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North Korea is suffering from severe economic problems rooted in the inefficiencies of its command economic system and the collapse of its foreign trade after the Soviet bloc dissolved. While Kim Jong II appears to be in full control in Pyongyang, the political succession is not yet complete. Despite the country's growing economic problems, the DPRK leadership has so far not initiated wide-reaching economic reforms, probably because it fears change would pose a threat to the survival of the system. We have seen no indications of the kind of widespread unrest that might pose a short-term threat to the regime's survival.

[Redacted]

The U.S. and DPRK are preparing for two sets of talks in late April -- on the return of remains of U.S. soldiers who died in North Korea during the Korean War, and on missile proliferation issues. After April 11, we will also consider additional steps to ease economic sanctions against North Korea.

[Redacted]

Recently, the Japanese have also begun preliminary normalization talks with North Korea, aimed at preparing for higher-level talks after April 11.

The Korean Peninsula Energy Development Organization (KEDO) has made important progress in implementing the Agreed Framework, and all three partners -- the U.S., Japan, and the ROK -- believe its efforts will provide a useful link to the DPRK. Some potential difficulties lie ahead -- namely ongoing KEDO-DPRK negotiations, fundraising for heavy fuel oil shipments, and ensuring sufficient KEDO oversight of the LWR project. South Korea and Japan are increasingly concerned about what they view as diminishing U.S. support for KEDO. They see the reduction in State Department FY96 funding from \$22 to \$20 million as symbolic of that decreasing support, and were even more disturbed to learn that our FY97 request will be \$25 instead of \$30 million. This is all the more distressing since both the ROK and Japan will soon have to approach their legislatures for billions of dollars for the LWR project.

Talking Points

- o While the system is under severe strain, the DPRK maintains a very strong security apparatus, and we do not believe the regime's survival is under serious threat in the near term.
- o Later this month we hope to meet with North Korea on the recovery of the remains of Korean War-era MIAs and will hold talks on missile proliferation concerns.

[Redacted]