



## **North Korea: Lessons Behind the “Small Technical Problem”**

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ON APRIL 15, North Korea celebrated the 95th birthday of its eternal leader Kim Il-Sung with a massive gymnastic display and artistic performance. The festival atmosphere did not seem to remind anybody that Pyongyang had just missed the deadline to shut its nuclear reactor in Yongbyon under a six-nation aid-for-disarmament deal reached three months earlier. United States Assistant Secretary of State Christopher Hill, patiently waiting for his North Korean counterpart in Beijing just after the deadline was crossed, witted: “I suppose it’s a busy day in Pyongyang, and they are not able to get back to us.”

Ostensibly, the key factor behind North Korea’s missing the deadline was a “small technical problem”-- the release and transfer of a US\$25 million fund it held in Banco Delta Asia (BDA) in Macau to Pyongyang. The fund was frozen by the US on allegations that it was gained from money laundering, drug smuggling and counterfeiting. Almost all sides claimed that this delay on the part of the North Koreans was the result of a bureaucratic hitch that needed only a few days to fix. Noticeably, after the North Koreans missed the deadline, the Americans echoed the Chinese call for patience. It seemed there was really nothing but a small technical problem. After many days without concrete progress, however, is there reason to wonder whether there is something else behind the “small technical problem”? We believe so: The North Koreans are learning three important lessons about the international system -- the hard way.

### **Lesson 1: The international financial system**

The first lesson has to do with the international financial system. Back on March 19 at the negotiating table, North Korean officials were still thinking that the release of the fund would be solved very soon and that the US Treasury Department’s ruling against the Macau bank would have little impact on Pyongyang. But what happened subsequently must have shocked the North Koreans: They were horrified to find that no international banks, including Chinese and South Korean banks, were willing to touch Pyongyang’s money for fear of facing the same fate as the BDA. Essentially, this means that although North Korea can regain its money, its economic and financial connections with the outside world are now in serious jeopardy after the BDA saga. The Treasury Department’s ruling has had a powerful deterrent effect: any international financial institution will have to think twice before it conducts business —“licit” or “illicit”-- with North Korea from now on. Whether a business is licit or not will be solely judged by the US.

The trouble for North Korea does not stop here. Having seen the Americans gather a large amount of information about its foreign economic activities through investigation into the BDA issue, Pyongyang cannot but fear that the Americans may play the same trick again. Having a much better understanding about America’s firm grip on the whole international

financial system, Pyongyang must have now recognized that although the US released the blocked fund in BDA, Washington has actually tightened its stranglehold on North Korea's lifeline: The US now has virtually all of North Korea's foreign economic activities under surveillance, and the ability to cut off its lifeline anytime, at will. Thus through the "small technical problem" of releasing the \$25 million fund, Pyongyang is discovering a horrifying prospect.

### **Lesson 2: No more leverage**

The second lesson that the North Koreans are learning is that the good old days of being able to play great powers against each other are no longer so easy to come by.

On March 5, North Korea and the US held their first talks in New York on normalizing their ties. The North Korean negotiator Kim Kye Gwan was warmly received by the Americans. Mr. Kim, however, must have understood that there is nothing but a long and a bumpy road ahead to achieve Pyongyang's key goal of normalizing ties with the US. Washington has a stack of bargaining chips, ranging from removing North Korea from the US list of states that sponsor terrorism; terminating the application on North Korea of its Trading with the Enemy Act; concluding a peace treaty to replace the armistice agreement on the Korean peninsula, not to mention human rights in North Korea among other things. All these essentially mean that the US is in firm, if not total, control of the normalization process. In contrast, the only bargaining chip that North Korea has is its limited nuclear capabilities which in any case it has promised to abandon.

As such, the North Koreans reasoned that they will have to play a different (but old) trick to increase their bargaining leverage and speed up the normalization process. The trick is to make the Americans value them more, at the expense of others, especially China. Hence, in New York, Kim Kye Gwan openly stated that the US would get nothing if it overly depended on China in the nuclear talks because -- according to him -- China had little influence on North Korea. This trick might have worked well during the Cold War years. Today, however, the greater interdependence among the great powers has left much less space for North Korea to play the great powers against each other. Despite significant divergences in their interests, the US and China have far more common interests with each other than they have with North Korea, and the US and China certainly understand that they need each other more than they need North Korea.

### **Lesson 3: No shortcuts**

Lastly, even if the US is willing to entertain Kim's argument, North Korea will still have to go through the gruelling normalization process without any shortcuts in sight. In sum, nothing is going too right for North Korea these days. As such, "delay" may indeed be their best option, especially when there is the cover of a "small technical problem". North Korea might even prefer the US to break the Feb. 13 agreement on the aid-for-disarmament deal. But the US will have to be very stupid to do that.

While the North Koreans got roughly the same thing they had sought in 1994, the Americans have had a much better deal, as Secretary of State Condoleezza Rice argued. This is not just self-congratulatory rhetoric. Because this new accord on February 13 is multilateral and backed by United Nations Security Council resolution 1718 whereas the 1994 framework was a bilateral deal. If North Korea does not fulfill its promises this time, not only US but also other parties will continue their sanctions on Pyongyang. The US now really has a much firmer grip on North Korea than it ever had in 1994. No wonder Washington has been unusually restrained when Pyongyang missed the deadline to shut down its nuclear reactor.

Will the North Koreans go back to the talks? Yes, eventually. The roadmap dictated by the six-party talks may not be the best for them, but the six-party mechanism is the only way that they can secure America's security guarantee and economic and energy assistance from China and South Korea. Chinese vice Foreign Minister Wu Dawei was very diplomatic when he stated: "Now the six parties are in the same boat, no one can jump out of it. What they could do is to collaborate toward the right destination, while preventing the boat from sinking."

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