



## RAPID DENUCLEARIZATION MADE ECONOMIC SENSE FOR LIBYA – AND COULD FOR NORTH KOREA, TOO

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The big question is, will Kim Jong Un pivot North Korea towards an economic development track and away from its heavy emphasis on military expenditures? A good test of that would be whether North Korea follows the Libya model. President Donald Trump called off – briefly – the planned June 12 summit with North Korea's Chairman Kim Jong Un essentially over a spat about what is meant by the “Libya model.” North Korea Vice Foreign Minister Choi Son Hui lambasted Vice President Michael Pence for his comment made during a May 22 TV interview that Kim's regime “will only end like the Libya model” if North Korea fails to comply with US denuclearization demands. But history shows us that there is no denuclearization-to-regime-destruction causality.

Libya experienced two watershed events, separated by seven years, with very different outcomes. The first was Libya's December 2003 decision to abandon its nuclear and chemical weapons programs. That event led to an economic boom. The second was the Arab Spring in February 2011 and onwards. That event swept up the country and its leader into a destructive maelstrom from which it has yet to recover. The two are not connected

in any fundamental way. And both have very different policy implications.

So, what is the “Libya model”? Here is the series of events that followed Libya's decisions to renounce terrorism and abandon, verifiably and rapidly, its nuclear weapons program. In September 2003, the UN Security Council formally lifted sanctions imposed on Libya in response to Libya's Aug. 15 agreement to admit responsibility for the bombing of Pan Am Flight 103 and compensate victims. On Dec. 19, Libya's Foreign Ministry publicly renounced the country's WMD programs. In response, President George W. Bush promised US help to “build a more free and prosperous” Libya. About a week later, International Atomic Energy Agency Director-General Mohamed ElBaradei visited Libya to begin the process of dismantling its WMD programs. And in the following month, the US started to airlift out documents and components of Libya's nuclear and ballistic missile programs.

The ensuing economic benefits to Libya were substantial. Exports doubled two years after the denuclearization decision was made, and in the following five years were on average almost five times higher than in the prior five-year period. A sharp rise in imports, which in part presumably benefitted the common citizen, led to a surge in economic growth (see Exhibits 1 and 2). High oil prices were a factor, too. But oil production rose after sanctions were lifted, and unfettered access to international markets allowed the country to more fully take advantage of the favorable external economic environment.

Exhibit 1

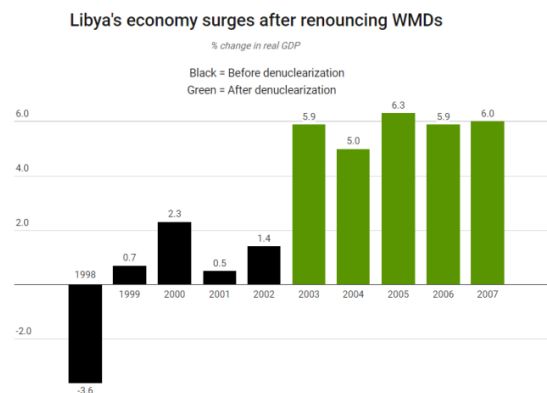
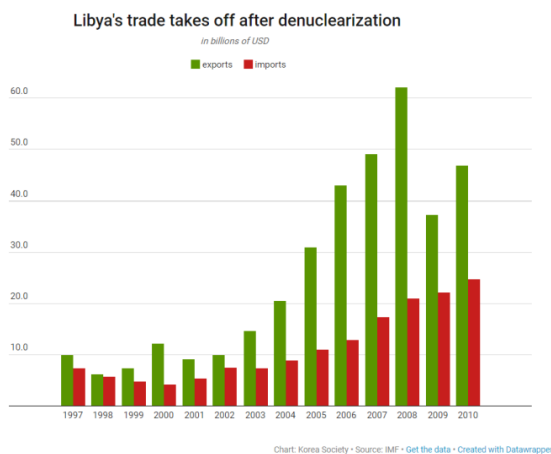


Chart: Korea Society • Source: IMF • Get the data • Created with Datawrapper

In short, rapid denuclearization supercharged economic activity. No longer was Libya’s economy hamstrung by international sanctions, including US secondary sanctions on foreign firms investing in Libya’s oil sector – until the global recession hit in 2009 and the Arab Spring in early 2011.

Exhibit 2



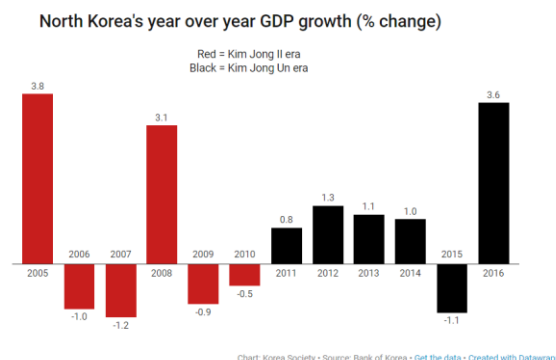
The Arab Spring was defined by popular revolts that abruptly rose up against long-entrenched, corrupt and oppressive governments having little or no accountability to their common citizens. This black swan event first toppled the Ben Ali government of Libya’s neighbor on its northwest border, Tunisia, in January 2011. It next dethroned the Hosni Mubarak government of Egypt, Libya’s eastern neighbor. It spread to Libya in February, and by October 2011 Muhamar Qaddafi was killed while on the run from domestic insurgents.

Nuclear weapons are of no use against domestic uprisings. After all, Boris Yeltsin prevailed against forces attempting to prevent the breakup of the USSR in 1991, and the Tiananmen uprising in 1989 took place within the Chinese nuclear state. It was Qaddafi’s lethal suppression of civilian political protestors that prompted the UN Security Council to first sanction regime officials in February 2011 and then to authorize an international response to the Libyan civil war in March 2011. Would a Libya armed with nuclear weapons have intimidated the UN from implementing such sanctions? Unlikely: The

horse was out of barn. The Qaddafi government lost a civil war unleashed by internal, rather than external, forces.

The main policy lesson for the North Korean government seems obvious. Rapid denuclearization will help to allow a successful strategic pivot towards economic development that will enable Kim Jong Un to fulfill promises made in his New Year’s addresses to raise the living standards for the common people. The lifting of the UN’s broad, sectoral sanctions will allow unfettered trade with China. South Korea can try again to catalyze investment and economic development in North Korea through a resuscitation of the Kaesong Industrial Complex. And the US would lift its sanctions targeting individuals, entities as well as North Korea’s access to the international financial markets. Without such sanctions relief, the North Korean economy will continue to languish in boom-bust-stagnation mode, much as Libya’s did before it made the strategic decision to denuclearize (see Exhibit 3).

Exhibit 3



Moreover, a cautionary policy lesson derives from the Arab Spring, as well as China’s first decade of reform and opening at the end of which the Tiananmen uprising took place in Beijing. Corrupt and repressive governance can create the conditions for domestic uprisings, even when overall national income is on an upward trajectory, as was the case in Tunisia, Egypt and Libya before the year of the Arab Spring. Daron Acemoglu and James Robinson in *Why Nations Fail* observe that extractive political and economic institutions, that is those with absolute political leaders, concentrated power in the hands of political

elites, a lack of a rule of law and insecure property and creditor rights, lead to economic stagnation. An extractive government is thus rendered vulnerable to domestic upheaval.

Regime survival for North Korea, with its cult of personality and its bottom dwelling governance rankings among more than 200 countries surveyed by the World Bank, is perhaps more at risk from internal popular forces than the external military might of the US. Although Kim Jong Un's regime looks secure from the outside, a black swan event could lurk out of sight. For long-term prosperity on the Korean Peninsula, denuclearization followed with political and economic reform seems the best policy combination. An early step that North Korea should take to signal that it is serious in implementing political and economic reform would be to tap into long-term multilateral development bank infrastructure. It could benefit from agriculture and public goods financing and policy advice from the Asian Development Bank, the World Bank or Asian Infrastructure Investment Bank. It could also join the 189 other countries that already benefit from their membership in the International Monetary Fund.

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