

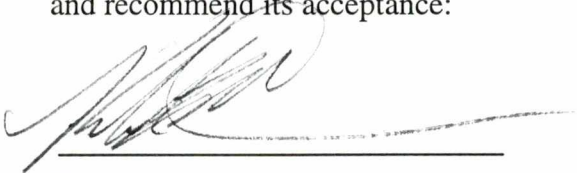
To the Graduate Council:

I am submitting herewith a thesis written by Mun-Sik Park entitled "Risk Acceptant Behavior of North Korea As a Non-Rational Actor: The Application of Prospect Theory to Four Cases." I have examined the final copy of this thesis for form and content and recommend that it be accepted in partial fulfillment of the requirements for the degree of Master of Arts, with a major in Political Science.



Jeffrey Berejikian, Major Professor

We have read this thesis
and recommend its acceptance:



Robert Peterson

Yang Zhong

Accepted for the Council



Associate Vice Chancellor
and Dean of the Graduate School

**RISK ACCEPTANT BEHAVIOR OF NORTH KOREA
AS A NON-RATIONAL ACTOR: THE APPLICATION OF
PROSPECT THEORY TO FOUR CASES**

**A Thesis
Presented for the
Master of Arts
Degree
The University of Tennessee, Knoxville**

**Mun-Sik Park
May 1998**

DEDICATION

This thesis is dedicated to

my parents (Mr. Yoo-Bok Park in heaven and Mrs. Ki-Hwa Park),

father-in-law (Mr. Tae-Yeon Han in heaven), mother-in-law (Mrs. Jeong-Yeu Han),

the Headquarters of Republic of Korea, and the Defense Security Command,

which have given me invaluable educational opportunities.

村夫의 拙作을

하느님결에 계신 先親과 (박 유택) 聘父 (한 테연),

오직 자식을 위해 犧牲하신 老母와 (이 기화) 聘母 (심 정의),

그리고 미국에서 유학할 수있도록 配處해준

大韓民國 陸軍本部和 國軍機務司令部에 바칩니다.

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ABSTRACT

The purpose of this study is to demonstrate whether North Korea is irrational, rational, or non-rational in its foreign policy. Until today, the two perspectives based on irrationality and rationality have been dominant in understanding the aggressiveness of North Korea. From the standpoints of these two perspectives, policy makers or scholars have dealt with the aggressiveness of North Korea. This thesis assumes that due to such obstinacy, most specialists have failed to predict the inconsistent behavior of North Korea in light of what its goals are.

In order to examine that North Korea is a risk acceptant actor in a losses frame, this thesis applies prospect theory to four cases which the proponents of irrationalism and rationalism have used—(i.e. the tree-cutting incident in 1976, the bomb blast in Rangoon in 1983, the bombing KAL Flight 858 in 1987, and the nuclear crisis from 1992 to 1994). The essential hypothesis of prospect theory (*people are risk acceptant in a losses frame, while people are risk averse in a gains frame*) allows us to explain why North Korea has taken riskier choice sets rather than safer choice sets. This study uses four variables in order to determine the frames of North Korea with respect to the reference points. The four variables are Juche' ideology, economy, military expenditures, and diplomacy. These variables are driven by the relative competition of North Korea with South Korea.

Through four cases, we can realize that North Korean policy is not irrational. Although North Korea calculated their preferences, they chose larger but uncertain losses instead of discarding smaller but certain losses in a losses frame. This means that North Korean policy is not also rational. Under this situation, the rational choice

model cannot explain its behavior. Furthermore, this model cannot predict North Korea's future action. In this sense, it is necessary to adopt prospect theory as a new alternative.

As a result, we need to reconsider deterrence policy based on rationality on the Korean peninsula. Prospect theory implies that we can minimize and prevent future aggressive behavior of North Korea through controlling the North Korean frame. According to Berejikian, *states in a gains frame pursue absolute gains and are risk averse while states in a losses frame pursue relative gains and are risk acceptant*. The key point is to change the losses frame of the North into a gains frame in the dimensions of the reference points of Juche' ideology, diplomacy, economy, and security.

In this regard, the West needs to accept the North Korean government based on Juche' ideology as a legitimate representative in the North and help NK to improve relations with the West, especially the US and Japan. It is essential to consider extending nonpolitical exchange with the North. Furthermore, the West needs to guarantee the North's security through building a multilateral security regime, including the two Koreas, the US, China, Japan, and Russia. Such consideration will contribute to a change of in the North's frame. In a gains frame, the North will try to pursue absolute gains rather than relative gains, at least within low-politics. This will allow us to stabilize security on the Korean peninsula. In addition, we need to remember that the North may take a riskier choice set in a perfect gains frame based on complete national superiority over the South in the fields of ideology, military capacity, diplomacy, and economy.

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I. Introduction

On November 17, 1997, North Korea (NK) threatened to blow up the (South) Korean Broadcasting System (KBS) and assassinate the writers for making an anti-North drama "to perpetuate national confrontation, division and to urge war."

Our revenge is heartless and decisive. We will blow up the staff of KBS-2 TV and make its very existence disappear into thin air. We will make clear that we will kill everyone involved in the KBS drama, without even as much as a mouse or a bird knowing. (*Korea Time* 18 November, 1997)

Nobody can deny that the Korean peninsula is one of the most dangerous areas in the world. In answering the question as to which side (North or South Korea) is more aggressive, most specialists would answer, "North Korea." This conclusion is most probably due to numerous aggressive incidents, such as the Korean War, the bombing of KAL flight 858, the terror toward South Korean cabinet members in Rangoon, attempts to build nuclear weapons, and numerous infiltrations by commandos.

Many scholars argue that it is very difficult to find consistency in North Korea's behavior. It is still a worthy enterprise to study NK's behavior in order to understand and possibly predict their behavior in the future. If we are to find consistency in the North's behavior, several questions will need to be addressed: (1) Which perspectives have been dominant for understanding NK's aggressive behaviors? (2) What are the advantages and disadvantages of existing explanations? (3) Do these explanations accurately explain NK's behavior; (4) if the preexisting perspectives have theoretical limitations to explain and predict NK's aggressive

actions, which theory can we adopt as a new alternative? (5) If NK's choices are consistent with the new theory, what are the policy recommendations stemming from our analysis of the North's behavior?

There are two assertions used to explain North Korean behavior. Some scholars of International Relations regard North Korea as irrational, crazy, and even like a beast.¹ Others assert that North Korea is a rational actor. Both perspectives have strengths and shortcomings. The former can be applied to terrorist actions toward South Korea. But it cannot cover some issues like successful maintenance of political power for over 45 years and rational behavior toward other foreign states. Additionally, under the irrational view, we cannot predict NK's behavior. On the other hand, the explanations based on rationality might be useful to explain and predict some of NK's consistent behaviors. The perspective of the rational approach allows us to demonstrate that NK's actions are consistent with a set order of preferences in some cases. But it does not predict or explain accurately why NK has ignored fundamental goals and has selected risky choice sets in some incidents. That is, the rational approach has theoretical limitations to understand choices in which NK does not maximize their values.

¹ Irrationality means that actors do not calculate probability and utility through traditional rationality explanation, such as expected utility theory or subjective expected utility. For instance, irrational actors might answer, "I have good feeling about winning this war" to the question of what the probability of winning this war is.

See Audi, Robert. 1996. *The Cambridge Dictionary of Philosophy*. New York: Cambridge University Press., and Paul, T.V. 1994. *Asymmetric Conflicts: War Initiation by Weaker Powers*, New York: Cambridge University Press., Peikoff, Leonard. 1991. *The Philosophy of Objectivism*, New York: The Penguin Group

Maoz (1990) and Riker (1990) explain the numerous advantages of the rational choice model. Meanwhile, Monroe (1996) points out the limitations of rationalism.

Ultimately, though, I believe that both approaches are weak given that they cannot accurately explain North Korea's behavior. Instead, I propose the application of prospect theory based on cognitive psychology. Several characteristics of North Korean foreign policy are as follows: (1) While the relationship between North and South Korea might be similar to that of traditional states, it is also very unique because their relationship is based on the same culture, same people, and same country in the past; (2) Thus, both sides have been exposed to emotional factors (or other factors) that hinder rational calculation. That is not to say that both sides have always miscalculated or misperceived events of interrelation and foreign relations; (3) Their relationship can be understood under the competition of relative gains, while in recent times pursuing absolute gains in low-politics; (4) North Korea's foreign policy has mainly depended on a dictator or an oligarchy. Such characteristics require adopting a bounded-rationality model. That is, North Korea's aggressive behaviors do not originate from irrational or rational decisions, but non-rational decisions. As many cognitive psychologists have demonstrated, human beings are not perfectly rational actors. As such, prospect theory might be a very useful alternative for explaining why North Korea has pursued risky strategies.

This thesis will demonstrate that North Korea, generally speaking, has existed in the domain of loss since the mid 1960s. That is not to say that NK's choices were taken under the situation of losses. For the North, the greater the loss, the higher the risk seeking. Therefore, the North has not followed the principle of the rationality model-- (i.e. value maximization). South Korea, however, has been satisfied with competition to obtain legitimacy, and building a successful economy as well as

military power relative to the North. Meanwhile, the North has been not satisfied with peaceful or non-peaceful competition with the South. Both sides' reference points originated from the capacity to ensure hegemony--ideology, domestic politics, their respective leader's individual interest, diplomacy for international legitimacy, and military power. Generally speaking, the South has been very successful, while the North has not.

Prospect theory's essential hypothesis is that "people are risk averse in the domain of gains, whereas they are risk acceptant in the domain of losses." (Kahneman and Tversky 1979). Namely, people try to choose a smaller but certain gains option rather than a larger but uncertain gains option in a situation in which they are gaining benefits. By contrast, people try to avoid sure losses in the situation in which they are suffering losses. This means that they take larger but uncertain losses rather than smaller but certain losses. In addition, people overvalue what they have more than what they do not have, that is, losses loom larger than gains, and losses motivate risky choices.

This thesis will argue that *North Korea has been in the domain of losses since the mid 1960s; NK as non-rational actor based on bounded-rationality has selected a riskier choice set rather than a safer one with respect to competition with the South, except for now the option of full scale war.* If this thesis succeeds in demonstrating such arguments, policy makers relying on irrationality and rationality need to reconsider countermeasures and predictions toward North Korea.

In order to demonstrate this argument, I will first deal with the dominant approaches used to explain North Korean behavior. In the second part, I will show

the utility of prospect theory as an alternative. Third, I will discuss issues of validity and reliability of data and reveal the procedure for explanation. Fourth, I will try to reveal the fundamental goals as well as the characteristics of North Korea's foreign policy. Fifth, I will examine whether prospect theory is empirically appropriate to understand and explain the aggressiveness of North Korea. Lastly, if prospect theory is more accurate and effective for explaining NK's behavior, I will examine what this would mean in terms of policy implication.

II. Literature Review

1. Critique of the Dominant Explanations of North Korean Behavior (Irrational and Rational Approaches)

This chapter will establish an understanding of the assumptions and arguments of irrational and rational approaches, revealing the limitations of both explanations. After a discussion of such issues, this thesis will introduce prospect theory as an alternative. The core argument in this chapter is that both preexisting explanations are partially helpful in understanding NK's behavior. However, the explanations are not appropriate for revealing the causes of the North Korea's aggressiveness or predicting NK's future behavior. Since under the view of irrationality we cannot find a consistent pattern of actor's choices, it may be impossible to judge an actor's future options. Even though the rational choice model is a very parsimonious framework to predict possible behavior, it cannot explain anomalies of rationality. Particularly, the rational choice model has weaknesses in terms of understanding behavior inconsistent with an actor's goal. If such anomalies often occur and are consistently chosen by North Korea, a new alternative to uncover such anomalies will be needed. In this study, prospect theory is selected as an alternative.

There are two dominant perspectives used to explain North Korean behavior. One states that North Korea is an irrational actor. The other states that NK is a rational actor. The former argues that the aggressive behavior of NK is commonplace because NK is a terrorist country governed by a totalitarian government. On the other hand, the latter asserts that NK's threats are a kind of reaction from the force of South Korea and the US. Thus, all aggressive behaviors are calculated and taken to maximize their value. Rationalists argue that the North enjoys playing "a game of

chicken." When the North shows an irrational image, it is a strategy for obtaining a large concession from the West through thorough calculation.²

First, this paper does not accept the viewpoint of irrationality, and generally agrees with the opinions raised by rational proponents. However, that is not to say that rational approach is appropriate to understand NK's aggressive behavior. Although NK rationally calculated the probability and payoff of choice sets, NK has often ignored its goals. Rather, NK has been a risk acceptant actor. In this regard, the argument that NK is rational is not persuasive. Thus, many countermeasures or interpretations based on rationality may not be useful for reacting toward NK. Successful deterrence based on rationality might be also dangerous in the Korean peninsula.

Still, many scholars agree with the former perspective (Kang 1995, Lehman 1993, Roy 1994, Gills 1996, Merrill 1997). The U.S has regarded NK as one of seven terrorist states (NK, Cuba, Iran, Iraq, Libya, Sudan, and Syria) since the 1983 of the bombing targeted at South Korean cabinet members in Rangoon.³ David Kang's summary of conventional wisdom represents the general irrational approach:

NK is an aggressive and expansionist state; the US and SK are pacifistic in their intention, and what is more important, NK knows this; the threat from NK will grow as the South continues its economic and military buildup; the military balance on the peninsula has traditionally favored the North, and even in the early 1990s SK had not yet caught up to the North, and even in the level of military strength;

² See Snyder, Glenn H. 1971. "Prisoner's Dilemma and Chicken Models in International Politics." *International Studies Quarterly* 15:66-103. And also Berejikian, Jeffrey. 1997. "To Play or Not to Play: Rethinking International Institutions and Cooperation." Presented at the Annual Meeting of the Western Political Science Association. Seattle, WA.

³ According to the report of the Department of State, "North Korea has not been conclusively linked to any international terrorist attacks since 1987. North Korea is best known for its involvement in the 1987 midair bombing of KAL Flight 858 and the 1983 Rangoon bombing aimed at South Korean Government officials. A North Korean spokesman in November 1995 stated that the Democratic People's Republic of Korea (DPRK) opposed 'all kinds of terrorism' and 'any assistance to it.' There is no conclusive evidence the DPRK conducted any act of terrorism since 1987. The Republic of Korea, however, suspects that North Korean agents were involved in the murder of a South Korean official in Vladivostok on 1 October 1996, which shortly followed a North Korean warning that it would retaliate if Seoul did not return the bodies of several North Korean infiltrators killed in South Korea." (The US Department of State, <http://www.state.gov/www/global/terrorism/1996Report/overview.html>)

one of the most volatile military confrontations in the world, the situation in Korea is best described as a powder keg. (1995;253-267)

He alleges that the irrational perspective originated from NK's acts of terrorism and violation of the 1953 armistice. However, he rejects this viewpoint. Instead, he asserts that NK's aggressive behavior is a policy of survival arrived at through rational calculation. The proponents of the rational perspective assume that NK is not reckless because they have chosen to pursue terrorist activities when the risks were low, avoiding direct confrontation on the peninsula.⁴ Successful deterrence of large-scale war is sufficient evidence of a rational NK (Kang 1995/1994-5, Roy 1994/1996-7, Lehman 1993, Gills 1996, Masaki 1994-5). Roy also denies the image of an irrational North Korea:

The irrational image of NK is largely a product of misunderstanding and propaganda, but it has become an unquestioned assumption among Pyongyang's adversaries. This reputation for reckless violence has worked to NK's advantage in the present crisis; but in the long term, the overall consequences of the madman theory will be deleterious, both for the states that employ it and for global security. (1994;307)

Merrill argues that "the view of an irrational NK--the image of beast, rogue, black hole, or backlash--may be a legitimate philosophical practice; however, it may be really not helpful to analyze NK behavior" (1997).⁵

According to Roy, in the Machiavellian version, Kim Il Sung's program has been eminently rational, as judged by the results: for 50 years, both the dictator's and

⁴ For instance, David Kang shows, in the tree cutting incident of 1996 when two US soldiers were killed by NK soldiers, Kim Il Sung tried to reduce tension as a reaction of the US's threats, which the nuclear capable B-52 bombers flew from Guam to SK on August 20, 1976.

⁵ In recent, some specialists do not regard NK as an irrational state, but as a dangerous fox. They recognize that NK's nuclear crisis is a triumph card for negotiation and eventual unification. (Sokolski 1994, Kay 1994, Nishihara 1994, Eberstadt 1994, Romberg 1994).

his successor's (Kim Jong Il) regimes look successful. In the eyes of formal rationality proponents, the type of options (peaceful or non-peaceful measures) does not matter if actors follow the principles of the rationality model--(i.e. ordering of alternatives, dominance, cancellation, transitivity, continuity, and invariance)⁶. The irrational approach can explain why the North has used terrorism. Yet, it cannot cover rational foreign policies such as successful diplomacy from the 1960s to the mid-1970s and some soft gestures for cooperating with the South (Gills 1996;98-143).

Park Kyung Ae and Sung-Chull Lee argue:

it appears that NK took the initiative in the peace offensive in the late 1950s and early 1960s in an attempt to recover from its international image as an "aggressor" after the Korean War, and also because it became a more stable polity and dynamic economy, giving it confidence to compete with the South. (1992;439)

If NK was absolutely an irrational government, neither would they have suggested peaceful talks nor kept a superior military capability. Their terrorist behavior has primarily occurred since the late 1960s, which coincided with the South's relative development in domestic politics, economy, military expenditure, and diplomacy (See Table A1, A2, and A3. pages 138-41).⁷

Therefore, the irrational perspective is not appropriate to help us understand NK's behavior. If we rely on this viewpoint, we will not accurately predict NK's behavior. Furthermore, any countermeasures are likely to be useless because under this view, it is impossible to find a consistent pattern in NK's behavior. As Roy

⁶ That is, if NK's aggressive actions are consistent with their goals in terms of value maximization, the actions will be the results of the rational choice. If you want to understand the principles of rationality, see Plous, Scott.1993. *The Psychology of Judgment and Decision Making*. New York: McGraw-Hill, Inc.

⁷ The south government of Park Chung Hee succeeded in achieving economic development, and building self-defensive military power from 1961. Thus, his first suggestion for improving interrelation was announced in 1970.

mentioned above, we will fall victim to the NK's irrational behavior because the proponents of the irrational perspective believe that there are no proper countermeasures to minimize aggressiveness. Successful deterrence demonstrates that NK is not irrational. Most specialists of SK and the US presume that the policies of deterrence of full-scale war have succeeded in the Korean Peninsula from the end of the Korean War. Deterrence theory is based on rationality (Morgan 1977). Richard Nixon said, "A rational deterrent cannot be based on irrational response" (Zagare 1987). This means that, at least, NK would not have been an irrational actor if the deterrence of war in the peninsula had been due to the superiority of the South's power supported by the US. In this sense, the position of the irrational explanation is an inappropriate perspective to use to understand NK's behavior.⁸

The rational approach, however, also has some weaknesses. If NK is a rational actor, how do we explain why choices made by NK are not consistent with its fundamental goals or immediate interests? Although the rational perspective is much more explanatory or predictable for NK than the irrational perspective, if NK does not maximize their values, we cannot explain and predict such anomalies of rationality under the traditional view of the rational perspective. It is important to examine the limitations of the rational perspective and, in turn, raise the necessity for an alternative to this perspective to understand NK's behavior. I would like to focus on finding a basis to adopt the concept of non-rationality, instead of the concept of rationality.

We can find non-rational behavior in some incidents although NK carefully calculated possible options' value. In these incidents, NK's choices were not consistent with its goals. For instance, in the incident of "tree-cutting" in 1976 (NK

⁸ See Bruce Bueno de Mesquita. 1980. *The War Trap*, New Haven: Yale University Press.

killed two American Officers by axe in the truce village of Panmunjom located in the Demilitarized Zone), the immediate goal of NK was to remove US troops in the South.⁹ Thus, improving relations with the US was an essential prerequisite (Kang Sunghak 1997, Lee Chun Kun 1997). Before the incident, NK tried to improve relations with the US. NK sent the US Congress and government official letters as a soft gesture to improve relations. International circumstances were very advantageous for NK to reach their goal. The US was in the midst of presidential campaign. Carter, a candidate, announced the policy of withdrawal of US troops in 1975 (Oberdorfer 1997c;84). He regarded human rights as the most important issue. He criticized the Park Chung Hee administration of South Korea. He perceived that the Park's administration was trampling upon human rights.

NK had tried to obtain her goal, the withdrawal of the UNC (the United Nation's Command), through debate on the Korean Question in the United Nations General Assembly (UNGA). NK's diplomacy toward the NAM (Non-Aligned Movement) was very successful. However, SK began to succeed in improving relations with the NAM. Kissinger's activities for improving relations with the NAM threatened the North. Although such movements of both SK and the US threatened the North, general situations such as the Carter's policy about US troops in Korea and the American public opinion of "no more Vietnam" sufficiently counterbalanced the disadvantages of the movements. Despite such good conditions, the North perceived that the losses of diplomatic partners were much more serious than comparable gains, diplomatic improvement with the US and the possible withdrawal of US troops. In order to prevent the losses, NK selected a risky option, killing two officers. The

⁹ On the morning of August 18, 1976, North Korean soldiers killed two US officers, who were trimming the boughs of a forty-foot-high poplar tree. Before cutting the tree, the United Nation's Command notified North Korea of the work. This incident was a deliberate murder planned by North Korea in that local commanders did not have right enough to kill US officers in the Joint Security Area (JSA), and the North was previously notified of the work; furthermore, that area was supervised by the Neutral Nations Supervisory Commission (NNSC). The incident was a psychological retaliation against the active diplomacy of both South Korea and the US (Kang Sung Hak 1997, Koh B.C. 1977).

failure of this option foresaw greater losses, serious international isolation and the reinforcement of the diplomatic position of both SK and the US in UN.

Due to this incident, tension on the peninsula rapidly increased. Eventually, Kim Il Sung announced regret for the incident on September 6, 1976.¹⁰ The proponents of the rational choice model argue that, in this incident, NK's effort to reduce the tension was evidence of a rational actor (Kang 1995). It is obvious that NK was forced to surrender due to the US's powerful and speedy response. NK's careful behavior to reduce tension after the incident can be a case for the image of a rational NK. However, the action taken by NK reflects an anomaly of rationality because NK did not take the safer option closer to their immediate goal. This means that they did not maximize their value. In this sense, the rational perspective is not applicable to explaining the aggressiveness of NK.

After the incident, NK's dictator Kim Il Sung had to call President Jimmy Carter, his second enemy, "a man of great justice" (Kang 1994-5;337-338). Furthermore, Pyongyang had to withdraw its draft resolution for removing the UNC from the 31st UNGA session. NK did not publicly deal with the UNGA on the Korean Question until October 1988. Gills argues, "thereafter, the character of competition for international support underwent an important change (1996;195)." That is to say, the incident failed to gain international legitimacy.

Since decision-making in NK is the least transparent policy process of any national government, it might be impossible to gather direct or exact information about decision making in NK. It is not clear whether NK's foreign policy is rational because we do not exactly know its decision making process. However, if NK is rational, then it will not ignore its basic interests. NK's initial tactical stage for unification is to remove the power of the US military in the Korean peninsula.

¹⁰ Kim Il Sung's message, "it is regretful that an incident occurred in the Joint Security Area Panmunjom, at this time. An effort must be made so that such an incident may not recur in the future"(Koh 1977).

Nonetheless, NK has ignored her fundamental interests. That is, NK hindered the withdrawal of the US Army and lost the opportunity to remove the UNC in the UNGA.

In this respect, although NK rationally tried to reduce tension after the incident, the tree-cutting choice was not rational because it ignored NK's fundamental goals under good conditions. However, NK was not irrational since it considered the effectiveness of this incident. At that time, NK expected that this incident might stimulate public opinion of the US for withdrawal of the US troops after the Vietnam War. This choice set has larger but uncertain losses, while keeping the status quo has smaller but sure losses. NK select the riskier set, tree-cutting incident. We can say that NK was neither rational nor irrational in this incident.

NK wasted another opportunity in 1983. According to Kihl,

Despite this anti-American fervor, NK continued to entertain the notion of establishing official ties with the U.S. In April Egypt's President Mohamed Hosni Mubarak paid an official visit to Pyongyang on returning from his trip to Washington. NK reportedly proposed bilateral talks with the US. Secretary of State, George Shultz ordered a relaxation of some restrictions on contacts with North Koreans; however, this directive was rescinded in November in reaction to the Burmese government's announcement of NK's responsibility for the October 9 bombing in Rangoon that Killed visiting South Koreans and four Burmese. (1984;106)

The crisis occurred on the first leg of President Chun Doo Hwan's six-nation trip abroad in order to improve relations in the NAM. According to the rational actor approach, NK's use of terrorism was to prevent South Korea's diplomatic improvement with the NAM. That is, NK's choice was rationally calculated in order to overcome relative losses to SK. It is apparent that NK was driven into a corner by SK's relative development. NK's economy was failing. Meanwhile, SK's situation was comparatively excellent. Not only was SK's domestic politics stable, but SK's

economy had also rapidly developed (annual rate growth of 9.6% GNP). The stage was set for SK's economic and diplomatic development to take off, given their hosting the 1986 Asian Games, the '88 Olympiad, and the regular conference of the IPU (Inter-Parliamentary Union) in Seoul on October 4-13. Negotiations for solving the hijacking of a Chinese airplane were helpful to improve relations with the PRC (People's Republic of China).

Given such situations, NK selected the terrorist option. That option was a gamble itself. If NK had been rational, it would not have selected the terrorist option because that option had larger but uncertain losses. The other option of keeping the status quo had smaller but certain losses. Furthermore, this option had the relative benefits of securing an opportunity to improve relations with the U.S. Because the terrorism happened outside of the peninsula, the probability of success was clearly low. Nonetheless, the North took the riskier option. In this sense, the incident is an anomaly of rationality. Such a choice cannot be understood under the rational view.

The existence of non-rational actions may necessitate adopting an alternative. In selecting new alternatives, we need to consider some characteristics of actors, goals, and decision making structures. Not only is NK a totalitarian state, but NK is governed by a feudal dictator. Thus, NK's foreign policy is dependent on few decision makers. NK's ability to gather information is not perfect because NK does not have well-organized institutions. Thus, NK's decision making process is not constrained by public opinion, nor special institutions. Due to these characteristics, mistakes — misperceptions or miscalculations — are entirely likely. It is more likely

that NK does not maximize their values. Instead, they may mainly be behaving under a *satisficing strategy* based on bounded rationality.

According to cognitive psychologists, human beings are not perfect rational thinkers. For instance, although actors have perfect information, they do not always maximize their values. Instead, actors tend to satisfy themselves. Specifically, they are risk averse in the domain of gains and risk acceptant in the domain of losses (Kahenman and Tversky 1982). Theory experiments in cognitive psychology demonstrate biases in the individual decision making process. This means that it is commonplace that most human beings do not rationally calculate probabilities, predict, or judge events.¹¹

That is not to say that rationality-based theories are wrong. Rationality-based approaches are generally very useful (Levy 1997). Rational choice has numerous advantages. It can parsimoniously explain actors' choices by showing the set order of preferences. Thus, alternatives including prospect theory cannot substitute for rational choice unless we can show the reasons why actors do not maximize their values (Levy 1997, Farkas 1996).

Some scholars show that prospect theory based on bounded rationality can complement the limitations of rationality. Levy argues that prospect theory is an excellent explanatory theory for risky choice (1997). Levy implies that the application of a unitary actor assumption and prospect theory hypothesis provides a reasonably good explanation for state decisions—Saddam's Iraq, Hitler's Germany, Stalin's

¹¹ Cognitive psychologists demonstrate that human beings are exposed to heuristics such as representativeness, availability, anchoring effect, attribution, illusory correlation, and covariation.

Soviet Union, and other centralized regimes are the most obvious examples (Levy 1997, Shafir 1992). Jervis argues that deterrence theory based on rationality might be effective to explain how states act when seeking gains, but if the other behavior is driven by the fear of losses, then threats and coercion are likely to backfire, thus producing a spiral of greater hostility (1976, 1992).¹² In this sense, prospect theory is very applicable to NK, in which a few dominant decision makers have played a big role in decision making.¹³

2. Prospect Theory as an Alternative

Nobody would deny that the concept of rationality has played a significant role in political science. Yet, there have been numerous debates about the utility of the rationality assumption. One of the more controversial issues is whether human beings truly behave rationally. Herbert Simon states that “the term ‘rational’ denotes behavior that is appropriate to the specified goals in the context of given a situation” (1985;294). Therefore, he defines that rationality is divided into two categories—substantive (objective) or economic rationality and procedural (bounded) or cognitive rationality.

According to Simon, substantive rationality assumes that every actor has a defined utility function, which leads to a consistent ordering of preferences among

These heuristics are very robust in any place and any time (Tversky and Kahneman 1974, Plous 1993).

¹² Jervis deals with psychological factors which have an impact on decisions with respect to information processing (1968, 1976, 1978).

alternative choices. Furthermore, human beings maximize those values—the proponents of substantive rationality requires showing auxiliary assumptions about ‘objective goals and characteristics of a situation.’ Procedural rationality, on the other hand, assumes that people tend to employ a *satisficing strategy* instead of value maximization. He argues this occurs because people lack perfect information. Objective data are not absolutely needed in explanations based on procedural rationality. Moreover, he claims that procedural (bounded) rationality is not *irrational* since human beings tend to behave in goal-oriented ways (1985;293-303).

What is even more disturbing though is that human beings sometimes fail to choose the highest value choice set even when they have perfect information. Generalized results from cognitive psychology, known as prospect theory, help explain this behavior. Prospect theory states that people evaluate choices based on a reference point. As such, individuals generally overweigh losses relative to comparable gains. They also engage in risk-averse behavior in a gains frame but become risk-acceptant in a losses frame. Thus, they reverse their probability ranking of choices depending on how frames are decided (Kahneman and Tversky 1979). That is, sometimes people do not maximize their values despite having access to perfect information.

Figure 1 demonstrates this thinking in a lottery game. The concave segment of the graph is in a gains frame, while the convex segment is in a losses frame. People tend to choose a sure thing in the domain of gains. As this figure shows, people prefer

¹³ For empirical applications of prospect theory in international politics, see Farnham (1992), McDermott (1992), McInerney (1992), Richardson (1992), Taliaferro (1994), Weyland (1996), Berejikian (1997), Mintz and Geva (n.d.), Kowert and Hermann (1994).

the choice set "A" (\$80 with the probability of 100%= sure gain of \$80) to the set "B" (\$100 with 85%= gaining average \$85). Although the value of the choice set "A" is lower than that of the choice set "B", people select the "A" set. This is because people are satisfied with sure gains rather than an uncertain higher value set. Strictly speaking, such a decision is not rational since people did not maximize their values even though they have perfect information. Thus, we can say that people are risk averse in a gains frame.

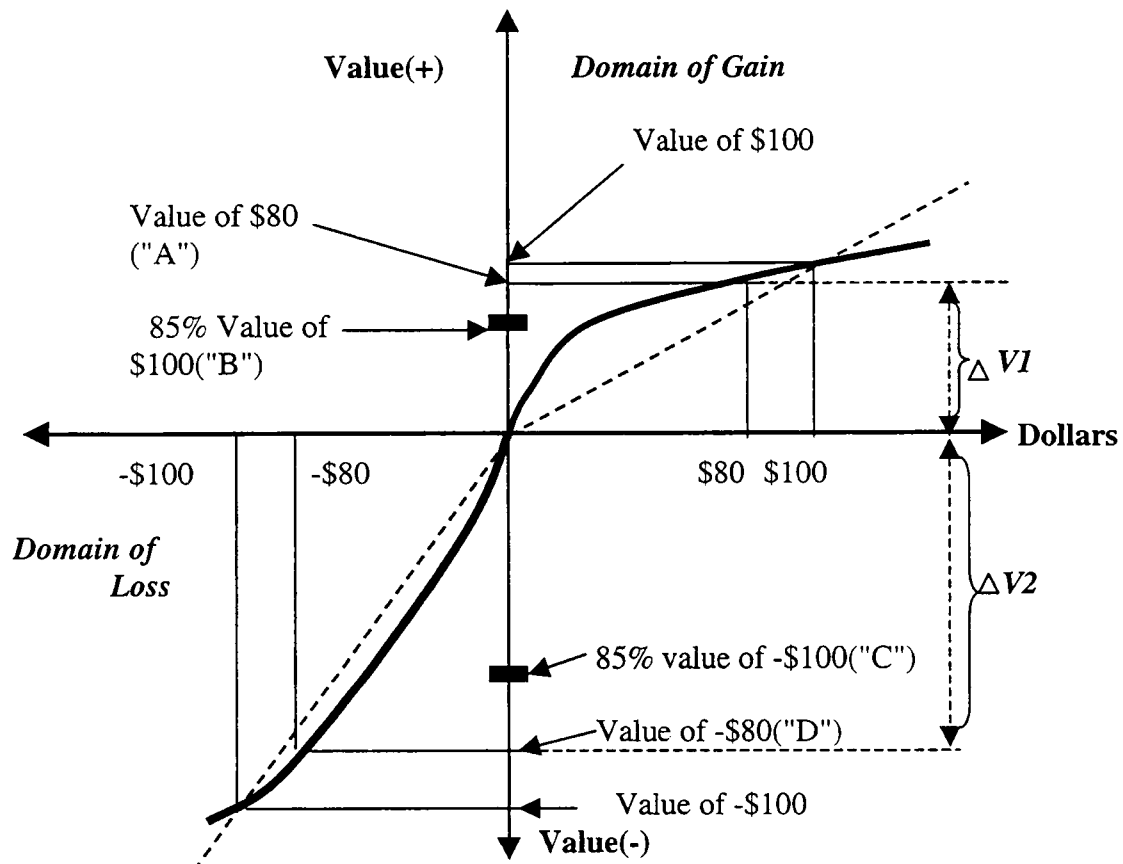


Figure 1.S-Shaped Value Function of Gains and Losses

Conversely, people become risk acceptant when in a losses frame. That is to say that, between choice set "C" (85% chance of losing \$100=losing average \$85) and "D" (100% chance of losing \$80=sure loss of \$80), people prefer "C" to "D". Choice set "C" is larger but involves uncertain losses, while choice set "D" is smaller but involves certain losses. If people behave rationally, people will take choice set "D" because this selection minimizes their losses. However, people try to avoid sure losses. Thus, they bet a riskier choice set because what they care about is not the amount of losses but the probability to avoid losses in a losses situation. They expect the possibility of success to recover their losses in the choice set with uncertain losses, suggesting, cognitive psychologists argue, that people are risk acceptant in a losses frame.

In Figure, $1 \Delta V_2$ is much greater than ΔV_1 . This means that the convex function is far steeper than the concave. This convex and steep value function in the losses frame explains why people ignore safe options. People are reference dependent related to gains or losses—people overestimate losses relative to comparable gains. This asymmetry of gains and losses means that the function of value is steeper on the loss side than on the gain side. That is, people tend to be loss averse in the gains frame, while risk-seeking in the losses frame (Kahneman and Tversky 1979, Tversky and Kahneman 1986/1991, Kahneman, Knetsch, and Thaler 1991, Berejikian 1997). Namely, the tendency toward an anomaly of rationality is much more robust in the losses frame than in the gains frame. Here, we can find the possibility of prospect theory as a successful alternative to explain risky behavior.

Risk acceptance, however, might disappear with very small probabilities or with catastrophic losses (Slovic *et al.* 1977, Fishburn and Kochenberger 1979, Quatrone and Tversky 1988, Stein 1993, Levy 1997). This suggestion explains why actors return from a non-rational pattern in choices to a rational pattern in the climax of escalating crises. This suggestion complements a limitation of prospect theory in terms of the question of whether people are always risk acceptant in a losses frame. However, it is difficult to judge the degree of probability or pressure that can break down risk acceptant prosperity in a losses frame. Nonetheless, it is very useful to explain such a changed tendency from non-rational behavior to rational behavior.

The overvaluation of current possession relative to comparable things which people do not have is known as the “*endowment effect*” (Thaler 1980:43-7, Knetsch and Sinden 1987, Knetsch 1989, Kahneman, Knetsky, and Thaler 1990:1336, 1991, Tversky and Kahneman 1991, Camerer 1995:665-70). For instance, the selling price often exceeds the buying price. This means that renormalization of gains is much faster than losses (Berejikian 1997, Levy 1992).

With respect to the status quo, people regard costs in the status quo as losses, and regard benefits in the status quo as gains, the so-called status quo bias. People tend to build a reference point based on the status quo. However, the reference point is not always the same as the status quo. The reference point is mainly affected by expectations, aspirations, social norms, past experience and social comparisons (Levy 1997, Berejikian 1997, Stein 1993). According to Levy,

[p]eople sometimes frame around expectations or aspiration levels rather than the status-quo.... The reference point bias subsumes the status quo bias whenever the reference point is defined as the status

quo, and under those conditions it will be stabilizing and reinforce the status quo. If the reference point is not congruent with the status-quo, the reference point bias is destabilizing and reinforces movement away from the status-quo. (1997;91)

We need to note that there are some limitations to prospect theory's explanatory power. Shafir (1992) points out that it is a theory of individual decision making. Most decisions analyzed in international relations are decided by institutions or groups. Furthermore, it is difficult to know the position (gain frame or loss frame) of decision makers. Another weakness can be found in the generalization of non-rationality with respect to frames. Namely, risk-seeking in the losses frame and risk aversion in the gains frame may not be robust under moderate-to-high probabilities. However, this does not deny the possibility of prospect theory as an alternative to the rational choice model. Collaborative efforts by both political scientists and psychologists increase opportunities to apply prospect theory to anomalies of rationality (Shafir 1992).

Jervis emphasizes the advantages of prospect theory:

Prospect theory offers powerful insights and propositions into political decision making, especially in international politics. Evidence indicates that statesmen are indeed risk-acceptant for losses. This would help explain observed patterns in bargaining, deterrence, the origins of wars, as well as suggesting why states are less likely to behave aggressively when doing so would produce gains than when such behavior might prevent losses. (1992;187)

However, there are methodological difficulties in demonstrating the precise course of actions of decision makers. Jervis argues that to be successful, scholars must reveal similar cases where actors continue risk acceptant behavior when confronted with unacceptable losses (1992). Levy agrees that the application of prospect theory is

formidable. He argues that one of the most important tasks in the future is to integrate individual level prospect theory into theories of foreign policy and strategic interaction. Paradoxically speaking, if researchers overcome such methodological limitations, that research might result in highly developed studies. Thus, it is worthy of the challenge to apply prospect theory to political events like decision making, security interaction, and bargaining.

Through reviewing the perspectives of rationalism and irrationalism, we can conclude that neither perspective is appropriate to explain NK's aggressive behavior and predict future choices. The proponents of irrationalism allege that NK is basically crazy or mad; the aggressive choices originate from the irrationality of NK; there is no consistency to NK's foreign policy; thus, it may be impossible to predict NK's behavior. On the other hand, the proponents of rationalism argue that NK is rational; all aggressive choices are made through rational calculation; thus, it is possible to predict future behavior by objective data. Generally speaking, they suggest that the only way to deter preemptive war in the Korean peninsula is to construct predominant capacity over NK. Many hard liners of SK and the US belong to this position.

I agree with the necessity of superiority of military capacity. The construction of such measures has contributed to the maintenance of peace and stability on the Korean peninsula. However, this position has failed to explain why NK has sometimes ignored its immediate goals. If we adhere to the irrational or rational perspective, we will not predict NK's future choices. Moreover, policies originating from these positions may break down stability and peace on the Korean peninsula.

Therefore, we need to consider a new perspective to understand NK's inconsistency with its goals.

As mentioned above, the argument based on prospect theory is that human beings are sometimes neither rational nor irrational but non-rational. That is, their choices are not always consistent with their goals. Despite inconsistency with goals, it is possible to explain and predict such a tendency under prospect theory. In the criteria of prospect theory, we can say that NK's inconsistency with goals is not derived from irrationality but non-rationality—(i.e. risk averse in a gains frame and risk acceptance in a gains frame). That is not to say that NK's aggressive behavior is not always associated with its goal of spreading Communism throughout the Korean peninsula. The perspective of prospect theory suggests that we need to control the frame of NK in order to keep peace and stability on the Korean peninsula. The argument that follows will demonstrate how NK behavior can be understood under prospect theory.

3. Summary of Arguments and Implications

In previous sections, this study has revealed the theoretical limitations of the rational and irrational perspectives. This study also has introduced prospect theory. This section is established to clarify and guide the whole context of this study. I will show hypotheses, and then briefly summarize arguments and policy.

This thesis will focus on demonstrating that rational choice analysis does not provide a powerful explanation of NK behavior. This is because NK's choices are inconsistent with its explicitly stated and long standing goals. That, however, is not to say that NK's behavior is always inconsistent, irrational, impossible to understand, or unpredictable. Although NK does not always behave rationally, it is possible to understand and predict non-rational behavior under prospect theory. Specifically, NK has pursued risky policy choices, which have not been consistent with NK's fundamental and immediate goals while in a losses frame.

In order to illustrate this argument, this thesis will touch on the broader foreign policy of NK. Policy making by one individual or the weak structure of institutions requires adopting prospect theory for understanding NK's behavior. An overview of NK's foreign policy will help us grasp fundamental and decisive goals. It will allow us to offer a basis for determining whether NK's choices are rational, irrational, or non-rational. This thesis argues that North Korea is neither rational nor irrational. Instead NK is non-rational. NK's ultimate goal is to spread Communism throughout the Korean peninsula. This goal is consistent, but the North's choices toward that goal vary. That is to say that NK has been risk averse in a gains frame and risk acceptant in a losses frame. Concretely, NK has been risk acceptant since the mid-1960s, because NK was relatively unsuccessful in relation to SK. Such relative depression forced the North to fall into the losses frame.

To demonstrate such losses frame and risk acceptant behavior, I have selected very four typical cases which both the proponents of rationalism and irrationalism have used: (1) the Tree-Cutting incident in 1976, (2) the Rangoon bomb blast in 1983,

(3) the KAL Flight 858 incident in 1987, and (4) the crisis of NK's nuclear weapons from 1991 to 1994.¹⁴ Many scholars of the West argue that NK is "crazy" (an irrational aggressor) or "crazy like a fox" (a rational aggressor). Not only have these choices made by NK been used for arguments based on rational or irrational explanations, but these are also directly or indirectly related to foreign states' interests. Thus, paradoxically, these can be useful cases to reject the arguments of both rational and irrational perspectives.

It is very difficult to demonstrate NK's behavior inconsistent with their goals from the position of two perspectives. I have done this in order to make it as difficult as possible for prospect theory to be proven correct. If these cases are consistent with the perspective of prospect theory, we can be very confident that prospect theory is better for explaining North Korea's behavior. Although each incident varies, there might exist a consistency which has not discovered by these previous theoretical positions. Namely, the North was in a losses frame, and thus more predisposed to risk.

The first task of this thesis is to demonstrate that NK was in a losses frame by considering the capacity of both Koreas. In order to demonstrate this, Juche' ideology, diplomacy, military expenditure, and economy will be compared across the two Koreas because these factors have been used as reference points for the two Koreas. Through such demonstration, this paper will reveal that NK has selected larger but uncertain losses, instead of discarding smaller but certain losses.

¹⁴ See articles written by Lehman 1993, Mack 1993, Robinson 1993, Eberstadt 1994, Kay 1994, Nishihara 1994, Romberg 1994, Sokolski 1994, Roy 1994/1996-7, Kang 1995/1994-5, and Gills 1996, Kang Sung Hak 1997, Lee Choon Kun 1997, and Merrill 1997.

If the objective data show that NK's choices are inconsistent with its goals, the assumption of the rational choice model shall be rejected.

Under the traditional view, if NK's goal is to make the Korean peninsula communist, its aggressive behavior should be rationally calculated to obtain tactical or strategic advantage; all choices made by NK should have the highest value among available options (i.e. value maximization). Thus, it is possible to understand NK's behavior and predict the future behavior of NK. In order to keep peace and reunify the Korean peninsula, it is necessary for SK and the US to maintain a powerful capacity to deter war.

By contrast, the argument of this thesis based on prospect theory is that *NK is non-rational; although NK's fundamental goal does not change, NK's choices are sometimes not consistent with such a goal. The aggressiveness of NK is related to their frames; specifically, the risk acceptant behavior in the losses frame is robust. Although NK's behavior is inconsistent with its goal, it is possible to predict such non-rational behavior under prospect theory. The moderate gains frame of NK is needed in order to minimize and prevent the aggressive behavior of NK.*

This paper focuses on aggressive behavior in the losses frame. This study argues that although the rational choice explanation is much more parsimonious, it fails to explain the inconsistency of NK's behavior. Such inaccuracy may cause mistakes in our understanding of NK behavior and inhibit our ability to adopt countermeasures against NK. In order to avoid such mistakes, we need to accept the perspective of prospect theory. If this study succeeds in demonstrating these arguments, we will be able to find resolutions. That is, even though the origin of North Korean

aggressiveness is due to their goal, if the number and degree of risky options taken are related to their frames, we can minimize and prevent their aggressiveness through controlling their frames associated with the reference points (four variables).

The paragraph below briefly summarizes the four cases, summary of which will demonstrate that NK's behavior cannot be understood from within the rational perspective; instead new framework is needed. For example, in the tree-cutting incident, NK sought to maintain the relationship between the members of the NAM and tried to remove US troops from the Korean Peninsula. Given this goal, why did NK kill US officers? The answer is that they selected a riskier option in order to restore their diplomatic losses in the competition with SK. such non-rational behavior can be explained as follows: The rapid development of SK relative to the NK placed serious stress on the North's political and economic system. In a losses frame, NK chose a risky strategy. That is to say, the North expected that threats of terrorism would prevent the NAM's support of SK and the US. Due to the incidents, however, the North's situation grew worse. The North was now included the US list of terrorist countries. The result was a decline in the relationship between the North and the US. Such results had already been significantly foreseen. Nonetheless, NK selected that option in order to avoid sure losses.

Both the incidents of Rangoon in 1983 and the bombing of KAL Flight 858 in 1987 are also typical cases which illustrate that North Korea was risk acceptant in a losses frame. In the nuclear crisis from 1991 to 1994, NK pursued a much riskier strategy to build nuclear weapons (the withdrawal of the NPT regime and the refusal of inspections by the IAEA) in a serious losses frame. SK's success in the Seoul

Olympics, diplomacy, and a growing economy completely dominated NK. NK, on the other hand, was recording economic negative growth. Also, NK was internationally isolated by the collapse of communism in 1991. As a result, the North selected a very risky option. At that time, the lessons of the Gulf War warned that building nuclear weapons was committing diplomatic suicide causing serious problems including potential collapse of the North. If successful, the North would be able to escape from serious losses in the economy and military power. Moreover, the North gambled with a low probability of success in building weapons. They were in a losses frame.

NK selected the so-called 'brinkmanship option', or the nuclear card. The result was different from the other risk acceptant behaviors in the past. While in the past risky actions resulted in damages, withdrawal from the NPT regime allowed the North to attain its economic and political goals. For instance, the North solved the shortage of energy. They obtained necessary heavy oil from the US. The North received the assurance of a negative nuclear umbrella from the US. The US promised the offer of two light-water reactors. Also, the North gained opportunities to improve its relationship with the US.

However, the security situation on the Korean Peninsula has not changed. On September 17, 1996, NK infiltrated a submarine on the eastern coast of SK (24 dead, one captured, and one missing). Later, the North apologized for this infiltration. This incident shows that the North's basic goal for military Communization had not changed. Even though the North faces serious starvation, it continues to spend over

20% of its GNP in military expenditures. Also, numerous loudspeakers were placed in the DMZ to slander the South and the US as ringleaders of division.

Most experts of international politics argue that it is very difficult to uncover any consistency of in the North's behavior. However, we can do that. This consistency is best demonstrated through prospect theory. The North's fundamental goal has not changed, but their frame changed from gains to losses. When the North was in the perfect gains frame in the 1950s, they attacked the south. From the mid 1960s to present, the North has pursued risk seeking actions, though not a full-scale attack.

The rationality explanation argues that the power of South Korea, supported by the US, has successfully deterred North Korea from full-scale war. However, the proponents of deterrence theory, including numerous policy makers in SK and the US, also are warning about the North's unpredictable behavior. This means that the proponents of rationality also admitted the non-rational behavior of the North.

As the cases mentioned above show, the policy makers of SK and the US need to keep NK in an appropriate gains frame. Thus, it might be necessary to use the so-called "Carrot and Stick" strategy with the North. In this viewpoint, nonaggressive actions of the South are very helpful. On the other hand, the North's success with respect to nuclear weapons might offer confirmation of the usefulness of the risk policy. The west, including the US and the South, might fail to domesticate the North.

In this regard, we need to control the leverage of the North's behaviors. Berejikian argues that "states in a gains frame pursue absolute gain and are risk averse, while states in a losses frame pursue relative gains and are risk acceptant" (1997;795). We need to help NK to change a losses frame into a gains frame. In order

to change the frame, economic support and the establishment of a multilateral security regime including two Koreas in Northeast Asian region may be essential. Until today, the regime of Kim Jong Il has not looked seriously unstable, but the vulnerability of the regime may gradually worsen because of its poor performance in economy and heavy military construction.

Thus, in order to prevent a losses frame, the West may need to help the efforts of the North to revitalize their economy, while controlling the North's military expenditures. Unless this is done, obviously the North will construct either nuclear weapons or other risk seeking options in order to recover current and future losses.

As of today, efforts towards arms reduction have not been successful in the Korean Peninsula. If it is difficult to control the North's heavy investment in military power, it might be effective to consider developing a multilateral security, including the two Koreas, the US, PRC, Russia, and Japan. The current efforts of the South (four party talks) may be the beginning point to creating such regime, which guarantee the security of the Korean Peninsula. These options allow NK to change their frames toward gains. In a gains frame, the aggressiveness of NK can be minimized and prevented. Furthermore, future possible risky behavior can be predicted under the perspective of prospect theory. It is significant that, in order to keep the moderate gains frame of NK, the West may need to help NK's economy (low-politics) and a build multilateral security regime (high-politics) consisting of the two Koreas, the US, PRC, Russia, and Japan.

III. Method

This chapter presents a framework to apply prospect theory to empirical cases. In this chapter, four variables — Juche' ideology, economy, military expenditures, and diplomacy — have been selected to determine the North's frame on the dimension of reference points. I will explain why four cases are very important in demonstrating the North's non-rational behavior. Because these cases have been used for the explanations of the perspectives of rationality and irrationality, if we find the anomalies of rationality in four cases, our explanation based on prospect theory will hold more explanatory power.

This chapter will also attempt to overcome the theoretical limitations of prospect theory by using diverse sources and by logical inference based on reliable and valid data. I will try to complement the limitations of the validity in prospect theory in terms of applying experimental hypotheses tested in laboratories to real world situations. Neither the proponents of the rational choice model nor prospect theory have exact and direct data about North Korean behavior. The issue is whether parsimony or accuracy is more important. It is obvious that a parsimonious and accurate perspective is the best. But if there is no theory which involves the two factors simultaneously, we shall take a more accurate one rather than a more parsimonious one. Thus, as long as we can, logical inference based on possible data is very important to explain our arguments. These efforts minimize the limitations of validity in prospect theory raised by political scientists.

1. Decisive Variables for Framing Losses and Gains

It is necessary to consider whether the North was in a losses frame or in a gains frame in four cases. Numerous elements, such as ideology, social norms, and individual interests/expectations/aspirations influence one's framing effect (Berejikian 1997, Levy 1997, Stein 1993).

In this respect, we need to ask what the ultimate interests of the North and the South are. Determining a losses or gains frame depends on the psychological situations of the actors with respect to their goals. Neither of the two Koreas is satisfied with the status quo (the division of the Korean peninsula). The division of the Korean peninsula resulted from the cold war. Both sides have become a small proxy zone of the cold war competition of the US and the USSR. Both sides have pursued relative gains. Yet, even with the end of the cold war, this situation has not changed.

The competition between the two Koreas has centered on the survival and unification of the Korean peninsula in their own differing ways. Factors that figure prominently in the North's drive to survive in the international community and to Communize the peninsula are (1) Juche' ideology, (2) economic power, (3) diplomacy, and (4) military power.

Juche' ideology (self-reliance, the so-called *Kimilsungism*) has played a dominant role in the politics of the North. The foreign policy is framed within this ideology, which originates from Kim Il Sung's individual interests. Thus, success or failure to establish Juche' ideology as an official ideology, including succession to his son, is directly connected with Kim Il Sung's political survival. In sum then, we can

consider this ideology — and fulfillment of this ideology — as a sufficient measure of the North's frame or reference point. This paper will demonstrate whether his intents and efforts were successful or not in order to determine whether or not the North was operating in a losses frame.

Diplomacy is another important factor. The diplomatic goal of the North is to create or enforce international isolation of the South. By comparing the number of states in the North's camp to the South's camp we can evaluate its success in achieving this goal. If the North's camp is relatively smaller, we can assume this indicates policy failure. As such, the North itself thinks that it is in a losses frame due to the failure of their policy objectives.

Economic and military capacities are sources used to reach the ultimate goal of spreading Communism throughout the Korean peninsula. Both NK and SK have spent time and energy building a large capacity for survival and unification. The relative success of the South in areas like GNP, per capita, economic growth, and military expenditures impact the North's frame.

As discussed in the previous chapter, it is difficult to determine one's exact reference point. But it might be possible to ascertain a reference point based on actor's situation and goals. Stein argues that "attitude towards risk is not only a function of the personal characteristics of leaders but also of the characteristics of the situation." (1993;18) Synthetic consideration of four variables in each incident allows us to uncover the North's frame.¹⁵

¹⁵ Stein argues that "models of rational choice do not treat choice as reference-driven behavior, especially under conditions of incomplete information, 'dirty' and 'noisy' information environments, or inexperience." (Stein 1993;17) Stein's argument offers the possibility of interpreting the North's frame.

2. Data: Four Cases for Understanding the Consistency of the North's Non-Rational Behaviors

There are numerous incidents which have complicated relations with the South. Not only did most incidents occur inside the Korean Peninsula, but they were also perpetrated almost solely by NK without outside aid. However, some incidents cannot be specifically linked to the North. Moreover, the intention of the actions is difficult to ascertain because the interrelation between the North and South is heavily influenced by emotional factors. In short, we need to consider the cases as directly or indirectly involving foreign states as well as South Korea. This allows us better confirmation of these incidents from an external view. This essay will not include incidents before 1960. Instead, four incidents are used to evaluate NK's behavior: (1) tree-cutting incident in 1976, (2) Rangoon bomb blast in 1983, (3) KAL Flight 858 incident in 1987, and (4) the crisis of NK's nuclear weapons from 1991 to 1994.

These four incidents are directly and indirectly related to foreign states and the South. Furthermore, the proponents of the rational or irrational approach have shown four cases as evidence for their explanations. Most scholars of the West argue that NK is crazy (an irrational aggressor) or crazy like a fox (a rational aggressor) in their analysis of these incidents (Lehman 1993, Mack 1993, Robinson 1993, Eberstadt 1994, Kay 1994, Nishihara 1994, Romberg 1994, Sokolski 1994, Roy 1994/1996-7, Kang 1995/1994-5, and Gills 1996, Kang Sung Hak 1997, Lee Choon Kun 1997, and Merrill 1997).

Thus, paradoxically speaking, these four cases might offer essential evidence to demonstrate that NK was not rational nor irrational but non-rational in a losses

frame, who has not maximized its values. Although the incidents vary, there might exist a consistency which these previous theoretical positions have not revealed. Namely, the North was in a losses frame, and thus more predisposed to risk.

As Jack Levy (1997) states, prospect theory should reveal evidence that actors do not follow value maximization of the rational choice model. In this regard, there are two important tasks in this thesis. One is to show whether the North is in a losses frame or a gains frame by analyzing the four variables mentioned above. The other is to infer that the North consistently adopted risk seeking behavior while in this domain of losses.

Since the North is a closed state, nobody knows exactly how decisions are made. If it is difficult to show direct evidence of the North's intentions, the value of research relies on reasonable inference of the material (King *et.al* 1994).¹⁶ In this thesis, in order to infer the North's frame and the possible options considered by NK, I will check the general and objective situations of the North with respect to the North's national interests before and after every incident.

Data for determining the North's frame derived from the four variables: Juche' ideology, efforts to remove Kim Il Sung's political rivals, efforts to develop economy for the communization of the Korean peninsula, efforts to gain legitimacy in the international community, efforts to build a strong military capacity. Data on diplomacy, military capacity, and economy are found in publications outside the Korean Peninsula, such as scholarly journals and books published in foreign states.

Development of Table A1, A2, and A3 (pages 138-41) is useful for judging the North's frame. Table A1 shows the economy of the two Koreas. The data will primarily be offered from the official documents published by the CIA and South Korea. One goal in this paper is to confirm whether these data are reliable by comparing them to other data published in *Military Balance* by IISS and other scholarly articles.

Table A2 is a comparison of military expenditures and diplomacy between South and North Korea. Military data are offered by the *SIPRI Yearbook* (in 1972, 1983, and 1989), *Military Balance* of IISS, *World Military Expenditures and Arms Transfers* of the US Arms Control and Disarmament Agency, and *White Paper* (the Ministry of National Defense of ROK). The diplomatic partners of both sides are supplied by *Korea Versus Korea* by Gills (1996). Since these growth and military expenditure statistics have been controversial, I added Table A3 from *World Military Expenditures and Arms Transfers* in order to clear up issues of reliability and validity.¹⁷ Although the data in these tables are not perfect, the data itself may be very useful to advance our understanding of the North's frame. Even though there are some differences between the sources, data show that the North has failed to construct the conditions for complete revolution. Meanwhile the South has succeeded in surpassing the North in every field. Although some data in Table A1 and A2 are combined from different sources, or are not calculated with consistent prices, there is

¹⁶ King *et al.* argues that one of the most important purposes of research is to infer direct or indirect data—inference of explanation and description (1994).

¹⁷ See Babbie, Earl. 1990. *Survey Research Methods*. 2nd ed. Belmont: Wadsworth Publishing Company. Also Johnson, Janet B. and Joslyn Richard A. 1995. *Political Science Research Methods* 3rd ed. Washington D.C; Congressional Quarterly, Inc.

no problem figuring out the trends of the losses frame of NK because the constant longitudinal data, for NK, are not significant, but the immediate and current data are more crucial. Furthermore, Table A3 complements such weaknesses of Table A1 and Table A2.

Additionally, this thesis will deal with the general situation and national interests with respect to taking risky options. This is done by analyzing articles and official/non-official documents published by the two Koreas. Through these data, it is possible to overcome the limitations of reliability and validity, which Levy (1992/1997) and Shafir (1992) argued. In order to increase reliability and validity, I will also use numerous scholarly articles. From these data we can determine if the North is in the domain of losses or gains based on the four variables. Furthermore, we can infer possible options which NK considered, although nobody knows exact data about NK's decisions.

IV. Overview of North Korean Foreign Policy

So far, this thesis has discussed the weaknesses of rationality and irrationality, and has shown the method and procedure to demonstrate that the rational choice model is inappropriate for understanding and predicting North Korean aggressiveness. In order to offer a baseline to connect a framework with a concrete explanation, this chapter makes some inquiries into the flow of NK's foreign policy, the characteristics of NK's structure in decision making, and the consistency of its goals.

This chapter argues that NK's decision making structure dominated by one individual will require the necessity of individual level prospect theory's usefulness. Investigation of NK's foreign policy will allow us to understand the North's policies for strengthening the four variables. Moreover, we can realize that NK's fundamental goal is to communize the Korean peninsula through their official documents. The North's immediate goals based on Juche' ideology are to remove US troops in the South. In order to do so, NK tries to improve relations with foreign states (especially, the US & the NAM) and then isolate the South from the international community. Domestically, NK concentrates on building a powerful base for extending Juche' ideology to the South. It is also significant for NK to build the proponent groups of Juche Ideology in the South to achieve communization.

Although it is not easy to determine if the North is in a losses frame, an overview of NK's foreign policy will allow us to reasonably infer the North's frame and possible options. The combination of this general idea and the concrete data in the next chapter will allow us to estimate which options are riskier or safer.

1. Historical Background

When Korea was liberated from Japanese rule, the Korean people expected an independent country. Instead the country was divided at the 38th parallel by the USA and the USSR. In November of 1947, the UN General Assembly adopted a resolution to hold general elections under the supervision of the UN. This resolution was denied by the former Soviet Union. The only general election held by the UN was executed in the South, while the former Soviet Union established a pro-soviet regime in the North (Gills 1996;41-45).

Tension between the different ideologies of liberal democracy and socialism led to the Korean War. At the time of division, NK was much more powerful in economic and military fields. The North had well-trained troops and advanced weapons from the USSR (150 T-34 tanks), while the South had 8 infantry divisions and no armored divisions. Moreover, during this time, the US declared South Korea outside of the US's defense perimeter (the declaration of Dean Acheson, US Secretary of States, on January 12, 1950). Essentially, the US defense priority centered on Japan. The US withdrew all troops from the South, while the USSR strengthened the North's military capabilities (70 Yak fighters, 60 Bombers, 150 T-34 tanks, and 100,000 well-trained soldiers). Kim Il Sung succeeded in persuading Stalin that a surprise attack would succeed in extending world communization. Kim Il Sung was confident of victory (Buhite 1986, Beloff 1953, Slusser 1977, Chen-Ya Tien 1992, Kang Sung Hak 1997, Gills 1996, Savada 1994). Moreover, the domestic politics of SK was very unstable. Kim Il Sung believed that the South Korean Workers' Party would be very helpful in a military revolution in the South. Thus, the

surprise attack was based on a calculation in the gains frame — (i.e. the attack was perceived to be a sure gain).

Not only did the Korean War cause a tremendous loss of lives and wealth, but it also left a huge wound, scarring the collective memory of the Korean people. Both Koreas entered into endless hostility toward each other. Such hostility led to serious competition in all fields. Up until the mid-1960s, the North's rehabilitation was very successful, but in the 1960s the radical development of the South's economy began to overtake the North.

During détente in the 1970s, the two Koreas tried to improve their relationship, but they could not overcome the huge obstacle because of their ideological division. The degree of the North's aggressiveness became gradually more serious, with respect to their depression originating from the failure in economy and diplomacy in the 1970s and 1980s. They sometimes played a cooperation card, and sometimes a terrorism card.¹⁸ The aggressiveness of the North is diverse. They tunneled into the South, sent in commandos, and committed acts of international terrorism (see List, pages 142-3).

Although the two Koreas reached "the Basic Agreement on Reconciliation, Non-aggression, Exchanges, and Cooperation between the North and South" on December 13, 1991, the North's nuclear weapons program hindered executing that

¹⁸ The cooperation card of North Korea was a risky option because NK identified larger but uncertain losses from cooperation and smaller but certain losses from defection. Thus, the cooperation card was not consistent with its immediate goals. This choice was an anomaly of rationality with respect to value maximization. At that time, the openness and cooperation with SK and the West were risky choices because these choices might have caused North Koreans to recognize that they had been cheated by Kim Il Sung. Such a recognition might have been a reasons to destroy Kim Il Sung's political position and Juche' ideology.

agreement.¹⁹ In the recent four party-talks (including the North, South, the US, and the PRC), four countries are trying to construct permanent peace and prepare for unification, but the future result is uncertain. On the other hand, after solving the nuclear crisis in 1994, both Koreas began to seek absolute gains in non-political areas.

2. Juche' Ideology and Policy Making Structure

The foreign policy of North Korea has been directly related to the development of Juche' ideology. After the Korean War, Kim Il Sung concentrated on strengthening his dictatorship and rapid rehabilitation. On December 28, 1955, he first announced "Juche", which means "self-identity," "subjectivity," "self-reliance," or "autonomy." (Byun Dae-Ho 1990;21).²⁰ Kim Il Sung claims that Juche' ideology is the creative application of Marx-Leninism in North Korea.

Do Hong-Ryol, however, argues that Kim Il Sung create Juche' ideology to purging his political rivals. The PRC is the product of an epic revolutionary movement led by Mao Tse-Tung, while DPRK is the creature, primarily, of the Soviet Union. Kim Il Sung has falsified the history of Korean independence and the

¹⁹ The guidelines of that agreement are:

- Mutual recognition of each other's systems and an end to interference, vilification, and subversion of each other.
- Mutual efforts "to transform the present state of armistice into a solid state of peace," with continued observance of the armistice until this was accomplished.
- Nonuse of force against each other, and implementation of confidence-building measures and large-scale arms reductions.
- Economic, cultural, and scientific exchanges, free correspondence between divided families, and the reopening of roads and railroads that had been severed at the North-South dividing line.

communist movements. He has dealt with his political opponents and rivals harshly in order to legitimize his rule (Koh 1978a, Lehman 1993). Destalinization and demaoism created fear in Kim Il Sung. His success in eliminating political opponents drowned out pro-soviet and pro-china factions, and the South Korean Workers Party until 1965.

Kim Il Sung stressed economic independence as the key for political independence. He followed the Soviet model, building heavy industry, despite Stalin's critique of his policy (Byun Dae-Ho 1990). In turn, Kim Il Sung turned to Mao's self-reliance policy of 1958.²¹ From 1962, the Sino-Soviet disputes required changing the political line. Kim Il Sung addressed "Self-Reliance in Defense" at the 5th plenum of the 4th Central Committee of the KWP (Korea Workers' Party) on December 10-14, 1962. Juche' foreign policy was a final stage of Juche' ideology in response to the Sino-Soviet split. He tried to keep a balance between the PRC and the USSR, but Khrushchev deteriorated relations with the North. After the appearance of Brezhnev-Kosygin, the relationship recovered.

In the early 1970s, Kim Il Sung constructed a dictatorship in the style of Stalin. In 1972, he established the constitution based on his ideology, so-called "Kimilsungism", or Juche' ideology. The government structure is dominated by the Korean Workers' Party (KWP). As shown in Figure 2, under the North Korean Constitution, the Supreme People's Assembly has all rights to make foreign policy. The KWP, however, makes all policy and the Assembly merely endorses it.

²⁰ Juche' ideology was not official until 1967.

²¹ He launched the "Chollima (flying horses) Movement" to reach the goal of the First Five Year Economic Plan (1957-1961).

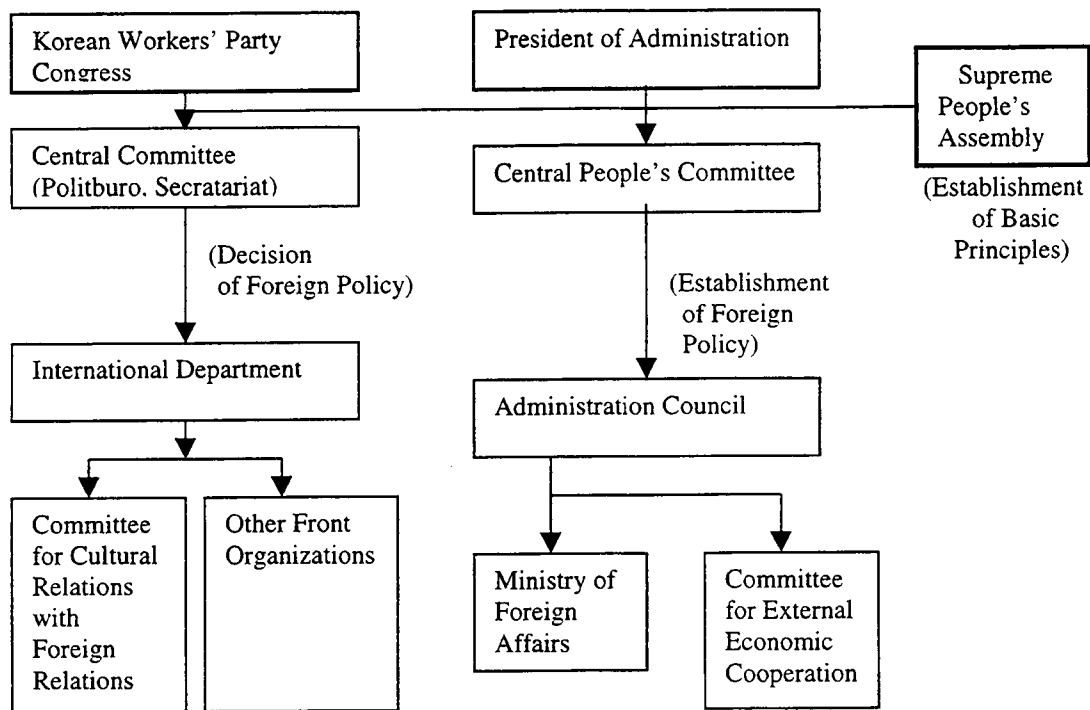


Figure 2. Policy Making Organizations of North Korea

Source: (1) Suh Dae-Sook. 1986. "The Organization and Administration of North Korean Foreign Policy." *In North Korea in a Regional and Global Context*.
 (2) The Ministry of Unification of ROK. "Basic Information about North Korea." <http://www.unikorea.go.kr/DATA/D/4/eD4010000.htm>.

Because the chairman of the Assembly is appointed by Kim Il Sung, the process of endorsement is a formal procedure. The International Department in the KWP plays a great role in the development of policy. The Central People's Committee supervises both the KWP and the administration. Kim Il Sung was a chief of both the committee and administration as secretary and president. Now, Kim Jong Il has inherited these positions from his father. The president is empowered to "directly guide" the Central People's Committee (Article 91) and ratify or terminate treaties (Article 96). Many different institutions have been added, but the dictator's role remains absolutely dominant.

We need to pay attention to the fact that the president actively takes part in policy making. However, although Kim Jong Il was not president, Kim Il Sung entrusted him to lead the KWP for training as the next leader. From 1974, all media called Kim Jong Il "party center."²² It is apparent that he greatly impacted decision making, although the power of policy making was gradually transferred from the party to the administration. This is because the first principle in the North Korean government is that the KWP is responsible for leading the administration. Kim Jong Il was leading the KWP. The expression of the North Korean government and all media toward him reflected his role in policy making. At that time, all media and the government referred to the political activities of Kim Il Sung and Kim Jong Il as "special guide." It is very important to judge whether the policies of the Kim Jong Il regime were successful or not. This is because his failure means that the North is in a losses frame according to Juche' ideology. Thus, foreign policy making was not excluded by this boundary. Looking at bureaucratic politics in the North might be difficult. However, that is not to say that there is no such bureaucratic style in policy making.

²² According to Suh Dae-Sook, from the mid-1970s Kim Il Sung began to give Kim Jong Il rights to intervene in the decision making process in the KWP, whereas administration mainly dealt with foreign affairs (1979).

3. National Interests and Goals of North Korea

The ultimate goal of North Korea is to communize the Korean peninsula.

Article 5 of DPRK's constitution, enacted on 27 December 1972, describes NK's ultimate goal:²³

the Democratic People's Republic of Korea strives to achieve the complete victory of socialism in the northern half, drive out foreign forces on a nationwide scale, reunify the country peacefully on a democratic basis, and attain complete national independence.

In the Preamble of the Korean Worker's Party, it states:

The Korean Workers' Party is a Juche-type, revolutionary Marxist-Leninist Party by the great leader, comrade Kim Il Sung.... The present task of the Korean Worker's Party is to ensure the complete victory of socialism in the Democratic People's Republic of Korea and the accomplishment of the revolutionary goals of national liberation and the people's democracy in the entire area of the country. The ultimate task is to imbue the entire society with the Juche' ideology while, at the same time, establishing a communist society throughout the country... the Korean Workers' Party develops the struggles for both expelling American imperialist forces from South Korea and frustrating the return of Japanese militarism to the Korea Peninsula; ardently supports the struggle of the South Korean people for social democracy and independent national existence; and fights for a self-reliant, peaceful reunification of the fatherland in order to develop the unified development of the entire Korean people in every aspect.

As shown in Figure 3, the North has planned four stages of revolution. Kim Il Sung, after finishing the collectivization of 1958, regarded the current situation as a

²³ In 1992, NK replaced the old constitution established in 1972 with the new constitution composed of 7 chapters and 171 articles. The old constitution described that Juche' ideology was a recreation of Marxism-Leninism, while the new constitution eliminated Marxism-Leninism in the concept of Juche' ideology. It reflected the collapse of the Soviet bloc. Furthermore, the initial purpose of the new constitution is to strengthen completion of succession to Kim Jong Il. The new constitution gives Kim Jong Il power. For instance, a supreme right to command the military is not under the jurisdiction of the State President, Kim Il Sung, but under the chairman of National Defense Committee, Kim Jong Il instead. Although the new constitution emphasizes the productivity of economy and shows the flexibility for economic revitalization by inducing the funds from the West, the ultimate goal of communization has not changed.

transitional period to the complete revolution. During this transitional period, he stressed three major goals: (1) domestic revolution; (2) revolution in the South; and (3) world revolution:

First, domestic revolution is to build the foundation of socialism and Communism in the North by eliminating all obstacle, which hinder Juche' ideology. In Figure 3, the anti-feudal democratic revolution and socialist revolution have already been finished in the North. Strengthening domestic revolution means obtaining a power base for communization of the South.

Thus, Kim Il Sung emphasized three essential factors for the domestic revolutions in the North; ideology, technology, and culture (Suh Dae-Sook 1986, Byun Dae-Ho 1990).

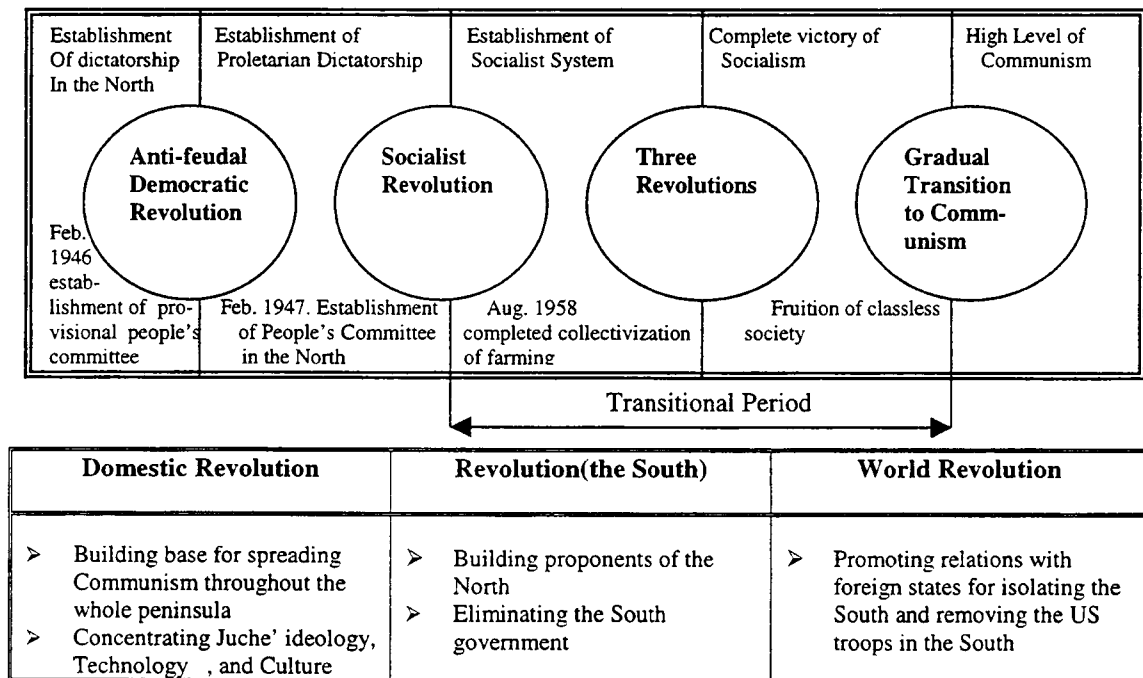


Figure 3. The Stages of Revolution and Goals of Three Revolutions

Source: The Ministry of Unification of ROK. "The Basic Information about North Korea."
<http://www.unikorea.go.kr/DATA/D/4/eD40110000.htm>.

Various campaigns have been led by Kim Jong Il, such as "Three Revolutions Movement," "the Victory of the Red Flag of the Three Revolutions," "a Learning From Our Hidden Heroes." Revolution in the South means constructing the successful regime of following Juche' ideology in South Korea. Basically, NK did not regard SK as a representative government, but as a puppet of the US. Thus, the first mission was to eliminate the Southern government. In order to achieve that, it was necessary to build South Korean supporters in all areas of life (academy, company, government, and even military). This revolution was reflected in "United Front Tactics." According to *A Handbook on North Korea* published by the *Korea Herald*, "the tactics refer to the political coalition of various political parties and social organizations as well as of the individuals, formed for the purpose of opposing common enemies."

While world revolution might be a goal of the North, it is not a practical matter. Thus, the North claims that it is very important to strengthen diplomatic relations with Communist states, the NAM, and western states including the US and Japan. Essentially the North downplays ideology in international relations to promote relations with all states in order to attain tactical goals, removing the US troops in the South and international isolation of the South.²⁴

Kim Il Sung was confident of the completion of building a power base for spreading Communism throughout the peninsula in the North by establishing Juche'

²⁴ On 14 Feb. 1965 Kim Il Sung elaborated on three main forces for Communization of the whole Korean peninsula in an address to Indonesia, "Our victory in the Korean revolution and unification depends on the preparations by three main forces. First, we should try to establish socialism well in the North to become more powerful politically, economically and militarily. Second, we should strengthen the revolutionary forces in South Korea by politically awakening the people and strongly binding

ideology and eliminating political rivals in the 1970s, except succession to his son Kim Jong Il. The main problems are revolution in the South and world revolution. The culminating point for complete revolution requires creating a harmony of the three revolutions. The completion of three revolutions — domestic revolution, the revolution in the South, and World revolution — removing the US troops in the South and obtaining legitimacy from International community — is the so-called “Culminating Point” for Communization in the Korean peninsula.²⁵

North Korea has regarded foreign policy as a tool for gaining “Nationwide Victory of the Korean Revolution.” Immediate goals such as the pursuit of legitimacy, security, and economic development are aimed at the goal of communization.

From 1948 to the early 1950s, the North sought tight diplomatic relations with the Soviet bloc. From the mid to late 1960s, the North tried to diversify foreign relations toward ‘AA Group’ (the new independent states of Asia and Africa) as well as strengthen relations with the PRC and the USSR. The North turned to a practical foreign policy during the new international order (détente, diplomatic normalization with the PRC and the US/Japan, the South’s new foreign policy toward the NAM, etc. in the 1970s). Kim Il Sung initiated the so-called “People Diplomacy.” Instead of the

them. Third, we should reinforce the solidarity of Korean people and international revolutionary forces.

²⁵ Both sides’ ultimate goals are to reunify the Korean peninsula through their own method—the complete communization for the North and the complete democratization for the South. However, the viewpoint about reunification is so different. The South wants peaceful reunification to keep their own property, while the North regards the method as a secondary element. Kim Il Sung emphasized non-peaceful or peaceful tactics for Communization. Since the Seoul Olympiad in 1988, the South has begun to have complete confidence against the North. Finally, the South declared the end of competition with the North in the early 1990s. However, the North has not given up its own strategy.

armistice, he proposed a Peace Treaty with the US in March of 1974. Until the early 1970s, the North's diplomacy was very successful.²⁶ After the tree cutting incident in 1976, the North was internationally isolated because of its hostile policy toward the South.²⁷

In October, 1980, Kim Il Sung declared three basic principles of foreign policy in order to overcome international isolation: (1) independence, (2) friendship, and (3) peace. His intention was to promote relations with the West and to strengthen relations with the traditionally amicable states (Soviet bloc, the PRC, and the NAM) (Suh Dae-Sook, 1986). This is because the North realized that only the West (SK, Japan, and the US) could help to solve economic stagnation and eliminate obstacles to communization. Such a foreign policy for the North resulted in continuous demands for a "Peace Treaty" with the US without the South and the promotion of diplomatic relations with the US and Japan. On the surface, the North claimed that an apology from Japan was a condition of diplomatic normalization. However, its intention was to obtain financial aid for compensation for colonial sacrifice.

The real meaning of the principles can be interpreted within Kim Il Sung's piece in the "Joint Statement of the North and South" delivered on 4 July 1972. First, Kim Il Sung stressed that "independence" meant driving the US troops out of South Korea.²⁸ Second, "peace" meant stopping the South Korean military improvement

The North has concentrated on constructing the capacity to communize the South at a decisive time, the so-called "culminating point" by Clausewitz (1976;479-483).

²⁶ North Korea entered the group of NAM in August, 1975. On the other hand, after tree cutting incident in 1976, active efforts of both the South and the US toward third world isolated the North.

²⁷ Involvement of the North diplomats in smuggling cases also influenced its bad reputation (the Ministry of Unification of ROK, n.d.a).

²⁸ Kim Il Sung, 1972. *On some Problems of Our Party's Juche' Idea and the Government of the Republic's Internal and External Policies*. Pyongyang: Foreign Languages Publishing House. pp.5-27.

program. Third, "great national unity" meant solidifying antigovernment forces in South Korea. Suh Dae-Sook argues that the basic principle of North Korea was to get rid of the South Korean regime and win over the people (1986). Thus, the principles of foreign policy do not deviate from the real strategy of communization. Additionally, Kim Il Sung added the importance of trade with the West, which would help revitalize the North's economy.

In sum, the North's dictators, Kim Il Sung and Kim Jong IL, have definitely played a great role in the North Korea's foreign policy. The Juche' ideology is the basic foundation of their foreign policy. The North's ultimate goal is to Communize the entire Korean peninsula. Although the North's short term goals have changed according to internal and external circumstances, the ultimate goal has not. Among diverse goals, the most dominant interest has been to eliminate the US troops in the South and promote the relations with the US. The Peace Treaty is a kind of policy tool for reaching the objective.

On the other hand, South Korea's ultimate purpose is to democratize the whole peninsula. The Park Chung Hee regime in the South announced a peaceful competition with NK and proposed the attendance of both Koreas in the UN simultaneously. The economic/military confidence of the Park administration allowed the South to behave actively in the relationship between the two sides. Furthermore, Roe Tae-Woo, former president of the South, declared that the North was not an enemy any more in the early 1990s. He accepted the North as a comrade for Korean prosperity.

V. Non-Rational Behavior of North Korea: The Application of Prospect Theory to Four Cases

So far, this thesis has discussed the limitations of two main perspectives as well as positing prospect theory as an alternative. I have shown some characteristics of North Korean foreign policy. North Korean foreign policy is dominated by an individual actor. Their policy goals are to make the whole peninsula communist. In order to achieve this, the immediate goal is to build the capacity for a "southern revolution." Juche' ideology supplies a baseline in the decision making process. Constructing a more powerful capacity in economic, diplomatic, and military terms is the immediate task at hand.

The rest of this study will focus on demonstrating that *the North is risk acceptant in the domain of losses; NK is not irrational nor rational but non-rational; the aggressiveness of NK is not always related to their goals; in some cases, rather, their risk seeking policy is associated with their frames*. The answer to whether NK is non-rational can be found in the argument of Stein: when people identify smaller but certain losses from "Choice A" and larger but uncertain losses from "Choice B". Under these conditions, "Choice B" is not the rational choice (Stein 1993:22). Accordingly, if the North pursues choices with larger but uncertain losses, it will not be said to be rational, because NK's choices are inconsistent with its goals.

In order to demonstrate such arguments, this paper will deal with four variables step by step. By doing so, I will determine that the North is in a losses frame. And then, I will build the North's possible options based on their immediate goals. Through analyzing the value of each option, I will reveal which choice is rational. Lastly, I will explain why NK selected riskier options under the view of prospect theory.

1. Case I: Tree-Cutting Incident in 1976

On the morning of August 18, 1976, North Korean soldiers killed two US officers who were trimming the boughs of a forty-foot-high poplar tree. Before cutting the tree, the United Nation's Command notified North Korea of the work. This incident was a deliberate murder planned by the North Korean Government in that local commanders did not have the right to kill US officers in the Joint Security Area (JSA), and in that the North was previously notified of the tree-cutting; furthermore, that area was supervised by the Neutral Nations Supervisory Commission (NNSC).

The incident was a psychological retaliation against the active diplomatic movement of both South Korea and the US (Kang Sung Hak 1997, Koh B.C. 1977). At that time, both SK and the US intended to drive wedges into the Third World coalition, splitting the pro-western moderates from the anti-Western radicals. Such efforts threatened the North. Under these situations, NK took a riskier set, killing US soldiers in the JSA, in order to avoid losing diplomatic supporters of NK in the Third World.

A. Frame: The Domain of Loss

From 1953 to 1960, both the South and the North have concentrated on rehabilitating and reconstructing their political, economic, and societal systems. It is not clear which side was in a losses or gains frame. During this period, it was difficult to find serious terrorism from NK. NK actively suggested talks during the 1950s and the early 1960s through successful reconstruction after the Korean War. Kim Il Sung

successfully completed economic plans, such as the "Three-year Economic Plan (1954-56), the Five-year Economic Plan (1957-60)" (Kyung Ae Park & Sung-Chull Lee, 1992).²⁹ According to NK's officials, during this period, NK industry grew 36.6 % (the Ministry of Unification of ROK, n.d.b). Meanwhile, due to political instability, SK fell behind the North.

As shown in Table A1, the CIA estimated that SK's GNP was about three times that of the North. However, most specialists have argued that SK did not overtake the North's economy until the early 1970s (Yoon Suk Bum 1986). According to the Bank of Korea in the South, SK's per capita GNP in 1970 (\$242) overtook the North's (\$209). Table A3 shows that NK's per capita GNP (\$493) was surpassed by SK (\$838) in 1971. From 1960 to 1970, the North outspent the South in military expenditures. Yet, the number of the diplomatic partners of SK was two times that of the North (Table A2). It was not until 1967 that the North displayed violent behavior as shown on the list on pages 142-3. The North was confident of spreading communism throughout the whole peninsula through the superiority of its military and economic power.

However, after the mid-1960s, the military government of Park Chung Hee began to succeed in developing the economy and stabilizing domestic politics. Park's strategy was first to construct and then to unify (Park Sang-Seek 1986, Yu Suk-Ryul 1986, Park Kyong Ae & Lee Sung Chull 1992). Meanwhile, the extraordinary military expenditures of the North deteriorated the balance of economy. In short, from

²⁹ Kim Il Sung tried to overcome the aggressor originating from the Korean War; thus, his offensive gesture for talks with the South was a kind of strategy to get legitimacy from the international society. That was a rational strategy.

1960 to 1970, the growth rate of SK was 10.3 %, while the North's rate of growth was 5.6%. The military expenditures of the South in 1961 were at most 80% of the North, while in 1976 they were almost equal to the North's (Table 2). In the field of diplomacy, however, the North's achievement was great. The North did not fail in strengthening its relationship with the NAM until 1976. Namely, the only successful field, for the North, was diplomacy. Thus, the active diplomatic movements of SK and the US made the North realize serious losses. Generally, the North's national strength fell behind the South's.

Under such circumstances, on January 21, 1968, Kim Il Sung sent large groups of commando guerrillas into the South—they targeted the Blue House of the President of SK. And in 1969, Kim emphasized that “what is important is that we come to the aid of the South Korean people whenever they request it, whatever the outcome of the war may turn out to be. We should be ready to respond to their call for aid even if it comes tomorrow.”³⁰ He established the VIII Corps for speedy attack by large groups of guerrillas. At the Fifth Party Congress in November 1970, Kim boasted 4 major military-lines for Communization of the South by force—(1) the arming of the whole people, (2) the fortification of the entire country, (3) the training of all soldiers as a cadre force, and (4) the modernization of arms (Choi Young, 1985).

In fact, it is not clear whether or not NK's behavior was rational. Nor is it apparent whether NK was in a losses or a gains frame until the early 1960s. Since both sides developed separately, the North might have been in a gains frame if

looking at absolute gains. The North probably began to recognize a relative loss to the South after the mid-1960s.

Fundamentally, NK is a revolutionary state. Its aggressive behavior might generate from the original strategy of spreading Communism throughout the Korean Peninsula. Because NK did not accept the existence of SK as a legitimate government, NK tried to eliminate the South Korean government. However, since 1976, NK has been clearly in a losses frame.

Kim Il Sung's internal goal is to keep his position as the president of North Korea, and externally, to eliminate obstacles to Communization. In order to avoid possible political instability influenced by the destalinization in the Soviet Union, Kim Il Sung began to build his personal charisma. It was necessary for Kim Il Sung to construct the Juche' ideology as a way of purging potential political rivals.³¹ Juche' ideology has been officially called Kim Il Sung-ism since 1974. Kim successfully eliminated his political rivals. The newest issue is to solve the appearance of a new generation, technocrats, who could possibly become anti-Kim family groups. Through the lessons of the Soviet Union and PRC, Kim realized his son, Kim Jong Il, was the most adequate successor (Lee Chong-Sik 1982). Kim Jong Il has been active in politics since 1963. Around 1974, many media in the West began to focus on

³⁰ Kim Il Sung, "Concluding Speech at the 4th Expanded Plenum of the 4th Choson People's Army Party Congress (January 6-14, 1969).

³¹ Juche' means "the independent stance of rejecting dependence on others and of using one's own powers, believing in one's own strength and displaying the revolutionary spirit of self-reliance (Savada 1994;183). Hwang JangYop, the former secretary of the Korean Workers' Party (KWP), who defected to South Korea in 1997, played great role in building Juche' ideology.

reporting Kim Jong Il's activity (Clippinger 1981). In 1975, Kim Jong Il supported by Kim Il Sung, more officially and actively led KWP (Kim Young C. 1976).³²

The success and failure in foreign policy, for Kim Jong Il, is important because this influences his inheriting political power from his father. Thus, Kim Jong Il's failure in foreign policy represents a shift to a losses frame in domestic politics. In fact, Kim Jong Il's choices were not successful. For instance, in July 1976, unpredictably, some groups challenged the charisma of Kim Il Sung's cult family. Vice-President Kim Dong-Kyu and some opponents criticized Kim Jong Il's policy (Yu Young-Ku 1997). Byun Dae Ho argues that opponents centered around Kim Young-Ju, a younger brother of Kim Il Sung, struggled to destroy feudal succession. As a result, from April 1977 to 1979, the media in the North stopped describing Kim Jong Il as a "Party Center" (1990;81-82).³³ Although Kim Il Sung succeeded in transplanting Juche' ideology into the North society, his domestic goal of family succession seemed to be threatened. Such information allows us to guess that the failure of the tree-cutting incident might have caused his political failure. Thus, in the field of domestic politics, the North can be said to have been in a losses frame in 1976.

In other fields, the North was also in a losses frame. The size of the GNP for the South was more than three times that of the North (Table A1, A2). Even the North's economy recorded negative growth (-3.9%), whereas the South's economy

³² Kim Jong Il emphasized "Three Great Revolutions"—"the working class must continue the revolution even after overthrowing imperialism and capitalism and establishing a socialist system because socialism and Communism can be constructed only through long periods of struggle for economic construction and class struggle (Lee Chong-Sik 1982;435)

positively grew 15.1%. This economic success allowed the South to invest in heavy military expenditures, which surpassed NK's (Table A3) or was almost equal to it (Table A2) in 1975. According to data of the Bank of Korea, the South first overtook the North in per capita GNP in 1970 (Table A1). The difference of per capita GNP between the two Koreas increased—From 120% of NK's Per Capita GNP in 1970 to 130% of NK's in 1975. Therefore, in economy and military expenditures, the North was in a losses frame.

In diplomacy, NK was successful in surpassing the South (Gills 1996). In 1970, the number of diplomatic partners for the South was about 240% of the number in the North, while it was almost equal to the North in 1975. Thus, Kim Il Sung expected that diplomatic efforts for removing US troops in the South was possible.³⁴

Such expectation was faced with failure due to the movement of the US and the South toward the NAM, after 1976. According to Gills, "On 29 January 1976, Kissinger told the US Senate Foreign Relations Committee that the United States would use aid to influence Third World political choice, increasing aid to those who abandoned 'bloc voting.'" North Korea called for political support from the NAM. The North Korean Supreme People's Assembly sent an open letter on 4 March 1976 to all parliaments and governments of the world appealing for the withdrawal of US troops on the Korean peninsula (Gills 1996). The active movement of the US and the South was decisive enough to create fear in the North. Psychologically, NK might

³³ The Sixth Congress of the KWP, held in October 1980, officially confirmed the successor of Kim Il Sung. His position made him head of the politburo, the party secretariat, and the military commission (Lee Chong-Sik 1982).

³⁴ Due to the Hallstein Doctrine—the doctrine calling for no relations with any state having relations with North Korea, the South's diplomacy was not successful, while the entry of the PRC into the UN contributed to the change atmosphere into an advantageous phase for the North.

have believed that its weakness in diplomacy would deprive it of its goal to remove US troops in SK. When we consider the four variables within the dimension of the North's reference points, we can infer that the North was certainly in a losses frame.

B. Risky Acceptant Selection by North Korea under Stress

In order to understand the process by which North Korea took a riskier choice, it is necessary to look at the brief flow of both Koreas' diplomatic activities. South Korean President Park Chung Hee declared peaceful talks and ideological competition in 1970 and gave permission for the North to enter the UN as the representative of the North Peninsula. He also discarded the Hallstein Doctrine and ensured in an open policy toward the Communist bloc in 1973. In 1972-73, various negotiations (i.e. inter-Korean Red-Cross talks) were held. The differences in agendas of the two Koreas caused a halt to the negotiations. SK was pursuing an economic and cultural approach, while NK was sticking to political and military issues for the withdrawal of US forces. NK attempted direct contact with the US to bypass the South. In 1973, NK sent an open letter to the US Congress calling for a halt to military support to SK (Park Kyung-Ae 1997:624). In 1974, Kim Il Sung proposed a "Peace Treaty" with the US to override the Armistice. The strategic goal of NK was to exclude SK and induce the US to withdraw its troops.³⁵

Until the mid-1970s, the victory of Communist groups in Indochina gave Kim Il Sung a psychological boost. In the presidential election, Jimmy Carter's policy

³⁵ NK argues that SK is not eligible to negotiate the peace treaty because SK did not sign the Armistice. Instead, the US as representative of the UN did. They emphasize that the negotiation should be adopted by both NK and the US without SK.

toward the Korean peninsula hinted at the withdrawal of the US Army. This heightened Kim's expectations. In 1976, however, the US Secretary of State Henry Kissinger launched a new third world policy of changing anti-Americanism into pro-Americanism through economic aid to the NAM. The diplomatic activities of the South based on economic aid were very successful, whereas the North's diplomacy, based on Juche' ideology, was too inflexible. Thus, Gills points out that after the mid-1970s, the situation of diplomatic competition between the two Koreas quickly reversed (Gills 1996).

On August 5, North Korea showed a nervous reaction to the active diplomatic movement of SK and the US. According to Oberdorfer,

North Korea had issued a lengthy government statement charging that the United States was stepping up plans to invade the North. Pyongyang claimed they *"have now finished war preparations and are going over to the adventurous machination to directly ignite the fuse of war."* The declaration was highly unusual, being only the third official government statement on a Korea peninsular issue since the armistice. (1997c:77)

Such response reflected in the North a psychological delusion of persecution. The incident of the tree-cutting was pre-scheduled by the North. The pressure of SK and the US on NK was heightened in the summit for the NAM

From 16 to 19 August 1976, at the summit for the NAM in Colombo, Sri Lanka, the South tried to moderate The NAM by opening with the one-sided support of the North. On 16 August 1976, 31 co-sponsors submitted a draft which supported the North's assertion (withdrawal of the UNC and replacing the Armistice with Peace Treaty) to the 31st UNGA session. However, the efforts of the US and the South were

not trivial. In this atmosphere, Kim Il Sung might suddenly sink into the depths of despair. This desire to remove US troops only by diplomacy might disappear.

Under such a serious losses frame, the North's possible options are shown in Table 1. NK selected a risky choice set, "Option 1". Namely, NK killed two UNC officers by using axes at Panmunjom located in the Demilitarized Zone on August 18 1976. Kang Sung Hak argues that despite low probability, the North had expected that Americans would not accept another Vietnam and would press the US government for withdrawal of the US troops in South Korea. He argues that the murder was a psychological retaliation generated from the despair of expectation (1997:32-4).

As Shown in Table 1, the North's immediate interest was to remove the US troops in the South. If the US and the South succeeded in taking away votes from the NAM bloc, the North's efforts to eliminate the UNC in the South would be useless. In order to undermine the intentions of the US and the South, the North executed the tree-cutting incident. Briefly speaking, the option was chosen by Kim Il Sung, believing that there were no more disadvantages to this than any other option. On August 19, 1976, the North warned, "If the US imperialists dare start a war in defiance of our stern warning, they will be unable to escape a crushing blow" (Koh, 1977). Koh (1977) alleges that the decision was made under stress. In this sense, it is apparent that the status-quo, "Option 2", was a much safer choice set; however, the chose "Option 1."

In fact, Carter did announce a plan for the withdrawal of US troops from the Korean peninsula.

Table 1. North Korea's Interests and Possible Options in 1976

National Goal and Interests of North Korea	<u>Fundamental Goal: Communizing the whole Korea</u> • Building capacity for communization. • Removing US troops and sealing Peace Treaty with the US. • Isolating the South in international society. • Promoting foreign states (socialist states, the West, and the NAM).
Option 1: Execution of The Tree Cutting Incident <u>Benefits</u> • Preventing the US and SK from expanding foreign policy toward the NAM. • Stimulate the US public opinion toward the withdrawal of the US troops in SK (very low probability). <u>Costs</u> • Strengthening US troops in SK. • Degenerating mood of détente in Korea. • Producing a bad reputation. • Relative rushing of the SK diplomacy due to bad image of NK. • Reducing trade with the West. • Bad influence on South Korean supporters of Juche' ideology. <u>Greater Benefits or Losses but it is Uncertain</u>	Option 2: Keeping Status-Quo <u>Benefits</u> • Increase the possibility of withdrawal of the US troops and promotion of relations with the US. • Keeping good relations with the NAM. <u>Costs</u> • Losing some amicable the NAM states to the US and SK. <u>Smaller Benefits or Losses but It is Certain</u>

Carter recognized the South's government of Park Chung Hee as a non-democratic administration which had oppressed human rights. For the North, it was worth it to wait for Carter's election and to expand public the opinion of the withdrawal of US troops. Don Oberdorfer, a reporter of *the Washington Post*, argues:

As early as January 1975, in the first days of his candidacy for president, Carter advocated the withdrawal of US troops from South Korea, which after the pullout from Vietnam were the only remaining US military deployment on the mainland of Asia and a tripwire that guaranteed immediate US involvement in case of a North Korean attack. After the little-known former governor of Georgia surprisingly won the nomination of his party and then the presidential election, he ordered that his idea be put into practice despite the absence of serious consideration within the government, despite the opposition of South Korea, which was alarmed, and Japan, which was gravely concerned. (1997c;84)

Furthermore, there were no reasons to stimulate the US public opinion for the withdrawal of US troops. According to Louis Harris public opinion poll in April 1975 asking who would favor US involvement if North Korea attacked the South, only 14% positively responded to the poll, while 65% answered negatively (Oberdorfer 1997c:87).³⁶ The North ignored such a good opportunity. Instead, NK selected a riskier option with larger but uncertain losses.

The Endowment effect is useful in understanding this behavior. The instant endowment effect means that after a series of gains (successful diplomacy and the victory of communist groups in Indochina), an individual tends to treat the possibility of a subsequent setback as a loss (losing NK's supporters of the NAM by Kissinger's movement). The tendency is to overweigh it, and engage in risk-seeking behavior to maintain the cumulative gains against a loss. One cannot be sure of Kim Il Sung's options. But we do know that he chose a risky option because he wanted to avoid certain losses although the safer choice option had smaller losses.

The proponents of the rational perspective argue that Kim Il Sung's efforts to reduce tension generated by the powerful response of the US after the incident is an example in which NK is rational (Kang 1995). Their arguments are not wrong. However, we need to pay attention to the decision making process. The choice of "Option 1" is not rational but non-rational. The rational choice model cannot explain this behavior. Under the perspective of the rational choice model, NK would take "Option 2". NK took a *satisficing strategy*, "Option 1". Thus, the rational perspective is not appropriate to explain why NK discarded a useful option consistent with its

³⁶ Ford also launched a secret study about the question of reducing American military presence in

goals. Clearly this incident was a result of a losses frame. Since the US stood in the position of rationality, they could not predict such an anomaly of rationality, although the US recognized the North's unpredictable behavior, typified by its challenging announcement as mentioned above. Why did the North take rational steps after the incident? It is suggested that one's risk orientation may break down when facing very small probability or for catastrophic losses.³⁷ Eventually, David Kang's argument, which for NK, the efforts for reduction of tension by Kim is rational evidence, is not more persuasive than prospect theory's explanation.

After this incident, NK was seriously damaged in diplomacy and justified the existence of the US forces as the representative of the UNC in South Korea. Kim Il Sung expressed personal regret for the incident on September 6, 1976. From 1976 to October 1988, the North did not address the Korean debate in UNGA session. The South Korean government used this incident to strengthen the so-called "BanKong spirit" (anti-communism). Further results were that the North's intended revolution in the South became a much more difficult task after this incident. Also, the Carter administration did not withdraw as many as US troops as he had promised. Because of the bad reputation of the North, trade with the West rapidly reduced.³⁸ In addition,

South Korea (Oberdorfer 1997c:86).

³⁷ David Kang shows Kim Il Sung's efforts to reduce tension originated from "Tree-Cutting Incident" as a rational behavior(1995).

³⁸ For instance, trade with Japan/United Kingdom/France/West Germany/Italy/ Australia was 233.81 Million Dollars in 1974, while it was 72.64 Million Dollars in 1977. Source: Asian Trade Research Institute. 1983. *Trade Volume/GNP of Two Countries*. Tokyo. According to this institute, all those states reduced the amount of trades with the North.

this incident created a burden for NK in maintaining the so-called "Hermit Kingdom".³⁹

2. Case II: The Incident of the Bomb Blast in Rangoon in 1983

A. Losses Frame

The bombing aimed at the Cabinet of South Korea in Rangoon is a case which for NK was neither rational nor irrational. Rationalists or irrationalists have used this case for their explanations. However, this thesis argues that NK's choice is not consistent with their immediate goals. Although NK considered options on the basis of their goals, NK discarded a higher value option. Again here, the rational choice model cannot explain such an anomaly of rationality. On the other hand, the hypotheses of prospect theory are adequately suggestive to explain such behavior.

The incident occurred on the first leg of President Chun Doo-Hwan's 18-day, six-nation trip abroad on October 9 in 1983. Seventeen South Koreans including some of the most trusted and capable technocrats of President Chun were killed by NK's agents.⁴⁰ This incident led NK to be known a terrorist state in the international society. Since this incident, the US has kept NK on the list of terrorist states.

Overall, the data in Table A1, A2, and A3 (from 1975 to 1983) indicate that NK was far behind SK in terms of its economy, military expenditures, and diplomacy, meaning that North Korea was in a losses frame. According to a CIA report (Table

³⁹ Thus, all media of the North as well as government did not call Kim Jong Il "Party Center" from 1977 to 1979 (Byun Dae-Ho 1990).

⁴⁰ The Burmese government concluded the responsibility of North Korea and decided to sever its diplomatic relations with Pyongyang.

A1), the GNP for NK was three times lower than for SK in 1975 and four and half times smaller in 1983. Between the years of 1975-1983 there was a large decrease in the North Korean GNP compared to the South Korean GNP. While the average growth of the South Korean GNP between 1982 and 1983 was 9.9 %, North Korea had negative economic growth (-1.4%). The data of per capita GNP show also the losses frame of NK (in 1983 the per capita GNP for SK was two times larger than that of NK, Table A1 and Table A3).

Data supplied by SIPRI (Table A2) indicate that even North Korean military expenditures were exceeded by SK. In 1975, South Korean military expenditures were at most 80% of the North Korean military expenditures. However, in 1983, South Korean military expenditures were 340% of North Korea's. The average growth of South Korean military expenditures was 12.6%, whereas that of NK was - 2% between the years of 1975-1983 (Table A3).

The diplomatic achievement of SK also surpassed NK's. According to Gills (1996), the numbers of diplomatic partners in SK and NK balanced in 1975. After the withdrawal of the doctrine of Hallstein, South Korea's diplomacy based on economic card was very successful. Table A2 shows that the diplomatic partners of SK were 105% of NK in 1975, while those of SK were 120% of NK in 1985. Nevertheless, the degree of the diplomatic gap was the smallest among four variables.

Relative losses to SK forced Kim Il Sung to hasten to yield his throne to his son. Thus, since 1980, the foreign policy of the Kim Jong Il regime has started with the issue of strengthening Juche' ideology and recovering the relative losses to SK (Kim Young C 1980, 1981, Shin Rin Sup 1982, Lee Chong-Sik 1981,1982).

Under such circumstances, for North Korea, the Kwangju uprising of the South in 1980 might have been perceived as a positive signal by which socialists or radicals would overturn the South's government (Kim Young C. 1981;114, Lee Chong-Sik 1980, 1981, Suh Dae-Sook 1982).

However, the expectation disappeared due to the decision to host the 1986 Asian Game and 1988 Olympics in Seoul in the early 1980s (Suh Dae-Sook 1982, 1983). These two events would give SK good opportunities to increase the relative superiority of national strength to NK. Moreover, the 70th IPU (Inter-Parliamentary Union) Conference was scheduled to take place in Seoul on October 4-13. This is a sufficiently powerful event to force NK to be isolated in the international community. Thus, Pyongyang waged a vigorous campaign to dissuade other countries from sending their delegations to Seoul, but the North could not achieve its purpose.⁴¹

SK got a good chance to improve relations with the PRC. On May 5, 1983, a hijacked Chinese Airplane landed in SK. The PRC wanted to negotiate the return of the airplane and passengers.⁴² At least, it was a bright signal by which SK could induce China's participation in the '86 Asian Game and the '88 Olympic Game in Seoul (Lee Chae-Jin 1984;113-4).

This negotiation created fear in the North. Thus, Kim Jong Il visited the PRC from June 2 to 12, 1983 in order to prevent diplomatic normalization between SK and

⁴¹ 67 of the 98 countries to which an invitation was issued as well as 20 international organizations sent their delegations to Seoul. The Soviet bloc and some states of the NAM followed the North's request. However, the conference was estimated as a successful conference. At this conference, members dealt with the incident of Rangoon.

⁴² On May 10, SK and the PRC signed a nine-article memorandum. It implies the PRC's tacit *de facto* acceptance. At that time, the representative of the PRC for negotiation, Shen appreciated South Korea's speedy and appropriate cooperation (Scalapino 1988:272, Lee Chae-Jin 1984:113-4).

PRC.⁴³ According to Gills (1996), the PRC has not always been supportive of the North's argument to withdraw US forces without any conditions since the incident of tree-cutting in 1976. Even the former Soviet Union was opposed to the North's intentions. The former Soviet Union did not want NK to destroy peace and stability in Northeast Asia. Thus, the former Soviet Union was not interested in the issue of withdrawal of US forces (Ha Yong-Chool 1986).

Furthermore, both the PRC and the USSR hesitated to accept the feudal succession of the North. Many countries in Africa and Asia, in which NK was diplomatically superior to SK, began to support SK's foreign policies because of the economic approach of SK (Gills 1996). This means that the North was diplomatically placed in a very disadvantageous position compared to SK.

Absolutely and relatively, NK was locked in a losses frame. NK was very proud of being an independent state. NK regarded SK as a puppet of the US, thinking that NK was an only legitimate state in the Korean peninsula. Internally, NK was utilizing diplomatic superiority over SK with the NAM as domestic propaganda. Externally, NK believed that it was possible to eliminate US troops through obtaining diplomatic superiority over the South. The only means of survival was for the North to maintain a good relationship with members of the NAM. As previously stated, in the competition with SK, NK fell behind. To make matters worse, traditional supporters of NK, the PRC and the USSR were not as supportive as before with respect to anti-South Korean strategy and feudal succession.

⁴³ Kim Jong Il's intention was to hinder improving the relationship between SK and the PRC; furthermore, he wanted that the PRC recognize him as a *de facto* successor of Kim Il Sung.

Under stressful situations (inferiority of economy, military expenditures, and diplomacy), a round of visits of President Chun Doo Hwan to strengthen the relationship with Southeast Asian states (the Members of the NAM) was a triggering event to cause NK despair. Thus, Chun's visit to Southeast Asian states might ignite the North's emotional powder keg.⁴⁴ In short, the North was absolutely in a losses frame.

B. Risky Acceptance in North Korea: the Persecution Mania

Gills (1996) points out that the North's inflexibility of diplomacy based on Juche' ideology contributed significantly to the loss of previous diplomatic momentum while the South's economic diplomacy expanded its international position. This means that the Kim Jong Il regime was damaged. As shown in Table 2, there were two objective choice sets for the North. The goals and interests of the North had not changed. Overall, objective information showed that "Option 1" (bombing South Korean cabinet members) was a much riskier choice set with larger but uncertain losses, while "Option 2" (keeping status quo) was a safer choice set with smaller but certain losses. For instance, for the North, the most immediate and crucial goals were to improve relations with the US and revitalize their economy through inducing funding from the West. At that time, the possibility of the improving diplomatic relations with the US had radically increased.

⁴⁴ Burma had a normal relationship only with NK, and that visit was aimed at normalizing the relationship between SK and Burma. To make things worse, For the North, the North's envoy was expelled, due to the attempt of bribery, by Finnish government.

Table 2. North Korea's Interests and Possible Options in 1983

National Goal and Interests of North Korea	<u>Fundamental Goal: Communizing the whole Korea</u> • Preparing capacity for communization (revitalizing economic problems) • Building proponent groups of NK in SK • Removing the US troops and building Peace Treaty with the US • Isolating the South and Promoting foreign states(socialist states, the West, and the NAM)
Option 1:Execution of Rangoon Incident <u>Benefits</u> • Preventing losses of international supporters to SK's diplomatic offense <u>Costs</u> • Deteriorating amicable chance to improve relations with the US • Expanding bad reputation (a terrorist state) • Degeneration of détente mood in Korea • Relative Rushing of the SK diplomacy • Reducing trades with the West States • Bad influence on South Korean supporters of Juche' ideology	Option 2: Keeping Status-Quo <u>Benefits</u> • Strengthening relations with the US based on the US's change toward the North • Increasing possibility of the withdrawal of the US troops in SK • Keeping good relations with the NAM • Induction of the West financial investment <u>Costs</u> • Losing some amicable the NAM states to SK
<u>Larger but uncertain losses</u>	<u>Smaller but certain losses</u>

In April, Egypt's President, Mohamed Hosni Mubarak officially visited the North on returning from the US. Furthermore, the US Secretary of State George Shultz ordered a relaxation of contacts with North Korean diplomats. Twenty-three North Koreans visited the US from 1977 to April 1983. Sixty-four Americans visited the North from 1972 to 1983 (Kihl Young Whan 1984;102).

Kim Il Sung stressed the economy as the most crucial problem in the North on new year's day in 1983 unlike past addresses (Kihl Young Whan 1984;103).⁴⁵ The North's economy was recording negative growth from the early 1980s. This means that the hope for a self-reliant economy based on Juche' ideology was limited. Thus, financial aid from the West was sought to revitalize the North's economy. Moreover,

although the North could secretly kill South Korea's cabinet members in Rangoon, it is clear that most states would suspect North Korea's involvement because of the North's past terrorism (see List, pages 142-3).

"Option 1" (risk-seeking) was to interfere with the South's offensive diplomacy; "Option 2" was to improve relationship between the North and the US through mediation of President Mubarak, and accept their smaller losses (a sure thing). As shown in Table 2, if the North had selected "Option 2", the North might have lost some of their amicable nations. But, this was surely a smaller loss.

On the other hand, "Option 1" had larger but uncertain losses. That is, if the North failed to bomb South Korean cabinet members, they would lose increasing opportunities to improve relations with the US. Moreover, it was apparent that the North would be seriously isolated internationally. If so, the North's efforts to revitalize their economy would be useless. "Option 1" was a choice set with larger but uncertain losses. In this sense, "Option 2" was safer than "Option 1". "Option 2" was a better choice to achieve immediate interests. However, NK accepted the risky option over the sure thing in a losses frame. This decision led to a deterioration of conditions for credit for financial aid from the West, meaning that the North was not acting rationally. The rational choice model cannot explain why NK's behavior was not consistent with their goals.

Prospect theory, however, can provide us with an explanation of why the North did not maximize its value. As Jack Levy argues:

State leaders take more risks to maintain their international positions, reputations, and domestic political support than they do to enhance

⁴⁵ In the past, Kim Il Sung had emphasized political and military issues, especially Juche' ideology.

those positions; after suffering losses (in territory, reputation, domestic political support, etc), political leaders have a tendency not to accommodate to those losses but instead to take excessive risks to recover them. (1997;93)

Nobody can offer complete and perfect evidence on who decided or how action was taken. However, it is obvious that Kim Jong Il has played a big role in the decision making process since the early 1980s (Kim Young C 1980, 1981, Shin Rin Sup 1982, Lee Chong-Sik 1981,1982). It is commonplace that he intervened in taking this option. The failures of Kim Jong Il regime's foreign policy caused him to take a much riskier choice set in order to solidify his position and to recover his failures. Thus, the Rangoon incident occurred.⁴⁶ According to prospect theorists, people overweigh the loss of possession relative to comparable gains. Such a hypothesis is adequate for understanding NK's behavior.

This thesis does have direct and exact information about this incident from the North. The proponents of rationalism or irrationalism also do not have concrete evidence, and they cannot show exactly empirical preferences of the North in the choice. Under the same conditions, because rational choice is much more parsimonious than prospect theory, researchers should explain why prospect theory is more applicable than the rational choice model (Levy 1997, Shafir 1992, Jervis 1992).

According to Simon, substantive rationality depends on objective information (1985). Even objective data that the rational perspective used demonstrate that NK did not maximize their value. Rather, the data suggest the adequacy of prospect

⁴⁶ Hwang JangYop described Kim Jong Il as "timid, and [he] easily changes his mind depending upon his mood" (South Korea Embassy in the US 1997). As such his personality might impact that decision.

theory. That is to say that the choice of NK was not rational nor irrational but non-rational. Finally, prospect theory is accurate for explaining NK's inconsistency.

Due to the Rangoon incident, most states began to regard North Korea as a terrorist state. Even traditional sponsors, the PRC and the Soviet Union, criticized the North's behavior. According to Gills, Kim Il Sung visited the PRC to seek support for the North. But the PRC refused to support the North's position on total withdrawal of the US troops in South Korea. The Soviet Union also did not endorse the North's new policy, the so-called "Tripartite Talks" (NK, SK, and the US) (1996;207-8). Burma, Costa Rica, Comora, and Western Samoa severed the relations with the North. According to Kihl Young Whan,

Japan imposed a four-point "punitive" sanction on November 7, 1983; restricting entry of North Korean officials to Japan, the travel of Japanese officials to North Korea, diplomatic contacts between Japan and North Korea in third countries, and landing rights of Japanese airliners bound for North Korea. (1985)

The US has continuously dealt with the North as "terrorist state" since this incident.⁴⁷ Thus, it was much more difficult to improve relations with the US afterwards. And the West hesitated to launch companies in the North. North Korea was notoriously alienated, and called a crazy, mad, irrational state.

⁴⁷ The counterterrorist policy of the United States stresses three general rules:

- **First**, make no deals with terrorists and do not submit to blackmail.
- **Second**, treat terrorists as criminals, pursue them aggressively, and apply the rule of law.
- **Third**, apply maximum pressure on states that sponsor and support terrorists by imposing economic, diplomatic, and political sanctions and by urging other states to do likewise.

3. Case III: The Incident of KAL Flight 858 in 1987

A. The Losses Frame

The incident of KAL flight 858 bombed by two North Korean agents is a key incident for understanding NK's risk acceptant behavior. According to *Yonhap News*,

Two special north Korean agents acting on the hand-written instructions of Kim Jong Il, son and heir apparent of north Korean chieftain Kim Il Sung, planted a bomb on the Korean Air jetline that vanished near Burma late in November 1987, south Korea's Agency for National Security Planning (NSP) announced on Jan. 15, 1988.... KAL Flight 858, originating in Baghdad, vanished near Burma on Nov. 29 with 115 passengers and crew members aboard after a stopover in Abu Dhabi... Kim Jong Il's instruction was to "blow up a Korean Air plane to block the participation of other countries in the 1988 Seoul Olympics." ("Highlights in Korea", p44-46)

After the Rangoon incident, the North fell into a more serious losses frame in terms of diplomacy, economy, and military expenditures. The North became an alienated state after the Rangoon incident. Even its supporters, the NAM and the Communist countries, began to regard the North as an irrational country. In order to overcome international isolation, the North proposed "tripartite talks". However, SK and the US refused to participate it, because both parties saw that proposal as a tactic to split up SK and the US. Moreover, the USSR did not endorse this idea. The PRC did not advocate total US withdrawal from the Korean Peninsula (Gills 1996).⁴⁸

In 1984, the North received a good opportunity to emerge from isolation. The South's flood disaster allowed both sides to go to the table for talks. The resumption of talks was based on the South's acceptance of the North's Red Cross supply relief.⁴⁹

⁴⁸ Kim Il Sung visited the USSR from May 23 to June 1, 1984. From October 23 to 27, Kim Il Sung secretly met with officials of the PRC.

⁴⁹ On September 29-30, NK delivered 50,000 suk (14, 300 tons) of rice, 100,000 tons of cement, 5000,000 square meters of textiles, and medical supplies by truck via the land route through

Through two years of negotiation, neither managed to produce any movement in the other's position. At best, they reached an agreement to improve limited economic and cultural exchange.

Despite diplomatic failure after the Rangoon incident, NK did not give up its policy to isolate SK in the international community. Diplomatic victory was very important for keeping Juche' ideology in the North. Although the North's foreign policy was not determined by public opinion, the diplomatic success was good propaganda to solidify the Kim Jong Il regime. Domestically, Kim Il Sung used the superiority of diplomacy supported by the NAM and the communist bloc as propaganda with respect to legitimacy in the competition with SK. And internationally, the North tried to justify the withdrawal of US troops in the South through diplomatic superiority. Thus, the North continuously adhered to the recovery of their diplomatic losses.

However, after the appearance of Gorbachev in 1985, the international circumstances pushed NK into a much narrower corner. Although the South did not directly and officially improve relations with the former Soviet Union, informally and indirectly, relations with the communist states including the PRC and the East European states improved. According to Kim Hakjoon, Gorbachev, employing the diplomatic philosophy of Perestroika and Glasnost on the Korean peninsula, assumed Soviet leadership and steadily improved relations with South Korea (1997).

Panmunjom and by cargo vessels docking at the port cities of Inchon on the west coast and Donghae on the east coast. In return each North Korean visitor received a heavy package of South Korean products worth \$500: a radio, wristwatch, cosmetics, blanket, clothing, and household items.

The success of 1986 Asian Games allowed the South to be confident of its competition with the North (Kim C.I. Eugene 1987).⁵⁰ The North tried to impede the members of the NAM's and the communist bloc's attendance at the 1988 Seoul Olympiad. For instance, Kim Il Sung made efforts to obtain co-hosting rights for Olympic events in the Harare Summit of Non-aligned Nations in Zimbabwe, but he failed to get support. He held many summits in order to gain a boycott of the Seoul Olympics, but most states did not accept the North's demand (Suh Dae-Sook 1987).⁵¹ That is, the North was faced with diplomatic inferiority to the South. The frame of the North in diplomacy was a losses one.

In the economic field, the North was absolutely in a losses frame. The average growth of the GNP for the South from 1983 to 1987 was 11%, while the North's was just 0.5% (Table A3). In 1983, the South Korean GNP was 4 times larger than the North Korean GNP and 6 times larger in 1987 (Table A3). According to WMEAT (World Military Expenditures and Arms Transfers), during this period, the growth of military expenditures in the South averaged 3.5%, while the North's averaged 0.6% (Table A3). SIPRI in Table A2 shows that the military expenditures of SK increased from 3.4 times larger than that of the North in 1983 to 3.9 times larger in 1987.⁵²

⁵⁰ Both SK and NK discussed cohosting the games, but extreme requirements of the North caused the agreement to fail. 27 Asian states participated in the games, including traditional proponents of the North such as the PRC, India, and Asian countries of NAM. Before the games, the September bombing at Kimpo International Airport did not scare people, but the North was suspected in the incident.

⁵¹ Fidel Castro of Cuba, Radovan Vlackovic of Yugoslavia, Shafat Handal of El Salvador, Daniel Ortega Saavedra of Nicaragua, Erich Honecker of East Germany, Wojciech Jaruzelski of Poland, and Jambyn Batmonh of Mongolia, Prince of Norodom Sihanouk and his wife Monica.

⁵² According to WMEAT, the South's military expenditures increased from 1.1 times larger than the North's in 1983 to 1.3 times larger in 1987.

All objective data imply that the North could not compete with the South anymore.⁵³ The South's capacity for deterring large-scale war did not matter. It was apparent that the North began to regard the South's military capacity as a threat. For instance, NK responded to "Team Spirit," defense military drill of SK and the US, as one of the heaviest issues.⁵⁴ In order to respond to the combined drill, the North had to allocate a huge budget. Such expenditures resulted in financial burden and a shortage of energy. Of course, the extraordinary military expenditures for the North was not due to the SK. The huge budget was planned in order to spread communism throughout the South. However, we need to pay attention to the North's perception about the West's intention and capacity. In this sense, the North recognized the possible inferiority of military potential. This, for the North, is a loss itself.

In domestic politics, the North did not succeeded in reaching its immediate goals, while the South's development in the all fields was a miraculous achievement. The South relatively and absolutely outperformed the North. The North regarded the anti-American movement of by students and the increase in the so-called "*Jusapa*," followers of Kim Il Sung-ism, as a desirable phenomenon for the revolution in the South. However, the June 29th declaration in 1987 by Roh Tae Woo, a candidate of president, former military colleague of President Chun's, radically changed domestic instability in the South. Roh allowed political rivals to emerge, planned direct

⁵³ Most South Korean officials and western specialists recognize that North Korea's military capacity has been superior to the South. However, some people such as David Kang (1995, 1994/5), Denny Roy (1994, 1996/7), and Masaki (1994) oppose such a viewpoint. The viewpoint of superiority of the South was wrong because they ignore chemical and biological weapons as well as the North's capacity of well-trained units and numerical amount of conventional weapons.

⁵⁴ The North called off the South-North talks of economic negotiation and Red Cross because of Team Spirit. Both SK and the US asserted on Jan. 18, 1986 that "Team Spirit '86" is an open and defensive

presidential elections, and allowed amnesty for Kim Dae Jung, including the restoration of his civil rights.⁵⁵ The process of democratization finally began in the South. Thus, the issues about which radicals disrupted the government disappeared. The domestic politics of the South became very stable. All people focused on the presidential election on December 16, 1987 and Seoul Olympic Games of the next year (Han Sung-Joo 1988;54).⁵⁶ The North was disappointed with the stability of the South.

Briefly speaking, the North was in a losses frame. Under such situations, the responsibility and authority to overcome those obstacles of the North was given to Kim Jong Il. On June 9, 1985, Kim Il Sung mentioned that "reunification should be achieved in his generation, but if not, the work should be carried on in the Kim Jong Il era (Han, Sung-Joo 1988). After the rise of Kim Jong Il in 1980, the situation of the North became much worse than before. He excessively adhered to Juche' ideology in order to succeed to his father's political power. Thus, he could not understand exact problems of the North's decline.

B. Risk Seeking Behavior: Bombing KAL Flight 858

Under these circumstances, North Korea thought that the Seoul Olympics took away all possibilities to communize the Korean peninsula. In 1987, despite efforts at boycotting the Olympics, NK's traditional supporters (the Soviet Union, China, East

training exercise for peace-keeping purposes and has nothing to do with the inter-Korean dialogue (Kim, Young Jeh 1987;241).

European states, and Non-aligned Nations) signified their intentions to attend the Seoul Olympics.⁵⁷ The Soviet bloc states regarded sports as an important part of their domestic politics and as a kind of propaganda. Many sports stars and citizens demanded participation in the Seoul Olympics. Furthermore, for the Soviet bloc and the NAM, there were no reasons to boycott the event.

In fact, the North pursued a policy of boycotting the Seoul Olympics starting in 1981. They emphasized that the Olympics would cause a serious crisis. In 1984, however, the eventuality of success in the Seoul Olympics began to increase. Thus, the North emphasized the potential danger of the Seoul Olympics more and more. For instance, the Vice Premier of the State Administration Council of North Korea, Chong Jun-Gi argued that the Olympic movement faced a serious crisis and the co-host proposal would save the 24th Olympiad.

He might have known that co-hosting was impossible because of principles of the IOC (International Olympic Committee) and Seoul's preparation. It was too late to change the rules for co-hosting the Olympic Games, because the host of an Olympiad is a city not state. Changing the rules requires a two-thirds majority of the 91 member IOC to vote approval. Both SK and the IOC proposed 5 events in Pyongyang but the North refused the proposal. Both the IOC and SK judged that NK's ultimate goal was not to co-host the Olympics but to achieve a political purpose. That is, the strategy of the North was to impute the failure of the 24th

⁵⁵ Kim Dae Jung won the president election in December 1997.

⁵⁶ Roh Tae Woo was elected with 36.6% the votes cast. (Han Sung-Joo 1988)

⁵⁷ The South strengthened the non-political relationship with countries with which the South did not have diplomatic relations in order to induce attendance of these nations. For instance, trade with the PRC and the USSR reached \$2 billion and \$500 million, respectively. The south signed diverse trade treaties with the Communist countries, especially east European states.

Olympiad to the South because the South did not accept co-hosting the events. The North wanted the international community to condemn the South. So to speak, the military tension on the Korean peninsula originated from the single host of the South.

Ho Dam, a former foreign minister and a politburo member, interviewed by a visiting Japanese reporter in September, 1984 stated that "Pyongyang will not only stay away from the 1988 Summer Olympic Games in Seoul, but we will also begin an international campaign to boycott the event unless there is a change of venue" (Kim Young Jeh 1987;240).

As prospect theory argues, from the North's perspective, openness implied a future loss for Juche' ideology, because Kim Il Sung was afraid to be revealed as guilty of lying about the cult family (Lehman 1993, Koh B.C 1978b:642). The comparable economic gains through openness were underestimated by both Kim Il Sung and Kim Jong Il. Thus, they could not follow the economic model of the PRC. The North just began to reform partial areas. That is not to say that the North did not intend to seek funding from the West. Rather, they wanted the West to invest in the North within a limited boundary. If they co-hosted the Olympics, their anxieties would be actualized. Furthermore, they were not ready to co-host the Olympics in terms of economics and politics. In this sense, the North's proposal, co-hosting the 24th Olympic Games, was a tactical measure to ruin the Olympiad. The North's basic goal was to hinder the success of the Olympic games. The North realized that it was impossible to prevent the participation of the Soviet bloc and the NAM. For the North, successful Olympics in the South would be a relative loss (Koh 1988, 1989).

Thus, the North considered several options. Among the options, two options can be summarized as shown in Table 3.

The first was terrorism like the incident of Rangoon, "Option 1," the other was to accept the South's proposal, 4 events in Pyongyang (later 5 events), "Option 2." "Option 1" was a dangerous option because NK was not sure of the possibility for success. While the success of "Option 1" offers great benefits, in inducing boycotts by the Soviet bloc and the members of the NAM, the failure of that option also meant great costs and endless isolation. The North apparently recognized that "Option 1" had larger costs as well as a low probability of success. It is likely that foreign states would have pointed to the North as the suspect state. Concerning economic and international mood (reconciliation of the US and the USSR), it was nonsensical to believe that terrorism could hinder the Olympics. In this regard, "Option 1" was a very risky choice set with a low probability of success. However, "Option 1" had larger losses but it is uncertain. The North was motivated by the uncertain losses in "Option 1".

Rationally speaking, "Option 2" was not risky. Under safe conditions, this option would produce economic profits and maintain the present level of diplomatic relations. This option was more proper for the North's policy of the partial openness. Furthermore, not only might NK get a chance to escape from the international isolation, but also it might allow the North to extend its amount of trade with the West. Even if the North's economy is based on Juche' ideology (self-reliance), practically, the North's economy has not been free of international trade since the mid-1970s.

Table 3. North Korea's Interests and Possible Options in 1987

National Goal and Interests of North Korea	<u>Fundamental Goal: Communizing the whole Korea</u> • Preparing capacity for Communization (revitalizing economic problems) • Building proponent groups of NK in SK • Removing the US troops and building Peace Treaty with the US • Isolating the South and Promoting foreign states (socialist states, the West, and the NAM)
Option 1: The Execution of Bombing KAL Flight <u>Benefits</u> • Preventing losses of international supporters to SK's diplomatic offense based on Olympic • Inducing Olympic boycott of Soviet bloc and the NAM • Imputing the responsibility of Olympic failure to SK <u>Costs</u> • Strengthening international isolation as a terrorist state • Failing to induce Olympic boycott • Strengthening military ally of SK and the US • Relative rushing of the SK diplomacy • Reducing trades with the West States • Bad influence on South Korean supporters of Juche' ideology	Option 2: The Acceptance of Proposal of IOC and SK <u>Benefits</u> • Reducing military tension & Recovering reputation(escaping from isolation) • Obtaining economic benefits & extending trades with the West • Offering proponents of NK in SK good chance to build public opinion of anti-South and the US <u>Costs</u> • NK people's recognition of powerful South Korea :weakening dictatorship • Inevitable abandonment of one Korea policy
<u>Larger but Uncertain Losses</u>	<u>Smaller but Certain Losses</u>

In October 1980, at the sixth convention of the Labor Party, Kim Il Sung stressed, "It was necessary to improve the economic relations with friendly capitalist countries and to increase imports of capital and technology from these countries"(Jung Chang Young 1993;156).

"Option 2" would be helpful to construct their supporters in the South. If they had accepted the proposal of SK, many South Koreans would have changed their attitude toward the North. Such a change would have offered radicals in the South good circumstances to destroy the South Korean government. Until that time, many South Koreans had a biased viewpoint about the North. For instance, the North Korea

was perceived as a mad group not a nation. Some people even regarded the North Koreans as different Koreans in racial characteristics. They often described the North as a wolf wearing the mask of sheep.

“Option 2” was surely a choice set with smaller losses. This option could not prevent the success of the Olympiad. The acceleration of national strength in the South should have seemed inevitable by the North. Any measures would be useless for limiting such a flow. The North also clearly recognized the incredible development of the South. Thus, the selection of this option was to accept certain smaller losses than “Option 1.”

However, NK overestimated certain losses in the future and underestimated comparable gains. NK was afraid that, by the acceptance of 5 events, it might lead North Koreans to regard themselves as being cheated by Kim Il Sung. This can be determined by inference from Kim Jong Il’s statements. In October 1983, Kim Jong Il announced the North’s dilemma concerning a Chinese-style opening to the West. He feared that openness might devastate native industry, and that the people might learn bad habits from the West, “decadent bourgeois culture.” Furthermore, it might reduce patriotism and national pride against the South. He even said that tourists were industrial and military spies in 1984 (Byun Dae-Ho 1990;215). His perception about openness demonstrates that the hypotheses of prospect theory works well—(i.e., *people overvalue losses relative to comparable gains*).

Such asymmetry between losses and gains frames led the North to select the risky set, “Option 1. In this respect, the North Korean behavior was not rational nor irrational. Rather the North was non-rational because it selected a riskier choice set

with larger but uncertain losses, although it calculated possibilities and values. If the North was a rational actor, it should have taken a safer choice set, "Option 2." Therefore, the rational choice model cannot explain why NK did not maximize their value. Under the rational choice view, behavior inconsistent with goals is unpredictable, whereas the anomaly of rationality can be foreseen through the perspective of prospect theory.

After this incident and the great success of the Seoul Olympiad, the North began to recognize that it was difficult to overcome the gap of national strength. 14,000 athletes and officials from 160 countries participated in the Seoul Olympics. The South earned numerous economic benefits and an internationally good reputation.

The agent of bombing KAL flight 858, Kim Hyon-Hee, confessed in detail the course of the incident. She revealed that North Korea captured her Japanese language tutor (Lee Eun-Hae kidnapped by the North). This confession hindered promotion of normalization between North Korea and Japan. Continued development in the South and relative economic depression in the North forced the North into a loss frame. Such circumstances required abandonment of the North's "one Korea policy" (Koh 1993, 1995). Thus, it was possible for the two Koreas to enter the UN in 1991. That is not to say that the North gave up spreading communism throughout the Korean peninsula.

4. Case IV: The North Korean Nuclear Crisis

A. *The Losses Frame*

SK's political and economic success made the North psychologically upset. The North's economic growth in the early 1990s was negative. As shown in Table A1, the average growth of the South was 7.4% from 1990 to 1992, while that of the North was -6.2%. The aid from Russia and the China, for NK, radically dropped off, while the amount of trade with Russia and China, for SK, increased (Mack 1993). In 1989, the North's trade with the former Soviet Union and the PRC were \$2,381 million and \$562 million respectively, whereas the South's trade with them was \$3,143 million and \$600 million respectively. From 1988 to 1991, South Korea averaged a growth in trade with socialist states recording a radical jump of 42.32% (Kim won Bae and Jung-Gook Kim 1993;177).⁵⁸

In September 1990, South Korea normalized diplomatic relations with the former Soviet Union. The North condemned the USSR's normalization with the South through *Rodongsinmun*. In an article entitled "Diplomatic Relations that Are Sold and Bought With Dollars," the newspaper criticized that "the Soviet Union sold off the dignity and honor of a socialist power and the interests and faith of an ally for 2.3 billion dollars (Koh 1993;98)." Even Gorbachev declared his support for the South Korean efforts toward unification on December 14, 1990. Later, Russian spokesmen announced that it would stop providing NK with MIG-23/29 interceptor aircraft and other advanced weapons systems (Cotton 1995). It was a signal of their

⁵⁸ The trade of South Korea and the PRC was grown to \$3 billion per year by 1992 from zero in the mid-1980s. Since normalization, the pace of growth in the Sino-South Korean economic relationship has been very speedy, as bilateral trade reached \$20 billion in 1996 (a 25 % increase over the previous year).

intention to end their military alliance with NK. The North cheered by the coup attempt against Gorbachev in August 1991. However, their expectation for rebuilding communist allies disappeared because of the rise of a new *defacto* leader, Yeltsin. Rather, their brief announcements applauding the coup did harm in the relationship between NK and Russia.

China was also changing its long-standing opposition to dual entry with SK into the UN. According to Gills, the PRC informed North Korea in the Summer of 1991 that it would not veto South Korean membership in the UN. In 1992, South Korea established full diplomatic relations with the PRC. After the appearance of Gorbachev in the Soviet Union, the Soviet bloc began to collapse. The surrender of the communism to capitalism and western democracy meant further isolation for the North.

In the economic field, the North's economy based on Juche' ideology was in the trouble. As mentioned above, the economic growth of the North was negative in the early 1990s. Even the average rate of working industries dropped 40% of capacity in 1991 (Rhee Sang-Woo 1991, 1992). Later, the North had to discard their self-confidence based on so-called "Our style Socialism." The North asked for international relief for starvation (Kim Samuel S. 1996).

The situation of the military expenditures was similar to other fields. Although the military expenditures have been steady at over 24% of the GNP, economic failure led to deeper troubles (Table A2 and A3). That is, NK fell into a losses frame that would be difficult to overcome. In 1991, Kim Il Sung confessed, "socialism is now faced with a dangerous situation" (Rhee Sang-Woo 1991;56). He responded by the

strengthening Juche' ideology. Most specialists agree that the most significant matter was for the North to survive these troubles (Mack 1993, Kang 1995, Roy 1994/96-97, Lehman 1993, Kim Taehyun 1996, Lee Samsung 1994, Lee Choon Kun 1995). This means that the North's frame was in a serious domain of loss.

B. Risk Acceptant Behavior: The Brinkmanship Strategy

It is possible to infer that the North's interest was to save Juche' amid signs of change. The abandonment of the North's policy of one sovereign state in Korea was an inevitable measure because the former Soviet Union and PRC did not support the North Korean policy any more. Thus, both the North and South became members of the UN, simultaneously. Was this rational choice? Stein's argument offers a basis for saying that this choice was not rational.

Leaders are likely to choose to co-operate when they identify immediate and certain losses from the failure to co-operate. This position is consistent with the expectations of both rational and cognitive explanations. We suggest further that leaders may still choose to co-operate when they identify smaller but certain losses from defection and larger but uncertain losses from co-operation. Under these conditions, co-operation is not the rational choice. (Stein 1993:22)

In connection with talks with Roh Tae-Woo, the President of South Korea, and Gorbachev, *Rodongsinmun* wrote on May 4, 1991:

If the South Korean authorities had not deliberately brought the inter-Korean high level talks to a crisis point, a more reasonable and flexible way of joining the United Nations would have been discussed. (Koh 1993:98)

On May 27, 1991, the North Foreign Minister argued:

North Korea had no choice set but to apply for membership in the UN in order to deal with a "temporary difficulty" created by South Korea... South Korea's presence as a full-fledged member might lead to biased discussion of important issues affecting the interests of the entire Korean people on the UN stage, producing grave consequences... It would not abandon efforts to attain single membership for all of Korea. (Koh 1993)

For the North, refusal to attend the UN would mean smaller but certain losses because the North would be more isolated. The North's isolation might have been a *defacto* phase. Thus, continuous defection had smaller but certain losses. On the other hand, cooperation with the South, entering the UN might mean larger but uncertain losses because it meant the abandonment of its continuous policy, the so-called "One Korea" (Koh 1993, 1995). Since NK had to recognize SK as a representative government of the South peninsula, NK's effort for a peace treaty with the US by excluding SK would be useless. This situation meant the North would have to acknowledge defeat to the South.

Although this cooperation might result in larger losses, it might contribute to improving relations with the US as great benefits. Thus, the North could expect a potential future gain for cooperation with the South. Koh (1993) argues that Kim Il Sung was aware of the risks and economic sense involved in expanding exchanges and cooperation with the South and the West — ideological contamination and the possible erosion of the unique system of Juche' socialism.

In other words, cooperation with the South, entering the UN, might lead to larger losses, but that loss would be uncertain. Thus, the North showed consistent risky acceptant behavior. For the North, the amount of loss did not matter. When there was an option to avoid certain losses, they did not care about the size of losses.

In this sense, cooperation toward entering the UN with the South was not a rational choice.

Risky behavior was more clearly found in the nuclear weapons program from 1992 to 1994. Sagan shows three models why states build nuclear weapons under the rational perspective:

The security model, according to which states build nuclear threats; the domestic politics model, which envisions nuclear weapons as political tools used to advance parochial domestic and bureaucratic interests; and the norms model, under which nuclear weapons decisions are made because weapons acquisition, or restraint in weapons development, provides an important normative symbol of a state's modernity and identity. (1996/97)

He argues that most states have intended to construct nuclear weapons for security. The North Korean nuclear program also belongs to security model like Iraq, Libya, and Iran (1996/97;55-85). Many specialists' arguments do not move beyond Sagan's models. The North intended to build nuclear weapons, at once, in order to balance their disparities. From the position of the North, this would increase confidence, and provide safety from imperialism for the political system (Lee Choon Kun 1994, Kim Taehyun 1996, Roy 1994, Lehman 1993, Mack 1993).⁵⁹

The North was not irrational to choose a nuclear program. However, the North did select a risky choice set. Although the North rationally considered some choice sets to overcome disparities compared to the South, the nuclear program was not to maximize its value.

⁵⁹ No perfect evidence exists that the North has built the nuclear weapons. Many specialists argue that past action and desire of the North mirror a high possibility to build nuclear weapons (Lee Choon Kun 1995, Mack 1993, Lehman 1993). Lee Choon Kun argues that the North will not give up obtaining the weapons. According to him, the North indicated in the mid-1960s that they would develop nuclear weapons sooner or later. On the other hand, Lee Samsung claims that there is no evidence that the

Since 1985, the North has been a member of the NPT (Non-Proliferation Treaty) regime by forcible demand from the Soviet Union.⁶⁰ The North, however, did not permit the IAEA (International Atomic Energy Agency) to conduct inspections until May 1992. In 1993, the North announced its intention of withdrawal from the NPT. Furthermore, the North eliminated 8,000 nuclear fuel rods from the Yongbyon reactor without the presence of IAEA inspectors on May 14, 1994. Thus, the military tension on the Korean peninsula was heightened.

As shown in Table 4, in order to recover relative losses, the North considered "Option 1," a risky set and "Option 2," a safer set. In Table 4, "Option 1" has larger losses and larger gains but it is uncertain. "Option 2" has smaller losses and gains but it is more certain. If North Korea had been rational, it would have taken the "Option 2" because this choice maximizes its value. In reality, North Korea was not rational, choosing the option first.

Evidence shows that the policy of developing nuclear weapons was very dangerous. Kihl Young Whan argues:

The stakes of the game are very high, however, and the game itself risky, because the DPRK's (Democratic Peoples of Republic of Korea) acquisition of nuclear arms will not only upset the balance of power but also unleash the nuclear arms race in the region by enticing the ROK and Japan to "go nuclear" in order to counter the North Korean move. The DPRK move has escalated the level and the stakes of the Korean conflict and led to a strong international reaction and pressures on North Korea to abandon its nuclear weapons program..... The DPRK must also know that playing the nuclear card is a risky game that backfire and can be counterproductive, leading to the opposite effect of hardening, rather than softening. (1993;83-86)

North pursued the nuclear program. For the North, there is no reason to build the nuclear weapons (1994).

⁶⁰ In December 1985, Moscow agreed to supply four light-water nuclear power reactors, Chernobyl style in Ukraine, but only if North Korea would join the NPT.

Table 4. North Korea's Interests and Possible Options from 1992-1994

National Goal and Interests of North Korea	<u>Fundamental Goal: Communizing the whole Korea</u> • Preparing capacity for communization (revitalizing economic problems) • Building proponent groups of NK in SK • Removing the US troops and building Peace Treaty with the US • Isolating the South and promoting foreign states (socialist states, the West, and the NAM)
Option 1: Building Nuclear Program (Withdrawal from NPT Regime) <u>Benefits</u> • Overcoming inferiority of military expenditures to the South (over moderate chance) • Upgrading talking level to the US and then constructing a base for peace treaty with the US (low probability) • Escaping from isolation and solving economic problems through contact with the West (food and energy) <u>Costs</u> • Escalating military crisis (bombing atomic facilities in the North or developing full-scale war). • Miserable fixation of international isolation. • Deteriorating economy by sanction and reduction of trades with the West and the South • Increasing domestic vulnerability (Juche' ideology) • Losing chance to improve relations with the West (the US and Japan) • Bad influence on South Korean supporters of Juche' ideology (expanding bad image of war-mania)	Option 2: Compliance with NPT Regime <u>Benefits</u> • Reducing military tension (extending withdrawal the US troops and closing military base: high probability) • Promoting contact level with the US (high probability) • Recovering bad reputation (escaping from isolation) • Obtaining economic benefits;\$500,000 a year (IAEA) & extending trades with the West (inducing financial investment from the West) • Normalizing relations with Japan and receiving financial aid • Offering proponents of NK in SK a good chance to build public opinion of anti-South and the US <u>Costs</u> • Continuing to decrease national strength to the South • Increasing possibility to fail to Communize Korea • Impairing dignity of independent state based on Juche' ideology
<u>Greater Benefits or Losses with a Lower Probability</u>	<u>Smaller Benefits or Losses with a higher Probability</u>

Robinson also agrees with this opinion:

So the danger was obvious. The military equation on the peninsula would be dangerously upset. The South, which said it would not acquire nuclear weapons, could nonetheless be forced to do so. That would put enormous pressure on Japan to follow suit, something no one would want. With these developments the door to nuclear spread would have been kicked off its hinges. U.S. maintenance of Asian security would have been fatally undermined, as would Asian nations' confidence that the United States would underwrite their security. (1993;121)

Since the collapse of the USSR, the US obviously paraded their capacity to lead international order through the Gulf War. It is apparent that the North considered the same failure of Iraq, which intended to build nuclear weapons (Kang Sung Hak 1997;45).

The North discarded some sure benefits. For instance, in 1992, the IAEA was scheduled to give support of \$341,000 for five nuclear projects per year. Since 1990, the North has tried to obtain economic investments from the South, the US, and Japan. South Korea has made efforts to reduce military tension by promoting interrelations between the two Koreas in non-political areas. For instance, it imported \$6.2 billion without tariff in 1991 (Jan.-Aug.) and exported \$3 million in 1991 (Jan.-July). Kim Il Sung invited South Korean businessmen to the North to discuss financial support. The North focused on normalizing diplomatic relations with Japan for receiving \$5 billion under the name of compensation for Japan's colonial rule in the past. This normalization would lead Japanese to give funds to the North. Talk about diplomatic normalization with Japan was not harmed until NK's refusal of inspections by the IAEA in 1991 (Eberstadt 1995).

North Korea's initial interest was to improve relations with the US. The US Defense Secretary Richard Cheney announced a plan to withdraw 5,000 troops in stages until 1993 and close several airbases in the South (Kihl Young Whan 1991;65). The North requested that the US upgrade the talk level of negotiations to include the ambassador. The US emphasized that without the North's abandonment of nuclear weapons, it was impossible to improve relations (Rhee Sangwoo 1992;61). The US requested Japan to end talk for normalizing. Japan complied with the request.

Finally, the North allowed the IAEA to inspect in 1992. The five inspections led to doubt that some nuclear material might have been diverted to secret places (Merrill 1993;51). The North refused further inspections based on the Joint Nuclear Control Commission regime ratified by the two Koreas. In June 1992, the US declared that it would be impossible to improve relations unless the North discarded its nuclear weapons program.

Eventually, the North announced its intention to withdraw from the NPT regime on March 12, 1993. On May 12, 1993, the UN Security Council urged the North to reconsider its position. Both the US and IAEA considered sanctions on the North. Kihl, Young Whan states North Korea's situation:

North Korea has exposed itself as vulnerable not only to condemnation as a pariah state but also to the danger of a possible preemptive attack by South Korea. South Korean Minister Lee Jong-Koo stated, for instance, that commando raids might be considered against North Korea's nuclear facilities. (1993;85)

The US prepared two countermeasures for response to such provocative behavior by the North. One was a plan for pre-emptive military strikes, and the other was diplomatic pressure accompanied by economic sanctions (Gills 1996;236, Robinson

1993;120-4). Reuters reported South Korean polls about countermeasures to a nuclear crisis on March 17, 1993, entitled "South Korean polls Find Support for Air Strike."⁶¹ The IAEA, South Korea, the US, and Japan continuously threatened economic sanctions unless North Korea canceled the program.

China did not want to press North Korea too much. On March 23, Foreign Minister of China, Qian Qichen announced that China did not support the sanctions. The PRC did not support the sanctions in that the treatment would not be effective because of North Korea's economic structure (self-reliance). Furthermore, the North's international isolation since the Rangoon incident in 1983 had already damaged the North's economy. So sanctions would not have a far-reaching effect on North Korea. However, it was not a trivial issue for the North. North Korea defined sanctions as a "declaration of war" (Gills 1996;239). The importation of energy, food, machinery, and technology were essential for revitalizing the North's economy, but NK could not trade with foreign states because of international isolation and a shortage of foreign currency.⁶² Since the early 1990s, North Korea has called for

⁶¹ South Korea showed some 50% supporting military action against the North's nuclear weapons sites with 42% opposed. About 70% of those favored economic sanctions.

⁶² External Trade of North Korea (Source: The United Nations. 1996. Statistical Yearbook for Asia and The Pacific 1996)

**Million US Dollars*

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Importation	1786	2104	2260	2839	2905	2930	2280	1510	1500	1270
Exportation	1325	1628	1407	1674	1686	1857	1240	1290	1100	840
Balance	-461	-476	-853	-1165	-1219	-1073	-1040	-220	-400	-430
Total	3111	2272	3667	4513	4591	4787	3520	2800	2600	2110

citizens to eat only two meals a day (Chinoy 1997b). The average rate of working industries dropped to 40% of capacity in 1991 (Rhee Sang-Woo 1991, 1992).⁶³

Even if China did not vote for the sanctions in the UN Security Council, North Korea would still be hurt. Niksch points out the value of the sanctions:

Japan and South Korea provide North Korea about \$2 billion in foreign exchange annually, which appears to finance all of North Korea's imports. If Japan and South Korea cut off most of it, North Korea's already weakened industries and transportation system would suffer further from loss of imported machinery, transportation equipment, and raw material.... China could make up much of the food deficit but probably could not satisfy North Korea's industrial and transportation needs. North Korea's threats of war in response to sanctions probably indicates a fear of sanctions more than an intent to attack South Korea. (1994;270)

Moreover, the PRC did not want the North to have nuclear weapons. Russia tried to use the nuclear issue as leverage for expanding influence in the Korean peninsula (Kim Taeho and Won Gon Park 1997). In every way, North Korea was being harmed. Under these conditions, the obstinate pursuit of a nuclear program meant uncertain possibility of success.

Hence, it is not persuasive to say that North Korea thoroughly played the nuclear card based on careful calculation of the high possibilities. The veto by China was not a sufficiently safe valve to guarantee success. In this sense, the rational choice model is limited. North Korea recognized that how much it would lose was not important. Although "Option 1" would create larger losses, the uncertain losses stimulated the North's motivation to choose. The North repeatedly adhered to risky

⁶³ Later, NK had to ask the international community for famine relief. South Korea (150,000 ton) and the international community offered rice and necessities to NK.

choice. In this sense, we cannot say that the North was rational (Kim Samuel S 1995, Merrill 1993, 1994, Kim Pan Suk 1994).

At that time, the US considered military strikes and sanctions. However, because of opposition by China, the US could not use these two countermeasures against the North (Gills 1996, Mack 1993). But, the US did not officially cancel them. The West, including South Korea, the US, Japan, and IAEA, pressured North Korea through diplomatic channels. However, the threat was not enough to change the North's attitude. Instead, the US changed its long standing policy which required that NK comply with the NPT regime before high level talks could take place.

Thus, the North won high-level talks with the US in New York in June 1993. Since this point, North Korea's frame has slowly changed from losses to gains. That is not to say that the North's frame was completely a gains frame. On July 19, 1993, as a result of talks with the US in Geneva, North Korea agreed to resume negotiations with the IAEA and talks with South Korea for inspections.

In early 1994, however, NK refused special inspections from IAEA. On March 19 during talks with South, the representative of the North, Park Youngsoo threatened, "Seoul would turn into a sea of fire." Chinoy described the reaction of the US, "Secretary of Defense, William Perry, responded that the US would risk war, if necessary, to see that sanctions were enforced" (1997b;336).

However, both sides indirectly exchanged desires to solve the nuclear crisis through high-level talks. Chinoy, a CNN reporter who has visited to Pyongyang 9 times and contacted Kim Il Sung, informed Kim Il Sung of the message that the US wanted to resume high-level talks with the NK, and NK also responded by accepting

the proposal of the US (1997b).⁶⁴ Despite confirming intentions to resume the negotiation, NK continued to refuse special inspections. IAEA announced suspension of financial aid (\$500,000 a year) (Oberdorfer 1997c;321). Pyongyang declared the withdrawal from the NPT regime on June 13, 1994.

The US began to seek more powerful countermeasures than before, including military action and sanctions. Not only did South Korea, the US, and Japan strongly condemn North Korea, but they also imposed sanctions as necessary. Although the PRC continuously opposed the sanctions, they did not want the North to have nuclear weapons. Andrei Kozyrev, the Foreign Minister of Russia, accepted the sanctions (Gills 1996;239). The US had already increased the possibility of the sanctions through cooperating with China. On May 29, Clinton granted US most-favored-nation trade status to China without human rights conditions. Making it very attractive for China to comply with the sanctions in the UN.

The US canceled the high level talks with North Korea. The Clinton administration concretely planned for war. In June, 51% of a nationwide sample of public opinion sponsored by *Time* and CBS favored military action to destroy NK's nuclear facilities. *The Washington Post* advocated the military option on July 15. Such public opinion allowed the Clinton administration to make plans. In mid-June, Perry and the Joint Chiefs of Staff proposed three options. The plans included the evacuation of all US civilians (about 80,000) as well as the additional dispatch more

⁶⁴ At the eighty second birthday of Kim Il Sung on April 16, 1994, Mike Chinoy was invited to the banquet to the Kim Il Sung's birthday. Robert Gallucci, a delegate of nuclear negotiation and the Assistant Secretary of State, informed the US's intention and Mike Chinoy gave information about Kim Il Sung's thoughts for improving relations with the US (Chinoy 1997;317-56).

than 20,000 US troops.⁶⁵ The US Senate adopted reinforcement of additional forces to South Korea. South Korea also announced plans to mobilize millions of reservists for military exercises. Military action was actualized (Oberdorfer 1997c;324-5).

Oberdorfer, a reporter for *the Washington Post*, argues that the US Defense estimated casualties at 52,000 US soldiers and 490,000 South Korean soldiers for 90 days and the cost at \$61 billion, which the US would pay without support from the other states at war. *The Washington Post* reported the high probability of war and predicted results from the second Korean War in early June (Chinoy 1997b, Oberdorfer 1997c, Gills 1996).⁶⁶

During the crisis, North Korea informed the US of its intention to admit inspections after the resumption of high-level talks (Gills 1996). Carter as an individual (a non-official of the US), intervened in negotiations between NK and the US. He had received invitations from the North in 1990, 1991, and 1993. North Korea decided to accept Carter who had solved the crises of Ethiopia, Nicaragua and Haiti. During talks between Kim Il Sung and Carter on June 16, 1994, Clinton and his security aids had been discussing the courses of actions involving striking nuclear facilities located on Youngbyun in North Korea. Carter and Kim Il Sung agreed on four guidelines; (1) freezing the nuclear program, (2) stopping pursuit of sanctions by the US, (3) offering light-water reactors, (4) holding a summit between the two Koreas.

⁶⁵ Option 1 was the immediate dispatch to Korea of around 2,000 additional troops to prepare for deploying huge size troops later. Option 2 was to add tactical aircraft including F-117 Stealth fighter-bombers and long-range bombers. This option involved deployment of over 10,000 US troops, added to the 37,000 on duty in SK -- the US favored this option. Option 3 was to deploy tens of thousands more ground forces of Army and Marine Corps including combat air power.

As prospect theorists have argued, catastrophic situations break down risk seeking behavior in a losses frame. North Korea, at least, did not want to lose current possible gains such as the current level's talks with the US and the financial aid from the West.

At first, the Clinton administration was angry with Carter's behavior acting as a delegate of the US. Carter's effort, however, outflanked the hard-liners in the US including Clinton administration (Gills 1996). Clinton did not think that military conflict in Korea would be good for reelection — at the campaign for reelection, Clinton could point to the freezing of NK's nuclear program as an administrative achievement. Furthermore, President Kim Young-Sam of South Korea accepted Carter's proposal. The US countermeasures became useless. The White House decided to resume high-level talks with the North. On July 8, high level talks were resumed and unexpectedly Kim Il Sung died. Thus, the historic summit meeting of the two Koreas in Pyongyang scheduled on July 25-27 could not be held.

The reason why the North informed the US of its intention to accept inspections is that it began to gain a window for contact with the US and economic/political benefits which the North had continuously pursued. At this point, North Korea was in a gains frame. Prospect theory predicts that the reference point is not always the same as the status quo. Factors like aspiration, expectation, and past experience can be used as reference points also (Berejikian 1997, Levy 1997). As such, the North may have perceived the first high-level talk with the US as a gain in

⁶⁶ Chinoy argues that the US's hard liners, the defense and the CIA, stimulated the crisis on the Korean peninsula by offering information about the nuclear issue to the media (1997b).

terms of a reference point. In other words, after high-level talks the North perceived high possibilities to attain benefits, which they expected (Table 4).

When the US reacted strongly to the North's special inspections, they did not need to take risky actions. If the North continuously adhered to risky options, they might lose everything including an opportunity for improving relations with the US. Such behavior is best explained under prospect theory, which suggests that a risky action is unlikely when there is a small probability for success or high probability for catastrophic losses (Levy 1997, Berejikian 1997, Stein 1993).

The North did not want to lose the diplomatic channel for emergence from international isolation. Thus, they reacted softly to the strong countermeasures of the West. They tried to find a way to resume high-level talks with the US. They chose Carter, who had visited Pyongyang in 1991 and 1992. Through the intervention of Carter, they tried to gain sure benefits like resumption of high-level talks instead of discarding the nuclear card. The Clinton administration also judged that the expansion of risk on the Korean peninsula was not advantageous for reelection or the US's interests in preventing nuclear proliferation.

Finally, on August 12, 1994, the US and the North signed the Geneva agreement. This accord provides guidelines for an overall solution to the Korean nuclear issue through a comprehensive package deal: "It is a carefully choreographed 'swim or sink together' joint venture of reciprocal steps that both sides would have to take in a nine-year implementation process rotating through five distinct states with specific measures to be completed on specified dates" (Kim Samuel S 1995).

A result of the accord was that the North agreed to freeze and later eliminate its nuclear program. In return they would receive two 1,000-mw light-water reactors. The North also received an annual supply of 500,000 tons of heavy oil and an exchange of liaison offices with the US. Furthermore, the US also agreed to reduce obstacles to trade and investment in North Korea.

In short, the North received economic support from the US, the South, and Japan through establishing KEDO (Korean Energy Development Organization). The North was satisfied with diplomatic improvement with the US. Probably, the North might earn enough time to hide some materials for nuclear weapons. This risk seeking policy might be recorded as the first success of the North's foreign policy. From 1990, when Radio Moscow warned of the possibility of leakage from the power plant under construction at Shinpo on the east coast, to 1994, when NK withdrew from the NPT regime, the North clung to a risk seeking policy. As mentioned above, the secret construction of nuclear weapons had a low probability of success. This choice set had greater benefits or costs with a low probability of success.

The risky choice set, refusal to allow inspections or withdrawal from the NPT, might result in dangerous reactions like US bombing of facilities, or deeper isolation from the international community. If the North had been a rational actor, the North would have selected the safer alternative. However, the North chose the riskier option in order to recover their losses. Merrill, an official of the Department of State, points out the errors of misunderstanding and predicting NK's behavior:

In the early 1990s, US intelligence community analysts—and agencies—disagreed on whether North Korea would negotiate away its nuclear weapons program. Most insisted it would never do so; some of

US argued that under right circumstances it might. And this assessment helped senior officials develop a strategy for dealing with the North. (1997)

It is reasonable infer that the North pursued risk acceptance to overcoming serious losses at once regardless of the capability to build nuclear weapons. The explanation based on rationality was not appropriate for explaining why the North took a riskier choice set instead of a safer one. Again, we can see that NK did not behave rationally in a losses frame. The degree of the North's action was the most aggressive since the Korean War in 1950. The international society was surprised at the North's risky decision. In fact, most rationalists did not predict the North's use of the nuclear weapons card. Although some policy makers guessed that Pyongyang might build nuclear weapons in the future, they could not predict that the North would pursue a nuclear weapons program right after the Gulf War, given that, under the rationality view, such a dangerous decision is irrational. On the other hand, such behavior inconsistent with NK's goals can be predicted under prospect theory although this theory is complicated.

Eventually, due to these reasons, prospect theory can be an alternative for explaining anomalies of rationality. Through this examination, we can realize that the most important thing in theory is accuracy and effectiveness rather than parsimony in the real world.

VI. Policy Implications

This chapter derive some policy implications from the perspective of prospect theory. In order to do so, this chapter will briefly argue the necessity of adopting prospect theory for understanding and predicting North Korea's behavior. And then it will show how to minimize and prevent the North's aggressive behavior. The key point is to change the losses frame of the North into a gains frame in the dimensions of the reference points of Juche' ideology, diplomacy, economy, and security. The West needs to accept the North Korean government based on Juche' ideology as a legitimate representative in the North and help NK to improve relations with the West, especially the US and Japan. It is essential to consider extending nonpolitical exchange with the North. Furthermore, the West needs to guarantee the North's security through building a multilateral security regime, including the two Koreas, the US, China, Japan, and Russia. Such consideration will contribute to a change of in the North's frame. In a gains frame, the North will try to pursue absolute gains rather than relative gains, at least within low-politics. This will allow us to stabilize security on the Korean peninsula.

Before discussing the argument mentioned above, we need to briefly screen the current security situation on the Korean peninsula. It is obvious that the national interests of the Northeast states, including the US, are intertwined with the Korean peninsula. Both South Korea and the US rely on deterrence of a preemptive attack by the North. There are many factors that contribute to deterrence on the Korean peninsula — the military superiority of both SK and the US, peripheral states' efforts for peace (the PRC, USSR, and Japan), South Korea's miracle development (politics

and economy), North Korea's relative depression. However, the possibility of full-scale war or limited warfare has not yet disappeared. Although deterrence has been successful, we cannot say that building measures for the superiority over the North is the only way for successful deterrence.

Until now, most specialists on Korea have depended on rational choice models or irrational perspectives. The theory of deterrence is also generated by rationality. As mentioned in previous chapters, there are some limitations to the two perspectives. Through an analysis of the four cases, it might be possible to infer that North Korea was behaving neither irrationally nor rationally. Particularly, the appropriateness of the perspective based on irrationality has basically been denied in this thesis.

North Korea tended to be a risk seeking actor in the domain of losses, indicating that when conditions grew worse, it became riskier. This tendency means that the rational choice model cannot fully explain such actions but not that prospect theory is a perfect alternative either. Prospect theory might be more effective for understanding the aggressiveness of North Korea.

In short, policy makers who rely on the rational choice make mistakes in predicting the North's behavior. In this case, it may be necessary to adopt prospect theory as an alternative model. Jong Si-Sung, the former director of talks between the North and the South who served for 25 years, states:

North Korean officials often showed aggressiveness during private talks. In 1992, the eighth high-level talks of two Koreas in Pyongyang, the former partner of North Korea, Choi Bongchun said, "If the South boasts of more riches than the North, serious problems will occur. If we press a button, we can blow up all atomic plants in the South. *In*

the 1970s, because the North had a more power than the South, the North Korean officials did not say aggressive words, while they have begun to increase threatening announcements since the 1980s because they thought that they were being overtaken by the South. (1996)

Given North Korea's ultimate goal of spreading communism throughout Korea, it is predictable that they will try to find a chance to communize the Korean peninsula. Like the Korean War in 1950, if the North has complete confidence in its ability to spread communism throughout the South, it will attempt a preemptive attack. Conversely, if North Korea recognizes the serious crisis of survival based on Juche' ideology, they also may attack the South.

Recently, the North's primary interest is survival. Jung Si-Sung argues that Kim Il Sung was very satisfied with the basic agreement between the South and North through high-level talks. He emphasized 'non-aggression' rather than 'reconciliation' as the basic agreement of the two Koreas in 1991. It is apparent that he realized the crisis of the Juche' Kingdom because of the collapse of the Soviet Bloc (*Chosunilbo* 29 November, 1996). Therefore, the West does not have to threaten the North. Due to structural problems, the North has been following a course of collapse like that of Eastern Europe. We need to guarantee the peaceful collapse of the North (*Chosunilbo* 10 May, 1996). We do not have to be a victim of North Korea on the way to its collapse.

When the North was in a serious losses frame with respect to the survival of their political system in 1992, they pursued the last risky option, preemptive attack in order to escape from a serious losses frame. According to Hwang Jangyop, in 1992, Kim Jong Il planned to finish spreading communism throughout the South within

three days, but Kim Il Sung refused that plan because of economic problems. We can speculate that Kim Jong Il selected 1992 because the North predicted a crisis of survival following the collapse of the Soviet Bloc and the South's normalization with the PRC/Russia. In 1992, the South's domestic politics were very complicated due to the election. Kim Jong Il tried to exert his dignity or authority after becoming First Vice-Chairman of the National Defense Committee and Supreme Commander of the Korean People's Army in December 1991 (*Chosunilbo* 1997). This plan came out right after the signing of the "Agreement on Reconciliation, Non-Aggression, and Exchanges and Cooperation" in 1991. This means that NK treated agreements or talks with SK as tactical measures. The ultimate goal of the North has not changed, rather it will not change forever as long as Kim's family exists within the strategic dimension.⁶⁷ However, NK has sought tactical change in non-political fields. The North's extreme intention mirrors the accuracy of prospect theory—(i.e., a risk acceptant actor in a losses frame).

As such, policy makers might draw a better understanding of the North's behavior by relying on prospect theory. As demonstrated previously, the North chose a risky choice set in the losses frames. Their behavior was not consistent with their goals. In this sense, it is necessary to control the North's frames in order to prevent the aggressiveness of the North. Although the North's aggressiveness originated from their goal of Communization, the way that we can minimize the aggressiveness is to change a losses frame to a gains frame. Of course, it is very difficult to establish the

⁶⁷ During the Red-Cross talks between the two Koreas in the mid 1970s, North Korea built an underground tunnel for a surprise attack. Until present, the South has found 4 tunnels constructed by North Korea.

North's frame because there are numerous factors that can be used as reference points. However, as mentioned in previous chapters, we can use four decisive variables as the North's reference points.

If so, how do we treat its aggressive behavior? There are two kinds of policies for North Korea. One is a soft-landing policy, which says that we should promote democracy and prosperity in North Korea and then make it a different country, which looks closer to South Korea in terms of politics and economics like the Clinton administration's current policy.

The other is a hard-landing policy, which means keeping tight control and then inducing an early collapse of the North Korean regime. The proponents of the hard-landing policy believe that the early collapse of the North is the best way to minimize expenses for reunification (Eberstadt 1997). If the North does not pursue an extreme risky choice set (a preemptive attack and full-scale war), the hard-landing policy can be a more persuasive policy than the soft-landing policy. The hard-landing policy, however, is likely to be risky for both South Korea and the US because North Korea will not obediently accept this crisis imposed by external forces. Mike Chinoy, CNN's Hong Kong Bureau Chief, after his ninth visit to Pyongyang, stated that tight control might keep North Korea from collapse because it would stimulate North Korean patriotism. He claims that "just as long as the North Korean elite holds together, Kim Jong Il's system, despite famine, could well survive for some time to come" (1997a). Such a concentration of vested interests may lead to the choice of full-scale attack or higher degrees conflict which they has not taken since the Korean War.

On the other hand, there are some problems in the soft-landing policy. Clinton argues that "there will be improved economic and political relations with North Korea, and America's long-run objective continues to be a non-nuclear, peacefully reunified Korean peninsula" (Lee Choon Kun 1997). Although the US succeeded in freezing North Korea's nuclear program, North Korea's fundamental goal was not absolutely changed. North Korea continues to develop destructive weapons such as missiles of the "Rodong series (1,500-2,000Km range) and Taepodong series (2,000-3,500Km range)" which can reach over Japan as well as load nuclear/chemical/biological bombs (Spector *et al.* 1995c). Recently, the Clinton administration has tried to address this issue through negotiation with North Korea. But the possibility of success is not clear. During the four party talks (the two Koreas, the US, and the PRC) North Korea insisted on the withdrawal of US troops from the South and the adoption of a peace treaty. This demonstrates that North Korea's fundamental interests remain unchanged (CNN 19 September, 1997).

One of the most serious problems is that the cooperation between South Korea and the US has begun to deteriorate crack since the North Korean nuclear crisis. Lee Choon Kun stresses that "when the US considered military options, South Korea was against it, and when South Korea preferred more strict policy toward North Korea, the US preferred appeasement" (1997). He finds the reasons in different national interests. In the post Cold War era, the circumstance of security for South Korea has not changed, but for the US, the Soviet Union has collapsed. This difference is reflected in the tendencies of policy makers of both SK and the US. That is, when soft liners get initiatives in decision making in both states, their policies can be same, but

when policy makers' beliefs are different from each other, both states' policy might conflict.

North Korea may take advantage of this break and try to establish a peace treaty without South Korea, which may cause the withdrawal of US troops of 3,7000 in South Korea. As North Korea has assumed that they can successfully communize SK provided that US troops are gone, it might provide the opportunity to destroy peace and stability on the Korean peninsula. The different policies of South Korea and the US may cause them to lose a traditional ally, each other. As the Carter administration's policy of the withdrawal of US troops from the South brought about the building of nuclear weapons by Park Chung Hee, the break may cause the South to perceive the necessity of nuclear weapons. Practically, many South Koreans have begun to doubt the consistency of the US's policy in Korea. Furthermore, pressure to open economic markets has stimulated anti-Americanism in South Korea.

Given this situation, how can we guarantee security in the Korean peninsula? We need to consider the cards of economy and a multilateral security regime as leverage based on prospect theory in terms of changing the North's frames by looking at Berejikian's synthetic argument on absolute and relative gains (Grieco 1988) by prospect theory.⁶⁸

while benefiting under the status quo, states opt for conservative policies, but they are quick to act if this beneficial structural arrangement is threatened. Alternatively, while suffering under the status quo, states are willing to incur greater risk in an attempt to return to safety. Put succinctly, *states in a gains frame pursue absolute gains and are risk averse, while states in a losses frame pursue relative gains and are risk acceptant.* (1997;795)

⁶⁸ See Bruce Bueno de Mesquita. Forthcoming. "The Gains Debate: Framing State Choice."

It is necessary to pursue absolute gains for two Koreas by transforming North Korea's losses frame into gains frame. As a matter of fact, the ultimate goal of North Korea is to communize the Korean peninsula. It may be impossible to expect this goal to change unless the Kim Jong Il regime is replaced.

It is not easy to change the North's frame. On the other hand, we do not also have to be a victim of North Korea's natural collapse. For South Korea, peaceful unification is a crucial mission. The earlier, the better; however, slow unification without damage is absolutely better than rapid unification damaged by military action. Some specialists analyze that right now unification will create a heavy burden for South Korea due to NK's economic weakness, considering lessons of the Germany's unification. For instance, Ko Jae-Nam argues that the costs for unification vary from \$40 billion to \$1,800 billion (1998). The South would invest over 6 percent of its GNP for 10 years, causing serious economic turmoil in the South (the Ministry of Unification of ROK n.d.b). Perhaps, the time of unification may come to us after the appearance of a new North Korea which has discarded Juche' ideology. Nobody knows the exact time of unification. It is clear, however, that the time is fast approaching.

From the mid-1950s to the early 1960s, when North Korea was in the domain of moderate gains, North Korea was not as aggressive as they are today. Of course, such tendencies might originate from strategies against South Korea. It will be possible to minimize the North's risk seeking behavior if we change the losses frame of the North into a gains frame. Instead, it we need to control the North's frame within certain degrees so that the North cannot be sure of gains. When North Korea

was perfectly in the domain of gains in the early 1950s, they invaded South Korea by rational calculation. If we keep the gains frame moderate for North Korea, we will probably demonstrate Berejikian's word, the pursuit of absolute gains and risk aversion, at least within low-politics. In this regard, we need to reconsider economic interchange.

Recently, the radical increase of inter-trade between the two Koreas has increased the possibility of pursuing absolute gains. By separating the economy from political issues, above all, the West (South Korea, the US, and Japan) need to increase trade with North Korea. North Korea has tried to obtain financial funding from the West (Yu Chong-Son 1996). North Korea set up free economic and trade zones at Najin and Sunbong located on the border of Russia and China on December 28, 1991. Due to the nuclear crisis, the West has hesitated to invest in North Korea. If the West increases investment in North Korea, it will help the North to overcome economic stagnation. For North Korea, this will be a chance to change loss frame to gain frame. Further, it is likely to strengthen North Korea's economic reliance on the West. Such a situation will enhance Western control over North Korea.

Although North Korea opened only a small area because of fear of westernization in the North, the extension of this area is inevitable since North Korea does not have other alternatives. It goes without saying that many contacts with North Koreans in diverse fields will influence positive changes in North Korea regardless of the speed of change. South Korea is very interested in this scheme. Chung Ju Yung, Hyundai Group Chairman, has announced participation of his company in this area. Since over 1.1 million Koreans who are living near area of Tumen River can be

utilized, this scheme allows South Korea to gain economic benefits. In this sense, the increase of economic activities with North Korea will augment the gains frame of the North, offering diverse countermeasures for the West.

During another crisis in North Korea (famine), the West helped NK (Satterwhite 1997). Especially, SK directly sent 150,000 tons of rice and indirectly 2000 tons of fertilizer. Because of NK's infiltration by submarine and pressure to raise NK's flag over SK ships loaded with rice for NK, the cooperation of the two Koreas faced with a difficult situation. However, the recent moods of the two Koreas have shown high possibility of successful absolute gains within non-political areas. For instance, NK permitted South Korean and other airliners to pass through its Pyongyang flight information region (FIR). Because of this, NK was able to earn \$4 million in 1998. On January 22, 1998 NK proposed joint farming ventures under the condition that SK provide equipment, seeds, fertilizer and manpower to farm land, and that the harvests of joint farming will be equally split (*Chosunilbo* 9 March, 1998). Furthermore, the words of the new Minister of Unification of SK, Kang In-Duck, reflect bright prospects for pursuing absolute gain:

Our citizens are intellectually mature enough to handle the content of North Korean broadcasts. Reunions of divided Korean families will be a pressing task in our northern policy, and we will work out concrete measures with their related agencies. Seoul will continue to provide food aid to the North and maintain its commitment to the light-water nuclear reactor project. The North should realize that the new administration is fully ready to resume talks with them. North Korea has yet to take a definitive stance toward the new administration, but there are hints of positive signs. North Korea has reduced slanderous broadcasts about the South. (*Korea Herald* 6 March, 1998)

On March 10, 1998, the Kim Dae Jung administration of SK decided to send 800 tons of fertilizer and change the limit on investment from \$5 million to more than \$1,000 million. He permitted businessmen to go to North Korea for economic cooperation. Thus, South Korean companies have opportunities to invest social overhead capital (SOC), such as building roads, harbors, and big plant facilities. Since the early 1990s, North Korea has sought funding and technology from SK. Such phenomena reflect the beginning of a frame change in NK. We continuously need to keep such a moderate frame of NK through promoting cooperation in non-political fields.

The other concrete way to change the North's frame can be found in assuring their survival in high-politics. As shown in the four cases above, the existing security regime of a bilateral security treaty between the US and other states has limitations. Although the bilateral regime is contemporarily successful in the Korean peninsula, this regime is not effective enough to prevent the North's aggressiveness or to cover increasing the possibility for instability in the Northeast Asian region in the future (two Koreas, the US, China, Russia, and Japan). Thus, we need to consider a new alternative. This thesis suggests that building a multilateral security regime in the Northeast Asian region will contribute to the change of the North's frame and the decrease of instability in this region, because this regime will provide the Northeast Asian states, including the existence of two states with assurance of survival. Furthermore, this regime will primarily constrain any intentions to expend hegemonic power.

Until now, the US and China has not wanted to build a multilateral security regime although they have shown interest in this regime. However, they need to

understand historical lessons in Europe and the Korean peninsula. Since the collapse of the Soviet Bloc, NATO has successfully followed a multilateral security regime through adopting Eastern European states including Russia. Although the historical background of the Northeast Asian states is different from the European states, there are no other alternatives to substitute for current instability.

Numerous efforts to maintain stability and peace on the Korean peninsula have suggested that the task for building a multilateral security regime could go on forever. For instance, many negotiations for arms reduction were not successful (Park Tong Whan 1980 1992). Rather, heavy investment of military expenditures for the two Koreas has created spiral effect (Buzan 1991). Buzan argues that on the Korean peninsula, due to the imperative of national unification, the relative success of one side not only undermines the viability and legitimacy of the other, it also directly and immediately threatens the other's very survival (1991;74-75). Keeping the present regime means continuing instability in the Northeast Asian region.

Recently, the US's policy toward NK has changed from deterrence to engagement. At the accord in Geneva in 1994, the US asked South Korea to pay for building two light-water reactors. SK's expense would be balanced later. After the collapse of North Korea, the light-water reactors would be South Korea's possession. Nowadays, the US might succeed in dealing with North Korea, but it might fail to persuade South Korea, whose economy has weakened. Furthermore, North Korea might have enjoyed the brinkmanship strategy with the US's engagement policy since playing the nuclear card. For instance, North Korea threatened the suspension of the Accord in Geneva focusing freezing the nuclear program when SK demanded an

apology for the infiltration of commandos by submarine (*Kyonghyangsinmun* 23 September, 1996).

For North Korea, the US is a very important state with which to construct a good atmosphere for communization and economy. However, the US cannot permanently be a good partner because North Korea has regarded the US as an imperialist state, which NK must necessarily eliminate. For North Korea, the US is an enemy itself in the eye of Juche' ideology. In this sense, the US's engagement policy also cannot be the basis of solving fundamental issue. The US may be rather damaged in the field of economy and security because of weakening the diplomatic relationship between the US and SK. In response to the issue of submarine infiltration, SK first stressed apology from NK and second the execution of supplying light-water reactors, while the US emphasized the priority of the execution for light-water reactors (*Chosunilbo* 29 November, 1996). Eventually, NK apologized to SK for infiltration, and this issue was settled. However, such divided diplomacy between SK and the US had not been seen before. This diplomatic shock has raised the problems of cooperation between SK and the US. Such continuous conflicts of diplomacy may produce instability in Northeast Asia; the Park Chung Hee administration pursued the construction of nuclear weapons after a diplomatic conflict with the Carter administration (Hong Kyudok 1978, 1979). Thus, it is necessary to build a regime to constrain the instinctive behaviors of Northeast Asian states.

Although four-party talks cannot be a permanent measure to settle issues of peace and stability on the Korean peninsula, the talks can be a starting point for

building a multilateral security regime. Lee Seo-Hang argues the advantages of this regime:

There are also advantages for each of the major powers of the Northeast Asian region in becoming a part of a multilateral security regime. For instance, for the United States, which now has neither the resources nor the political will to become involved in security problems in all areas of the globe, it would institutionalize the American presence in the region. It is not necessary to postulate a relative decline in American power in the region to see this as an advantage... For Korea, South and North, to be a participant in a multilateral security dialogue could contribute to establishing a solid peaceful system on the peninsula. More specifically, the agreements that Seoul and Pyongyang have adopted -- such as the Agreement on Reconciliation, Non-Aggression, and Exchange and Cooperation -- could be reinforced within a multilateral framework. In the long term, it can help bring about a favorable environment for peaceful reunification of the peninsula. (1997;34)

The US recognizes the advantages of a multilateral security regime, but it does not want to replace the bilateral security regime. That is, the US wants to use this as a complementary regime. Both Russia and Japan are interested in this regime, but the peripheral states damaged by Japan are concerned about the revival of Japanese imperialism. On the other hand, China is reluctant to participate in this plan. That is not to say that China does not want this arrangement (Lee Seo-Hang 1997, Hong Kyudok 1997).

Over the past years, the ASEAN Regional Forum (ARF) and the Council for Security Cooperation in the Asia-Pacific (CSCAP) have played great role in discussing multilateral security in the Asia-Pacific region. Kim Young Sam administration of South Korea proposed "Northeast Asia Security Cooperation" at the ARF meeting in Bangkok on May 23-25, 1994. This proposal has not been completely successful, while scholars from South Korea, the US China, Japan, and

Russia have been meeting regularly since 1993 under the title, "the Northeast Asia Cooperation Dialogue (NEACD), which has contributed to understanding, mutual confidence, cooperation, and reassurance among states.

Yet, North Korea has not attended these meetings. Even if the US has been interested in multilateral security, it has not shown active efforts for the regime. Regardless of whether the US wants to reunify the Korean peninsula or not, the US needs to recognize that it is in the interest of the US to enhance the process of bringing Pyongyang into the multilateral regime or forum. A multilateral security regime might be one of the most effective or adequate measures to maintain peace and stability in Northeast Asia. It also is a significant interest of the US. By 2010, China's national power will be the second state in the world according to the recent US Quadrennial Defense Review (QDR) (Han Young-Sop 1997). Gradually, both China and Japan will compete to refill the vacuum of power. Such competition is likely to threaten the US interests as well as international order in this region. In order to prevent the future crisis, it is time to speed up the process of building a multilateral security regime.

Fortunately, we have a good chance to induce action from North Korea. North Korea necessarily wants financial aid from the West. In fact, the states which can help North Korea are firstly South Korea and next the US or Japan, as illustrated during the negotiation of KEDO for building light-water reactors. In this negotiation, the Kim Young Sam administration of SK promised that it would pay up to about \$3.5 billion, 70% of the estimated cost of \$5.17 billion, for two light-water reactors by

2003 (*Korea Herald* 17 February, 1998).⁶⁹ Japan has announced the contribution of about \$1 billion. Until now, the US has refused to contribute to build light-water reactors, saying that they have already given financial support for heavy oil for NK. The remaining \$0.76 billion has not yet been pledged. South Korea's role in KEDO is absolutely decisive. Thus, both South Korea and the US need to actively use such circumstances to persuade Pyongyang to enter the multilateral forum and negotiations and to discard obstinate talks with just the US, excluding South Korea (Ko Jae-Nam 1998).

The US failed to control North Korea its the nuclear program. The US's hard-landing policy, more powerful military movement toward North Korea, should have been deployed in the early stages of nuclear crisis before agreeing to high-level talks in 1993 if necessary. Since the US considered military countermeasures too late, North Korea could obtain numerous benefits. That is not to say that continuous pressure has always been needed to change North Korean behavior. A short and powerful measure might have been effective in the earlier stage if necessary.⁷⁰ North Korea might have gained enough time to hide some plutonium for nuclear weapons. In the two cases of tree-cutting incidents and nuclear crisis, North Korea tried to reduce tension by the US's powerful military projection in the final stage, demonstrating that a catastrophic situation breaks down tendencies toward risk acceptant behavior.

⁶⁹ According to the *Korea Herald*, the committee for preparing the new government of Kim Dae Jung had made an internal decision to negotiate to pay 60% or less. Later both the government and this committee denied this report (1998;02-04).

⁷⁰ Kissinger was very concerned about too much concession of the US to NK. He warned the possibility of extending proliferation of nuclear by such concession (1994).

Like the assertions of Skinner (1978c) and Levy (1994), through psychological learning, North Korea might be reinforced to test the usefulness of brinkmanship strategy. In this regard, North Korea might continue to pursue this strategy through thorough calculation. According to Berejikian,

Recall from the discussion of renormalization that losses are more slowly incorporated into an updated reference point than gains. This suggests the possibility of states with opposing assessments of current conditions both believing that they are defending the status quo against change. (1997;795)

This means that North Korea might rapidly recognize profits by using the nuclear as a status-quo. Thus, North Korea will probably show risk-seeking tendency again for other initiatives. If the US regards concessions as losses, the crisis escalates. Fortunately, until now, both South Korea and the US have pursued the soft-landing policy. However, as mentioned above, it cannot be a permanent solution to eliminate future crisis in Northeast Asia. In order to constrain the vulnerable structure of North Korea it is necessary to construct a multilateral security regime beyond the bilateral security regime led by the US. It can enhance solutions to miscommunications or misperceptions. Eventually, not only will the multilateral security regime allow North Korea to enter a moderate gains frame in high-politics, but it will strengthen measures to control or constrain North Korea's risk seeking choices in the future also.

We need to recall the arguments of Kehohane (1984) and Mitchell (1994). Kehohane claims that under the perspective of bounded rationality, a small regime develops a larger regime. Such a process expands cooperation and compliance more deeply. Mitchell points out that the main factor for a successful regime is not just benefits but a good design. In this sense, the four party talks (the two Koreas, the US,

and China) or NEACD is a good starting point for developing a multilateral security regime. The four-party talks are a mediate stage for six-party talks adding Russia and Japan.

The issue of how we can design a good regime remains. Since the discussion about designing the regime moves beyond the purpose of this thesis, only two considerations are given: If we only consider benefits based on rationality in the design, the regime may not be successful (Mitchell 1994). Consideration should be given, in thinking of a multilateral regime, to a design which includes issues like the number of members, sanctions for non-compliance and management structure.

In addition, since the rational choice model tends to ignore the process of decision making originating from the internal personalities of other actors and characteristics of structure, policy makers of both South Korea and the US might make mistakes in understanding and predicting North Korea's behaviors. On the other hand, prospect theory focuses on the other actor's imperfect characteristics for information processing as well as the strange tendency under even perfect information — risk seeking in the loss frame and risk aversion in the gain frame. For this background, both policy makers of South Korea and the US need to concentrate on finding lessons from the above four cases by application of prospect theory.

Furthermore, the rational choice model is powerful in calculating numerical payoffs, but it is very weak in dealing with some phenomena that have hard to calculate such as ideology or norms. Prospect theory, however, can be useful in including such factors in the decision making process. We can see that some consistent patterns of North Korea deviated from rational behaviors. The rational

choice model is very powerful and parsimonious, whereas it is not proper to explain some anomalies like non-rational behaviors. Thus, the necessity of prospect theory comes out of such limitations of rationality based theories.

VII. CONCLUSION

So far, this thesis has demonstrated that NK does not behave rationally in making some choices. Namely, the North's choices are not consistent with its goals. Choices follow a consistent pattern if NK is considered in a losses frame. Given this pattern, we can predict the North's future behavior even though this behavior is an anomaly of rationality.

Although the options which they considered are due to their goals, its actions are very related to its frames. In a losses frame, NK is risk acceptant. Through the examination of theory, this thesis has revealed that the rational choice model cannot explain anomalies of rationality. In the choices made by NK, such anomalies have been continual after it fell behind SK. Even though prospect theory is not a perfect alternative, we can say that this theory can complement the limitations of more traditional perspectives.

In this study I have attempted to solve the theoretical weakness related to the validity of prospect theory as examined in labs. As some scholars argue, the rational choice model is more parsimonious than others (Levy 1997, Shafir 1992, Jervis 1992). In order to apply prospect theory to political events, it is necessary to show concrete reference points and the decision making process involved. Theories based on substantive rationality use objective data. Although these theories are more parsimonious than others, if objective data and cases used identify certain kinds of anomalies of substantive rationality, the usefulness of these theories will decline, because these theories are not accurate. Given these conditions, this thesis has overcome the complicated characteristics of prospect theory. The hypotheses of

prospect theory offers a good baseline to explain why NK chose aggressive options. However, that is not to say that the prospect theory is always a perfect alternative. I think that sometimes the rational choice explanation is the better, whereas sometimes prospect theory is the more appropriate.

We need to pay attention to the fact that, after the mid-1960s, NK's aggressiveness was associated with their frames as well as their goals. This does not mean that the West forced the North to select the aggressive options. The policies made under deterrence theory based on the rationality might have played a role in threatening the North. In other words, if we rely merely on the rational choice perspective, we will make mistakes in understanding and predicting NK's behavior. In this sense, we need to reconsider countermeasures as well as angles toward NK.

In this study it has become clear that the North's losses frame had an impact on selecting risky choice sets. Four variables --- Juche' ideology, economy, military expenditures, and diplomacy --- are used for the reference points. This means that we can minimize the number and degree of the North's aggressiveness through controlling the North's frame. That is, if we change the losses frame of the North into a gains frame, the North will be risk averse under the view of prospect theory.

In order to do so, we need to recall the argument of Berejikian (1997): "States in a gains frame pursue absolute gains and are risk averse, whereas states in a losses frame pursue relative gains and are risk acceptant." In this sense, we need to recognize the North as a legitimate nation. Even though the North's dictatorship based on Juche' ideology generated the North Korean famine, the West does not have to stimulate the North's aggressiveness. Additionally, the North is following the

course of collapse like East European states. We do not have to be a victim on the way to its collapse. If we help the North to emerge from international isolation, we can influence the North to consider their reputation as an international diplomatic partner. Such a recognition is a useful strategy to change the North's frame, and the North will not be risk acceptant in a gains frame.

More concretely, the cards of economy and security can provide essential leverage to control the North's frame. Recently, it has been necessary for the North to seek funding from the West in order to revitalize its economy. They have even asked for an international relief to help overcome the starvation although this action makes them lose face. They themselves want to pursue absolute gains with the South in non-political areas. The reception of such proposals will allow the North to be in a gains frame. Furthermore, this contributes to increasing countermeasures against the North's behavior since the North's economy is subordinated to the West's economy. Under such a structure, aggressiveness of the North would mean its loss of great benefits. In a gains frame, the North will be risk averse.

Recently, the primary concern of the North has been an issue of survival itself. It is time to build a multilateral security regime in the Northeast Asian region. Although it is not easy to construct this regime right now, we need to develop negotiations concerning focusing on this regime. If we create this regime, including the two Koreas, the US, the PRC, Russia, and Japan, not only will we restrain the North's aggressive behavior, but we also will assure security in this region in the long term. In this regard, four party talks and NEACD can be starting points developing a multilateral security regime.

The argument of Keohane (1984), that a small regime develops a more advanced regime for more diverse and deeper cooperation, suggests that such efforts contribute to securing stability and peace on the Korean peninsula. We need to recall that the good design of the regime is a more important factor to induce cooperation and compliance than higher benefits based on rationality (Mitchell 1994).

In conclusion, we find that there is a consistent pattern in North Korean behavior. NK behaves aggressively in a losses frame. Under the traditional perspective, we cannot explain and predict these anomalies. Prospect theory, however, offers a framework to predict behavior inconsistent with its values. Thus, prospect theory is invaluable in its application to the risk acceptant actions of NK.

This thesis is a new challenge to the traditional view. Until now, most scholars have depended on the rational or irrational approach. Even though some policy makers announce the necessity of using the "Carrot and Stick," they do not theoretically explain the correct reasons. That is, although the traditionalists can derive similar policies to prospect theory's implications, the policies automatically include wrong future predictions because such policies are made under a misunderstanding of NK's behavior. In this respect, the implications based on prospect theory suggest appropriate responses to NK's propensity to risk. Prospect theory claims that the carrot is needed in a losses frame, and the stick in a perfect gains frame. This is because actors are possibly risk acceptant in a general losses frame or in a perfect gains frame (sure gain situations).

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APPENDICES

Table A1. Comparison of Economic Growth and GNP between the Two Koreas, 1960-1993

Year	South Korea (S)		North Korea (N)		S/N
	GNP (Per capita GNP)	Growth Rate (%)	GNP (Per Capita GNP)	Growth Rate (%)	
1960	13.2 (526), *(81)	-	4.6 (438), *(120)	-	2.9 (1.2), *(0.7)
1965	18.1 (622), *(106)	10.3 a	7.3 (603), *(162)	5.6 a	2.5 (1.0), *(0.7)
1970	29.6 (897), *(242)	9.7 b	9.6 (691), *(209)	10.5 b	3.1 (1.3), *(1.2)
1975	47.0 (1,281), *(565)	6.9 c	15.8 (994), *(452)	2.3 c	3.0 (1.3), *(1.3)
1980	65.5 (1,654), *(1,605)	6.6	17.7 (989), *(758)	-	3.7 (1.7), *(2.1)
1983	80.5 (1,944), *(1,884)	9.1	18.1 (943), *(765)	0.0	4.5 (2.1), *(2.5)
1987	128.4 (3,089)	12.8	- (-)	3.3	- (-)
1988	169.2 (4,040)	12.2	20.6 (980)	3.0	8.2 (4.1)
1989	210.1 (4,968)	6.7	21.1 (987)	2.4	10.0 (5.0)
1990	237.9 (5,569)	9	23.1 (1,064)	-3.7	10.3 (5.2)
1991	280.8 (6,498)	8.4	22.9 (1,038)	-5.2	12.3 (6.1)
1992	313.4 (7,178)	4.8	22.1 (943)	-7.6	14.2 (7.6)
1993		4.7	20.5 (904)		

Notes: GNP is in billions of dollars, while per capita GNP is in dollars.

*: per capita GNP reported by the Bank of Korea

In an effort to remove conceptual differences between GNP and GDP, figures from 1960 to 1983 are the US CIA's adjusted ones at 1983 constant dollars.

a: Average annual growth rate during 1960-1970.

b: Average annual growth rate during 1971-1975.

c: Average annual growth rate during 1976-1980.

Sources: Figures for 1960-1983 are from US CIA, *National Foreign Assessment Center, Handbook Of Economic Statistics*, 1984

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Table A2. Comparison of Military Expenditures and Diplomacy between the Two Koreas

Year	South Korea (S)		North Korea (N)		S/N M.E (D.P)
	Military Expenditures (M.E)	Diplomatic Partners (D.P)	Military Expenditure (M.E)	Diplomatic Partners (D.P)	
1961	179.6 a (5.7)	27	225 a (-)	15	0.8 (1.8)
1965	170.6 a (3.7)	74	350 a (-)	23	0.5 (3.21)
1970	324.6 a (3.9)	82	745 a (-)	34	0.4 (2.41)
1972	1,108 b (4.8)	85	1,428 b (-)	45	0.8 (1.9)
1975	1,652 b (4.7)	92	2,120 b (13.9)	87	0.8 (1.05)
1976	2,373 b (5.8)		2,341 b (14.1)		1.0 (-)
1980	4,924 c (5.9)	112	1,279 c (10.7)	100	3.8 (1.12)
1983	5,535 c (5.9)		1,642 c (12.3)		3.4 (-)
1985	6,135 c (4.9)	118	1,830 c	101	3.4 (1.2)
1987	7,195 c (4.5)		1,847 c (9.5)		3.9
1988	7,865 c (4.6)		1,797 c (8.7)		4.4
1989	8,030 c (4.4)		1,888 c (8.8)		4.3
1990	8,168 d		2,003 d		4.08
1991	7,826 d *6,440 e, *(3.6) e		2,048 d *5,328 e, *(24.4)e		3.82 *1.2
1992	*7,189 e *(3.8) e		*5,087 e *(25.7) e		*1.4
1993	*11,994 f *(3.6) f		*5,305 f *(25.5) f		*2.3
1994	*13,153 f *(3.6) f		*5,412 f *(26.6) f		*2.43
1995		180		132	(1.36)

(M.E): Military Expenditure as a percentage of Gross Domestic Product. (D.P):ratio of the numbers of Diplomatic Countries

a: SIPRI Yearbook 1975. From 1961 to 1970, price at 1972. b: SIPRI Yearbook 1984. From 1972 to 1976, price at 1983

c: SIPRI Yearbook 1990. From 1980 to 1989, price at 1989. d: SIPRI Yearbook 1992. From 1982 to 1991, price at 1990

* e: Military Balance 1993-94. From 1991 to 1992, price at '85. * f: Military Balance 1994-95. From 1993 to 1994, price at '93.

Sources: (1) SIPRI. 1972/1983/1990/1992. *SIPRI Yearbook 1975, 1984, 1990, 1992*. (2) Gills, B.K. 1996. *Korea Versus Korea*;*A Case of Contested Legitimacy*. New York: Routledge. (3) IISS. *Military Balance, 1993/94*, London: Oxford University Press.

Table A3. Comparison of the Growth of Military Expenditure and GNP between the Two Koreas

Year	South Korea (S)			North Korea (N)		
	Military Expenditure (Growth of M.E, %)	GNP Per capita (Growth, %)	GNP (Growth of GNP, %)	Military Expenditure (Growth of M.E, %)	GNP Per Capita (Growth, %)	GNP (Growth of GNP, %)
1965	200	190	5,380	487	288	3,480
1966	237 (18.5)	207 (8.9)	6,050 (12.5)	474 (-2.7)	317 (10.1)	3,930 (13.0)
1967	254 (7.2)	221 (6.8)	6,510 (7.6)	617 (30.2)	303 (-4.4)	3,940 (0.3)
1968	297 (16.9)	238 (7.7)	7,340 (12.7)	769 (24.6)	329 (8.6)	4,410 (12.0)
1969	342 (15.2)	275 (15.5)	8,440 (15.0)	740 (-3.8)	349 (6.1)	4,810 (9.1)
1970	359 (5.0)	290 (5.5)	9,100 (7.8)	799 (8.0)	362 (3.7)	5,140 (6.9)
1971	1,229 ()	838 ()	28,335 ()	1,296 ()	493 ()	7,201 ()
1972	1,350 (9.8)	866 (3.4)	29,976 (5.8)	1,692 (30.6)	533 (8.1)	8,049 (11.8)
1973	1,187 (-12.1)	975 (12.6)	34,444 (14.9)	1,678 (-0.8)	578 (8.4)	8,971 (11.5)
1974	1,531 (29.0)	1,033 (5.9)	37,201 (8.0)	1,945 (15.9)	625 (8.1)	10,009 (11.6)
1975	1,893 (23.6)	1,086 (5.1)	39,855 (7.1)	1,399 (-2.8)	793 (26.9)	13,088 (30.8)
1976	2,663 (40.7)	1,230 (13.3)	45,888 (15.1)	1,615 (15.4)	739 (-6.8)	12,576 (-3.9)
1977	2,997 (12.5)	1,335 (8.5)	50,596 (10.3)	1,453 (-10.0)	713 (-3.5)	12,558 (-0.1)
1978	3,544 (18.3)	1,466 (9.8)	56,476 (11.6)	1,423 (2.1)	744 (4.3)	13,470 (7.3)
1979	3,385 (-4.5)	1,536 (4.8)	60,066 (6.4)	1,320 (-7.2)	748 (0.5)	14,000 (3.9)
1980	3,486 (3.0)	1,423 (-7.4)	56,656 (-5.7)	1,178 (-10.8)	746 (-0.3)	14,415 (3.0)

Note: Unit of ME and GNP is in millions of US Dollars while Unit of GNP Per Capita is in US dollars. Unit from 1965 to 1970: 1970s's constant US dollar, from 1971 to 1980; 1980's constant US dollars.

Sources: Adapted from *World Military Expenditures and Arms Transfers* 1965-74, 1971-80, 1991-1992, 1996.

Table A3 (continued)

Year	South Korea (S)			North Korea (N)		
	Military Expenditure (Growth of M.E, %)	Per Capita	GNP (Growth of GNP,%)	Military Expenditure (Growth of M.E, %)	Per Capita	GNP (Growth of GNP, %)
1981	6,829 ()	2,836 ()	109,800 ()	6,778 ()	1,850 ()	33890 ()
1982	7,135 (4.5)	2,993 (5.5)	117,700 (7.2)	6,607 (-2.5)	1,774 (-4.1)	33030 (-2.5)
1983	7,313 (2.5)	3,321 (1.2)	132,500 (12.6)	6,592 (-0.2)	1,740 (-1.9)	32,960 (-0.2)
1984	7,385 (1.0)	3,585 (8.0)	144,800 (9.3)	6,543 (-0.7)	1,698 (-2.4)	32,710 (-0.8)
1985	7,851 (6.3)	3,797 (5.9)	154,900 (7.0)	6,563 (0.3)	1,674 (-1.4)	32,810 (0.3)
1986	8,442 (7.5)	4,228 (11.4)	174,900 (12.9)	6,609 (0.7)	1,657 (-1.0)	33,040 (0.7)
1987	8,627 (2.2)	4,718 (11.6)	197,600 (13.0)	6,641 (0.5)	1,636 (-1.3)	33,210 (0.5)
1988	9,272 (7.5)	5,246 (11.2)	222,200 (12.4)	6,622 (-0.3)	1,603 (-2.0)	33,110 (-0.3)
1989	10,220 (10.2)	5,544 (5.7)	237,200 (6.8)	6,510 (-1.7)	1,548 (-3.6)	32,550 (-1.7)
1990	11,240 (10.0)	5,997 (8.2)	259,300 (9.3)	6,178 (-5.1)	1,443 (-6.8)	30,980 (-5.1)
1991	11,950 ()	7,504 ()	324,500 ()	5,525 ()	1,180 ()	25,750 ()
1992	12,740 (6.6)	7,803 (4.0)	340,700 (5.0)	5,916 (7.1)	1,065 (-9.7)	23,660 (-8.1)
1993	13,050(2.4)	8,161 (4.6)	359,900 (5.6)	5,556 (-6.1)	986 (-7.4)	22,330 (-5.6)
1994	14,280(9.4)	8,751 (7.2)	389,900 (8.3)	5,638 (1.5)	947 (-4.0)	21,830 (-2.2)
1995	14,410(0.9)	9,437 (7.8)	424,800 (9.0)	6,000 (6.4)	894 (-5.6)	21,000 (-3.8)

Note: Unit of ME and GNP is in millions of US Dollars while Unit of GNP Per capita is in US dollar. Unit from 1965 to 1970: 1970's constant US dollar, from 1971 to 1980: 1980's constant US dollar, from 1981 to 1990: 1991's constant US dollar. From 1991 to 1995: 1995's constant US dollar.

Sources: Adapted from *World Military Expenditures and Arms Transfers 1965-74, 1971-80, 1991-1992, 1996*.

List: Review of North's Major Provocations

- Jan.21, 1968 A 31-men commando team infiltrates into Seoul in an attempt to blow up the presidential office (29 shot to death, one captured alive, one killed himself).
- Oct.30, 1968 One hundred and thirty guerrillas land on the coast of Uljin and Samchok on the east coast of South Korea (110 shot to death, seven captured alive).
- Jun12, 1969 A group of armed North Koreans infiltrate into Huksan Island off the west coast of South Korea (15 agents shot to death).
- April8, 1970 Three commandos infiltrate into Kumchon, Kyonggi Province (all of them shot to death).
- Aug.15, 1974 A North Korean agent attempts to assassinate President Park Chung-hee in Seoul. Park was not hit, but the First Lady was shot to death. The agent, named Mun Se-gwang, was arrested and later executed.
- Sept.11, 1975 Two North Korean armed agents infiltrate into Kochang, North Cholla Province (one shot to death).
- June19, 1976 Three North Korean agents are shot to death while they are trying to infiltrate into an eastern area in the front line across the border.
- Aug.18, 1976 North Korean troops kill two U.S. army officers in the truce village of Panmunjom.
- Oct.11, 1979 Three North Korean agents try to infiltrate into the eastern front line area across the border (one shot to death).
- March 23,1980 Three North Korean armed agents are shot to death while trying to infiltrate across the river into South Korea in the estuary of the Han River
- Dec.1, 1980 Three North Korean agents are shot to death in Namhae, South Kyongsang province.
- March27,1981 A three-men squad infiltrates into Kumhwa, Kangwon Province (one shot to death).
- June21, 1981 North Korean boat with espionage agents on board is sunk off the coast of Susan, South Chungchong Province (nine shot to death, one captured alive).
- July4, 1981 A North Korean agent is shot to death in the upper stream of Imjin River while trying to infiltrate into the South across the river.
- May15, 1982 Two North Korean agents appear on the east coast of South Korea (one shot to death).
- June19, 1983 Three North Korean agents are shot to death in Imjin River while trying to infiltrate into the South across the river.
- Oct.9,1983 North Korea commits a terrorist bombing against the visiting South Korean presidential entourage at the Aungmye Mausoleum in Rangoon, Burma (17 South Korean officials including Deputy Prime Minister Suh Sok-jun killed).

Sept.24, 1984 A North Korean agent appears in Taegu and kills three South Korean citizens (the agent commits suicide).

Oct.20, 1984 A North Korean espionage boat is found off the coast of Pusan. he boat escaped.

Nov.29, 1987 Two North Korean terrorists blow up a South Korean civilian airliner over the Andaman Sea near Burma (all of the 115 passengers and crew members killed, one of the terrorists, Kim Hyun-hee, arrested).

May22, 1992 Three North Korean agents are shot to death while trying to infiltrate into the South across the border near the western front line area.

Oct.24, 1995 Two North Korean agents infiltrate into Puyo, South Chungchong Province, in an attempt to escort a returning agent (one shot to death, one captured alive).

April5-7,1996 North Korea stages an armed demonstration in the truce village of Panmunjom by sending heavily armed troops into the joint security area in violation of the armistice agreement.

Sept.17, 1996 North Korea infiltrates 26 commandos aboard a submarine on the east coast of South Korea (24 shot to death, one captured alive). The U.N. Security Council later issued a presidential statement warning North Korea.

VITA

Mun-Sik Park was born in Donghae, Kangwon Province in South Korea on July 7, 1963. He lived there until his graduation from high school. He attended the Korea Military Academy in Seoul in 1983. He received a Bachelor of Arts in History while being commissioned as second lieutenant as an infantry officer of the Republic of Korea (ROK) Army. He served as a platoon leader and a company commander in the Demilitarized Zone. He attended the Defense Security Command as an assistant officer, working on military strategy and building stability of the military. His career in the military was very helpful in his study of political science, especially in terms of the theories of decision making process. He was selected as a recipient of a scholarship from the Defense Security Command in 1995. He entered the Master's program of the Department of Political Science at the University of Tennessee in Knoxville on August 1996. He was promoted to a major in the ROK Army in 1997. He received the degree of the Master of Arts in May, 1998.

He is presently serving in the Defense Security Command. He plans to develop issues of anomalies which deviate from the assumption of rationality by using heuristics, developed by cognitive psychologists. Furthermore, he will apply these heuristics to practical affairs with respect to policy making.