” program was complete. Since then, improvements in the North’s air defense have proceeded at a slower pace and the bulk of military production has gone into offensive systems.

There appears to be little question now that the North has developed its forces to maintain the military option for reunifying the peninsula. Although P’yongyang invested in both defensive and offensive systems throughout the 1960s, there is very little about the more recent force buildup that suggests it has been for defense against an attack from the South.

The forces expansion generally dates back to the 1969-70 period, not a time when P’yongyang had reason to expect an increasing threat from the South, but a time when antiwar sentiment in the United States was peaking and the US administration was implementing a Vietnamization program that would eventually disengage US troops from ground combat in Asia. In 1971 one of the two US infantry divisions in South Korea was withdrawn. P’yongyang could also see how Chinese and Soviet support for North

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Vietnam helped limit US military options in Southeast Asia and probably would judge that the United States would be at least as constrained in any confrontation with North Korea. [redacted]

The size of the force P'yongyang has built is in excess of defensive needs, and its composition and equipment are generally offensive in orientation. In the ground forces, the emphasis has been on rapid mobility and firepower. Tanks, APCs, and trucks have been supplied to maneuver units in increasing numbers. Artillery and antiaircraft systems are being mounted on tracked vehicles. Large engineer river-crossing units

have been formed and equipped with amphibious vehicles and ribbon-bridging equipment that enhances the speed of offensive operations but is of marginal value in defense. [redacted]

Over 100,000 of the North's ground troops are in elite ranger/commando units—troops organized and trained for offensive operations in the rear areas of South Korea. Some of these units specialize in airborne and amphibious raids and exercise regularly using the Air Force's 265 AN-2 transports and the

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Navy's fleet of 100 fast landing craft. The rest train in overland infiltration into the South. Their primary wartime missions are the destruction of the South's air defense systems, air forces, and command and control centers and the harassment and interdiction of US and South Korean supply lines. [redacted]

Compared with the elaborate system of antivehicle barriers and fortifications South Korea has built between the DMZ and Seoul, North Korea has invested little in defense against an attack on the ground. There are antitank barriers along the DMZ but no series of fortified belts for an in-depth defense similar to those of the South. North Korea's extensive fortification and hardening efforts have concentrated on protecting its military forces and industrial base from air attack—the kind of attack it could expect the United States to carry out on its rear areas in a conflict initiated by either side. The artillery of most of South Korea's online units is deployed to the rear of the infantry it will support in the defense, but the North's artillery is set up in hardened sites close to the DMZ, providing maximum range for supporting an attack force into the South, but rendering the artillery less useful in defense because it could be bypassed and enveloped in a relatively shallow penetration by forces from the South. [redacted]

Trends in the 1980s

If current trends in military improvement in the North and South continue, the North will not only keep its current advantage but further widen its lead over the South in the next several years. P'yongyang is making steady gains in personnel strength, although this growth is more gradual than that seen during the first half of the 1970s. The South, on the other hand, plans no significant increases in military personnel. In most ground forces weapons (particularly in artillery, tanks, and APCs) and in naval combatants, the South's planned acquisitions will not keep pace with those in the North. [redacted]

The outlook is a bit brighter for the air balance. If current trends in aircraft procurement continue, the South will increase its lead in quality fighters and could reduce the North's numerical advantage. Seoul

has agreed to purchase a squadron of F-16s after 1986 and is now coproducing F-5E fighters. The Chinese will probably continue fighter deliveries to the North, possibly enough for P'yongyang to maintain its numerical advantage. Only the Soviet Union can provide the more advanced aircraft that could reduce the South's qualitative edge, but the Soviets have not supplied the North with fighters since 1973. [redacted]

South Korea could begin to reduce the North's lead in some other respects by the late 1980s, but this longer term outlook is probably contingent on continuing serious economic problems in the North and continued high growth rates in the South. For example, Seoul is expected to continue to devote approximately 6 percent of its GNP to defense in the 1980s, but the absolute level of defense spending will depend on its economic performance. This growth in South Korean defense spending has varied widely in recent years:

	<i>Percentage change in constant prices</i>
1979	-0.3
1980	17.9
1981	-0.3
1982	9.7
1983	1.7 (projected)

(S NF)

Despite the North Korean buildup, the reaffirmation of the US commitment to the South's defense in recent years appears to have reduced the urgency of planned improvements in the South Korean military. The somewhat slower economic growth rates projected for the 1980s have also increased pressures on the Chun government to concentrate more spending on economic development, while relying on the US tie to deter an attack by the North. Future defense budgets may still account for 6 percent of GNP but could begin to contain items only partly defense related, such as construction of roads and bridges in areas near the DMZ. [redacted]

North Korea has probably spent at least 20 percent of its GNP on the military since the mid-1970s. Improvements have been concentrated more in firepower,

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mobility, and the quality of equipment than in the formation of additional maneuver units. This growth has been based on a steady expansion of the North's armaments industries since the mid-1960s, and we expect that, at a minimum, the current rate of force modernization will continue. But there are indications that the armaments industries are being expanded further, suggesting the military could be supplied with new equipment at a faster rate in the mid-to-late 1980s.¹ [redacted]

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¹ Appendix C provides additional discussion of the burden of defense spending in both Koreas. [redacted]

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Appendix C

The Economic Race

The partition of Korea at the 38th parallel in 1945 left the North in control of more than half of the peninsula's territory, two-thirds of the heavy industrial base, and most of Korea's mineral resources and hydroelectric power potential. The South was left with nearly two-thirds of the population, but less than half of the agricultural resources (see table). The Korean war wiped out the North's early lead in economic development; important factories and power plants were reduced to rubble, industrial sectors lost from 60 to 90 percent of capacity, and the agricultural sector was seriously damaged. The rich resource base and large amounts of aid from the USSR, China, and East European countries, however, contributed to a rapid recovery. Prewar levels of output were surpassed by the late 1950s, and in the early 1960s P'yongyang was setting its sights on the full industrialization of its economy. [redacted]

In the South, the war destroyed about half of the industrial facilities. No economic sector escaped; the value of net commodity output in 1953 was more than 25 percent lower than in 1940. The value of output in the agricultural sector was nearly 20 percent below the 1940 level. Population, however, was nearly 30 percent higher than in 1940 and nearly 20 percent higher than at partition, largely because of repatriation and refugees. [redacted]

The South also received large amounts of aid—more than 90 percent from the United States—to rebuild its economy. Major portions of the infrastructure and important industrial plants were reconstructed within five years. Between the end of the war in 1953 and 1961, GNP in the South increased about 4 percent annually. Per capita economic growth was sluggish—averaging less than 2 percent a year—and by 1960 South Korea still had one of the world's lowest levels of per capita income—less than \$100. Recurrent rapid inflation and severe trade deficits were constant drags on the economy during the 1950s. The government's economic decision making authority was weak and outbreaks of political instability increased the difficulty of tackling economic problems. [redacted]

**North and South Korea:
The Distribution of Population,
Land, and Industrial Assets in 1945** *Percent*

	North	South
Population	34	66
Land	52	48
Arable land	52	48
Paddy	30	70
Dry field	67	33
Industrial assets		
Coal mining	59	41
Metal mining	78	22
Iron mining	96	4
Machine tool fabrication	16	84
Light metal and pottery	89	11
Construction	19	81
Chemicals	90	10
Electricity and transportation	78	22
Agriculture and fishing	34	66
Food and brewery	19	81
Paper mill and forestry	60	40
Textiles	13	87
Trade and commerce	18	82
Other	11	89

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The Takeoff in the South

Park Chung Hee's overthrow of the Chang Myon regime in May 1961 marks the beginning of the "race" between the North and the South for rapid industrial development. By 1963 Park had constructed a new policy framework modeled on Japanese lines that stressed export-led development. This economic policy remained virtually unchanged until the early 1970s and vaulted South Korea to one of the Third World's fastest growing economies. Between the early 1960s and the early 1970s, GNP increased nearly 10 percent annually, and per capita GNP increased nearly 8 percent per year. [redacted]

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Although P'yongyang entered the race with a substantial lead, growth in the North slowed in the early 1960s. The slowdown was caused in part by the curtailment of Soviet economic assistance that resulted from P'yongyang's support for China in the initial phase of the Sino-Soviet split. The 1961-67 economic plan was first adjusted and later extended to 1970, when it was declared "substantially" fulfilled. The decision to divert additional resources and manpower to the military, perhaps partly occasioned by the visible success achieved by the South, also slowed the pace of industrialization in the last half of the 1960s. Nonetheless, North Korea's real GNP increased by about 7 percent annually during the 1960s and per capita GNP rose more than 4 percent annually. A comparison of economic performance in North and South Korea is presented in figure C-1. [redacted]

Both governments entered the 1970s with ambitious programs. Seoul continued to press for industrialization and export growth and also began programs to redress an urban-rural imbalance by improving farm productivity, rural services, and village living standards. P'yongyang focused on modernizing its factories, replacing antiquated Soviet and Japanese machinery with Western equipment and advanced technology. [redacted]

The need to obtain more advanced technology and other goods led the North to open up its economy to the developed West, moving the competition with the South into the international arena. By 1975, the share of the North's trade accounted for by non-Communist countries had risen to nearly 45 percent, as compared with about 18 percent in 1970 and only 13 percent in 1965. [redacted]

Default in the North

Large imports of plants and machinery obtained on credit and increased amounts of economic assistance from the USSR and China initially propelled the North to the rapid growth rates the leadership sought. P'yongyang, however, failed to obtain corresponding increases in hard currency exports, and the Foreign Trade Bank bungled its handling of payments problems in 1974-76. When North Korea defaulted on debt payments to Western creditors and again on a rescheduling agreement, trading partners slashed

their exports. A quick contraction in the level of trade was a primary cause of a sharp recession in the mid-1970s. [redacted]

The South, in contrast, successfully juggled its trade problems in the early 1970s. Seoul has been quick to adjust to changes in world economic conditions by shifting the direction and composition of exports. Management of the 1973 oil shock was particularly adept:

- Gambling that the industrial West would adjust quickly to higher oil prices, the South Koreans borrowed heavily to expand industrial capacity that would allow them to capture greater market shares when demand in the West picked up.
- Seoul also moved rapidly to expand exports of goods and construction services to the dollar-rich oil countries in the Middle East. [redacted]

By sustaining rapid growth through the first half of the 1970s, South Korea by 1976 finally matched the North in terms of per capita GNP. The gap in per capita GNP and in other measures of development and performance has increased in Seoul's favor ever since. [redacted]

The North has been singularly unsuccessful in its efforts to resume faster growth. An ambitious 1978-84 plan is largely unfulfilled, and we estimate that GNP has increased by less than 3 percent annually since 1978. In the early 1980s, the North superimposed on other plans a priority program for greatly expanding its agricultural, transportation, and electric power sectors. Project completion dates range from the mid-1980s to the late 1980s. This strategy appears to us to have a greater chance of success than a nuts and bolts expansion of industrial capacity because it is much less dependent on acquiring expensive capital imports that the North can ill afford. [redacted]

The South, too, had increasing difficulties in the late 1970s. Economic growth slowed and inflation rates rose along with unemployment when oil price increases and higher wage costs eroded export competitiveness. Overcapacity in some industrial sectors, such

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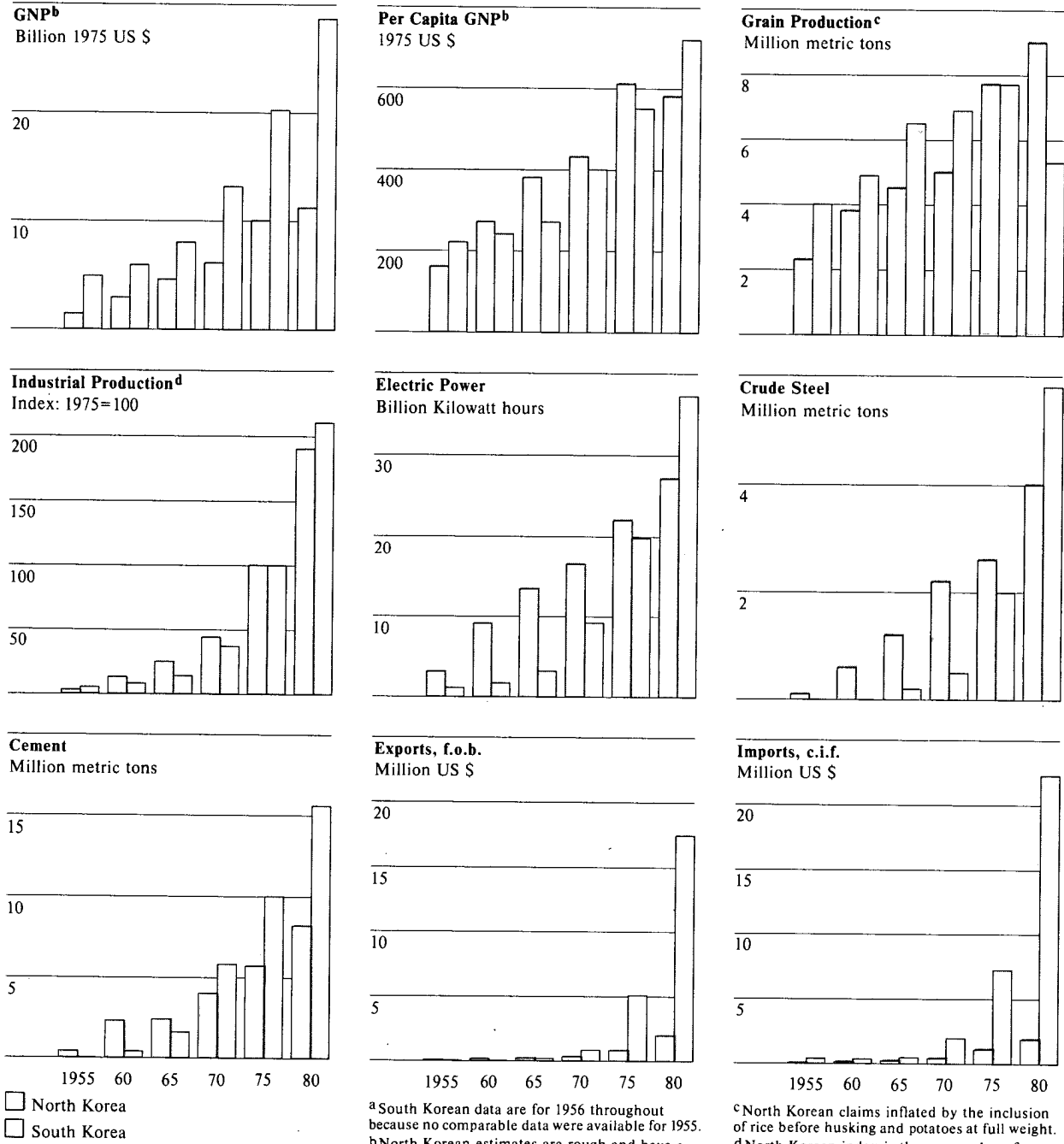
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Figure C-1
North Korea-South Korea:
Comparative Economic Indicators^a



^a South Korean data are for 1956 throughout because no comparable data were available for 1955.
^b North Korean estimates are rough and have a larger range of error than South Korean estimates.

^c North Korean claims inflated by the inclusion of rice before husking and potatoes at full weight.
^d North Korean index is the gross value of industrial output.

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as the automotive and petrochemical industries, was exposed by the downturn in business conditions. Management of the economy also received less attention during the period between the assassination of President Park in October 1979 and Chun Doo Hwan's consolidation of power in late 1980. [redacted]

Chun now appears to have the economy back on a fast track. Economic growth, however, is unlikely to equal past records. Planners are seeking expansion to about 7 to 8 percent per year, a sustainable rate that takes account of the economy's greater size and complexity. [redacted]

The Burden of Defense Spending

The most significant economic benefit of any progress toward reduced tension on the peninsula lies in the prospect of gradually easing the expensive burden of maintaining well-equipped, large standing armies at a high state of readiness. Although precise calculations cannot be made for the North, we judge that the absolute level of P'yongyang's military spending in 1982 was only slightly less than the \$4.4 billion spent by Seoul. A reduction of the current level of military spending by 25 percent, thus, would release over \$1 billion worth of resources annually in each country for other uses. [redacted]

In purely economic terms, the North probably has a greater need for relief from the current arms race. In recent years, we believe P'yongyang has allocated at least 20 percent of its GNP to the military in an effort to sustain its quantitative and certain qualitative advantages over the South. With consumption already pared to a minimum, maintaining this high level of military spending has pinched back investment in the civilian sector, even in cherished heavy industry, and has contributed to slow, halting economic growth. [redacted]

Seoul has responded to the North's military buildup by raising its spending on defense from 4 to 5 percent of GNP in the late 1960s to 6 to 7 percent since the mid-1970s. Still, the South remains well behind the North in most aspects of force comparison. The South has an advantage in its larger, faster growing economy, but its military-industrial production and technology have lagged behind the North's. Seoul's efforts to establish a domestic arms industry over the past few years have encountered severe problems and a number of firms have recorded significant losses. [redacted]

The outlook for most of this decade, moreover, is probably for the North-South imbalance to become worse rather than to improve. Over the longer term this could change. In strictly financial terms, for example, if Seoul should decide to maintain the military's share of GNP at around 6 percent for the remainder of the 1980s, P'yongyang would have to increase its spending significantly—perhaps to as much as 30 percent of GNP—in order to match the South's expenditures. [redacted]

Seoul's economic planners would welcome any genuine opportunity to curb spending on defense. Although the South's military burden is much smaller proportionally than the North's, it is not without weight for policymakers. Military expenditure accounted for 34 percent of the national budget in 1982. Rather than subsidize expansion in defense industries where capital requirements per worker are high, the South may well prefer to concentrate as much additional spending as possible in employment-generating sectors. The labor supply will grow rapidly over the next few years, at nearly 3 percent annually, and providing new jobs will be an important ingredient in maintaining political stability. Seoul also must raise the level of public spending on social services for expanding urban areas and on development projects, such as highways, to prevent bottlenecks from choking off economic growth. [redacted]

With its large foreign debt the South Korean Government is anticipating that a greater share of private investment must come from domestic savings because foreign sources of financing may become less generous than in the past. The need of additional funding for government-sponsored projects can be met only partly by assistance from the World Bank and other international lending agents. Raising taxes to cover continuing large outlays on the military and necessary social programs risks cutbacks in saving/investment rates. Still, running too large a budget deficit risks rekindling rapid inflation and losing export competitiveness. A misstep in either direction would slow economic growth and require harsh austerity measures. [redacted]

North-South reductions in military spending are likely to be especially difficult to achieve in view of the longstanding distrust between the two sides. Such

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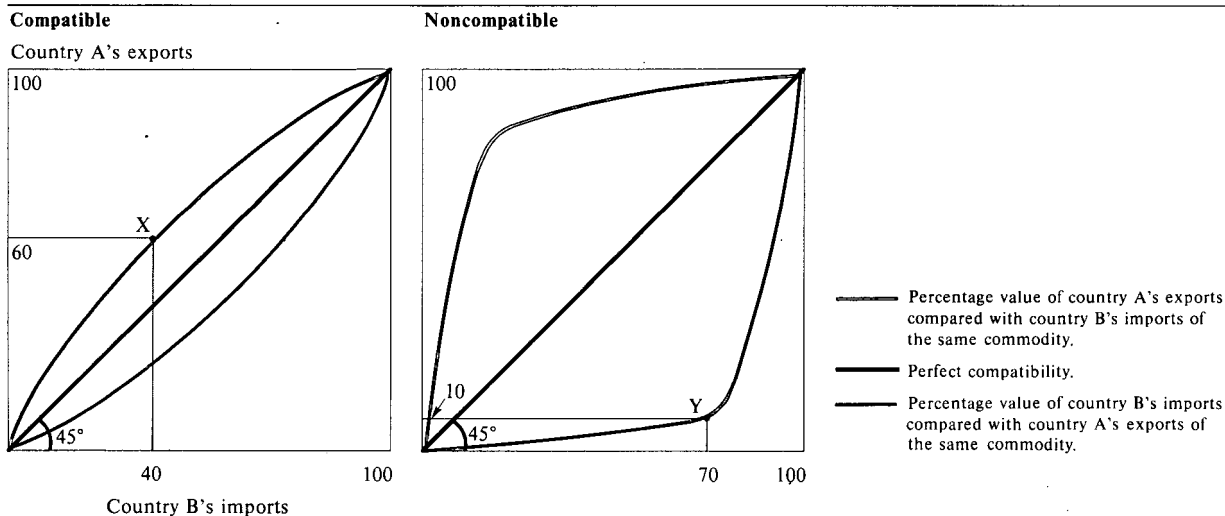
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Figure C-2
Compatible and Noncompatible Trade Patterns



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reductions would probably come well after initial steps were taken toward an accommodation. In the interim, phased economic cooperation between North and South Korea offers some attractive prospects—in purely economic terms—should the two governments acquire the political will and room to maneuver.

The Potential for Economic Exchange

An investigation of the potential for inter-Korean economic exchange in the early 1970s studied in detail nearly 200 items that accounted for more than 90 percent of North Korea's and South Korea's trade. Research findings included:

- Only 15 items were obvious candidates for mutual exchange and the potential value of such trade was small—unlikely to exceed \$25 million each way.

[Redacted]

- Moreover, economic development patterns and plans of the North and South pointed toward a *reduced potential* for such exchange in the future.

[Redacted]

The explosion in diversity of exports and imports over the past decade, especially in the South, suggest this picture may be changing. To determine the potential for exchange in the 1980s and early 1990s, we recently examined the structure of trade in both countries to detect evidence of emerging compatibility or divergence. In figure C-2, point X indicates the commodities accounting for 60 percent of the value of country A's exports comprise 40 percent of the value of country B's imports. Point Y indicates that commodities accounting for 70 percent of country B's imports comprise only 10 percent of the value of country A's exports.

[Redacted]

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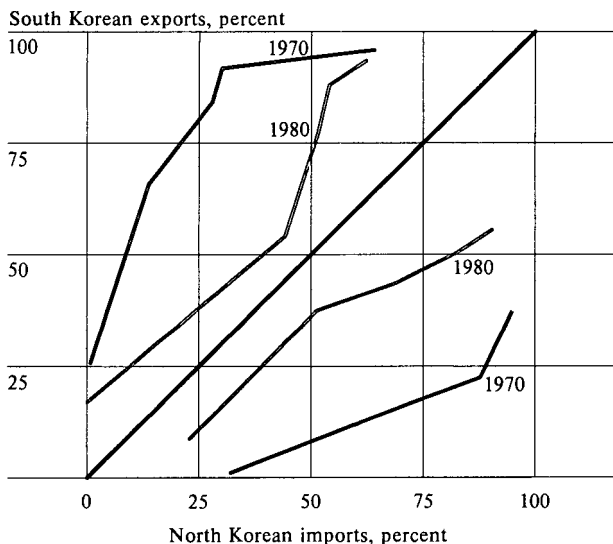
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Figure C-3
Korean Trade Patterns: South Korean Exports Compared With North Korean Imports



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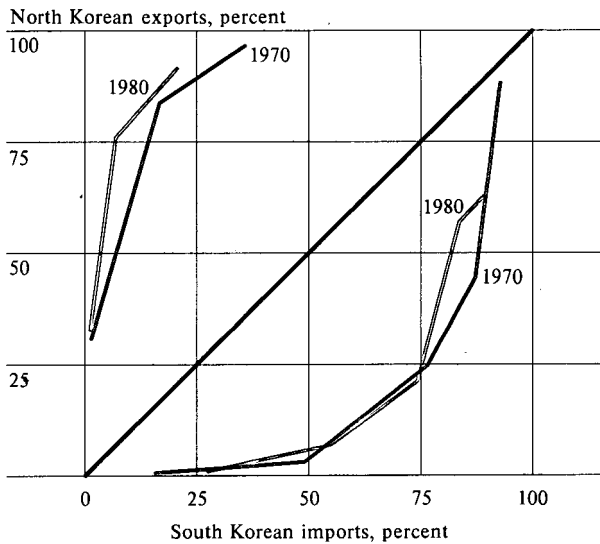
Results for the Koreans

Trading patterns for North and South Korea comparing 1970 and 1980 are presented in figures C-3 and C-4. These graphs plot the principal commodity groups representing 90 percent or more of value of exports and imports by each country.² These graphs vividly illustrate the noncompatibility of trading patterns in 1970, consistent with the previous research finding. The projection of continued and even widening divergence made by the early 1970s study, however, is not confirmed. Figure C-3, in fact, indicates a trend toward North-South compatibility resulting from (1) South Korea's growing capability to produce

² Values were constructed from official South Korean data and from North Korean trade partner reporting to the UN. Only trade with non-Communist countries was considered. Seoul's trade with Communist countries has been small, while P'yongyang's was large but declining as a share over the decade of the 1970s. The main purpose of excluding Communist trade was to prevent the exchange on bilateral terms of consumables otherwise difficult to market from clouding the pattern of trade. Moreover, goods that are equally marketable in the West would be difficult to redirect in quantity because of long-term agreements with Communist trade partners.

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Figure C-4
Korean Trade Patterns: North Korean Exports Compared With South Korean Imports



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and export a widened range of machinery and transportation equipment, and (2) increasing North Korean demand for machinery and transportation equipment to modernize its industry.

The structure of North Korea's exports, on the other hand, has shifted away from compatibility with the South—as indicated in figure C-4. This appears to be the result of Seoul's policy of import substitution, which has provided it with a heavy industry base, particularly impressive in the case of steel. The increased requirements of the South's rapidly growing processing sector for such commodities as nonferrous metals and yarn and fabric for textile manufacturing are responsible for the slight indication of greater compatibility seen on the 1980 import side of figure C-4.

We believe that the potential for trade will continue to be mixed. The North's demand for technology, machinery, and transportation equipment will continue

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to rank high on its priority import list, and the South will become increasingly capable of producing the range and type of equipment most sought by P'yongyang. As the North's industry develops in coming years, its exports will also diversify to some extent and become less concentrated in crude material and semi-processed manufacturing sectors. The latter products, however, will continue to have the most potential for complementing the South's industrial development.

[redacted]

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If the North's export structure is to move toward compatibility—a necessity for balanced bilateral trade to flourish—the most promising sector for development is agriculture. Rising incomes in the South have substantially increased the import of quality food products. The North's current program to increase its arable land, in particular the area devoted to paddy, could result in a sizable increase in its grain crop and a commensurate increase in exports of grain and livestock products. The dependence of trade compatibility on agricultural exports by the North to the South is perhaps the most ironic outcome of 30 years of separate economic development since the armistice.

[redacted]

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Joint Projects

Beyond trade, prospects for cooperation include joint exploitation of shared resources. Development of the rich fisheries off the east coast could provide a test case for examining the possibility of setting up joint-stock companies. Offshore oil exploration and development also would be mutually beneficial because both Koreas depend on crude oil imports. These types of projects, besides offering potential economic benefits, might be attractive for two other reasons. First, neither government would have to implicitly admit to some systemic failure by inviting the participation of the other. Second, the projects may appeal to Korean nationalism by obviating the need for foreign assistance. Joint ventures in mining and manufacturing are possible third-stage projects.

[redacted]

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The appeal of North-South economic cooperation is not likely to be strong enough by itself to prompt movement toward an inter-Korean accommodation, but it could significantly reinforce such a trend should it develop for other reasons.

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