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Improving Incentives for Compliance with Non-Proliferation Regimes

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IMPROVING INCENTIVES FOR COMPLIANCE WITH NON-PROLIFERATION REGIMES

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Thus by every device, from the stick to the carrot, the emaciated ...donkey is made to pull the... barrow up an ever steepening hill. -- Winston Churchill, 1938, on the eve of World War II

The carrot is we won't use the stick. -- Gen. Colin Powell, 1990, on the eve of the air war against Iraq

INTRODUCTION

While much attention has been paid in academic and policy circles to the efficacy of sanctions and other forms of economic coercion for conditioning the behavior of target states,[1] much less attention has been paid to the use of incentives to foster bilateral cooperation.[2] Sanctions seek to impede the target state's welfare and thus produce the desired change in behavior; yet sanctions carry costs for the sending state as well. Sanctions may interrupt trade and financial contacts of business firms in the sending state and public support for sanctions may wane over time. In other words, absent tight control on the market by the sending state, sanctions are a lose-lose instrument with costs to both parties. In comparison, incentives offer new or additional gains for a change in behavior. Compared with sanctions, incentives offer a win-win approach, particularly when the sending state gains both politically and economically from expanded trade and other forms of linkage with the recipient state.

In an initial attempt to redress the relative lack of attention paid to incentives, Long has developed a theory of how economic incentives alter a state's external payoff environment and affect its internal preferences and choices.[3] Incentives shape both interstate strategic interaction and domestic politics. The sending state may anticipate gains both politically and economically from the use of incentives, e.g., increased trade opportunities. Incentives also work differently than sanctions within the recipient state. Sanctions create a "rally-round-the-flag" effect in view of the harm posed to the target state, which can provide an opportunity for leaders to appeal for popular support accompanied by suppression of dissent. Sanctions also act to drive the target state in search of alternative suppliers, potentially undermining the impact of sanctions. Because incentives (when skillfully used) do not threaten the recipient state, they do not challenge its sovereignty or threaten to reduce its welfare. Indeed incentives can create a base of support within the recipient state as technology transfer and other forms of incentives begin to improve the position of domestic elites. Also incentives permit the recipient a greater degree of freedom to react cooperatively without fear of economic loss or impairment of reputation.

Traditionally, non-proliferation measures have covered a relatively narrow band of policy options: export controls, arms control, and redressing security

concerns.[4] Yet practice over the last 20 years has seen an increasing emphasis on addressing underlying causes of insecurity, the "demand" side of proliferation, as a more satisfactory way to address proliferation problems.[5] Transparency measures, confidence- and security-building measures, conventional arms control, and security assurances have come to play a more prominent role in attacking proliferation problems. Technology development and targeted assistance also have been used as alternatives to steer states away from the pursuit of nuclear programs as a pathway to technological advancement.

The incentives Long evaluates center around the provision of advanced technology to Sweden, the People's Republic of China, and Czechoslovakia. While technology transfer may represent the majority of incentive packages offered, provision of expert advice and access to international capital may present other attractive alternatives for modifying behavior. For the purposes of this presentation, using Long's approach I will examine incentive packages offered to the Democratic People's Republic of Korea (North Korea) and Ukraine to foster compliance with non-proliferation regimes. These two case studies are much more recent than Long's subjects; consequently it may be too early to tell what the extent of long-term compliance will be in the future. On the other hand these two case studies provide some insight into the mechanics of creating the ground work for a long-term incentive structure which sets out to achieve not simply harmonization but true cooperation in the achievement of policy goals.

THE CASE OF NORTH KOREA

Although North Korea acceded to the Non-Proliferation Treaty (NPT) in 1985,[6] suspicions about the nature of its nuclear energy program emerged in early 1993 when it refused an IAEA request for routine inspections at two sites at the Yongbyon nuclear complex.[7] The IAEA's inspection request arose from questions about the accuracy of North Korea's declarations regarding the amount of plutonium it had separated over the years. IAEA inspections during 1992 concluded that North Korea had produced more material than it had declared. On the basis of intelligence information supplied by the United States, the IAEA suggested the two suspect sites might contain waste products from undeclared plutonium separation. North Korea opposed the inspections because it interpreted the safeguards agreement to prohibit the IAEA from using information coming from third parties. It declared the two facilities to be military sites having nothing to do with nuclear activities and outside the ambit of the safeguards inspection agreement. The IAEA countered with a request for a special inspection, the first one ever requested in IAEA's history.[8] Although the agreement did not address limiting special inspections to declared nuclear facilities only, the terms specifically granted the right to a special inspection if the IAEA believed North Korea had provided inadequate information.[9]

Despite efforts to resolve the impasse via discussions between North Korea and the IAEA, on March 12 the North Korean foreign minister notified the president of the U.N. Security Council of his country's intention to withdraw from the NPT.[10] Its intent to withdraw prompted U.S. officials to discuss with

other governments methods to encourage North Korea to reconsider its decision, a process hampered by the absence of direct diplomatic relations between the United States and North Korea.[11] The strongest reaction of all was the IAEA board vote, finding North Korea in non-compliance with its obligations under the safeguards agreement.[12]

In addition to its opposition to special inspections, North Korea had other complaints. Few of the improved political and economic contacts promised by the United States and other countries had materialized in the wake of North Korea's signature of the IAEA inspection agreement. No significant outside investments had materialized nor had there been any change in its diplomatic status with the United States or Japan. It may have seen its nuclear ambitions -- its best and only bargaining chip -- being eroded without gaining anything tangible in return.[13]

The international community was restrained in its response, calling for a series of international consultations to develop ways to change North Korea's decision to exercise its right of withdrawal. The UN Security Council, reaffirming the importance of the NPT and the parties adherence to it, in Resolution 825 urged North Korea to reconsider its withdrawal decision.[14] The United States left open the door for continuing a series of higher-level diplomatic contacts begun in 1992 between U.S. and North Korean officials. With its allies, particularly Japan, the United States formulated statements of incentives that might persuade North Korea to abandon its withdrawal plans.[15] Possible incentives to be offered by the United States to ease the crisis included permanent cancellation of Team Spirit, international inspections of U.S. military bases in South Korea to confirm the withdrawal of nuclear weapons, and a policy of "no blame" similar to the international approach to South Africa's renunciation of its clandestine nuclear weapons program.

China's influence in producing this restrained response should not be underestimated. It favored direct and quiet diplomacy over direct pressure; its veto in the Security Council provided it with a great deal of leverage to moderate any contemplated Security Council actions, including proposals for blockades or even military strikes against nuclear facilities in the North.[16] By virtue of its strong political and trade relationship with North Korea as well as its stake in ensuring no new nuclear powers would emerge on its borders, China had a pivotal role to play by cooperating with the other actors.[17] China could indicate its willingness to help guarantee North Korea's security and to reassure North Korea that, if it did give up nuclear weapons research, the benefits would outweigh the disadvantages.[18] Similarly South Korea had begun a very promising dialogue with North Korea, which already had produced a treaty of non-aggression and held prospects for a North-South bilateral nuclear agreement even more restrictive than those negotiated under the NPT and IAEA. The future of Korean unification talks and South Korea's transition to civilian democracy were at risk. They, too, had much to lose.[19]

The need for uniform application of principles of compliance conflicted with the need to tailor responses to the region. For this crisis did not affect North Korea alone. The first positive steps to create multilateral security

agreements in Northeast Asia would halt. Continuing uncertainty surrounding North Korea would complicate Japan's decisionmaking about its security role in Asia.[20] At the international level, an overly confrontational handling of this crisis could undermine prospects for positive outcomes at the NPT renewal conference set for 1995. [21]

As the 90-day waiting period ticked away, the United States and North Korea met during five rounds of talks in early June, led by Assistant Secretary of State Robert Gallucci and North Korea's First Vice Minister of Foreign Affairs Kang Sok Ju. The day before the effective date of NPT withdrawal, the two parties released an unprecedented joint statement in which North Korea decided unilaterally to suspend the withdrawal process "as long as it considers necessary" while the parties continued their dialogue toward developing a fundamental solution of the nuclear issues on the Korean Peninsula. The parties expressed their support for the North-South Joint Declaration on the Denuclearization of the Korean Peninsula as well as the peaceful reunification of Korea. Additionally, the parties provided assurances against the threat and use of force (including nuclear weapons), pledged mutual respect for each other's sovereignty, and promised non-interference in each other's internal affairs. Although routine IAEA inspections would resume (as both parties expressed their support for the impartial application of full-scope IAEA safeguards), North Korea did not agree to accept special inspections at the two suspect sites. Other issues which remained open for discussion were the continuation of Team Spirit exercises and North Korean inspections of U.S. bases in the South.[22]

In parallel with the direct U.S.-North Korea talks, discussions with the IAEA on safeguards implementation resumed over the summer. Intransigent North Korean officials allowed IAEA inspectors to perform only maintenance on monitoring equipment. IAEA officials grew increasingly frustrated, culminating in a 72-2 vote by the IAEA board of governors which sanctioned North Korea for its failure to discharge its safeguards obligations.[23] Declaring the IAEA to no longer be impartial, North Korea broke off all talks with the agency, preferring to rely on direct bilateral talks with the United States to resolve outstanding issues.[24] While the direct talks provided some easing of the North Korean position to allow IAEA inspectors to resume visits to declared nuclear sites, the special inspection targets remained off the list and North Korea continued to drag its feet in certifying that resumption of the inspections were more than a one-time deal. [25]

The impasse was broken temporarily by a U.S.-South Korea agreement to call off "Team Spirit" military training exercises planned for 1994. Direct North-South negotiations over improving relations resumed as well. Nevertheless, the North's refusal to allow full-scale IAEA inspections and its interference with inspections at declared sites led the United States to cancel high-level talks, to resume planning for Team Spirit, and to pursue the highly symbolic gesture of deploying Patriot air defense missiles to South Korea.[26] Additionally, while the Security Council refused to issue a formal resolution condemning North Korea's failure to comply with its inspection obligations, the Council did issue a statement indicating it remained seized of the matter and that

in the future it could give the matter further consideration to achieve full implementation of the IAEA-North Korea agreement, presumably including the need for special inspections. The statement also called for Hans Blix, IAEA director, to present a progress report to the Council in six weeks, essentially providing the North Koreans with a deadline for compliance.[27]

The nuclear minuet continued as North Korea began refueling its small power reactor without IAEA inspectors present, although IAEA observations indicated the process was being carried out under a safeguards procedure in their absence.[28] However the situation deteriorated further when the IAEA announced that the refueling procedure had compromised its ability to determine if nuclear material had been diverted in the past. The IAEA withdrew its technical assistance and North Korea in turn withdrew from the IAEA. In response the United States introduced a draft sanctions resolution to the Security Council.[29]

The stalemate was broken by direct talks between former President Jimmy Carter and North Korean leader Kim Il Sung in mid-June. In exchange for a verified freeze of the North's nuclear program, the Clinton administration was given the opportunity to resume high-level talks which had been adjourned for nearly a year. By August, U.S. and North Korean officials had constructed a three-stage process, expected to unfold over a decade, which would normalize diplomatic and economic relations and provide assistance with the construction of proliferation-resistant nuclear reactors in exchange for the elimination of North Korea's nuclear weapons program. The first step in the process would be a continuation of North Korea's freeze on its nuclear program, maintenance of IAEA safeguards, and its continuing membership in the NPT. For its part the United States pledged to provide alternative energy sources for civilian purposes.[30] The second phase would be marked by U.S. assurances on construction of the reactors in exchange for a permanent freeze, closure of one operating reactor coupled with a construction halt on two others, the sealing of North Korea's plutonium reprocessing facility, and a pledge to forego in-country reprocessing of all spent fuel. Although more sketchily detailed, the third stage would encompass the dismantling of the reprocessing facility as well as acceptance of special inspections in advance of the commencement of construction of the light-water reactors.[31] Following a series of technical talks, more detailed implementation steps emerged, including another Security Council statement officially requesting the IAEA to become involved in monitoring the freeze proposed by the bilateral framework.[32]

To assist in implementing the agreement through financial burden-sharing, Japan, South Korea and the United States set up the Korean Peninsula Energy Development Organization (KEDO). By mid-August over 30 countries had agreed to join the consortium, contributing money, oil, and/or technical services. While North Korea balked initially at South Korea being the prime supplier for the two reactors, skillful drafting of a joint statement eased the problem by referring to the United States as the "principal point of contact" and "program coordinator" in deference to Pyongyang's sensitivities regarding the South's relative economic and technological superiority. By early 1996, these issues had been resolved, at least for the time being, and construction equipment

from the South began its way to the North. North Korea is expected to repay the $4-4.5 billion loan interest-free over a 20-year period.

Could this near-disaster have been avoided? North Korea had agreed to allow IAEA inspections, yet Washington and South Korea failed to carry out their ends of the bargain. North Korea had not been allowed to conduct inspections of South Korean bases to verify the removal of U.S. tactical nuclear weapons. South Korea demanded in its direct talks with North Korea the right to conduct short-notice challenge inspections at any nuclear-related site in the North. Adding insult to injury, the IAEA aimed its first special inspection demand ever made at North Korea only shortly after it joined the NPT. The resumption of planning Team Spirit was seen as an act of bad faith. None of the promised incentives for joining the NPT had been delivered to North Korea to its satisfaction.[33]

Imposing punitive sanctions on the world's most isolated and insulated regime was bound to fail and would only exacerbate the paranoia of its ruling elite. A military option not only ran the risk of failing to find and destroy clandestine nuclear material but also to contaminate the Korean Peninsula with radioactive material, if not triggering an all-out war. The military option also would put the U.S.-China relationship at risk as well as destroy the global consensus regarding North Korea's obligations under the NPT.[34] The lesson from the North Korea case is that promises have to be kept and that there is no quick-fix option; only patient diplomacy to establish the relationship and implementation in the form of explicit, staged bargains will suffice.[35]

THE CASE OF UKRAINE

With the breakup of the Soviet Union, Ukraine found itself with extensive and diverse nuclear-related capabilities, not only in numbers of warheads and delivery vehicles but also in terms of nuclear power and nuclear research reactors, uranium mining and milling plants, facilities producing heavy water and dual-use metals such as hafnium and zirconium, as well as sophisticated chemical plants capable of producing materials used in the uranium enrichment process.[36] Although the Soviet Union had been a party to the NPT, Russia "inherited" nearly all the existing nuclear export control structure and available trained personnel. Ukraine had no experience with creating and implementing an export control regime for dual-use items. It was a member of neither the NPT nor the Nuclear Suppliers Group. Domestically Ukraine faced political fragmentation, acute energy shortages, an economy in free-fall, and pressures for autonomy for various ethnic groups.[37] A combination of decentralized authority, porous borders, underdeveloped export control structures, and a government primarily focused on the economy rather than proliferation led to a struggle over several years between Ukraine, Russia, and the United States to bring Ukraine into the NPT fold.

Despite multilateral efforts mounted to address proliferation problems in the Soviet successor states, the United States had lost some credibility and leverage in these negotiations because of its slowness in expending so-called "Nunn-Lugar" funds designed to reward restraint in the areas of nuclear exports

and non-proliferation. By early 1993 less than 2 percent of $800 million allocated had been authorized for expenditure.[38] Indeed it was taking up to an entire year from the time a bilateral agreement was signed to the date a contract was awarded; four different Congressional committees had to approve reprogramming of funds from the Pentagon budget to the Nunn-Lugar fund budget.[39]

Compounding the problem was the failure of Ukraine to ratify START I and to accede to the NPT. The Bush Administration was willing to reiterate to Ukraine those security assurances incorporated in the NPT and the Helsinki Final Act of the CSCE as well as offering $175 million in Nunn-Lugar funds. Ukraine reportedly wanted $2.8 billion for dismantling the nuclear weapons remaining there.[40] The distance between these bargaining points was exacerbated by Ukraine's desire to include guarantees against economic coercion (particularly with respect to Russia's potential ability to cut off its energy supplies and Russia's demand that Ukraine pay market prices for oil and natural gas) as well as by Russia's requirement that Ukraine ratify START I and accede to the NPT as a condition for receiving security guarantees from Russia. Also Ukraine wanted to receive a portion of the proceeds of Russia's sale to the United States of highly enriched uranium (HEU) derived from dismantled weapons, a share projected to be 15 to 20 percent of the total proceeds.[41]

Ratification delays and wrangling with Russia over the operability of the nuclear forces remaining on Ukrainian territory raised doubts about the sincerity of Ukraine's commitment to become a non-nuclear state. U.S. negotiators suspected Ukraine simply was trying to bid up the price for its compliance using its extensive nuclear infrastructure as bargaining chips, among the very few chips at its disposal for leverage with the West and Moscow.[42] Not surprisingly, the more the West and Russia ignored Ukraine while continuing to focus on nuclear disarmament, the larger the pro-nuclear lobby in Ukraine grew.[43] Some in the lobby saw nuclear weapons as a way to ensure that Ukraine could remain primarily responsible for its security. Others saw de-nuclearization as a bargaining chip to be traded for security assurances.

Nuclear bargaining chips were sure to serve Ukraine's pursuit of gaining attention, money, and security guarantees. On the other hand, playing the nuclear card garnered more negative than favorable attention. It also could not increase significantly the amount of money available through Nunn-Lugar funds; those amounts were controlled far more closely by the American budgetary process and deficit crisis than pressures exerted by Ukraine. While Ukraine might gain some financial compensation for nuclear weapons removed from its soil and HEU sales, the amount of money it could expect to receive over the 20-year lifespan of the sales agreement represented only a small fraction of its expected comparable gross domestic product.[44] And the security guarantees it sought were already in place and need not have been bargained for at all.

To break the impasse, the Clinton administration sought to broaden the scope of U.S.-Ukrainian dialogue beyond nuclear issues. It had become apparent that the United States needed to play the role of facilitator to assist in resolving a host of complex issues between Russia and Ukraine.[45] It also may have become

apparent to some in Ukraine that nuclear weapons presented a hollow threat and a wasting asset, in the sense that nuclear weapons increasingly were losing their legitimacy as a source of security and as a usable military force. Unless it was willing to join the ranks of the pariah states, Ukraine faced a fading opportunity for engagement with the West.[46]

To nudge Ukraine off its set point, Secretary of Defense Les Aspin proposed the establishment of a bilateral working group to provide advice on dismantlement and internationally monitored storage of Ukraine's nuclear materials as well as other working groups to discuss military doctrine and civilian and military exchanges He also indicated that Washington was prepared to mediate security disputes between Ukraine and Russia.[47] When disarray within the Ukrainian parliament (Rada) yielded no movement by November 1993, the Department of Defense modified its policy toward Ukraine to release a modest amount of Nunn-Lugar funds for dismantling weapons *prior* to START I ratification and NPT accession by Ukraine.[48]

Months dragged by with Ukraine growing more isolated, facing economic and energy crises, and challenged by separatist groups. In November 1993 when the Rada ratified START I, it did so with 13 reservations. These reservations reiterated Ukraine's ownership and administrative control over the nuclear weapons on its territory, releasing only 36 percent of the launchers and 42 percent of the nuclear warheads for elimination. In effect this reservation would leave Ukraine as the world's third largest nuclear power at the end of the seven-year START I implementation period. Before it would accede to the transfer of even this limited number of weapons, Ukraine demanded the right to monitor the dismantling process, to receive compensation for eliminated fissile material, and to receive international financial and technical assistance for its efforts. The Rada demanded a variety of security assurances from the nuclear powers: foreclosing the use of either nuclear or conventional forces against Ukraine, guaranteeing the inviolability of its borders, and forbidding the use of economic sanctions against Ukraine. The Rada also expressly rejected Article V of the Lisbon Protocol (covering the successor states' accession to the NPT) which would require Ukraine to become a non-nuclear state in the shortest possible time.[49] Clearly the Rada was set to hold onto the nuclear card as long as possible even if it meant undercutting the fundamental purpose of the NPT.

Fortunately, creative diplomacy prevailed at the Moscow trilateral summit in January 1994. Presidents Clinton, Yeltsin and Kravchuk couched their deal as an executive action, i.e., as a political statement rather than as a formal agreement requiring legislative approval. In exchange for Ukraine acceding to the NPT and agreeing to ratify START I, the United States and Russia would offer Ukraine the "positive" and "negative" security assurances contained in the NPT as well as security assurances and guarantees of border inviolability contained in the Helsinki Final Act of the CSCE. Additionally Russia and the United States reaffirmed their commitment to refrain from economic coercion against Ukraine. For the United States part, the statement committed it to expand Nunn-Lugar funding as well as to provide other financial assistance to Ukraine.

The details of two side agreements to the trilateral statement were to

remain secret due to political sensitivities in Ukraine and Russia. Ukraine reportedly agreed that 1,800 strategic warheads on its soil would be withdrawn to Russia within three years and that in turn Russia would agree to write off some of Kiev's past oil and gas debts as compensation for the tactical warheads already removed in 1992. Some of this compensation was to be delivered up-front to provide Kravchuk with a tangible accomplishment directly addressing Ukraine's dire economic straits. Additionally Russia agreed to supply nuclear fuel elements for Ukraine's civilian reactors in exchange for HEU removed from tactical warheads.[50] The United States agreed to reimburse Russia for the costs of warhead dismantling and fuel-rod fabrication while serving as an honest broker for the valuation of the bilateral transactions.[51]

Shortly thereafter, the Rada passed a two-part resolution calling on President Kravchuk to exchange the instruments of ratification for START I and accepting Ukraine's obligation to accede to the NPT as a non-nuclear state. In the wake of the trilateral agreement, other countries began to come forward with offers of dismantlement assistance and other forms of financial aid. Nunn-Lugar funding increased as well.[52] Even with a change in the Ukrainian presidency (Leonid Kuchma succeeded Leonid Kravchuk in the summer of 1994) and apparent conflict between the Rada and the executive branch, Ukraine's commitment to the trilateral agreement remained steadfast. According to Sherman Garnett, Ukraine finally may have realized it had gotten "quite clearly the best deal Ukraine was likely to get."[53]

INCENTIVES

Beyond the incentives found in the two cases described here, a perusal of reported nuclear-related trade and cooperation agreements reveals a host of economic and other types of incentives that are being used by a broad range of states in their post-Cold War non-proliferation diplomacy.[54] Financial assistance in its traditional forms, market access agreements, and access to capital from private investors and international institutions increasingly are being made conditional on the recipient's adherence to arms control regimes.[55] Japan, having increased its development assistance enormously, now slightly outspends the United States; Japan aid in 1995 accounted for 15-20 percent of the entire government budget of almost every East Asian country.[56] Clearly these two nations can have a great deal of impact by conditioning foreign aid on non-proliferation.

In addition to financial assistance and loans, non-monetary incentives abound: bilateral inspection agreements; joint nuclear accounting and control systems; exchanges of lists of nuclear sites as a confidence-building measure; hot-line agreements; provision of nuclear safety training; research exchanges; mediation and facilitation services (similar to the role played by the United States as honest broker in Ukraine-Russian arrangements); technical advice exchanged for oil supplies; provision of reactor management and safety monitoring equipment; leasing of power plant simulators for training purposes; collaboration of civilian uses of radioisotopes in agriculture, medicine, and industry; creation of regional nuclear safety organizations; construction of radiation-waste

processing plants; accident mitigation training; dismantlement assistance; and even relief from U.S. antidumping procedures as they affect the uranium-exporting CIS republics. States offering incentives range from the United States, Japan, and Canada all the way to the Marshall Islands.[57]

There also may be a role for sending states in educating recipients about what make better objectives to seek in a bargain. Ukraine would have been better off to have asked for security *assistance* (not mere assurances), improvement in defenses, extensive programs of military-to-military contacts, help in exploiting transparency measures under CFE and CSCE, and introduction of preventive deployment forces along the Ukraine-Russia border to address security concerns and as a confidence-building measure. Also, to more directly address its energy needs, Ukraine could have asked to be integrated into the West European electricity grid to reduce its vulnerability to Russian impairment of its energy supplies.[58]

While economic aid and technology transfers still comprise the bulk of incentive packages, non-economic incentives also have a role to play. Examples of non-economic incentives include establishing liaison offices and diplomatic contacts (as was done in the case of North Korea); cultural exchanges; bilateral visits or summit meetings of leaders; or even mediated talks similar to the Camp David process. It is worth reiterating that the use of non-economic incentives creates a place for both wealthier and poorer nations to become involved with the process and can spread the burden across a wider array of states than is possible when relying on financial resources alone.

SUMMARY

M.Y. Park uses the analogy of "luring" to describe how incentives should be used.[59] A lure is a practical, functional tool, not an ideological concept. States can employ lures so that the sending state is viewed neither as an enemy nor as an appeaser but as a problem-solver. In Park's view, lures primarily are economic tools, particularly useful in conditioning the behavior of nations like North Korea and Ukraine which have serious economic problems. If they want to sell nuclear technology, it is more likely that it is because they need the money, rather than them desiring to support rogue ideologies.

This is not to imply that incentives are perfect. Incentives provided to one state may complicate relations with other potential recipients, who would like to receive the same consideration, and with other donors, who would like to mastermind similar deals within their ambit of influence. For example, the arrangement created for North Korea drew complaints from Ukraine and Belarus when they were not offered similar favorable packages. When Russia and China were criticized strongly by the United States for their proposals to provide Iran with nuclear power reactors, both pointed to the North Korea reactor deal as an appropriate precedent for their actions.[60] Incentives cannot provide a quick fix, but instead require a long-term commitment by the sending state to work on the relationship. Incentives cannot foreclose the recipient from making decisions independent of this relationship. Incentives also require at least a modicum of institutional strength and stability in the recipient state.[61] Even with these

caveats, incentives worked in these two cases.

In the North Korean situation the United States had a large array of low-cost or no-cost incentives to offer: normalization of diplomatic and economic relations, assistance in normalizing relations between the North and South, and termination of joint exercises. The only significant incentives in cost terms were offers of technical and/or economic assistance to facilitate the replacement of existing graphite reactors with light-water reactors using low-enriched uranium produced outside North Korea. These costs, while not trivial, pale by comparison with costs of military engagement. [62]

The key to the management of the North Korean crisis lay in the realization that proliferation involves much more than the military utility of acquisition of nuclear materials. The quest for nuclear materials has political, economic, and social aspects which must be addressed synchronously. Indeed it may be more fruitful in the long run to address these issues first, to create a web of relationships and confidence-building measures designed to improve the security environment so that eventually North Korea will develop the political will to accept the strictures imposed by the NPT regime. [63] As Jonathan Pollack phrased it, "The challenge for the United States will be to develop alliance strategies that enable credible, longer-term engagement and interaction with the region's principal powers, but that no longer presuppose an overt military threat to core U.S. national interests as a central organizing rationale for an alliance."[64]

In the case of Ukraine, the United States pursued creative diplomacy in an attempt to press Ukraine to move beyond its reliance on nuclear bargaining chips. At the same time as the Rada was attaching its laundry list of reservations to START I ratification and stalling on the approval of implementing agreements for Nunn-Lugar funds, the United States, Canada, and Sweden stayed focused on the long term and reached a four-way agreement with Ukraine to improve the safety of its civilian nuclear power reactors and to set up a technology and science center to provide alternative employment for weapons scientists.[65] Perhaps these Western states detected Ukraine's resentment of being left out of negotiations which had focused so closely on Russia's needs. These multi-party agreements not only provided immediate monetary benefits but also indicated a willingness by Western powers to focus more widely on the successor states, i.e., to court this "nuclear wallflower." It was in the best interests of the United States as well to induce Ukraine to make formal commitments to the NPT and START I as soon as possible so that any successor administration there would find it difficult to repudiate binding international obligations.[66]

While there is little data yet from the North Korea case to indicate if incentives have increased domestic support for international cooperation, the Ukrainian case has produced at least one promising sign. Nunn-Lugar funds have gone to support a joint venture which has converted a ship machinery and equipment factory into one producing prefabricated housing units for demobilized strategic rocket forces personnel. Given the housing shortage there, these units must be a welcome sight.[67]

Another lesson to be learned from these two cases is that not only is multilateralism necessary but it works. The United States could not have

achieved the breakthroughs with North Korea or with Ukraine on a strictly bilateral basis. Each state involved in these negotiations had its own leverage to move the process forward. A welcome side-effect of the North Korean negotiations was that it broadened the U.S.-Japan-South Korea alliance structure beyond one concerned solely with deterrence to one strengthened by cooperative economic and political elements.[68] Significantly, the United States also had to reach beyond its circle of allies for help; recall the role played by China in the North Korea negotiations.

In conclusion, incentives alter perceptions of national interest and provide a systematic way to improve cooperation and communication without requiring a change in the distribution of power between the parties. Incentives can be tailored to fit individual circumstances, i.e., they can be *ad hoc* arrangements, arising independently of the existence of a regime or institution. When skillfully used, they do not threaten the recipient state or challenge its sovereignty. Incentives increase the capability of states to communicate with each other and to reach mutually beneficial outcomes, advancing the security interests of both the donors and recipients. While they may require long-term management, incentives may offer the best option for achieving the long-term non-proliferation goals sought by the international community in the post-Cold War period.

NOTES

1. See David Baldwin, Economic Statecraft 104-05 (1985); Hufbauer, C., J.J. Schott, and K.A. Elliot, Economic Sanctions Reconsidered, 2d. ed., (1990). For views drawn from international relations theory discussing sanctions as aspects of power, see Joseph S. Nye, Jr., Neorealism and Neoliberalism, 24 World Politics 235-51 (1988); Charles Glaser, Realists as Optimists: Cooperation as Self-Help, 19 International Security 50-90 (Winter 1994/95); Robin L. Teske, Power: An Interdisciplinary Approach, in Dorinda G. Dallmeyer, ed., Reconceiving Reality: Women and International Law 231-65 (1993).

2. See Baldwin, supra note 1; David A. Baldwin, The Power of Positive Sanctions, 24 World Politics 19-38 (1971); Margaret P. Doxey, International Sanctions in Contemporary Perspective (1987); William J. Long, Economic Incentives and International Cooperation: Technology Transfer to the People's Republic of China, 1978-86, 28 J. Peace Research 175-89 (1991); William J. Long, Economic Inventives in the Service of Non-Proliferation, report of Center for International Trade and Security (1995); Center for International Trade and Security, Non-Proliferation Export Controls (1995); William J. Long, Trade and Technology Incentives and Bilateral Cooperation, 40 International Studies Quarterly 77-106 (1996).

3. See Long (1991 &1996), supra note 2.

4. Steven Flank, Viewpoint: Nonproliferation Policy: A Quintet for Two Violas?, The Nonproliferation Review 71-81 (Spring/Summer 1994).

5. Dorinda G. Dallmeyer, Addressing the Demand Side of Nonproliferation, 1994 Proc. Ann Mtg. Am. Soc. Int'l L. : Rioux, Jean-Francois, Limiting the Proliferation of Weapons: The Role of Supply-Side Strategies (1992).

6. It should be noted that North Korea did so under Soviet pressure and with no safeguards agreement until 1992. North Korea at the Crossroads: Nuclear Renegade or Regional Partner, Arms Control Today, May 1993 at 3.

7. Id.

8. In the wake of the Gulf War, IAEA inspectors were surprised by the extent of Iraq's clandestine nuclear weapons program. The failure of the IAEA to detect these sites led it to strengthen its inspection procedures by invoking IAEA statutes permitting it to investigate suspicious undeclared sites. See IAEA Asks for Special Inspection of North Korean Sites, Arms Control Today (March 1993) at 20, 25.

9. Id.

10. North Korea's move was prompted by the request for special inspections plus Team Spirit military joint exercises. Team Spirit resumed after a 1 year hiatus during which they signed the agreement with the IAEA. It is unclear if North Korea really understood it was a postponement only of Team Spirit, not a permanent suspension. See Arms Control Today, supra note 6, at 5. To withdraw from the NPT, a party must notify the Security Council and other NPT parties. The withdrawal takes places only after three months have elapsed.

11. Unofficial contacts are maintained in Beijing at the political counselor level, where 33 meetings have taken place since the end of the Korean War. North Korean officials have expressed their desire for more regular, high-level contacts with the United States. Security Council Urges North Korea to Reverse NPT Withdrawal Decision, Arms Control Today (June 1993) at 29.

12. The vote was 29 yes, 2 no and 4 abstentions. North Korea Threatens Withdrawal from Non-Proliferation Treaty, Arms Control Today (April 1993) at 22.

13. There also may have been a need to shore up political strength of Kim Jong Il. Bringing North Korea Back into the Non-Proliferation Treaty Fold, Arms Control Today (May 1993) at 20, 25. While neither confirming or denying the presence of nuclear weapons, the United States allowed South Korea to announce no nuclear weapons remain based there. Arms Control Today, supra note 6 at 5.

14. The vote in the Security Council was 13-0, with China and Pakistan abstaining. Security Council Urges North Korea to Reverse NPT Withdrawal Decision, Arms Control Today (June 1993) at 29.

15. Arms Control Today, supra note 9.

16. Id.

17. Id. at 26.

18. Arms Control Today, supra note 6 at 7, 8.

19. Id. at 5.

20. Michael J. Mazarr, Lessons of the North Korea Crisis, Arms Control Today (July-Aug 1993) at 8, 10.

21. Id. at 11.

22. U.S.-North Korean Talks Defuse NPT Crisis for Now, Arms Control Today (July-August 1993) at 19.

23. Libya and North Korea voted no, with 11 abstentions. North Korea Suspends IAEA Talks; Seeks Dialogue with Washington, Arms Control Today (Nov. 1993) at 21.

24. U.S. Considers New Policy Options as North Korea Standoff Continues, Arms Control Today (Dec. 1993) at 21.

25. North Korea Rebuffs IAEA Again Despite Inspection Deal with U.S., Arms Control Today (Jan.-Feb. 1994) at 25.

26. U.S. Moving Toward Sanctions as North Korea Blocks Inspections, Arms Control Today (April 1994) at 19.

27. Robert L. Gallucci, Non-Proliferation and National Security, Arms Control Today (May 1994) at 13, 16.

28. IAEA Says Pyonyang's Fissile Material is Under Safeguards, Arms Control Today (June 1994) at 24.

29. N. Korea Freezes Nuclear Program in Exchange for Talks with U.S., Arms Control Today (July-Aug. 1994) at 20.

30. Interestingly, Mikhail Gorbachev's decision to renege on a promise to supply four light-water reactor explains why North Korea broached the reactor supply issue nine years later. Arms Control Today (Nov. 1994) at 19.

31. U.S., North Korea Sign Accord on "Resolution" of Nuclear Crisis, Arms Control Today (Sept. 1994) at 23, 30-31.

32. The bilateral agreement envisioned a monitoring role for the IAEA that was more extensive than its own agreement with Pyonyang. For the text of the agreement, see Arms Control Today (Dec. 1994) at 18-19.

33. Arms Control Today, supra note 20 at 9.

34. Id.

35. Center for International Trade and Security, supra note 1 at 16.

36. William C. Potter, Nuclear Exports from the Former Soviet Union: What's New, What's True, Arms Control Today (Jan-Feb. 1993) at 3.

37. F. Stephen Larrabee, Ukraine: Europe's Next Crisis?, Arms Control Today (Jul.-Aug. 1994) at 14, 15.

38. Potter, supra note 36 at 10.

39. House Committee Gets an Update on CTR Progress, Arms Control Today (June 1994) at 29.

40. Russian Turmoil, Ukrainian Action Delay START I Implementation, Arms Control Today (May 1993) at 23, 24; Mitchell Reis, Nuclear Rollback Decisions: Future Lessons?, Arms Control Today (July-Aug. 1995) at 10.

41. Ukraine Stalls on START I Vote; Presses U.S. on Aid Security Issues, Arms Control Today (Jan.-Feb. 1993) at 22, 28.

42. Steven E. Miller, Ukraine's Flawed Nuclear Diplomacy, Nonproliferation Review (Spring-Summer 1994) 47-53.

43. Taras Kuzio, From Parish [sic] to Partner -- Ukraine and Nuclear Weapons, Jane's Intelligence Review (May 1994) 204-07.

44. Miller, supra note 42 at 49.

45. United States Modifies Approach to Broaden Relations with Ukraine, Arms Control Today (June 1993) at 25.

46. William H. Kincade, Nuclear Weapons in Ukraine: Hollow Threat, Wasting Asset, Arms Control Today (July-Aug. 1993) at 13, 17.

47. Aspin Continues U.S. Effort to Denuclearize Ukraine, Arms Control Today (July- Aug 1993) at 23.

48. This was described as "creative diplomacy " in Congressional hearings. See U.S., Kazakhstan Make Progress in SSD Talks; Ukraine Balks, Arms Control Today (Nov. 1993) at 28.

49. The Rada Throws Down the Gauntlet, Arms Control Today (Dec. 1993) at 2; Ukrainian Rada Ratifies START I, but Adds 13 Conditions for Approval, id. at 17.

50. U.S. Reaches Understanding with Ukraine, Russia on Denuclearization, Arms Control Today (Jan.-Feb. 1994) at 19.

51. Ukrainian Rada Clears Way for START I, NPT Accession, Arms Control Today (Mar. 1994) at 23.

52. U.S. Security Assistance to the Former Soviet Union, Arms Control Today (Apr. 1995) at 24.

53. Sherman W. Garnett, Ukraine's Decision to Join the NPT, Arms Control Today (Jan.-Feb. 1995) at 7-12.

54. See, e.g., The Nonproliferation Review (Fall 1993) 62-94; (Winter 1994) 100-43; (Spring-Summer 1994) 88-153.

55. Long, report supra note 2; William D. Hartung, And Weapons for All 292 (1994).

56. Eamonn Fingleton, Japan's Invisible Leviathan, 74 Foreign Affairs 69, 81-85 (1995).

57. James Blaker, Coping with the New "Clear and Present Danger" from Russia, Arms Control Today (Apr. 1995) 13, 16 (Marshall Islands proposal that some of its territory be used for a nuclear repository).

58. Miller, supra note 42 at 51-52.

59. M.Y. Park, "Lure" North Korea, 94-95 Foreign Policy 97-105.

60. Center for International Trade and Security, supra note 2 at 16, Long, supra note 2 at 187.

61. Long , supra note 2 at 101.

62. Spurgeon M. Keeney, Jr., War Drums or Peace Pipes?, Arms Control Today (July-Aug. 1994) at 2. The provision of oil has been described as the agreement's Achilles heel. See Christopher J. Sigur, Peace and Stability in Korea: Prospects and Pitfalls, Conference report of the Carnegie Council on Ethics and International Affairs, at 10 (1996).

63. See Mazarr, supra note 21 at 12. Also it may be more important in the long run to accept the imprecision in the accounting of North Korea's total plutonium production in the same fashion as the international community accepted South Africa's ultimately unverifiable statements regarding its production of nuclear materials. Past production is less important, with intrusive inspections, and the potential for confrontation it presents is less valuable than certifying no new production takes place. Spurgeon M. Keeney, Jr., Reprieve but not a Pardon, Arms Control Today (Jul.-Aug. 1993) at 2.

64. Jonathan D. Pollack, Sources of Instability and Conflict in Northeast Asia, Arms Control Today (Nov. 1994) 3,5.

65. See Ukrainian Rada, supra note 49 at 26.

66. See supra note 51 at 25.

67. The units also are directly coupled with the progress of dismantlement, since under Ukrainian law, Ukrainian officers must be provided with housing before they retire and before the base can be closed. U.S. Signs New Agreements Expanding "Nunn-Lugar" Support, Arms Control Today (May 1995) at 27.

68. Sigur, supra note 62 at 14.