

A REPORT OF THE CSIS  
FREEMAN CHAIR IN CHINA STUDIES

# Reordering Chinese Priorities on the Korean Peninsula

*Principal Authors*

Bonnie S. Glaser  
Brittany Billingsley

*Contributing Authors*

Stephan Haggard  
Marcus Noland  
Scott Snyder

November 2012



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# EXECUTIVE SUMMARY

The accession to power of a new leader in North Korea has not increased the prospects for denuclearization. Hints that Kim Jong-un might experiment with agricultural and economic reforms are not accompanied by any suggestion that he is considering abandoning the country's nuclear weapons program. On the contrary, all signs point to North Korea's staunch determination to advance the nuclear program while undertaking efforts to compel the international community to recognize it as a nuclear weapons state. Given the growing urgency of the threat posed by North Korea's nuclear weapons development, it is essential to consider new ways to persuade Pyongyang to freeze, reverse, and eventually eliminate its nuclear capabilities.

In the past decade, the United States has tried to work closely with China to achieve denuclearization of North Korea. Successive U.S. administrations have concluded that China holds significant political and economic leverage over North Korea and have sought to persuade Beijing to use its leverage to compel Pyongyang to abandon its nuclear programs. To date, the United States has had very little success. While China has occasionally used its clout to bring North Korea to the negotiating table and to discourage Pyongyang from engaging in provocations that could escalate to conflict on the Korean Peninsula, Beijing has continued to prioritize stability over denuclearization and has thus remained unwilling to put substantial pressure on the North.

For the next Obama administration, China will remain a key factor in any U.S. policy aimed at eliminating North Korea's nuclear weapons. The relationship between China and North Korea is complex and must be fully understood to maximize the possibility of securing Chinese cooperation. In addition, the convergence and divergence in U.S. and Chinese interests on the peninsula must be properly parsed.

## Policy Recommendations

- To enlist China's support, the United States should abandon its current policy of holding all issues hostage to denuclearization. The United States should take steps to invigorate its engagement with North Korea and to establish and proceed down a clear path toward normalization and the signing of a peace treaty. Despite U.S. assurances that once Pyongyang gives up its nuclear weapons, the United States would be willing to normalize ties and sign a peace treaty, Beijing has remained unconvinced. In addition, many Chinese are suspicious that the United States seeks to overthrow the North Korean regime. It is therefore necessary to take measures up front to demonstrate U.S. sincerity. Such steps must be reversible, however, in the event that North Korea does not respond positively.
- The United States should encourage Beijing to take the lead in persuading North Korea to eliminate its nuclear weapons. As North Korea's protector and only ally, China must assume responsibility for maximizing the possibility of success.

- To succeed in gaining Chinese cooperation, the United States should make eliminating nuclear weapons in North Korea a top priority and place that objective at the top of the U.S.-China agenda. China's willingness to work with the United States and squeeze North Korea will be possible only against the background of a positive U.S.-China relationship. Beijing must be confident that the United States is not seeking to undermine China's stability and contain its rise; otherwise, it will not only refuse to partner with the United States but may instead increase efforts to shield Pyongyang from international penalties in response to provocations.
- The United States should convey to Beijing that if the North Korean regime collapses because of economic or political pressures, China will not have to bear the consequences by itself. The United States, Japan, and South Korea would help cope with the humanitarian and security challenges that would arise if the country implodes. Moreover, if North Korea ceases to exist and the country is unified under South Korea's control, the United States will not deploy troops in the northern portion of the country, a unified Korea will be friendly toward China, and all nuclear weapons will be removed from the peninsula. In the absence of such assurances on the end state of the Korean Peninsula, securing Chinese support will be unattainable.
- If Beijing refuses to work with the United States and its allies in pressuring North Korea to relinquish its nuclear ambitions, then they must greatly increase the costs to China of such choices. To alter China's calculus, United States and its friends and allies in the Asia-Pacific region must ensure that severe negative consequences result from China's decision to stick to its current policy. They must, for example, greatly intensify their military and counter-proliferation activities. The United States should also continue to step up its missile defense cooperation and antisubmarine warfare exercises with Japan and South Korea. In addition, the United States and its allies should increase public criticism of China for permitting North Korea to use its airspace, land border, and waters to transfer illicit items to other countries in violation of UN Security Council resolutions 1718 and 1874. Moreover, the United States and its allies should publicly criticize China's protection of North Korea and raise complaints with Chinese leaders at every opportunity.

There are three possible outcomes of this policy approach: (1) China agrees to cooperate and successfully pressures North Korea to accept the terms of the offer; (2) China agrees to cooperate and fails to persuade North Korea to abandon its nuclear weapons program; and (3) China refuses to cooperate, choosing instead to continue its current policy of prioritizing stability over denuclearization. The first outcome is optimal. The second outcome would likely result in Beijing's siding with the United States and other nations against North Korea, which would be an improvement over the current situation. The third outcome would result in the adoption of policies that would worsen China's security environment, which, over time, may compel Chinese leaders to change their cost-benefit calculation in favor of greater cooperation.

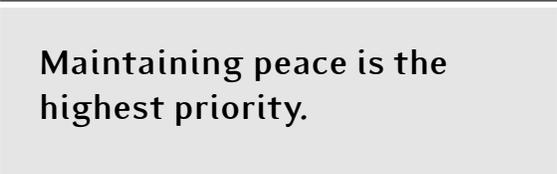


# REORDERING CHINESE PRIORITIES ON THE KOREAN PENINSULA

Bonnie S. Glaser and Brittany Billingsley

The accession to power of a new leader in North Korea (also referred to as the Democratic People's Republic of Korea or DPRK) has not increased the prospects for denuclearization. Hints that Kim Jong-un might experiment with agricultural and economic reforms have not been accompanied by any suggestion that he is considering abandoning the country's nuclear weapons program. On the contrary, all signs point to North Korea's staunch determination to advance the nuclear program while undertaking efforts to compel the international community to recognize it as a nuclear weapons state. Completion of the light-water reactor currently under construction along with Pyongyang's efforts to enrich uranium could enable a significant expansion of the country's nuclear stockpile in the coming years.

Given the growing urgency of the threat posed by North Korea's nuclear weapons development, it is essential to consider new ways to persuade Pyongyang to freeze, reverse, and eventually eliminate its nuclear capabilities. For the next Obama administration, China will remain a key factor in any U.S. policy aimed at eliminating North Korea's nuclear weapons. China's close relationship with and potential influence over North Korea require that the United States continue to try to coordinate closely with Beijing to bring about a denuclearized Korean Peninsula—a goal that China says it shares. The China-DPRK relationship is complex and must be fully understood to maximize the possibility of securing Chinese cooperation. In addition, the convergence and divergence in U.S. and Chinese interests on the Korean Peninsula must be properly parsed. This study takes on those challenges and then sets out recommendations for a new policy approach toward Beijing aimed at enlisting greater cooperation in eliminating North Korea's nuclear weapons.



**Maintaining peace is the highest priority.**

## Chinese and U.S. Interests on the Peninsula: Convergence or Divergence?

### China's Interests

The hierarchy of Chinese interests on the Korean Peninsula is reflected in Beijing's long-standing policy of “no war, no instability, no nukes” 不战、不乱、无核). Maintaining peace is the highest priority. The Korean War of the early 1950s, which resulted in hundreds of thousands of Chinese casualties and a renewed U.S. commitment to Taiwan's security that continues to this day, is indel-

ibly imprinted on the collective national memory. Another military conflict on the peninsula that would retard China's economic development and severely damage its global image and relations with its neighbors is a nightmare scenario for Chinese leaders.<sup>1</sup>

Beijing's second priority is preserving stability on the peninsula. Instability in North Korea, triggered by either an economic or a political crisis, could create a string of negative consequences for China. Unless the People's Liberation Army is able to seal the porous 880-mile border, for example, tens of thousands of North Korean refugees could stream into China's northeast provinces with the attendant risks of increased crime, disease, and other social problems in the industrial heartland of the country where over a million ethnic Koreans reside. In addition, U.S. fears of insecure weapons of mass destruction in North Korea and South Korean ambitions to reunify the peninsula might align in support of a decision to storm across the demilitarized zone, resulting in China's nightmare of military conflict on its border.

**The Chinese have made clear, however, that they will support only those strategies to abolish North Korea's nuclear weapons that do not jeopardize peace and stability.**

Eliminating nuclear weapons ranks lower on the list of Chinese interests on the Korean Peninsula. Without question, Beijing opposes Pyongyang's nuclear program and would prefer a nuclear-free peninsula. The Chinese have made clear, however, that they will support only those strategies to abolish North Korea's nuclear weapons that do not jeopardize peace and stability. Although the Chinese do not view North Korea's acquisition of nuclear weapons as an existential threat to China, there are worries that a perception of a growing nuclear threat could lead South Korea, Japan, and even Taiwan to develop nuclear capabilities.<sup>2</sup> North Korea's nuclear programs and demonstrated provocations have already prompted the United States, Japan, and South Korea to strengthen defense coordination and have led Tokyo and Seoul to enhance their missile defense. These developments are judged to have had a harmful impact on China's security environment.

Moreover, if more countries develop nuclear weapons, the nuclear nonproliferation treaty could collapse, injecting new uncertainties into the security situation in many parts of the world and undermining Chinese interests. A nuclear North Korea also poses the danger that Pyongyang would transfer nuclear materials, technology, or know-how to a third country or nonstate actor, with unpredictable consequences for Beijing. In the United Nations, the United States and other countries would likely pressure China to punish North Korea and endorse measures to step up inspections and interdictions of North Korean shipments. Depending on the circumstances, the United States might even strike North Korea, escalating a wider conflict that might drag in Beijing.

China also opposes Pyongyang's nuclear program because it fears that if instability in North Korea were to trigger intervention by the United States and South Korea and result in a reunified Korean Peninsula under Seoul's control, the nuclear weapons could be inherited. The military, political, and economic challenges of a unified Korea could be significant; China would certainly

1. Bonnie S. Glaser, "China's Policy in the Wake of the Second DPRK Nuclear Test," *China Security* 14 (July 23, 2009), [http://chinasecurity.us/index.php?option=com\\_content&view=article&id=287](http://chinasecurity.us/index.php?option=com_content&view=article&id=287).

2. "If North Korea's possession of nuclear capabilities becomes 'legalized,' Japan and South Korea will inevitably want to have nuclear capabilities too. A chain reaction may then take place—Taiwan may also demand the right to nuclear arms. This will lead to the most serious crisis in China's neighboring regions." See "China Must Not Let North Korea Go Nuclear," *Global Times*, June 2, 2012.

prefer that the peninsula be free of nuclear weapons whether or not the reunified country were to remain an ally of the United States.

In addition to “no war, no instability, and no nukes,” China would like to prevent the presence of a hostile foreign country along its northeastern border. North Korea is a useful buffer against the South, where more than 25,000 U.S. troops are deployed. The advent of long-range strike capabilities and the development of an amicable political relationship and vigorous economic ties with South Korea have to some extent reduced the perceived need for a buffer state. Nevertheless, Beijing hopes to prolong the existence of North Korea as an independent state so it that does not have to worry about the potential deployment of American forces closer to its border. Against the background of the U.S. rebalancing to Asia, Beijing may attach even greater importance to the North Korean buffer than in the past. The U.S. refocus on Asia has exacerbated China’s fears of U.S. strategic encirclement and containment and has likely increased North Korea’s strategic value.

Finally, China has a strong interest in North Korea’s becoming an economically viable state, which requires implementing economic reforms and opening up to the outside world. A prosperous North Korea would remove the threat of instability along China’s border and provide greater development opportunities for China’s northeastern provinces. By demonstrating the success of China’s economic reforms to visiting North Korean leaders and by increasingly blunt entreaties, Chinese leaders continue to urge North Korea to undertake serious economic reform measures.

## U.S. Interests

U.S. interests on the Korean Peninsula converge to a limited extent with Chinese interests but are strikingly different in their prioritization. The United States attaches top priority to the verifiable denuclearization of the Korean Peninsula. Preventing the proliferation of nuclear and missile technology to other states and nonstate actors is a vital U.S. interest. North Korean export of such technology and know-how, paired with its own nuclear capabilities, threatens both regional and global security. It could also threaten the integrity of the nonproliferation and export control regimes by raising questions about the efficacy of the nuclear nonproliferation treaty and its associated norms.<sup>3</sup> The United States also shares China’s worries that North Korea’s possession of nuclear weapons may eventually encourage other nations, such as Japan and South Korea, to develop their own nuclear deterrent. Such horizontal proliferation is not an urgent concern for either Washington or Beijing, however, since both believe that neither Tokyo nor Seoul is likely to lose confidence in the U.S. extended deterrent in the near term.

While China does not see its northeast neighbor’s nuclear abilities as a threat to its own territory, the United States professes to be increasingly worried that North Korea’s nuclear programs are rapidly becoming an existential threat to the United States. On a visit to China in January 2011, former secretary of defense Robert Gates forecast that North Korea was within five years of developing intercontinental ballistic missiles (ICBMs).<sup>4</sup> The mating of a nuclear warhead and an ICBM would threaten not only America’s regional allies but also the continental United States, thus adding a sense of urgency that Beijing does not share. In March 2011, Lt. Gen. Ronald Bur-

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3. Wade L. Huntley, “U.S. Policy toward North Korea in Strategic Context: Tempting Goliath’s Fate,” *Asian Survey* 47, no. 3 (May/June 2007): 464–67.

4. Larry Shaughnessy, “Gates: North Korea Could Have Long-Range Missile within 5 Years,” CNN, January 11, 2011, <http://www.cnn.com/2011/WORLD/asiapcf/01/11/china.us.north.korea/index.html>.

gess, director of the Defense Intelligence Agency, testified that North Korea “may now have several plutonium-based nuclear warheads that it can deliver by ballistic missiles and aircraft as well as unconventional means.”<sup>5</sup>

Ever since the end of the Korean War, the United States has had an enduring interest in deterring a North Korean attack against U.S. allies, especially South Korea. If Pyongyang were to launch a surprise strike on the South, its long-range artillery, rocket launchers, and other weapons systems would decimate an urban area where 25 million people reside and wreak havoc on South Korea’s trillion-dollar economy. Japan is also threatened by North Korea’s nuclear and missile programs, since its archipelago is within striking distance of Pyongyang’s medium-range Nodong missiles. In its most recent defense white paper, Japan describes North Korea’s nuclear weapons program in conjunction with its ballistic missile capability as constituting a “serious threat to the security of Japan.”<sup>6</sup> To reinforce deterrence and strengthen the defense capabilities of South Korea and Japan, the United States has stepped up bilateral and trilateral military exercises and is working separately with Tokyo and Seoul to bolster their missile defense capabilities.

The United States shares South Korea’s vision of a reunified Korea under the control of Seoul. In a panel discussion on Korean reunification, former U.S. ambassador Kathy Stephens articulated the U.S. desire for “shared prosperity, shared peace and genuine stability.” She added that “we support reunification—too long postponed, too long delayed, too tragically prolonged—by peaceful means and in accordance with the wishes of the Korean people.”<sup>7</sup> U.S. commitment to Korean reunification is also formally expressed in the June 2009 U.S.–South Korea Joint Vision Statement.<sup>8</sup>

Improving the quality of life for average North Korean citizens is another U.S. interest, albeit less pressing than denuclearization and deterring a North Korean attack on its allies. Although the nuclear issue has dominated U.S. policy toward Pyongyang, U.S. officials periodically voice deep concerns about North Korea’s abysmal human rights record. Annual reports on North Korea’s human rights issued by the State Department reveal an unchanging picture of significant human rights abuses. In 2011, the World Food Program estimated that a quarter of the North Korean population was facing severe food shortages. The Obama administration has identified protecting human rights, ensuring that the North Korean population is well cared for, and pursuing economic and political reform as key prerequisites for improved bilateral relations.<sup>9</sup> This emphasis on social issues and reform should not be confused with a U.S. desire for “regime change” in Pyongyang. The United States has previously stated that it is willing to work with North Korea and wel-

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5. U.S. Senate Committee on Armed Services, *Worldwide Threat Assessment*, March 10, 2011, <http://www.dia.mil/public-affairs/testimonies/2011-03-10.html>. South Korean defense minister Kim Kwan-jin told his country’s parliament in June 2011 that North Korea had succeeded in miniaturizing its nuclear weapons design, allowing it to place a nuclear warhead on a ballistic missile.

6. Japan Ministry of Defense, *Defense of Japan 2012: Annual White Paper*, [http://www.mod.go.jp/e/publ/w\\_paper/2012.html](http://www.mod.go.jp/e/publ/w_paper/2012.html).

7. Evan Ramstad, “U.S., Japan, Russia on Reunification: Good!” *Wall Street Journal*, April 8, 2011, <http://blogs.wsj.com/korearealtime/2011/04/08/u-s-japan-russia-on-reunification-good/>.

8. “Joint Vision for the Alliance of the United States of America and the Republic of Korea,” White House, Office of the Press Secretary, news release, June 16, 2009, [http://www.whitehouse.gov/the\\_press\\_office/Joint-vision-for-the-alliance-of-the-United-States-of-America-and-the-Republic-of-Korea](http://www.whitehouse.gov/the_press_office/Joint-vision-for-the-alliance-of-the-United-States-of-America-and-the-Republic-of-Korea).

9. U.S. Senate Foreign Relations Committee, “U.S. Policy toward North Korea,” Remarks by Special Representative for North Korea Policy Stephen Bosworth, March 1, 2011, [http://www.foreign.senate.gov/imo/media/doc/Bosworth\\_Testimony.pdf](http://www.foreign.senate.gov/imo/media/doc/Bosworth_Testimony.pdf).

come it into the international community, assuming it focuses “on honoring [its]...commitments and rejoining the international community, and on feeding and educating [its]...citizens.”<sup>10</sup>

As noted, U.S. and Chinese interests on the Korean Peninsula do not completely coincide. Neither country sees its interests served by a military conflict, and both nations oppose North Korea’s nuclear weapons program. These important shared interests provide some basis for cooperation. Yet the divergence of interests and differences in the ordering of U.S. and Chinese priorities are significant. Beijing attaches far less importance to the provision of basic human rights for the North Korean people, although it has a strong interest in the implementation of economic reforms. Denuclearization is of paramount importance to the United States, but China ranks eliminating nuclear weapons as a lower priority and will pursue that goal only by means that will not threaten peace and stability. The United States does not have an interest in promoting instability in North Korea, but it does not share China’s interest in preserving stability at all costs. Whereas Beijing fears the unification of North and South Korea and seeks to forestall that outcome as long as possible, Washington shares Seoul’s aspirations for a unified peninsula.

**Yet the divergence of interests and differences in the ordering of U.S. and Chinese priorities are significant.**

## Sino–North Korean Bilateral Ties

### Historical Strains

During the Cold War, Chinese and North Korean leaders often described their relations as close as “lips and teeth.” The metaphor especially connoted the strategic importance of North Korea to Beijing: the Korean “lips” provided protection for China’s teeth. A shared land border, common Socialist heritage and ideology, and the two nations’ experience fighting together in the Korean War followed by years of Chinese reconstruction assistance—all served as strong bonds for their alliance from the end of the war until the late 1970s. Over time, the strategic partnership gave way to a relationship of asymmetric mutual dependence. China remains North Korea’s primary patron, supplying approximately 70 percent of its oil and most of its food assistance. Chinese economic assistance to North Korea accounts for about half of all Chinese foreign aid.<sup>11</sup> Pyongyang’s nuclear program and military provocations toward South Korea have created severe strains in the bilateral relationship, but Beijing’s paramount need to preserve stability and maintain a degree of influence over North Korea has trumped other considerations and kept the relationship intact.

Even during the Cold War heyday of Sino–North Korean ties, bilateral ties were not trouble free. One major source of friction was Pyongyang’s efforts to play off China and the Soviet Union against each other in an attempt to maximize assistance from both while minimizing its dependence on its benefactors and thus avoid being swept up into great power politics. North Korea’s tactical maneuvering enabled it to secure a substantial flow of funds as well as security guarantees, such as the treaties of friendship, cooperation, and mutual assistance that were signed with both

10. Andrew Quinn, “Clinton Says U.S. Willing to Work with North Korea If It Reforms,” Reuters, May 4, 2012, <http://www.reuters.com/article/2012/05/04/us-usa-clinton-diplomacy-idUSBRE8430GU20120504>.

11. Dick K. Nanto and Mark E. Manyin, *China-North Korea Relations* (Washington, D.C.: Congressional Research Service, December 28, 2010), <http://www.fas.org/sgp/crs/row/R41043.pdf>.

Moscow and Beijing within days of each other.<sup>12</sup> A constant source of frustration in China, North Korea's manipulation became increasingly problematic as Beijing's relations with Moscow deteriorated. Moreover, sporadic cases of diplomatic tension, such as criticism of Kim Il-sung by Chinese Red Guards during the Cultural Revolution,<sup>13</sup> required diplomatic dexterity and constant attention from China.

Deng Xiaoping's decision to launch the policy of economic reform and opening up in 1978 marked a sharp divergence between Beijing and Pyongyang that widened further as the policy was implemented in the 1980s. In the eyes of the North Korean leadership, China's domestic policy shift was a "betrayal of Socialist ideals" and of the bilateral relationship writ large. The impact on Sino-North Korean relations was substantial. Pyongyang distanced itself from Beijing even as it continued to rely on China's financial support and security guarantees.<sup>14</sup> Subsequently, ideological affinity, which had previously been a key component of the bilateral relationship, diminished in importance as China's more pragmatic approach to its economy spread to foreign policy, including its relationship with Pyongyang.<sup>15</sup>

The decade following the collapse of the Soviet Union brought forth new strains in Sino-North Korean relations. Even before the dissolution of the Soviet Union, Moscow's decision to convert trade to a hard currency basis increased Pyongyang's dependence on Beijing. Russia's international importance declined radically in the 1990s, giving Beijing additional flexibility in its foreign policy decisions as it sought broader engagement with other states. Normalization of diplomatic ties between China and South Korea in August 1992 reinforced the fact that Beijing's pragmatic approach to international affairs would outweigh historical and ideological ties with Pyongyang. This symbolic move shocked North Korea—which had just suffered from a serious loss of maneuverability with the Soviet Union's demise<sup>16</sup>—and resulted in both prolonged stagnation of Sino-North Korean relations and further isolation of Pyongyang.<sup>17</sup> Other Chinese actions, such as the release of two high-profile North Korean defectors in 1997,<sup>18</sup> underscored the fact that Beijing would no longer consider the bilateral alliance the overriding factor behind policy decisions concerning North Korea, especially if supporting Pyongyang would run counter to China's own national interests.

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12. Scott Snyder, *China's Rise and the Two Koreas: Politics, Economics, Security* (Boulder, CO: Lynne Rienner Publishers, 2009), 27.

13. Jae-Cheon Lim, "North Korea's Hereditary Succession: Comparing Two Key Transitions in the DPRK," *Asian Survey* 52, no. 3 (May/June 2012): 552.

14. Snyder, *China's Rise and the Two Koreas*, 2.

15. For more discussion on this evolution from an "unconditional alliance to pragmatic relations," see Jong-Seok Lee, "Change of China-North Korea Relations and Its Implications from the Historical and Structural Perspective," *Sejong Policy Studies* 6, no.1 (2010), [http://www.sejong.org/Pub\\_st/PUB\\_ST\\_DATA/k11\\_11.PDF](http://www.sejong.org/Pub_st/PUB_ST_DATA/k11_11.PDF).

16. Snyder, *China's Rise and the Two Koreas*, 31.

17. Moon-Young Huh et al., "North Korea's Perception of and Countermeasures against China's Rise," KINU Research Abstract, November 2009, 2, <http://www.kinu.or.kr/upload/neoboard/DATA02/ra11-09.pdf>.

18. In February 1997, North Korean official Hwang Jang Yop and his aide, Kim Dok Hong, fled to the South Korean Embassy in Beijing. After weeks of intense—and delicate—negotiations, Hwang and Kim were permitted to leave Beijing for the Philippines en route to Seoul. See Snyder, *China's Rise and the Two Koreas*, 120–21.

When Kim Jong-il made his first visit to China as North Korea's supreme leader in May 2000, the two sides committed to reinvigorating the bilateral relationship.<sup>19</sup> In the ensuing years, however, Pyongyang's persistent efforts to develop nuclear weapons and long-range ballistic missiles remained a periodic source of friction, in part because they resulted in pressure from the United States, Japan, and South Korea on China to restrain its neighbor's behavior and ambitions. Chinese and North Korean interests have in many ways become increasingly incompatible. At the same time, Chinese policy has faced ever greater challenges in achieving its increasingly contradictory objectives: preserving stability on the Korean Peninsula and sustaining as much influence as possible over Pyongyang<sup>20</sup> on the one hand, while promoting Sino-U.S. relations, strengthening ties with South Korea, and trying to limit damage to China's international image on the other.

**Chinese and North Korean interests have in many ways become increasingly incompatible.**

## China-DPRK Treaty

The China-DPRK Treaty of Friendship, Cooperation and Mutual Assistance was signed in July 1961 by Chinese premier Zhou Enlai and North Korean president Kim Il-sung. Article 2 of the treaty states that "the two parties undertake to adopt all measures to prevent aggression against either party by any state." It also provides that "in the event of one of the parties being subjected to armed attack by any state or several states together and thus being involved in a state of war, the other party shall immediately render military and other assistance by all means at its disposal."<sup>21</sup> The treaty can be revised only if both sides agree to modify the language. Every 20 years the treaty automatically renews; it renewed in 1981 and 2001, and will be up for renewal again in 2021.

Although the treaty has remained valid, it has periodically come under challenge. As early as 1997, then Chinese foreign minister Tang Jiaxuan maintained that the Chinese government considered the military assistance clause in the treaty "a remnant of Cold War era thinking and no longer relevant to the current situation."<sup>22</sup> In 2002 Beijing reportedly proposed to Pyongyang that the phrase "immediately render military and other assistance" be modified, but North Korea refused.<sup>23</sup> The following year, Shen Jiru, a Chinese scholar at the Chinese Academy of Social Sciences Institute of World Economy and Politics, publicly called for the treaty's mutual defense clause to be expunged. He argued that if a war were to break out as a result of North Korea's nuclear program, China would not be obliged to dispatch troops to fight in such a war because it does not approve of North Korea's nuclear ambitions. Shen also contended that even if Beijing and Pyongyang could

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19. Jonathan Pollack, *No Exit: North Korea, Nuclear Weapons, and International Security* (New York: Routledge, 2011), 130.

20. Zhu Feng, "Shifting Tides: China and North Korea," *China Security* 4 (Autumn 2006): 43.

21. For the text of the treaty, see "Sino-Korean Treaty on Friendship, Cooperation and Mutual Assistance," July 11, 1961, Beijing. "Chinese Communism Subject Archive," *Peking Review* 4, no. 28 (July 1961): 5.

22. Yoji Gomi, "Katsute wa 'Chi no Domei Kankei' Chucho Akikaze" [Relations between China and North Korea become frosty: Alliance based on bonds of blood long gone], *Tokyo Shimbun*, September 26, 2003. Cited in Yoichi Funabashi, *The Peninsula Question: A Chronicle of the Second Nuclear Crisis* (Washington, D.C.: Brookings Institution Press, 2007).

23. Lee Sang-sook, "North Korea-China Treaty of Friendship: New Implications and Current Bilateral Relations," *Analysis of Major International Issues*, Institute of Foreign Affairs and National Security, November 11, 2011, [http://www.koreafocus.or.kr/design2/layout/content\\_print.asp?group\\_id=103907](http://www.koreafocus.or.kr/design2/layout/content_print.asp?group_id=103907).

not agree to amend the treaty, a public declaration of China's desire to excise the mutual assistance clause would raise doubts in the minds of the North Korean authorities about whether China would provide aid in a conflict and thus deter the North from taking dangerous actions that could provoke a war with the United States. In addition to lowering the risk of war, Shen asserted, such a move would encourage North Korea to make diplomatic compromises. To further justify his argument, Shen maintained that the mutual defense clause was inconsistent with China's new security concept, pronounced by Jiang Zemin in 1999, which maintained that "the old security concept with military alliance as its basis . . . is not conducive to the protection of international security and will not help build lasting peace in the world."<sup>24</sup>

Other Chinese experts who opposed amending the treaty argued that preserving the mutual assistance clause would serve as a deterrent both to North Korea's nuclearization and to a U.S. preemptive attack on North Korea. They also warned that Beijing would lose leverage over Pyongyang if the treaty were revised. According to one source, this heated debate was resolved in 2003 when Chinese leaders decided to keep the treaty intact.<sup>25</sup> Chinese analysts privately confirm, however, that Beijing continued to try to persuade North Korea to remove the mutual assistance clause, to no avail.<sup>26</sup> Following North Korea's second nuclear test in 2009, it was reported that Pyongyang proposed revising the language of the mutual assistance clause so that either side could intervene

militarily in support of the other only on request. Pyongyang had reportedly sought the change because of its concerns about growing Chinese influence in North Korea.<sup>27</sup> That report has never been corroborated, however.

**There has been ample evidence of discord between Beijing and Pyongyang in recent years . . . .**

Although the China-DPRK treaty remains valid, Beijing would likely decide whether to intervene in a conflict on the Korean Peninsula based on the prevailing circumstances and the leadership's calculation of Chinese interests. If North Korea were to attack South Korea, China is not under any obligation to provide assistance because the

treaty requires intervention only when the other party is attacked. While under several different scenarios Beijing might feel compelled to support North Korea or even intervene militarily on its behalf, it would undoubtedly weigh carefully the risks of becoming embroiled in another conflict on the peninsula against the potential gains.

## Bilateral Friction in Recent Years

### *2006–2011: North Korea's Nuclear Ambitions Increase Tensions*

There has been ample evidence of discord between Beijing and Pyongyang in recent years, as North Korea has stubbornly pursued a nuclear weapons program, refused to adopt Chinese-style economic reforms, and occasionally taken provocative actions against South Korea that have ex-

24. Shen Jiru, "Dangerous Game of DPRK Nuclear Issue," *Yazhou Zhoukan*, no. 31 (August 3, 2003): 44; Shen Jiru, "Safeguarding Security of Northeast Asia's Most Pressing Matter of the Moment—Stopping Dangerous Games in the DPRK Issue," *Shijie Jingji Yu Zhengzhi*, no. 9 (September 14, 2003): 53–58.

25. Funabashi, *The Peninsula Question*, 298.

26. Private interviews by Bonnie Glaser with Chinese experts in 2006, 2007, and 2008.

27. "NK Seeks Revision of 1961 Defense Treaty with China," *Dong-A Ilbo*, March 4, 2010, <http://english.donga.com/srv/service.php3?biid=2010030440128>.

acerbated regional tensions and increased U.S. military activity near China's borders. When North Korea detonated a nuclear device in October 2006, China used unprecedentedly harsh language to rebuke Pyongyang for "flagrantly" conducting a nuclear test in disregard of the universal opposition of the international community.<sup>28</sup> China's government had previously used the term *flagrantly* to condemn the actions of putative adversaries; it had never used it to criticize the actions of a Socialist ally. China subsequently agreed to support sanctions against North Korea, voting in favor of United Nations Security Council (UNSC) Resolution 1718. Following Pyongyang's second nuclear test in May 2009, China condemned the action using similarly critical language, although it did not repeat the term *flagrantly*. A Foreign Ministry spokesperson described China's relations with North Korea as "normal state-to-state relations" similar to those "with any country around the world," which contrasted dramatically with Beijing's past warm official references to North Korea as a traditional friend and ally.<sup>29</sup> China voted in favor of UNSC Resolution 1874, which accused Pyongyang of acting in "violation and flagrant disregard" of council resolutions.

In 2010, China refused to censure North Korea for sinking the South Korean corvette *Cheonan* in March or for shelling South Korea's Yeonpyong Island in November—incidents that together took 50 South Korean lives. Instead, it called for calm and restraint and sought to reconvene the six-party talks. China's willingness to shield Pyongyang from the international community's reproach and punishment did not imply that their bilateral relationship was trouble free, however. During the two visits of North Korean leader Kim Jong-il to China that year, strains were evident over North Korea's nuclear program and its lack of progress in implementing economic reform, even as the two countries took steps to bolster their political ties and their economic and trade relationship flourished. For example, China's official news agency Xinhua described discussions of the international situation, the situation in northeast Asia, and the six-party talks between Kim and Hu Jintao in May as *frank*, a term signaling disagreement frequently used by Beijing to describe Chinese leaders' conversations with their American counterparts but rarely used to characterize meetings with North Korean leaders.<sup>30</sup>

When Kim visited China again four months later, Hu Jintao refrained from using the customary description of the two countries' traditional friendship as a "common treasure," saying only that China and the DPRK were "increasing vigorous exchange and cooperation." In addition, Hu called for the two sides to "strengthen strategic communication," suggesting that Beijing was dissatisfied with the nature of bilateral consultations. Revealing China's frustration over Pyongyang's reluctance to heed its advice to reform and open up its economy, Hu told Kim that economic development required "cooperation with other countries" as well as "self-reliance" and underscored the need to "unswervingly focus on the central task of economic construction" and "continuously ensure the improvement of the people's livelihood."<sup>31</sup> KCNA, North Korea's official news agency, also hinted at tensions, describing the two leaders as having a "frank exchange of views" both in

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28. Statement of the Ministry of Foreign Affairs of the People's Republic of China, Xinhua, October 9, 2006.

29. "Chinese Foreign Ministry Issues Statement on DPRK Conducting Nuclear Test Again," Xinhua, May 25, 2009; "Foreign Ministry Spokesperson Qin Gang's Regular Press Conference on June 2, 2009," Ministry of Foreign Affairs of the People's Republic of China, June 2, 2009.

30. "朝鲜劳动党总书记金正日对我国进行非正式访问" [General Secretary of the Korean Workers' Party Kim Jong Il Pays an Informal Visit to China at the Invitation of General Secretary Hu Jintao], Xinhua, May 7, 2010, [http://news.xinhuanet.com/world/2010-05/07/c\\_1278775.htm](http://news.xinhuanet.com/world/2010-05/07/c_1278775.htm).

31. "Hu Jintao Holds Talks with Kim Jong Il in Changchun," Xinhua, August 30, 2011, <http://www.fmprc.gov.cn/eng/zxxx/t736661.htm>.

May and August.<sup>32</sup> Pyongyang's official readout of Kim Jong-il's discussions with Hu Jintao on Kim's final trip to China in May 2011 noted as usual that the two leaders had reached "consensus" but notably dropped the reference to that consensus as including "international and regional issues of mutual concern," signaling persisting differences.<sup>33</sup> Chinese media coverage of the visit reiterated Hu Jintao's call to "increase communication" and "maintain coordination on international and regional situations as well as crucial issues."<sup>34</sup>

### *Early 2012: North Korea's Leadership Transition Brings Uncertainty to Bilateral Ties*

After Kim Jong-il's death, Beijing's anxiety over the possibility of an unstable leadership transition in North Korea ran high. To signal its support for the new leader, Kim Jong-un, China moved quickly to offer condolences. All nine members of the Politburo Standing Committee visited the North Korean Embassy in Beijing to pay their respects. Beijing planned to send a special envoy to Pyongyang to attend the state funeral, but North Korea opted to ban official foreign delegations. Chinese ambassador to North Korea, Liu Hongcai, however, was permitted to attend, along with a small number of other foreign diplomats and visitors. As a gesture to China, Kim Jong-un arranged a reception for some of the mourners from China with close ties to North Korea, but he did not personally attend.<sup>35</sup> A few weeks later, however, China was notably absent from a long list of recipients of thank-you letters from Kim Jong-un for their condolences on the death of Kim Jong-il.<sup>36</sup>

Beijing's handling of North Korea's missile launch in early 2012 indicated ongoing strains in the Sino-DPRK relationship. Within hours of Pyongyang's March 16 announcement that it planned to launch a satellite the following month, Chinese vice foreign minister Zhang Zhijun "summoned" North Korea's ambassador to China, Ji Jae Ryong, to express his government's "concerns and worries."<sup>37</sup> Three days later, China's special representative on Korean Peninsula affairs, Wu Dawei, met with Ri Yong-ho, North Korean vice foreign minister. The two officials reportedly talked in a "frank and in-depth manner" for four and a half hours about safeguarding peace and stability on the peninsula.<sup>38</sup> Chinese vice foreign minister, Fu Ying, also traveled to Pyongyang in an effort to persuade the North Korean leadership to call off the launch.<sup>39</sup>

Public reporting of Chinese concern and the demarche of a North Korean official in advance of a North Korean missile launch was unprecedented. In 2006, Chinese media did not report

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32. "Kim Jong Il Makes Unofficial Visit to China," KCNA, May 8, 2010, <http://www.kcna.co.jp/item/2010/201005/news08/20100508-01ee.html>; "Kim Jong Il Pays Unofficial Visit to China," KCNA, August 30, 2010, <http://www.kcna.co.jp/item/2010/201008/news30/20100830-21ee.html>.

33. "DPRK Radio: Kim Jong Il Pays 'Unofficial Visit' to PRC 20-26 May," Korean Central Broadcasting Station (in Korean), May 26, 2011.

34. "China Ready to Advance Ties with DPRK: Hu," Xinhua, May 26, 2011.

35. "Party Given for Mourners from China," KCNA (in English), December 30, 2011.

36. "Kim Jong Un Sends Reply Messages to Heads of Foreign State," KCNA, January 29, 2012, <http://www.kcna.co.jp/item/2012/201201/news29/20120129-15ee.html>.

37. "Vice Foreign Minister Zhang Zhijun Meets with the DPRK Ambassador to China," Ministry of Foreign Affairs of the People's Republic of China, March 17, 2012, <http://www.fmprc.gov.cn/eng/zxxx/t915503.htm>.

38. Statement issued by the PRC Ministry of Foreign Affairs, March 20, 2012. See also "China Flexes Muscle to Prevent N. Korea's Missile Launch," *Asahi Shimbun*, April 9, 2012, [http://ajw.asahi.com/article/behind\\_news/politics/AJ201204090001](http://ajw.asahi.com/article/behind_news/politics/AJ201204090001).

39. Jane Perlez, "North Korea Tests the Patience of Its Closest Ally," *New York Times*, June 24, 2012, [http://www.nytimes.com/2012/06/25/world/asia/north-korea-tests-the-patience-of-its-ally-china.html?\\_r=1](http://www.nytimes.com/2012/06/25/world/asia/north-korea-tests-the-patience-of-its-ally-china.html?_r=1).

any signs of official Chinese opposition in advance of Pyongyang's July 5 firing of seven missiles, including a long-range Taepodong-2. In 2009, no public mention of Chinese admonition appeared before North Korea's announcement several weeks in advance of its attempt to fire a satellite into orbit.

On April 16, 2012, only three days after North Korea's failed launch, China joined other countries in supporting a presidential statement from the UNSC "strongly condemn[ing]" the launch that had "caused grave security concerns in the region." It explicitly stated that any launch using ballistic missile technology—even those characterized as satellite or space vehicle launches—was "a serious violation" of UNSC Resolutions 1718 and 1874 and "demand[ed] that the DPRK immediately comply" with its obligations.<sup>40</sup> This position was starkly different from China's response to North Korea's 2009 launch, when it cited the distinction between a satellite and a missile test and insisted on Pyongyang's right of peaceful use of outer space.<sup>41</sup> The 2012 statement also expressed the determination of the Security Council "to take action accordingly in the event of a further DPRK launch or nuclear test." Chinese leaders were especially angered that North Korea gave the United States months of advance warning of its plans to launch the satellite but had not informed Beijing.<sup>42</sup> Two weeks later, Beijing supported the UN Security Council's move to freeze the assets of three North Korean firms involved in financing Pyongyang's missile and nuclear programs.<sup>43</sup>

China has taken several preemptive measures to warn North Korea not to conduct a third nuclear test. At an April 25 press conference, China's vice foreign minister Cui Tiankai responded to a journalist's question about the possibility of another North Korean nuclear test, saying that "China will oppose anything which might jeopardize peace and stability on the Korean Peninsula and in Northeast Asia, as this would damage China's national security interests and the interest of the relevant parties as well."<sup>44</sup>

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40. "Statement by the President of the Security Council," UN Security Council, April 16, 2012, <http://daccess-dds-ny.un.org/doc/UNDOC/GEN/N12/295/91/PDF/N1229591.pdf?OpenElement>.

41. "China Urges Cautious UN Reaction to DPRK 'Rocket' Launch," Xinhua, April 7, 2009, [http://news.xinhuanet.com/english/2009-04/07/content\\_11143873.htm](http://news.xinhuanet.com/english/2009-04/07/content_11143873.htm).

42. International Crisis Group, *North Korean Succession and the Risks of Instability*, Asia Report, no. 230, July 25, 2012, 6. Former U.S. official Evans Revere was told by a DPRK official of its plans to launch a satellite on December 15, 2011. See "North Korea: There They Go Again," Brookings Institution, March 20, 2012, <http://www.brookings.edu/research/opinions/2012/03/20-north-korea-revere>. Zhang Liangui, an expert at the Chinese Communist Party's Party School, told Phoenix TV on May 23, 2012, that "China had been kept in the dark," but the "U.S. had already been given a very straightforward notification on December 15 of last year." See "张璠：渔民遭扣事件反映中朝关系具体问题" [Zhang Liangui: Detained fishermen incident reflects specific problems in Sino-North Korean relations], 凤凰卫视 (*Fenghuang Weishi*), May 24, 2012, [http://news.ifeng.com/world/special/chaoxianjiechi/content-2/detail\\_2012\\_05/24/14779109\\_0.shtml](http://news.ifeng.com/world/special/chaoxianjiechi/content-2/detail_2012_05/24/14779109_0.shtml).

Following the failed launch, Chinese Foreign Ministry spokesman Liu Weimin publicly acknowledged that North Korea had not notified China of the exact launch date. See "Pyongyang Failed to Inform Beijing of Rocket Launch Date—Chinese Diplomat (Part 2)," Interfax April 13, 2012, <http://www.interfax.co.uk/russia-cis-military-news-bulletins-in-english/pyongyang-failed-to-inform-beijing-of-rocket-launch-date-chinese-diplomat-part-2-2>.

43. The United States and the European Union reportedly wanted to blacklist more than 40 North Korean firms, but China agreed to sanction only three. See "UN Sanctions Three North Korean Firms over Rocket Launch," BBC, May 2, 2012, <http://www.bbc.co.uk/news/world-asia-17933634>.

44. "China Makes Veiled Warning to North Korea Not to Carry Out Nuclear Test," Reuters, April 25, 2012, <http://af.reuters.com/article/worldNews/idAFBRE83O09520120425>.

In mid-June, Chinese defense minister Liang Guanglie reportedly told a delegation of retired South Korean military officers visiting Beijing that China would “not tolerate” another nuclear test. He also “expressed strong opposition to any additional provocations” by North Korea.<sup>45</sup>

In May, a fishing incident provided additional evidence of strains in the bilateral relationship. On May 8, a group of 28 Chinese fishermen and their three boats were taken captive roughly 10 nautical miles inside China’s waters and towed into North Korean territory by unidentified and armed North Koreans who demanded a ransom payment of 1.2 million yuan (\$189,000) for the safe return of the men and their fishing boats. The seizure of Chinese fishing boats by North Koreans to extract a payoff was not unprecedented. However, the public nature of the episode was exceptional. Dissatisfied with the inaction of local officials, the vessels’ owners and the families of the captured men publicized the incident on the Internet, and international media quickly picked up the story. When questioned about the situation, the Chinese Foreign Ministry stated that “China [was] keeping close contact with the DPRK via relevant channels” and hoped that “this problem [would]...be appropriately resolved as soon as possible”<sup>46</sup> and that the Chinese government had “stated to North Korea that it should ensure the legitimate rights of Chinese ship personnel.”<sup>47</sup> After being detained for 13 days, the men and their boats were released. The fishermen claimed they had been treated brutally while in captivity, their equipment and personal effects had been stolen or destroyed, and they were forced to sign false confessions that they had been fishing illegally in North Korean territory.

What made the incident most unusual was the way it was handled by the Chinese government and the media. Xinhua reported that the fishermen had been detained “by the DPRK,” suggesting that Beijing believed that North Korean officials were involved.<sup>48</sup> Without permission, the fishermen would not have been able to tell the details of their captivity to the foreign media. An article published in *Nanfang Zhoumo* called the fees extorted from Chinese fishermen operating in the area a “nautical assistance fee,” which ranges from \$100 to \$5,000 depending on “the size of the boat and the type of species it catches.” Such fees, the article maintained, are an “unwritten rule” between Chinese middlemen and North Korean soldiers. Apparently, Chinese fishermen had recently asked to lower the fees, which reportedly led to more incidents.<sup>49</sup> In another surprising development, after the ordeal was over, the Chinese Foreign Ministry announced that fishery authorities would open an investigation into the incident.<sup>50</sup>

It remained unclear whether the North Korean government was in fact involved in the episode. Reports that the ships could have come from West Sea Base No. 2, which is operated by the North Korean General Bureau of Reconnaissance,<sup>51</sup> pointed to this possibility. One Chinese

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45. “China Won’t Tolerate More North Korean Provocations,” *Chosun Ilbo*, July 2, 2012, [http://english.chosun.com/site/data/html\\_dir/2012/07/02/2012070200642.html](http://english.chosun.com/site/data/html_dir/2012/07/02/2012070200642.html).

46. Cui Haipei, “DPRK Urged to Guarantee Rights of Fishermen,” *China Daily*, May 18, 2012, [http://www.chinadaily.com.cn/cndy/2012-05/18/content\\_15326226.htm](http://www.chinadaily.com.cn/cndy/2012-05/18/content_15326226.htm).

47. “Chinese Boats Seized by North Koreans in Rare Public Spat,” Reuters, May 17, 2012.

48. Brian Spegele, “China Blames Pyongyang for Holding Fishermen,” *Wall Street Journal*, May 21, 2012, <http://online.wsj.com/article/SB10001424052702303610504577417862803280098.html>.

49. “灰色海域 “帮艇费” : 中朝海上边界的保护费潜规则” [PRC Fishing Boats Charged ‘Aid Boat Fee’ by DPRK in ‘Gray Waters’], *Nanfang Zhoumo Online*, May 25, 2012, [http://news.ifeng.com/shendu/nfzm/detail\\_2012\\_05/25/14805520\\_1.shtml](http://news.ifeng.com/shendu/nfzm/detail_2012_05/25/14805520_1.shtml).

50. “Probe Begins Into N Korean Capture of Chinese Crews,” *South China Morning Post*, May 22, 2012.

51. Choi Song Min, “Fishing Boats Taken by General Bureau,” *Daily NK*, May 18, 2012, <http://www.dailynk.com/english/read.php?catald=nk00100&num=9256>.

analyst with many years of experience in government dealings with North Koreans privately contended that it was “almost inconceivable” that the North Koreans that pursued and arrested the Chinese fishermen were not doing so on the instruction of the North Korean military or government.<sup>52</sup> One possible reason for the North Korean aggressive action was to signal Pyongyang’s displeasure with China’s policies, including Beijing’s blunt criticism of North Korea’s satellite launch and its warnings against a third nuclear test.

In addition to the signs of friction in Sino-DPRK ties, the slowdown in high-level exchanges in the first six months of 2012 also suggests that after Kim Jong-un assumed power the bilateral relationship was strained or at least adrift. In 2011, 10 top-level exchanges took place, including visits to North Korea by Li Keqiang, a member of the Standing Committee of the Politburo and China’s likely next premier; Li Yuanchao and Zhang Dejiang, both members of the Politburo; and Li Jinai, a member of the Central Military Commission. In addition to two visits to China by Kim Jong-il in May and August 2011, Vice Chairman of the Central Military Commission Vice Marshal Ri Yong-ho attended a forum in Beijing and Premier Choe Yong-rim also traveled to China. By contrast, in the first six months of 2012 the only senior Chinese official to visit North Korea was former foreign minister Li Zhaoxing, who made the trip under his only Party title, chairman of the Chinese Communist Party affiliated China Association for International Friendly Contact. Pyongyang sent two senior officials, Vice Marshal Ri Yong-ho and Kim Yong-il, secretary for international affairs of the North Korean Workers Party (KWP).

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In the aftermath of Kim Jong-il’s death, Kim Jong-un was arguably preoccupied with the leadership transition and making personnel changes. Yet it is notable that the Supreme People’s Assembly Presidium Chairman Kim Yong-nam’s first trip abroad after Kim Jong-il’s death was not to China but to Singapore, where he reportedly sought economic advice, and to Indonesia.<sup>53</sup> Moreover, North Korea in effect snubbed Beijing’s offers to send high-level officials to Pyongyang by refusing to provide assurances that such visitors would receive an audience with Kim Jong-un.<sup>54</sup> Pyongyang also rebuffed Beijing’s repeated entreaties for Kim Jong-un to visit China in the first half of the year.

## Summer 2012: China-DPRK Bilateral Ties Enter Warming Trend

North Korea appears to have decided in early July to advance the relationship with Beijing. A trip to China later that month by North Korea’s minister of public security Ri Myong-su signaled that preparations for a visit by Kim Jong-un might be under way. Speculation about an upcoming trip to China by North Korea’s new leader was further increased a week later when Wang Jiarui, direc-

52. Private interview by Bonnie Glaser with Chinese expert, April 13, 2012.

53. Leonid Petrov, “Northeast Asia—A Region without Regionalism,” *Korea Times*, May 23, 2012, [http://www.koreatimes.co.kr/www/news/opinion/2012/05/160\\_111551.html](http://www.koreatimes.co.kr/www/news/opinion/2012/05/160_111551.html).

54. China apparently tried to schedule a visit by State Councilor Dai Bingguo. Private conversation held by Bonnie Glaser with U.S. official, June 2012; private conversation by Glaser with an American scholar who lives in Beijing, June 2012.

tor of the Chinese Communist Party's International Department, visited Pyongyang. Kim Jong-un met with Wang's delegation, marking the first time that he had received foreign dignitaries. In addition, photos released by North Korea of Kim Jong-un sitting next to Chinese ambassador Liu Hongcai on a rollercoaster at a theme park further suggested that a warming of ties between the two countries was in the offing.

Another important gesture that signaled North Korea's desire to improve relations with China was a speech by Choe Ryong-hae, a member of the Presidium of the Politburo of the KWP and director of the Korean People's Army General Political Bureau, in which he made a rare but direct acknowledgment of China's assistance during the Korean War. Referring to the three-year military conflict, Choe told a gathering that marked the 59th anniversary of the armistice agreement ending the Korean War that "admirable sons and daughters of the Chinese people volunteered to the Korean front." Meanwhile, KCNA published a prominent editorial entitled "Victory in Fatherland Liberation War Is Common Victory of DPRK, China."<sup>55</sup>

An even stronger signal of an upturn in China-DPRK ties was the visit to China in mid-August by Jang Song-taek, Kim Jong-un's powerful uncle and the vice chairman of the National Defense Commission. The six-day visit by Jang marked the highest-level diplomatic exchange since the youngest son of Kim Jong-il assumed power in December 2011. Jang attended meetings to discuss joint economic projects in Rason on North Korea's eastern coast and in Hwang-gumpyong, which borders the two countries. He visited China's northeast provinces and then traveled to Beijing, where he met with Wang Jiarui, Premier Wen Jiabao, and Hu Jintao. Both sides lauded their relations in glowing terms. According to a Xinhua report, Hu told Jang that the Chinese Communist Party and the Chinese government "placed a high and long-term strategic priority on the development of Sino-North Korean relations." Praising their traditional bilateral friendship, which has "grown by the hands of older generations of leaders" and "withstood the storm and stress test in every era," Jang termed the China-DPRK friendship "indestructible."<sup>56</sup>

**The six-day visit by Jang marked the highest-level diplomatic exchange since the youngest son of Kim Jong-il assumed power in December 2011.**

At the same time, the visit revealed tensions between the two sides on investment and aid. Wen Jiabao told Jang that it was necessary to "give play to the role of the market mechanism" and improve conditions for investment. He also called for encouraging investment by enterprises, which, he said, needed help to "solve practical issues and difficulties."<sup>57</sup> There were no new agreements for aid, even after the severe flooding in North Korea and despite Chinese media reports that Jang requested a \$1 billion loan.<sup>58</sup>

55. Chen Ping, "Belated Thanks Show North Korea Diplomatic Shift," *Global Times*, August 2, 2012.

56. "胡锦涛温家宝分别会见张成泽率领的朝方代表团" [Hu Jintao and Wen Jiabao each separately meet with the North Korean delegation led by Jang Song-taek], Xinhua, August 17, 2012, [http://news.xinhuanet.com/politics/2012-08/17/c\\_112764515.htm](http://news.xinhuanet.com/politics/2012-08/17/c_112764515.htm).

57. Xu Song, "温家宝会见中朝两个经济区开发合作联合指导委员会朝方代表团" [Wen Jiabao meets DPRK side delegation of Joint Sino-DPRK Steering Committee for Developing and Cooperation on Two Economic Zones], *People's Daily*, August 17, 2012, <http://politics.people.com.cn/n/2012/0817/c1024-18772079.html>.

58. Chinese Business Net, "金正恩姑父张成泽访华续：传其向中国借10亿美元" [Kim Jong-un's Uncle Jang Song-taek visits China: Asks for \$1 billion loan], August 17, 2012, <http://www.cb.com>

The motivating factors behind Pyongyang's outreach to Beijing are as yet unknown. Kim Jong-un's intentions domestically and abroad remain unclear. Irritation over China's reaction to the attempted satellite launch combined with pressure from Beijing to refrain from conducting a third nuclear test and return to North Korea's commitments under the six-party talks may explain the six-month rough patch in China-DPRK relations. Increased need for food aid, especially in the aftermath of serious floods, may have spurred Pyongyang to mend ties. Alternatively, Kim Jong-un may have deliberately turned a cold shoulder to Beijing for a brief period, calculating that when he reengaged, North Korea's position in the bilateral relationship would be strengthened and its leverage increased. Pyongyang would then refocus its ties with China on economic matters and seek at least tacit recognition of its existence as a nuclear weapons state. Regardless, given the dynamic of mutual interdependence of China and North Korea, the period of relative coolness in the relationship following Kim Jong-il's death was bound to eventually give way to a warming trend. Nevertheless, history suggests that mutual suspicions and diverging interests will continue to be limiting factors in the development of China-DPRK ties; the relationship remains primarily one of mutual convenience.

**The motivating factors behind Pyongyang's outreach to Beijing are as yet unknown.**

## China-DPRK Economic Relations Deepen

China has steadily become North Korea's largest trading partner and investor since the end of the Cold War, although North Korea's importance to China's overall trade remains minimal. According to the Korea Trade-Investment Promotion Agency, North Korea's external trade surged by 51 percent to \$6.3 billion in 2011, the highest it has been in 22 years. This figure is by and large a result of expanded trade with China, which accounted for an impressive 89.1 percent of North Korea's total trade at \$5.63 billion. Meanwhile, trade between North Korea and other partners, including Europe, Japan, and South Korea, has declined. Inter-Korean trade in 2011 dwindled to \$1.7 billion.<sup>59</sup> China-North Korean trade in the first six months of 2012 reached \$3.14 billion, up 24.7 percent from the prior year.<sup>60</sup> Major Chinese exports to North Korea include fuel and oil, iron, steel, man-made filament, plastics, machinery, vehicles, and meat; key imports from North Korea include mineral ores and fuels, apparel, seafood, wood, iron, and steel.<sup>61</sup> North Korean exports of minerals and other resources have notably increased as Chinese demand has grown. For example, North Korea exported only 8,000 tons of coal to China in 2000 but sent 3.6 million tons in 2009<sup>62</sup> and 8.19 million tons of anthracite coal in the first nine months of 2011 alone.<sup>63</sup>

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.cn/1634427/20120817/406239.html.

59. Song Jung-a, "N Korea Trade Soars on Chinese Demand," *Financial Times*, June 1, 2012, <http://www.ft.com/cms/s/0/8b4dd144-abcd-11e1-a8a0-00144feabdc0.html#ixzz22QB0LIMq>.

60. PRC vice minister of commerce Chen Jian, "Deepen Sino-North Korean Cooperation to Jointly Compose Bright New Chapter," *Renmin Ribao*, August 14, 2012.

61. Dick Nanto and Emma Chanlett-Avery, "North Korea: Economic Leverage and Policy Analysis," Congressional Research Service, January 22, 2010, <http://www.fas.org/sgp/crs/row/RL32493.pdf>.

62. Nathaniel Aden, "North Korean Trade with China as Reported in Chinese Customs Statistics: 1995-2009 Energy and Minerals Trends and Implications," Nautilus Institute for Security and Sustainability, June 7, 2011, <http://nautilus.org/napsnet/napsnet-special-reports/dprk-prc-trade-aden/>.

63. "N. Korea's Mineral Exports to China Tripled from Last Year: Study," Yonhap News Agency, November 6, 2011, <http://english.yonhapnews.co.kr/northkorea/2011/11/06/39/0401000000AEN20111106000>

Reports in early August from the Chinese General Administration of Customs put China-North Korea trade in the first six months of 2012 at \$3.14 billion, an increase of almost 25 percent year on year.<sup>64</sup> This rise suggests that the current trend of growing Chinese importance to

**This rise suggests that the current trend of growing Chinese importance to the North Korean economy will continue and that Pyongyang will be increasingly reliant on its ally for its economic well-being.**

the North Korean economy will continue and that Pyongyang will be increasingly reliant on its ally for its economic well-being. China also plays a critical role in North Korea as the country's major source of foreign direct investment. The total stock of direct foreign investment in North Korea has grown significantly since the late 1980s<sup>65</sup> but is due in large part to increased flows from China.<sup>66</sup> Between 2003 and 2009, Chinese investment in North Korea totaled merely \$98.3 million, significantly less than Chinese investment in other regional countries, including South Korea.<sup>67</sup> Wen Jiabao's October 2009 visit to North Korea produced a series of agreements that spurred additional investment

initiatives,<sup>68</sup> and this trend is projected to continue to grow as Chinese companies expand their presence in North Korea. In late 2011 and early 2012, KCNA announced new laws and revisions to existing legislation to promote foreign investment. Some Chinese investors appear to be reasonably confident about the future success of their businesses ventures in North Korea: the Samsung Economic Research Institute based in Seoul has reported that Chinese firms have planned projects worth as much as \$6.5 billion, mostly for infrastructure development. But other companies complain bitterly about the North Korean business environment.<sup>69</sup>

Chinese investment in North Korea focuses primarily on mining, minerals, railways, and roads, as well as on the development of economic zones such as ports and free-trade areas. The earliest special economic zone, Rason (previously known as Rajin-Sonbong), was established in 1991, but its development began in earnest only in the past few years. China views Rason as a

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64. Kim Yong-gyo, "N. Korea's First-Half Trade with China Jumps 25 Pct," Yonhap News Agency, August 9, 2012, <http://english.yonhapnews.co.kr/business/2012/08/09/60/0503000000AEN20120809002000320F.HTML>.

65. United Nations Conference on Trade and Development, "Inward and Outward Foreign Direct Investment Stock, Annual, 1980–2011," UNCTAD, Division on Investment and Enterprise, [http://unctadstat.unctad.org/ReportFolders/reportFolders.aspx?sRF\\_ActivePath=p,5&sRF\\_Expanded=,p,5](http://unctadstat.unctad.org/ReportFolders/reportFolders.aspx?sRF_ActivePath=p,5&sRF_Expanded=,p,5).

66. "Country Report North Korea," Economist Intelligence Unit, May 18, 2012, [http://portal.eiu.com.proxy1.library.jhu.edu/index.asp?layout=displayIssueArticle&issue\\_id=769060661&article\\_id=779060662](http://portal.eiu.com.proxy1.library.jhu.edu/index.asp?layout=displayIssueArticle&issue_id=769060661&article_id=779060662).

67. Drew Thompson, *Silent Partners: Chinese Joint Ventures in North Korea* (Washington, D.C.: U.S.-Korea Institute, John Hopkins School for Advanced International Studies, February 2011), [http://uskoreainstitute.org/wp-content/uploads/2011/02/USKI\\_Report\\_SilentPartners\\_DrewThompson\\_020311.pdf](http://uskoreainstitute.org/wp-content/uploads/2011/02/USKI_Report_SilentPartners_DrewThompson_020311.pdf).

68. Bates Gill, *China's North Korea Policy: Assessing Interests and Influences*, U.S. Institute of Peace Special Report, no. 283 (July 2011), [http://www.usip.org/files/resources/China%27s\\_North\\_Korea\\_Policy.pdf](http://www.usip.org/files/resources/China%27s_North_Korea_Policy.pdf).

69. For example, Xiyang Group, China's biggest single investor in North Korea, accused the North Koreans of "tearing up a multi-million-dollar [mining] deal, intimidating its staff, imposing outrageous extra charges and cutting off its power and water, as well as of corruption." See Michael Rank, "Chinese Company Vents Venom on North Korea," *Asia Times*, August 15, 2012, <http://www.atimes.com/atimes/Korea/NH15Dg01.html>.

valuable ice-free port for the landlocked Chinese provinces of Jilin and Heilongjiang: Chinese firms have paved a road from the China-DPRK border to the port, and a rail line from the port to China's northeastern city of Tumen is also slated for development.<sup>70</sup> The state-owned Shangdi Guanquan Investment Company currently plans to invest \$2 billion at Rason in projects such as coal-fired power plants, an oil refinery, roads, railroads, and harbors.<sup>71</sup> Reports in February 2012 stated that China had secured exclusive rights to develop three docks for a period of 50 years and will also build an airfield and a power station in the area. Combined with the railway deal, the contract is estimated to be worth \$3 billion.<sup>72</sup>

Other areas in development include the Tumen River basin area and the Hwanggumpyong and Wihwa Islands located in the Yalu River, where joint projects are aimed at boosting development in China's northeastern region, including key areas such as Changchun, Jilin, and Tumen (referred to as the "Chang-Ji-Tu" plan). However, some of these joint projects have not made much concrete progress. The geography of the Hwanggumpyong zone makes it difficult to establish industrial facilities, and there is very little infrastructure.<sup>73</sup> In addition, Yonhap News Agency reported that Chinese authorities rejected North Korea's initially proposed legislation for the area as not sufficiently friendly for business.<sup>74</sup>

Development of the Rason and Hwanggumpyong special economic zones gained new momentum with the August visit of Jang Song-taek. During his visit, Jang attended the third meeting of the China-DPRK Joint Development Collaboration Leadership Committee for the zones and signed agreements on communications network development, agricultural cooperation, simplification of customs procedures, and electricity supply for the Rason area. Jang also visited China's northeastern provinces of Jilin and Liaoning, which are linked to the Rason and Hwanggumpyong zones, and requested Chinese investment in the development of the zones.<sup>75</sup> Sino-North Korean economic cooperation, including the two trade zones, was the main focus of discussion when Jang met with Wen Jiabao. Following Jang's visit, a number of large Chinese corporations announced major investments in Rason, including the state-owned Ludi Group, which plans to build a power grid, and the Yatai Group, which signed a contract to develop a construction materials complex in the city.<sup>76</sup>

**Even as trade and investment between China and North Korea expand, economic relations are not without trouble.**

Even as trade and investment between China and North Korea expand, economic relations are not without trouble. In June 2012, before Jang Song-taek's visit, Beijing reportedly informed North Korean officials that it would revise the joint development project on Hwanggumpyong, putting the central government in the lead and eliminating the participation of Liaoning Province and

70. "Country Report North Korea," *Economist Intelligence Unit*, May 18, 2012.

71. Gill, *China's North Korea Policy*.

72. "Country Report North Korea," *Economist Intelligence Unit*, May 18, 2012.

73. Sunny Lee, "China Puts a Hand on North Korean Wheel," *Asia Times*, July 8, 2011, <http://www.atimes.com/atimes/Korea/MG08Dg02.html>.

74. "Country Report North Korea," *Economist Intelligence Unit*, May 18, 2012.

75. Park Min-hee, "Jang Song-taek's Visit Sign of a Fresh Start for China-NK Relations," *Hankyoreh*, August 18, 2012, [http://english.hani.co.kr/arti/english\\_edition/e\\_northkorea/547635.html](http://english.hani.co.kr/arti/english_edition/e_northkorea/547635.html).

76. *Ibid.*

Dandong City.<sup>77</sup> Chinese companies investing in North Korea and engaging in joint ventures with North Korean companies have also experienced problems, as Wen Jiabao noted in his meeting with Jang. In a CSIS roundtable discussion with U.S. experts and government officials, one participant commented that the Chinese Ministry of Finance and Commerce had released guidance on doing business in North Korea, which did not cast its neighbor in a positive light. This observation suggests that Beijing recognizes the risks companies face when doing business in North Korea and wants to avoid liability for any problems that could arise.

Moreover, North Korea finds its economic dependence on China a source of frustration because it leaves Pyongyang susceptible to outside pressure. This is especially true if China uses its economic leverage to influence or punish its neighbor, as it did, for example, in 2006 when China briefly suspended oil exports. While not officially announced, the suspension was widely believed to be a sign of Beijing's disapproval of North Korea's nuclear ambitions.<sup>78</sup>

Several factors that motivate Chinese trade and investment with North Korea go beyond the commercial objectives of individual Chinese companies. For one thing, more economic cooperation

benefits China's own development and secures access to North Korean minerals and energy resources. As noted earlier, Chinese investment in vital infrastructure like roads and railways and development of North Korea's special economic zones have synergistic effects on the Chinese economy. The so-called Chang-Ji-Tu plan has promoted increased border trade for China's landlocked northeastern provinces and led to a greater distribution of wealth to the region.<sup>79</sup> For another, while China benefits economically from improved ties, the expanding economic relationship is part of a broader government strategy to promote reform in North Korea and open up its economy. The central government has directed several large state-owned Chinese companies

**...while China benefits economically from improved ties, the expanding economic relationship is part of a broader government strategy to promote reform in North Korea and open up its economy.**

to explore trade and investment deals in North Korea. Smaller Chinese companies are more likely pursuing commercial ventures on an individual basis.<sup>80</sup> Since 2002, more and more Chinese investors in North Korea are large state- and private-listed production companies with strategically important projects rather than the small and medium-sized commercially oriented businesses that made up the bulk of investment before 2002.<sup>81</sup>

Illicit economic transactions between China and North Korea continue in violation of UN Security Council sanctions. A report by a United Nations panel of experts released in June 2012 cited Chinese involvement in 21 of 38 suspected breaches of sanctions against North Korea on weap-

77. Heo Seung-ha, "China to Reconsider Economic Project on North Korea's Hwanggeumpeong Island," *Arirang News*, June 25, 2012, [http://www.arirang.co.kr/News/News\\_View.asp?nseq=132295&code=Ne2&category=2](http://www.arirang.co.kr/News/News_View.asp?nseq=132295&code=Ne2&category=2).

78. Joseph Kahn, "China Cut Off Exports of Oil to North Korea," *New York Times*, October 30, 2006, <http://www.nytimes.com/2006/10/30/world/asia/30iht-oil.3334398.html>.

79. Gill, *China's North Korea Policy*.

80. Private interview by Bonnie Glaser with U.S. government official working in Shenyang, July 2012.

81. Gill, *China's North Korea Policy*. This assertion runs counter to Noland and Haggard's observations that Beijing is doing very little direction of trade and investment and that companies investing in North Korea tend to be small and medium-sized businesses (see appendix B).

ons and luxury items over a 30-month period. Chinese companies allegedly facilitated shipments and Chinese ports purportedly served as transshipment hubs for illicit cargo. In two instances, China was implicated in North Korea's sale or purchase of ballistic missile components and other materials for unconventional weapons.<sup>82</sup> In a widely publicized case earlier this year that is still under UN investigation, six Chinese transporter-erector-launchers appeared in a military parade in downtown Pyongyang in April. Apparently, North Korea acquired eight heavy-duty vehicles in 2011 from a Chinese subsidiary of China Aerospace Science and Industry Corporation, a Chinese state-owned enterprise, and adapted them for use as mobile ballistic missile launchers. Reports suggested that the Chinese export company believed the vehicles were intended for lumber, but China maintains strict export control regulations that, if followed, should have mandated an export license for any item that may carry "the risk of being used in weapons of mass destruction and their related means of delivery." Since North Korea's development of a road-mobile ICBM force is contrary to China's strategic interests, it is likely that the transfer of transporter-erector-launchers was either inadvertent or was carried out by a few individuals who sought financial gain.<sup>83</sup>

## Does China Pressure North Korea?

China's potential leverage over North Korea is significant, since without the extensive aid that Beijing provides, the regime in Pyongyang would be unable to survive. Ever since Seoul stopped major annual food and fertilizer shipments to the North in 2008, China has been the only source of substantial, regular, and unconditional assistance.

According to one source, Beijing annually provides approximately 100,000 tons of food, 500,000 tons of oil, and goods worth \$20 million.<sup>84</sup> This regular aid is delivered regardless of specific need and circumstances. In addition, China sends frequent shipments of free aid to North Korea, but the scale and content of these shipments are rarely made public. In December 2011, for example, China reportedly offered 500,000 tons of food and 250,000 tons of crude oil to help "stabilize the new regime."<sup>85</sup>

Beijing has consistently rebuffed U.S. requests to reduce or temporarily cut off aid to pressure North Korea to abandon its nuclear weapons program. Fear of instigating instability is one reason that China has generally been unwilling to apply such direct pressure. Another reason is that China worries that punitive actions that affect the regime could provoke an

**China's potential leverage over North Korea is significant, since without the extensive aid that Beijing provides, the regime in Pyongyang would be unable to survive.**

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82. *Report of the Panel of Experts Established Pursuant to Resolution 1874 (2009)*, June 14, 2012, [http://www.un.org/ga/search/view\\_doc.asp?symbol=S/2012/422](http://www.un.org/ga/search/view_doc.asp?symbol=S/2012/422).

83. Melissa Hanham, "North Korea's Procurement Network Strikes Again: Examining How Chinese Missile Hardware Ended Up in Pyongyang," James Martin Center for Nonproliferation Studies at the Monterey Institute of International Studies, July 31, 2012, <http://www.nti.org/analysis/articles/north-koreas-procurement-network-strikes-again-examining-how-chinese-missile-hardware-ended-pyongyang>.

84. "Scale of Yearly Chinese Unconditional Aid to North Korea Unveiled," *Dong-A Ilbo*, June 24, 2012, <http://english.donga.com/srv/service.php3?biid=2012062508548>.

85. "China Decided on North Korea Aid after Kim's Death: Report," Agence France-Presse, December 2011.

angry response from Pyongyang, damage the bilateral relationship, and further diminish Chinese influence. In one rare case, China is widely believed to have shut off its oil pipeline to the North for three days in 2003, in the wake of heightened U.S.-North Korean tensions over Pyongyang's enriched uranium program, citing the need to conduct maintenance. Delays in food shipments have occurred periodically to signal Chinese dissatisfaction with North Korea's behavior, although it is possible that only those deliveries that are in addition to the yearly quota are affected. For example,

**The Chinese recognize the need to apply pressure on North Korea to ensure that Chinese interests are protected.**

China allegedly delayed food shipments to North Korea in the spring of 2012, purportedly in retaliation for the North's test-firing of a long-range missile despite Beijing's strong demands that Pyongyang forgo the launch.<sup>86</sup> Moreover, China does not automatically approve requests for additional assistance, which are frequently put forward. During some of Kim Jong-il's visits to China, he reportedly came away unhappy because he was granted less aid than he asked for.

The Chinese recognize the need to apply pressure on North Korea to ensure that Chinese interests are protected. According to a Chinese Foreign Ministry official, one lesson that Beijing drew after North Korea conducted its first nuclear test in May 2006 was that pressure was necessary to persuade Pyongyang to make progress toward denuclearization:

In the new situation after the test, if we merely rely on pressure, then it won't work. If we only promote dialogue, that also won't work. . . . the two wheels must work together. Only if they are working simultaneously can they be effective.<sup>87</sup>

Moreover, Beijing deems it necessary to put some pressure on North Korea to mollify the United States, which persistently urges China to use its leverage more effectively.

In addition to delaying aid shipments, Chinese experts and officials describe the following measures that have been employed to pressure North Korea:

- For many years, Chinese officials have raised concerns about North Korea's nuclear weapons program and stated the goal of a denuclearized Korean Peninsula in virtually every meeting they have had with North Korean officials. By so doing, Chinese officials said, they have signaled that the nuclear issue is important and that it affects the bilateral relationship. A former Foreign Ministry official noted privately in 2005, six months before North Korea's first nuclear test that "in our official exchanges, whenever we talk to the North Koreans, no matter what issue an official is responsible for, the nuclear issue is raised by the Chinese side. This is a signal that denuclearization is the most vital issue in our bilateral relationship and is vital for Chinese security."<sup>88</sup> Subsequently, however, the Chinese seem to have ended this practice. During Jang Song-taek's August 2012 visit to Beijing, Chinese reporting did not refer to the goal of denuclearization, even in veiled terms, as had been customary in the past.
- At critical junctures, Chinese leaders dispatch special envoys to North Korea carrying letters or oral messages to heed Chinese warnings.

86. "Scale of Yearly Chinese Unconditional Aid to North Korea Unveiled," *Dong-A Ilbo*.

87. Private interview by Bonnie Glaser with Chinese official in Beijing, June 27, 2007.

88. Private interview by Bonnie Glaser with former Chinese Foreign Ministry official, November 5, 2005.

- Chinese leaders have used more forceful language with North Korean leaders since the May 2006 nuclear test. They are no longer reluctant to warn Pyongyang to avoid actions that would be harmful to Chinese interests. They directly condemn any measures that have damaged Chinese security interests.
- Chinese officials occasionally state their frustrations with North Korea publicly, such as when Pyongyang fails to notify Beijing in advance of a missile launch or other such action.
- Xinhua reports are sometimes issued that reveal differences between China and North Korea. Chinese demarches to North Korea for destabilizing actions are occasionally reported.
- China has supported UN Security Council resolutions condemning North Korea's progress toward developing nuclear weapons and its violations of past resolutions. Beijing does not rule out continuing to support harsher UNSC resolutions in the future.
- China discusses North Korea in multilateral meetings, including with Japan and South Korea, and voices opposition to Pyongyang's nuclear ambitions and provocations. In the January 2011 U.S.-China joint statement signed during Hu Jintao's visit to Washington, D.C., Beijing joined the United States in expressing concern over North Korea's uranium enrichment program and called for "concrete and effective steps to achieve the goal of denuclearization."<sup>89</sup>
- China has denied North Korean requests for military aid, for example, for antimissile defense systems that might help the regime fend off an attack from the United States.<sup>90</sup>
- China tightened its export control policy in 2003 to further restrict the sale of dual-use items to North Korea. According to a former Foreign Ministry official, this step was taken out of concern about the progress of North Korea's nuclear programs and as a signal of China's strong opposition. The former official revealed that North Korean officials complained that by stopping the export of more and more items, China was affecting North Korea's Socialist construction. Chinese officials replied that the tighter restrictions were necessary to protect Chinese security interests.<sup>91</sup>

**...China worries less about North Korea's actions than it does about how other countries—especially the United States—will respond to what North Korea does.**

Before North Korea's first nuclear test in 2006, some experts wrongly predicted that if Pyongyang dared to cross the nuclear threshold China would see its interests as directly threatened and would agree to take harsh punitive actions against North Korea. Is there a tipping point that would cause Beijing to see its relationship with Pyongyang more as a strategic liability than as an asset and to align its policy more closely with the United States, South Korea, and Japan? Part of the answer to this question is that China worries less about North Korea's actions than it does about

89. "U.S.-China Joint Statement," White House, Office of the Press Secretary, January 19, 2011, <http://www.whitehouse.gov/the-press-office/2011/01/19/us-china-joint-statement>. The Chinese agreed to include the sentence about North Korea's uranium enrichment program only after they became convinced that the United States would scrap the joint statement unless the program was mentioned.

90. Willy Lam, "Kim Jong-il's Visit to Beijing: What Does It Mean for the West?" *China Brief*, Jamestown Foundation, 2004.

91. Private interview by Bonnie Glaser with former Chinese Foreign Ministry official, November 5, 2005.

how other countries—especially the United States—will respond to what North Korea does. A North Korean provocation that might result in a U.S. strike on North Korea would ring alarm bells in Beijing and rouse China to action. In early 2003, against the background of the impending U.S. attack on Iraq and the Bush administration’s declaration of a preemptive war strategy, China feared that Washington might launch a conventional attack on selected targets in North Korea, out of concern over North Korea’s nuclear weapons program. These fears prompted Beijing to cut off delivery of oil to Pyongyang for three days and concede to U.S. urgings to host trilateral U.S.-China-North Korea talks, which later evolved into the six-party mechanism.

A retaliatory action by Seoul to a North Korean provocation that could escalate to conflict would motivate Beijing to pressure Pyongyang to refrain from further aggression. In the aftermath of North Korea’s shelling of Yeonpyeong Island in November 2010, South Korean forces held a live-fire artillery exercise near the disputed Yellow Sea border with North Korea, increasing Chinese worries about the possibility of miscalculation or an unpredictable escalation of tension leading to conflict. After a phone call with President Obama, Hu Jintao dispatched State Councilor Dai Bingguo to Pyongyang to warn North Korea to exercise restraint.<sup>92</sup>

Beijing also has to weigh the cost of forgoing greater cooperation with the United States and its allies. At present, the cost to China of engaging only in episodic and limited cooperation is extremely low.

## Policy Recommendations

In the past decade, the United States has sought to work closely with China to bring about the denuclearization of North Korea. Successive U.S. administrations have concluded that China holds significant political and economic leverage over North Korea and have tried to persuade Beijing

to use its leverage to compel Pyongyang to abandon its nuclear programs.<sup>93</sup> To date, the United States has had very little success. While China has occasionally used its clout to bring North Korea to the negotiating table and to discourage Pyongyang from engaging in provocations that could escalate into conflict on the peninsula, Beijing has continued to prioritize stability over denuclearization and has thus remained unwilling to put substantial pressure on the North.

China’s North Korea policy is based on its calculation of costs and benefits for Chinese interests. Evidently, the costs of propping up the North Korean regime are

tolerable, and Beijing pays only a small price for its unwillingness to apply pressure on Pyongyang, usually in the form of short-lived condemnation from the international community. U.S. policy-makers should seek to alter China’s calculus by providing incentives for cooperation, including

**Beijing has continued to prioritize stability over denuclearization and has thus remained unwilling to put substantial pressure on the North.**

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92. *China and Inter-Korean Clashes in the Yellow Sea*, International Crisis Group Report, no. 200, January 27, 2011.

93. Snyder argues that the U.S. administration’s belief in Beijing’s ability to successfully restrain provocative North Korean behavior is misguided, given China’s past inability to do so (see appendix A).

ensuring that economic and security benefits accrue to Beijing for helping denuclearize North Korea but also increasing the costs if China fails to cooperate.

China's willingness to work with the United States and squeeze North Korea will be possible only against the background of a positive U.S.-China relationship. Beijing must be confident that the United States is not seeking to undermine China's stability and contain its rise; otherwise, it will not only refuse to partner with the United States but may also increase efforts to shield Pyongyang from international penalties in response to provocations. To succeed in gaining Chinese cooperation, the United States must give top priority to eliminating nuclear weapons in North Korea, and it must be at the top of the U.S.-China agenda. This approach may not be possible at present but may become feasible if the North Korean security threat to the United States increases, for example, when North Korea acquires the capability of launching an ICBM with a nuclear warhead toward the United States. Policies in other parts of the world would need to be formulated with Chinese concerns in mind. For example, the U.S. policy of promoting regime change in Syria engenders fears among Chinese leaders that Washington harbors similar objectives toward China.

To enlist China's support, the United States should abandon its current policy of holding all issues in the U.S.-North Korea relationship hostage to denuclearization. Steps should be taken to invigorate U.S. engagement with North Korea. The United States should establish a clear path toward normalization and the signing of a peace treaty and should start taking steps down that path. Despite U.S. assurances that once Pyongyang gives up its nuclear weapons the United States would be willing to normalize ties and sign a peace treaty, Beijing has remained unconvinced, and many Chinese are suspicious that the United States seeks to overthrow the North Korean regime. It is therefore necessary to take steps up front to demonstrate U.S. sincerity. Such steps must be reversible, however, in the event that North Korea does not respond positively. To enhance the credibility of the offer, the United States should present it at a plenary session of the six-party talks, where all members are present, and declare it publicly. China can provide an assurance for U.S. promises to allay North Korean worries that a future change in government in the United States will not result in a reversal of U.S. policy. It must be made clear that North Korean refusal to accept this offer will result in harsher sanctions and further isolation. It is very important that China also agree to curtail assistance to Pyongyang if its cooperation is not forthcoming.

The United States should also offer private assurances to Beijing that if the North Korean regime collapses due to economic or political pressures, China will not have to bear the consequences by itself. The United States, Japan, and South Korea will help cope with the humanitarian and security challenges that would arise if the country were to implode. Moreover, if North Korea ceases to exist and the country is unified under South Korea's control, the United States would not deploy troops in the northern portion of the country, a unified Korea would be friendly toward China, and all nuclear weapons would be removed from the peninsula. In the absence of such assurances on the end state on the Korean Peninsula, Chinese support will be unattainable.

Following the declaration of the U.S. proposal, Beijing should take the lead in persuading North Korea to accept the offer. As North Korea's protector and only ally, China must take responsibility for maximizing the possibility of success. The benefits to China would include credit for

**China's willingness to work with the United States and squeeze North Korea will be possible only against the background of a positive U.S.-China relationship.**

easing the North Korean threat to Japan and South Korea and for reducing the threat of nuclear proliferation globally. A closer U.S.-China strategic partnership would also emerge in the aftermath of the successful elimination of North Korea's nuclear capabilities. Moreover, China's image would be considerably enhanced; fears that a rising China might seek to change global norms and practices would be greatly assuaged.

If Beijing refuses to work with the United States and its allies to pressure North Korea to relinquish its nuclear ambitions, then they must greatly increase the costs to China of its choices. So far, China has not been compelled to pay a price and has therefore not prioritized denuclearization. For China to alter the calculus of its interests, it must face the prospect of severe negative consequences from its decision to stick to its current policy. The United States and its allies and friends

in the Asia-Pacific region should intensify their efforts to strengthen their military and counterproliferation activities. While such cooperation would not be aimed at increasing the security threat to China, it would inevitably have a negative impact on Chinese security. The United States should also continue to step up its missile defense cooperation and antisubmarine warfare exercises with Japan and South Korea.

**So far, China has not been compelled to pay a price and has therefore not prioritized denuclearization.**

In addition, if Beijing is unwilling to cooperate, the United States and its allies should increase public criticism of China for permitting North Korea to use its airspace, land border, and waters to transfer illicit items to other countries in violation of UN Security Council resolutions 1718 and 1874. Public shaming of China for not enforcing its export control laws and for abetting North Korea's proliferation activities would be aimed at incentivizing China to stop such behavior. Moreover, the United States and its allies should publicly criticize China's protection of North Korea and raise complaints with Chinese leaders at every opportunity. Clearly conveying to Beijing that its failure to cooperate will result in actions detrimental to its security and other interests would ensure that China can accurately weigh the benefits of cooperation against the costs of refusal.

There are three possible outcomes of this strategy: (1) China agrees to cooperate and successfully pressures North Korea to accept the terms of the offer; (2) China agrees to cooperate and fails to persuade North Korea to abandon its nuclear weapons program; and (3) China refuses to cooperate, choosing instead to continue its current policy of prioritizing stability over denuclearization. The first outcome is optimal. The second outcome would likely result in Beijing's siding with the United States and other nations against North Korea, which would be an improvement over the current situation. The third outcome would result in the adoption of policies that would worsen China's security environment, which, over time may compel Chinese leaders to change their cost-benefit calculations in favor of greater cooperation.



## APPENDIX A DIPLOMATIC AND SECURITY RELATIONS BETWEEN CHINA AND NORTH KOREA UNDER KIM JONG-IL

Scott Snyder

North Korea's political system and structure remain opaque and relatively inaccessible to external observers. This opaqueness is a product of North Korea's isolation from the international community. Even the foreign diplomatic community in North Korea is treated more like an invasive force to be managed than as partners. Most diplomats in Pyongyang live a circumscribed life, in which their local North Korean staff appear to serve more as informants than as local employees of a foreign government.

China, however, stands out as North Korea's essential and most active partner, with a presence sustained by enduring institutional ties shaped initially by ideology and forged by war.

The relationship between the two countries stretches back to the near-simultaneous founding of the People's Republic of China (PRC) and the creation of the Democratic People's Republic of Korea (DPRK). (The two countries established diplomatic relations with each other within days of the founding of the PRC on October 1, 1949.) Mao Zedong arguably placed North Korea's survival above the objective of Chinese reunification when he decided to join North Korea in its struggle to stop General MacArthur's northward advance beyond the 38th parallel in the fall of 1951.

Despite a shared national foundation narrative and a common ideology, the Sino-DPRK relationship has been volatile. Initial difficulties in their relations occurred as Kim Il-sung fought to consolidate his leadership following his failure to reunify Korea by wiping out alleged pro-China and pro-Soviet factions in Pyongyang. After a period of recovery from the Korean War and political consolidation, Kim Il-sung signed parallel security treaties with China and the Soviet Union in 1961. He then used the Sino-Soviet split to his advantage by playing off larger power interests and influence in North Korea against each other, political maneuvering that reflected his conviction that the larger powers could not be counted on to act in North Korea's interest. Moscow's normalization with South Korea in 1989 and the subsequent dissolution of the Soviet Union severely weakened Pyongyang's relationship with Moscow and reduced Pyongyang's strategic value to Beijing, even as China became North Korea's economic and political lifeline. China's decision to normalize relations with Seoul in 1992 further weakened the Sino-DPRK relationship. Although North Korea inevitably saw China's move as a betrayal, it did not completely cut off diplomatic relations.

Shared geography has contributed to the endurance of the relationship, given that instability has historically had spillover effects across the Sino-DPRK border. Even when Sino-DPRK relations were strained, Chinese and North Korean officials could always fall back on geography as a factor underlying close ties, using the fact that the two countries share mountains and rivers as

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a justification for their continued relationship. During China's Great Leap Forward in the 1950s, Chinese with relatives in North Korea crossed the border in search of food and received help from relatives; their children returned the favor for hungry North Korean famine victims in the mid-1990s. During North Korea's food crisis of 1996–97, China was the de facto first responder, pushing upward of 1 million tons of food across the border in the months before the arrival of relief supplies from South Korea or the international community.

Since the end of the Cold War and the advent of its economic reforms, China has had to consider relations with North Korea through the lens of regional stability, which is regarded as a prerequisite for China's development. With the collapse of the Soviet Union, China became virtually the sole supplier of North Korean energy needs and now provides the majority of North Korea's food imports from abroad. The North Korean nuclear crisis has served to raise the strategic value of Sino-DPRK relations. North Korea has provided Beijing with a valued security buffer that has prevented China from sharing a land border with a unified, capitalist Korea that is an ally of the United States. In turn, China has been under increasing pressure in recent years to identify leverage that it can use to restrain North Korea from becoming a source of instability at the same time that provocations have become the main means by which the North is able to draw international attention to its agenda, needs, and interests.

This analysis reviews the evolution of the Sino-DPRK relationship, with a special focus on the development and management of that relationship under Kim Jong-il. Drawing from an analysis of publicly available materials describing high-level exchanges between the two countries, I draw preliminary conclusions on the tools, strategies, and points of leverage China has employed in managing its relationship with North Korea. The study identifies four distinct phases in the Sino-DPRK relationship between 2000 and 2011 that correspond to China's differing approaches to managing relations with North Korea. Although China's primary purpose in strengthening its relationship with North Korea over the past decade has been to maintain regional stability, a related Chinese objective has been to prevent North Korea from contributing to instability. On the basis of patterns in the Sino-DPRK relationship under Kim Jong-il, I will draw conclusions about the extent and limits of Chinese influence over Pyongyang and will conclude by discussing implications for U.S. and South Korean policy.

## Structure and Mechanisms for Managing Sino-DPRK Security Relations

Four primary channels have served as the main institutional components of the Sino-DPRK relationship: (1) the Party-to-Party relationship, (2) the government-to-government relationship, (3) the military-to-military relationship, and (4) the nature and quality of the personal ties between Chinese and DPRK leaders. These channels have long been both the primary mechanisms for official interaction between the two countries and the primary institutional support mechanisms for interaction among their top leaders. Among these four channels, the Party-to-Party relationship—managed through the International Liaison Department of the Chinese Communist Party (CCP) with DPRK Korean Workers Party (KWP) counterparts on the North Korean side—is the most influential institutional channel of interaction; it has set the course and determined the scope of other interactions. Government-to-government ties have tended to develop under direction from the Party, while military-to-military ties, albeit weakened over time, have reportedly relied primarily on old personal connections from the Korean War.

Top-level leadership exchanges between the two countries have guided bureaucratic mechanisms of interaction between the two sides. Even though high-level dialogue has not always functioned smoothly, China is the only country in the world that has had such an intensive and sustained set of contacts with Kim Il-sung and Kim Jong-il, the two critical decisionmakers in the North Korean system until December of 2011. As founders of their respective countries and a shared revolutionary ideology, Kim Il-sung and Mao Zedong had extraordinary control over the relationship and started with much in common in its early stages. Kim's requests for help from Mao to support Kim's military campaign for Korean reunification were ultimately costly to Chinese national objectives, and Mao's decision to enter into the Korean War had significant implications for politics in both countries for decades.<sup>1</sup> Despite the disastrous result of the Korean War, Kim Il-sung continued to make requests from China that ran the risk of escalating conflict with the West through the 1970s, and relations between China and the DPRK periodically became tense over political and territorial issues.

A major difference that emerged between Kim Il-sung and Deng Xiaoping revolved around Deng's reluctance to accept the idea of generational succession in North Korea. Deng's coolness to the idea resulted in an often prickly relationship with Kim Jong-il, compounded by China's decision to normalize relations with South Korea in the early 1990s.<sup>2</sup> It was not until 2010 that Kim Jong-il made regular visits to China. Despite China's unprecedented formal displays of support for Kim Jong-il, in which he gained direct access to all nine members of China's Politburo on virtually every visit to China, rumors of Kim's negative reactions to China's refusal of North Korea's seemingly endless requests for assistance often punctuated these visits. Given the historically personal nature of the leadership relationship between the two countries, 2012 and 2013 promise to be particularly sensitive years in the management of the Sino-DPRK relationship, as Kim Jong-un consolidates his power and as Xi Jinping assumes the presidency of China from Hu Jintao.

Both China and North Korea have been acutely aware of the asymmetric nature of the relationship. North Korea's historical dependency on China has been a longstanding source of vulnerability; it has shaped North Korean perceptions that China acts to protect its own interests at the expense of North Korea. Therefore, North Korean leaders may believe that they have license to assert North Korea's autonomy in ways that seem to come primarily at China's expense. This dynamic blunts the effectiveness of coercive instruments that China might use to constrain North Korean behavior. China has attempted to use a variety of policy instruments to impose restraint on North Korea, but the North has generally resisted China's influence by refusing to recognize *quid pro quos* in the relationship.

China has attempted to use economic leverage as an instrument for achieving political objectives in its relationship with North Korea, both to ensure stability in North Korea and to impose restraint as China tries to influence North Korea's political choices. But China has achieved limited success in this effort, especially following the Cold War and its decision to "betray" North Korea by normalizing relations with South Korea. Under Kim Jong-il, at least four different phases highlight the various Chinese approaches and strategies for asserting a restraining influence on North Korean behavior.

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1. Chen Jian, *China's Road to the Korean War: The Making of the Sino-American Confrontation* (New York: Columbia University Press, 1996).

2. You Ji, "China and North Korea: A Fragile Relationship of Strategic Convenience," *Journal of Contemporary China* 10, no. 28 (2001): 387–98.

Following his consolidation of power, Kim Jong-il reestablished top-level visits to China from the year 2000 on, but aside from reestablishing high-level dialogue channels and showing off China's economic reforms to Kim, China does not appear to have invested a great deal in strengthening Sino-DPRK ties. From around 2003, China relied on incentives and rewards for positive actions in an attempt to reestablish a framework for North Korea's participation in six-party dialogue. Between North Korea's first nuclear test in 2006 and its second nuclear test in 2009, China showed a greater willingness to use coercive measures to influence North Korean behavior. China became dissatisfied with this approach, however, because it appeared to marginalize rather than enhance its direct influence on Pyongyang. Since 2009, China has pursued comprehensive engagement through enhancement of high-level ties across many sectors and areas in an apparent attempt to have a deeper influence on North Korea's stability, direction, and future course. The increased intensity and tempo of high-level interactions since 2009 have provided opportunities to use a variety of economic instruments to influence North Korean behavior, including the application of incentives, aid, and promises of assistance. The primary objective of China's policy has been to bind North Korea to policies consistent with China's own interests and to curb adventurism or provocations that might prove costly to China.

## Historical Overview of Sino-DPRK Relations under Kim Il-sung

China's decision to respond positively to Kim Il-sung's pleas for Chinese intervention during the Korean War was a formative event in the establishment of the Sino-DPRK relationship. China's decision to intervene in the Korean War at a time when the tide had turned against the North saved Kim Il-sung from almost certain defeat, but it also signified an enormous commitment of Chinese blood and treasure to North Korea. The sacrifice of over a million Chinese soldiers as Korean War casualties tied China to North Korea's survival, not least because any reversal of its commitment to North Korea would have been an admission that it had miscalculated its own interest in intervening to save the North Korean regime.<sup>3</sup> The human sacrifice of China's military involvement in the war undoubtedly intensified the significance of Sino-DPRK military ties as an important component of the Sino-DPRK relationship. In fact, the Chinese military involvement in the Korean War was so dominant that Chinese military authorities played a leading role in armistice negotiations, overshadowing the role of their North Korean counterparts.

China's military dominance in the Korean War had political ramifications for the Sino-DPRK relationship, given that North Korea's near-catastrophic failure left Kim Il-sung dependent on Chinese decisions and vulnerable to internal political challenge. Kim Il-sung's reconsolidation of political control in the late 1950s involved the purge of the Yanan faction of North Koreans perceived as close to China. As part of that reconsolidation, Kim also needed to erase the historical fact of North Korea's dependence on China's military power to save the North Korean state from catastrophe. One result is that North Korean histories and monuments to the Korean War rarely acknowledge China's decisive intervention. Moreover, Kim Il-sung's disappointment with China's failure to fully support a struggle for Korean reunification left him distrustful that North Korean interests could be achieved through dependence on larger powers such as China or the Soviet Union.

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3. Chen, *China's Road to the Korean War*.

A second critical component of the Sino-DPRK security relationship is the 1961 Sino-DPRK Treaty of Friendship, Cooperation, and Mutual Assistance, which requires China to defend North Korea from external security threats. The treaty, signed a week after the completion of a similar treaty with the Soviet Union at the height of Sino-Soviet rivalry, includes an unambiguous commitment “to adopt all measures to prevent aggression against either of the Contracting Parties by any state” and “to consult with each other on all important international questions of common interest to the two countries.” In addition, it states that both parties “hold that the unification of Korea must be realized along peaceful and democratic lines and that such a solution accords exactly with the national interests of the Korean people and the aim of preserving peace in the Far East.” This treaty has remained in place as a “paper alliance” despite the divergence in policy direction between China and North Korea and remains an essential component of the relationship despite tensions between the two sides.<sup>4</sup> In recent years, there has been scholarly debate within China over whether it should continue to honor the treaty and over the conditions under which it would fulfill its obligations.<sup>5</sup> This debate has cast strong doubt on the reliability of China’s commitment to North Korea’s defense in the event that the North instigates a conflict.

Despite its durability, the overall Sino-DPRK relationship has been beset by periodic tensions exacerbated by the asymmetric nature of the relationship. On the one hand, Kim Il-sung borrowed many of the devices that Mao had deployed to consolidate power and mass-mobilize the people, but he had to make these methods his own to use them effectively. On the other hand, North Korea somehow resisted the excesses that came at the height of the Cultural Revolution, which had introduced tensions into Sino-DPRK relations. Kim Il-sung also proved to be a difficult counterpart in efforts by the two countries to settle border differences by unilaterally cutting off dialogue and refusing to recognize Chinese positions that opposed North Korea’s preferred solution. Ultimately, North Korean intransigence proved somewhat successful in preventing the larger power from imposing its will and enforcing its preferred outcome, especially since Chinese counterparts may always worry that North Korean brinkmanship might exact higher costs than China is willing to pay.<sup>6</sup>

Recently released documentation and new analysis of the Sino-DPRK relationship during the Cold War highlight the historical tensions and the challenge China faced in restraining North Korea even during the Cold War. Cheng Xiaohu argues that mutual security needs sustained the relationship in the 1960s, despite wild swings in the alliance as Kim Il-sung sought to manage North Korea’s position despite the severe cleavage between the country’s closest economic and military supporters, China and the Soviet Union. In the end, only China could provide North Korea’s security needs, but Kim Il-sung’s acknowledgment of China’s relative value to North Korea over the Soviet Union came at significant financial and political cost to North Korea’s relationship with Moscow.<sup>7</sup>

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4. “Treaty of Friendship, Co-operation and Mutual Assistance between the People’s Republic of China and the Democratic People’s Republic of Korea,” transcribed from *Peking Review* 4, no. 28 (July 1961): 5, <http://www.ioc.u-tokyo.ac.jp/~worldjpn/documents/texts/docs/19610711.T1E.html>.

5. Bonnie Glaser, Scott Snyder, and John Park, “Keeping an Eye on an Unruly Neighbor: Chinese Views of Economic Stability and Reform in North Korea,” working paper, CSIS and U.S. Institute of Peace, Washington, D.C., 2008, [http://csis.org/files/media/csis/pubs/071227\\_wp\\_china\\_northkorea.pdf](http://csis.org/files/media/csis/pubs/071227_wp_china_northkorea.pdf).

6. Suh Dae-sook, *Kim Il Sung: The North Korean Leader* (New York: Columbia University Press, 1988).

7. Cheng Xiaohu, “The Evolution of Sino–North Korean Relations in the 1960s,” *Asian Perspective* 34, no. 2 (2010): 173–99.

A set of third-country diplomatic reports on a visit by Kim Il-sung to Beijing in mid-1975 reveals Kim's desire to take advantage of the U.S. defeat in Indochina as an opportunity for once again pursuing forceful Korean reunification. Chinese counterparts—fearful of damaging nascent Sino-U.S. ties and wary of Kim's escalatory measures in pursuit of Korean reunification—successfully discouraged Kim from following that course. However, that approach may have undermined Chinese influence on Pyongyang, as Kim subsequently focused on renewing ties with the Soviet Union. This case is striking because it not only underscores the historical tensions inherent in the management of Sino-DPRK relations but also illustrates the price China paid to prevent North Korea from pursuing forcible reunification.<sup>8</sup>

With the divergence of China's economic path from that of the North and with its decision to normalize relations with the South, China's ability to effectively influence North Korea's provocative behavior has arguably declined. Although China's diplomatic normalization with South Korea was driven by powerful economic motives and by logic, the distancing in the relationship between China and North Korea has diminished both China's leverage with North Korea and its ability to restrain North Korean provocations. Furthermore, the deterioration of the Sino-DPRK relationship itself threatens China's ability to pursue its overarching goal of maintaining stability in regional relations. China's apparent disapproval of North Korean plans for generational succession from Kim Il-sung to Kim Jong-il—an issue that appears to have introduced further strain into Sino-DPRK relations in the 1980s and early 1990s—no doubt exacerbated the challenge.<sup>9</sup> The distancing of Sino-DPRK relations over these issues appears to have significantly weakened China's ability to prevent North Korea from pursuing provocations and reduced the availability of tools for doing so.

## Management of Sino-DPRK Relations under Kim Jong-il

Given the opaqueness of the Sino-DPRK relationship and the lack of full information about the relationship available to third-party observers, one available empirical measure that might be illuminating is tracking and analyzing the leadership exchanges between the two countries. Although this measure depends on official reporting and therefore may not capture consequential secret meetings, leadership exchanges at the cabinet level may provide insight into the nature and direction of the relationship. Figure A.1 shows the number and type of high-level exchanges between China and North Korea since 2000, the year in which Kim Jong-il emerged on the international stage through a secret visit to China, only two weeks ahead of the historic inter-Korean summit with Kim Dae Jung in June.

Before this period, the Sino-DPRK relationship had gone through a time of relative inactivity characterized by a paucity of high-level exchanges during the 1990s, following China's normalization with South Korea. The lack of these exchanges at this time suggests a relatively strained relationship during which China and North Korea were growing apart. This absence of exchanges was most likely accompanied by an attrition of institutional contacts and an attenuation of ties. It reflects the relatively low priority that both sides then placed on the strategic relationship, as well as

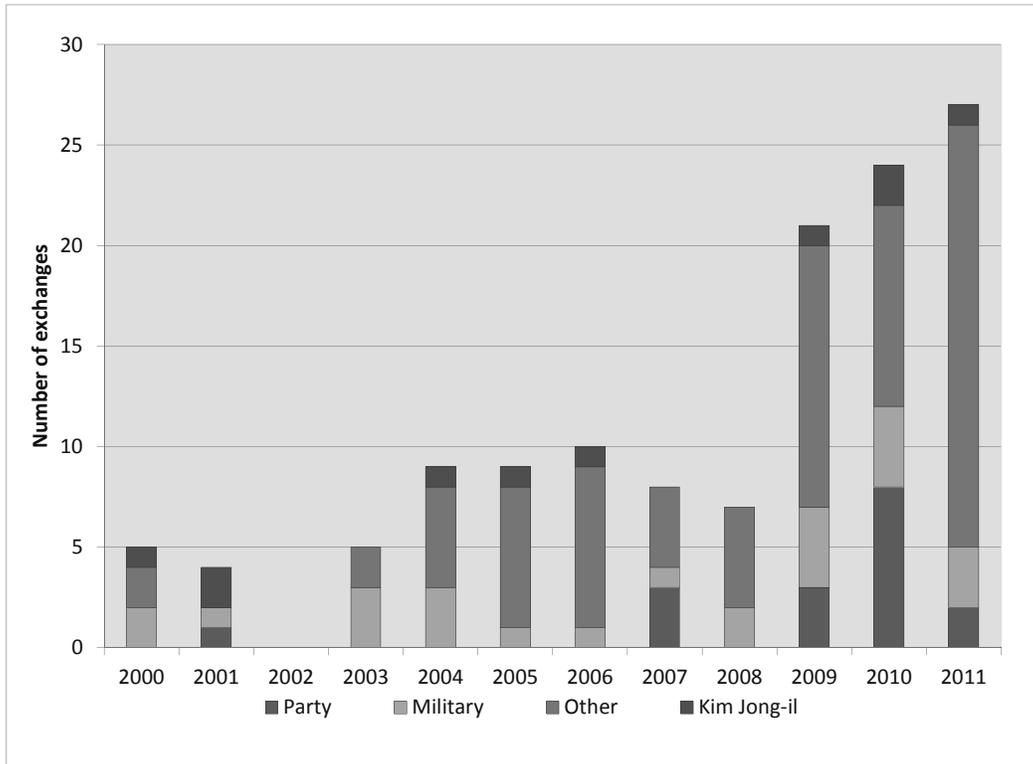
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8. Ria Chae, "NKIDP e-Dossier No. 7: East German Documents on Kim Il Sung's April 1975 Trip to Beijing," Woodrow Wilson Center for International Scholars, May 2012, <http://www.wilsoncenter.org/publication/nkidp-e-dossier-no-7-east-german-documents-kim-il-sung%E2%80%99s-april-1975-trip-to-beijing>.

9. You Ji, "China and North Korea."

an inward focus by North Korea as it grappled with a severe famine and its own leadership transition from Kim Il-sung to Kim Jong-il in the mid-1990s. During a three-year period of mourning following Kim Il-sung's death in 1994, Kim Jong-il conducted virtually no foreign diplomatic activities.

**Figure A.1. Number of Sino-DPRK Exchanges by Composition, 2000–2011**



Note: There were no exchanges in 2002.

From 2000 to 2011, the Sino-DPRK relationship appears to have developed in four distinct phases: (1) the reconstitution of the relationship from 2000 to 2003, when North Korea conducted its first nuclear test; (2) China's initial efforts to use economic incentives as a means for consolidating influence and gaining leverage with Pyongyang and for managing crisis and diplomacy with North Korea as part of its role as convener of the six-party talks from 2003 to 2006; (3) a period of "normalization" of Sino-DPRK relations from the "special" status that it had previously enjoyed between North Korea's first nuclear test and its second nuclear test in 2009; and (4) the revitalization of the relationship between 2009 and 2011. I will examine each of these phases in greater detail, with special emphasis on the structure, instruments, and objectives that have driven the two sides in each phase.

### Reconstituting Sino-DPRK Relations: 2000–2003

Figure A.1 shows renewed efforts to establish high-level dialogue from the year 2000, when Kim Jong-il consulted with Chinese leaders in advance of the inter-Korean summit. Kim Jong-il's efforts to reengage with Chinese counterparts at this time suggest a need to consult on inter-Korean developments as an essential component of Pyongyang's strategy toward the South. In combination with the change in the tone of inter-Korean relations and increased cultural and economic

exchanges following the inter-Korean summit, Kim Jong-il's visit to Shanghai in January of 2001 seemed to signal the possibility that North Korea might indeed embrace Chinese-style economic reforms. The visit occurred during a period of relative economic loosening in North Korea, which culminated in the announcement of partial price-and-wage liberalization measures on July 1, 2002. But the strengthening of Sino–North Korean ties may also have been a rearguard action to hedge against the anticipated impact of an increase in South Korea's economic and political influence on the North that might result from a warming in inter-Korean ties.

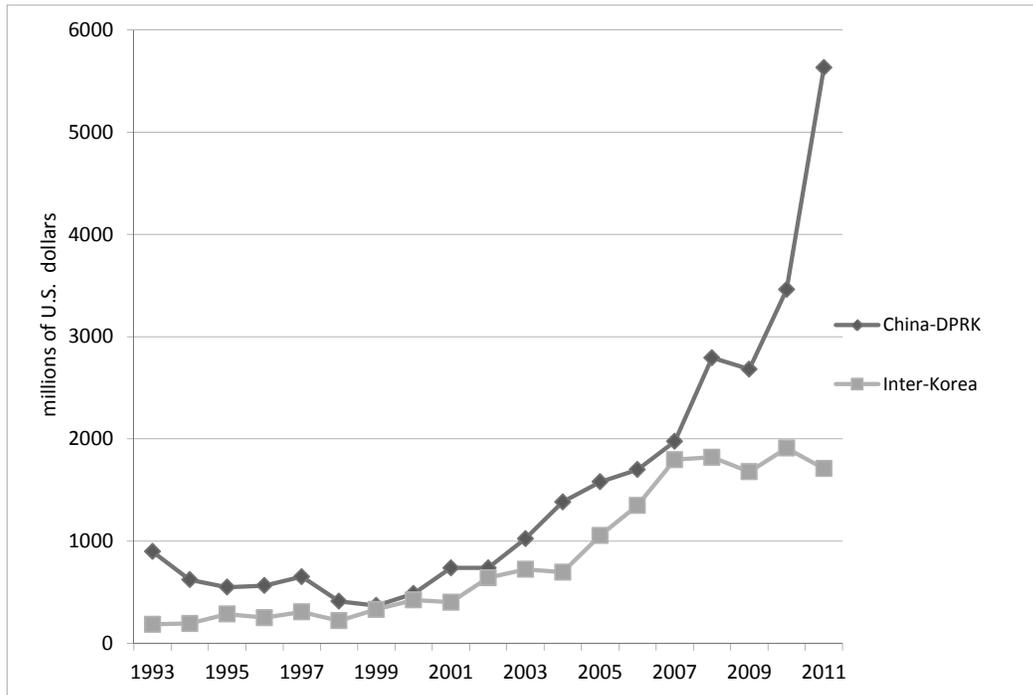
During this period, the Chinese leadership appears to have remained relatively passive in its pursuit of top-level exchanges with North Korea beyond hosting Kim Jong-il in Beijing and attempting to show him the fruits of Chinese economic reform. Sino–North Korean interactions in 2000 and 2001 appear to have occurred primarily on the initiative of Kim Jong-il himself, with President Jiang Zemin reciprocating by making a return visit to Pyongyang in September 2001. These top-level exchanges, however, were accompanied by few lower-level exchanges. This series of top-level meetings signaled a resumption of regular high-level leadership exchanges following a decade-long dormancy but does not appear to have catalyzed Party-to-Party, government-to-government, or military-to-military cooperation, at least on the basis of public accounts of exchanges between the two countries.

## **China's Use of Incentives to Gain Influence with North Korea, 2003–2006**

In the context of rising tensions between the Bush administration and North Korea in early 2003, China undertook a more active role in strengthening its ties with the North. China's stepped up diplomacy came in the context of a U.S. proposal that China host regional multilateral talks to address North Korea's denuclearization. China's new role provided a clear rationale for China to strengthen its relations with Pyongyang and fulfill its convening role by bringing North Korea to the diplomatic table, if not by contributing materially to reduction of regional and bilateral (U.S.-DPRK) tensions. It also provided China and North Korea with an immediate need for more frequent high-level dialogue to facilitate a negotiating process involving the United States.

With the establishment of the six-party talks, China clearly had a need for more robust consultations with North Korea's leadership, and these talks were initially supported by a combined military-Party channel and subsequently took the form of a regular Party-led senior-level dialogue. Before a trilateral U.S.-China-DPRK meeting in April 2003, China hosted a North Korean military delegation led by National Defense Commission vice chairman Cho Myong-rok (who had played a critical role as a senior envoy to Washington in October 2000). Cho met with Chinese counterparts at China's Central Military Commission, including General Xu Caihou (also a member of the Secretariat of the Central Committee of the Chinese Communist Party), Col. Gen. Xiong Guang-kai, and Vice Minister of Foreign Affairs Wang Yi. This exchange of senior military representatives just below the top leadership was a direct channel necessary to support resumption of diplomatic negotiations. Before the formal establishment of the first round of the six-party talks in August 2003, both Vice Foreign Minister Dai Bingguo and General Xu Caihou visited Pyongyang for consultations on the talks. From 2004 through early 2006, North Korea and China held consultations through Party channels with Kim Jong-il almost quarterly. The regularization of Party-to-Party ties was the main mechanism for supporting leadership consultations involving Kim Jong-il.

Figure A.2. China-DPRK and Inter-Korean Trade Volume, 1993–2011



Source: ROK Ministry of Unification, Korea Trade-Investment Promotion Agency (KOTRA), and Korea International Trade Association (KITA).

During this period, China-DPRK trade began to increase steadily. As shown in figure A.2, the increase in Sino-DPRK trade during 2003–06 may reflect in part Chinese efforts to use economic inducements to encourage North Korean participation in the six-party talks. Moreover, the increased frequency of leadership meetings between China and North Korea would have generated pressure on China to grant additional economic benefits, since China traditionally provided them in combination with top-level exchanges.

In the most dramatic example during this period, China constructed a \$24 million glass factory in Pyongyang on the eve of Hu Jintao’s October 2005 visit. The glass factory opening coincided with the commemoration of the 60th anniversary of the Korean Workers Party in early October 2005 in a ceremony attended by Vice Premier Wu Yi. Hu Jintao also visited the glass factory during his state visit to Pyongyang at the end of October of that year. Yoichi Funabashi quotes a high-level Chinese official’s explanation:

Although the gift of the glass factory was a carrot to lure North Korea to continue to participate in the six-party talks, it also had a longer-term objective. We had to stabilize the North Korean economy. [Construction of the glass factory] is a boost to Kim Jong-il’s reputation and status there.<sup>10</sup>

10. Yoichi Funabashi, *The Peninsula Question: A Chronicle of the Second North Korean Nuclear Crisis* (Washington, D.C.: Brookings Institution Press, 2007), 320–21.

In addition, as of 2005 China had provided up to 1 million tons of heavy fuel oil and 500,000 tons of grain to North Korea annually.

Chinese economic assistance was probably necessary to get North Korea to the six-party table, just as food assistance had been necessary to secure North Korea's participation in the four-party talks in the late 1990s. However, China's assistance was not sufficient to keep the six-party talks moving forward beyond the signing of a landmark joint statement on September 21, 2005, just a month before Hu Jintao's visit to Pyongyang. By November, the talks had broken down as a result of the Banco Delta Asia case, which involved the decision of the Macao monetary authority to freeze over \$24 million in cash held in North Korean accounts over suspicions of counterfeiting and money laundering.

## Normalizing Sino-DPRK Relations: 2006–2009

The North Korean missile and nuclear tests marked an apparent shift in China's strategy toward the DPRK that introduced greater tension into their relations and had an observable effect on the frequency of their high-level contacts. This period also coincided with Chinese efforts to downgrade the relationship with North Korea from a "special" relationship to a "normal" relationship: that is, North Korea would receive no special treatment from Beijing but instead would be treated in line with its relative importance as a normal component of Chinese foreign policy.

One aspect of this approach was the unprecedented appointment of a career Chinese Foreign Ministry employee and specialist on the United States, Liu Xiaoming, to head the Chinese Embassy in Pyongyang. During this period, China made strenuous efforts, including high-level public statements, to discourage North Korea from conducting missile and nuclear tests in July and October 2006. When it went forward with its first nuclear test on October 10 of that year, Hu Jintao harshly criticized North Korea, using a descriptive term normally reserved for adversaries, *hanran* [brazen]. The international ramifications of North Korea's nuclear test put pressure on China to go along with UN Security Council Resolutions 1695 and 1718, which condemned North Korea for its actions and imposed sanctions on shipments of luxury goods to North Korea.

In combination with measures to impose greater pressure on North Korea, China tried to use high-level dialogue to get a handle on the situation, dispatching Councillor Tang Jiaxuan as a special envoy to Washington, Moscow, and Pyongyang for consultations immediately following the nuclear test in mid-October. This mission may have borne some fruit, judging from the fact that by the end of the month China was able to host Assistant Secretary Chris Hill and Vice Minister Kim Kye-gwan for an announcement of the resumption of six-party talks. However, no progress was made at the December round. Instead, Kim Kye-gwan and Chris Hill agreed to bilateral meetings in Berlin the following month at which a framework was hatched for moving forward toward a February 2007 agreement on an interlocked set of actions to implement the six-party joint statement.

During this period, although an increasing number of Chinese analysts were willing to criticize North Korea's actions and to pursue coercive measures, it is unclear whether their opinions had much impact on Chinese policies. Chinese analysts fretted about North Korea's regime stability and speculated on what would happen if China were to withdraw its substantial economic support. There was also a serious debate on whether China should abandon its 1961 treaty commitments to defend North Korea's security.<sup>11</sup>

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11. Scott Snyder and Joel Wit, "Chinese Views: Breaking the Stalemate on the Korean Peninsula," U.S. Institute of Peace Special Report, February 2007, <http://www.usip.org/files/resources/sr183.pdf>.

However, China's marginalization from the process in favor of U.S.-DPRK bilateral handling of substantive aspects of implementation prompted Chinese analysts to claim that China's policy had tilted too closely toward the United States and caused China to lose leverage (and relevance) with Pyongyang. Moreover, Sino-DPRK high-level consultations were reduced in frequency, as Pyongyang sought to distance itself from Beijing. As a result of the "normalization" of relations between Beijing and Pyongyang, China was losing momentum in its relations with Pyongyang and losing influence over the pace and progress of U.S.-DPRK relations. In the meantime, Vice Minister Kim Kye-gwan began to call openly for Washington to engage Pyongyang independently of coordination with Beijing. According to some Chinese strategists, by treating North Korea as "normal" and lowering the priority of good China-DPRK relations, China was losing influence to the United States over an issue that had a direct impact on China's strategic interests.

In a prescient critical review of China's policy toward North Korea published in March 2008, Shi Yinhong concludes that China's alignment with the United States and the U.S. diplomatic reengagement of North Korea at the end of the Bush administration led to "China's losing its central position as the indispensable mediator, negotiation organizer, and leading settlement-promoter." Shi Yinhong implies that China needed to strengthen relations with North Korea not only to shore up that country's stability but also to gain strategic leverage with Pyongyang as well as with the United States and South Korea.<sup>12</sup>

## Revitalizing Sino-DPRK Relations: 2009-Present

Following North Korea's 2009 nuclear test and the passage of an even harsher UN Security Council Resolution, number 1874, condemning North Korean actions, Chinese leaders again reviewed their policy toward North Korea. This time they concluded that Beijing had a vital strategic interest in the stability of North Korea. This decision also came as a result of increasing concerns about the implications of North Korean instability stemming from Kim Jong-il's August 2008 stroke and gradual recovery. The fear that North Korean instability could damage Chinese interests and the recognition that China had a strategic interest in perpetuating the status quo on the Korean Peninsula have resulted in a policy of comprehensive engagement, marked by stepped-up Chinese efforts to strengthen institutional engagement and deepen leadership ties with North Korea. As a result, China-DPRK leadership contacts more than doubled in 2009, to 21 senior-level exchanges compared with 10 such exchanges in 2006.

On the occasion of the 60th anniversary of the establishment of Sino-DPRK diplomatic ties, Premier Wen Jiabao led a cross-departmental delegation of cabinet, Party, and military representatives, signaling China's intention to deepen institutional relations with North Korea across the board. The result was a sharp uptick in the intensity, breadth, and depth of Chinese interactions with North Korea from 2009 through Kim Jong-il's death in December 2011. North Korea's Party Conference in September 2009—which signaled the reconfiguration of the North Korean Communist Party and leadership structure into a form more closely resembling China's—may have facilitated China's engagement across institutions.

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12. Shi Yinhong, "China and the North Korean Nuclear Issue: Competing Interests and Persistent Policy Dilemmas," *Korean Journal of Defense Analysis* 21, no. 1 (March 2009): 33–47.

From 2009 to 2011, Sino-DPRK ties intensified across the board, with high-level exchanges among counterparts from the Party, government, and military. One result of this policy change was the replacement of Liu Xiaoming as China's ambassador to North Korea with Vice Minister Liu Hongcai from the International Liaison Department of the Chinese Communist Party. He had been active in managing senior-level exchanges between the two countries for over a decade and was well known to North Koreans. Under Liu Hongcai's guidance, the Chinese Embassy in Pyongyang facilitated the deepening of Sino-DPRK relations.

This intensification of ties represents a doubling down of China's bet on its ability to perpetuate the North Korean regime, as well as its willingness to take on significantly greater investments in North Korean stability. It also may reflect a strategy based on the assumption that deeper institutional ties and increased interdependence between the two countries will also help restrain North Korean provocations. However, judging from China's response to North Korean actions in 2010, China has tempered its criticisms of North Korea and dampened criticisms of North Korea by the international community but has had mixed success in restraining North Korea from provocative behavior.

According to the international critique, China's efforts to restrain North Korea have inadvertently or intentionally taken the form of protecting North Korea and have in fact enabled even more daring North Korean provocations. The argument goes that China's unwillingness to hold North Korea accountable for the sinking of the *Cheonan*, for example, may have emboldened North Korea to shell South Korea's Yeonpyeong Island.<sup>13</sup> The fact that China blocked even a *discussion* of this clear-cut violation of a Security Council resolution may have further emboldened North Korea to violate previously passed Security Council resolutions in 2012.

Some Chinese policymakers, however, argue that they have seen some fruit from efforts to restrain North Korea's provocative behavior, both through actions to dampen inter-Korean tensions following the Yeonpyeong shelling in December 2010 and through current efforts to persuade North Korea not to conduct a third nuclear test. For instance, at the 2011 Shangri-la Policy Dialogue, Defense Minister Liang Guanglie stated that

what we have done in communications with North Korea is much more than you imagine, including the work of our representatives to the six-party talks, the Ministry of Foreign Affairs, and the leaders of our country. We have been advising North Korea, via different channels, not to take the risk.<sup>14</sup>

Since not all of these communications channels are fully transparent, it is hard to assess the effect of China's interventions or the extent to which China's interventions and protection may be working at cross-purposes to each other as influences on North Korea.

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13. The South Korean naval vessel *Cheonan* sank under mysterious circumstances on March 25, 2010. An ROK-led joint investigative team found evidence that led to the conclusion that the vessel was sunk by a North Korean torpedo.

14. "Question and Answer Session with General Liang Guanglie," Shangri-La Dialogue Fourth Plenary Session, June 5, 2011, <http://www.iiss.org/conferences/the-shangri-la-dialogue/shangri-la-dialogue-2011/speeches/fourth-plenary-session/qa/>.

## Sino-DPRK Relations in 2011

Although the frequency of Sino-DPRK institutional and high-level contacts may be at a turning point as a result of Kim Jong-il's death and the succession to Kim Jong-un, it is useful to examine the scope and depth of Sino-DPRK interaction in 2011 from a variety of perspectives: the role and level of access of the Chinese Embassy in Pyongyang, the development of provincial ties between China and North Korea, the state of the military-to-military relationship, and the expanding influence of Sino-DPRK economic ties as a possible vehicle for expanded military-to-military interaction.

### The Role and Influence of the Chinese Embassy in Pyongyang

Under Ambassador Liu Hongcai, the Chinese Embassy in Pyongyang had an extraordinarily active year in 2011, both as a facilitator of exchanges and as a support base for managing the comprehensive contacts between Chinese leaders and the full range of DPRK elites at the top ranks of leadership. Table A.1 provides a snapshot of the institutions and individuals with whom the ambassador himself has spent the most time, based on information taken from the embassy's website and other public reports of the ambassador's activities.

The most notable takeaway from the ambassador's public schedule, including the partial list of over 80 meetings included above, is that he is actively engaged not only with Foreign Ministry counterparts but also with the Ministry of Culture, the Ministry of Trade, the Supreme People's Assembly, and the State Planning Commission. This breadth of activity suggests a wide interaction across many institutions in a stove-piped system in which it is more common for a single bureaucratic organization to monopolize the time and attention of foreigners. China appears to have successfully followed up on a range of high-level exchanges, many of which were initiated by Wen Jiabao's visit to mark the 60th anniversary of Sino-DPRK ties in October 2009.

But even more significant than the ambassador's public schedule is the reach of the embassy into the top echelons of North Korea's elite leadership during visits by Chinese senior officials—including Vice Premier Li Keqiang, Minister of Public Security Meng Jianzhu, and Chinese Communist Party Organization Department head Liu Yuanchao, among others—as well as efforts by the embassy to follow up with Kim Jong-il to schedule various special occasions following his visits to China. Top North Korean leaders who have accompanied Kim Jong-il on visits to Chinese counterparts are shown in table A.2. The frequency of such visits between China and North Korea has provided the Chinese Embassy in Pyongyang with the opportunity to interact with Kim Jong-il and other senior members of the North Korean elite, including Kim Jong-un, on as many as eight occasions during 2011. The level and frequency of these interactions presumably reached a peak that year, at least in light of the more than 27 publicly listed senior-level exchanges.

Moreover, these events gave China opportunities to meet with most of the top members of the North Korean ruling hierarchy on multiple occasions. Jang Song-taek participated in at least seven public exchanges with China, Kang Sok-ju and Ri Yong-ho participated in at least six public events involving Kim Jong-il hosted by the embassy, and Kim Gyong-hui participated on at least three occasions.

**Table A.1. Exchanges between Liu Hongcai and DPRK Officials, December 2010–January 2012**

<b>Name</b>	<b>Title</b>	<b>Number of Meetings</b>
Kim Song-gi	Vice Minister of Foreign Ministry	10
Choe Yong-rim	Member of the Presidium of the Political Bureau of KWP Central Committee and Premier of the Cabinet	8
An Tong-chun	Minister of Culture; Chairman of the Organizing Committee of the 2011 Art Festival	6
Han Ch'o'l	Vice Minister of Culture	6
Kim Song-nam	Vice Director of International Affairs Department	6
Kim Yo'ng-il	Alternate Member of the Political Bureau; Secretary of the KWP	6
Ro Tu-chol	Vice Premier; Chairman of the State Planning Commission	6
Kim Yong-nam	President of the Supreme People's Assembly Presidium	5
Kang Sok-ju	Member of the Political Bureau of the KWP; Vice Premier of the Cabinet	4
Ku Pon-thae	Vice Minister of Foreign Trade	4
Ri Ryong-am	Minister of Foreign Trade	4
Cho'e Chung-hwa	Vice Minister of People's Security	3
Ji Jae-ryong	Ambassador to China	3
Ju Sang-song	Minister of People's Security; Member of the National Defense Commission	3
Kim Ki-nam	Vice Director of the KWP Central Committee's International Department	3
Ru Su-yong	Chairman of the Joint Venture; Investment Committee	3

Note: Only DPRK officials with whom Liu met three times or more are listed.

**Table A.2. Participation of DPRK Officials in Chinese Embassy Functions Involving Kim Jong-il, 2011**

<b>Name</b>	<b>Title</b>	<b>Number of Exchanges</b>
Kim Jong-un	Vice Chairman of the Central Military Commission of the KWP	8
Jang Song-taek	Chairman of the National Defense Commission	7
Kang Sok-ju	Vice President of the Cabinet	6
Ri Yong-ho	General Staff of the Korean People's Army	6
Kim Yong-il	Member of the KWP	5
Kim Yang-gon	Secretary of the Central Committee of the KWP	4
Choe Tae-bok	Secretary of the Central Committee of the KWP	3
Hyon Chol-hae	General of the Korean People's Army	3
Kim Jong-gak	Department Director of the Political Bureau of the Korean People's Army	3
Kim Ki-nam	Member of the KWP Central Committee Political Bureau and Secretary of the Central Committee of the KWP	3
Kim Kyong-hui	Department Director of the Party's Central Committee	3
Kim Won-hong	Member of the KWP Central Military Commission	3
Kim Yong-chun	Vice Chairman of the National Defense Commission and Minister of Armed Forces	3
Mun Kyong-dok	Alternate Member of the Political Bureau of KWP and Secretary of the Central Committee of the KWP	3
Thae Jong-su	Alternate Member of the Political Bureau of Worker's Party of Korea and Secretary of the Central Committee of the KWP	3
Choe Ryong-hae	Secretary of the Central Committee of the KWP	2
Ju Kyu-chang	Secretary of the Central Committee of the KWP	2
Kim Kye-gwan	First Vice Foreign Minister to China	2
Pak Jae-gyong	Vice Department Director of the Ministry of the People's Armed Forces	2
Pak To-chun	Member of the National Defense Commission	2
Ri Myong-su	Minister of People's Security	2
Ju Sang-song	Minister of People's Security	1
Kim Chang-sop	Secretary of the Central Committee of the KWP	1
Kim Kuk-tae	Member of the Political Bureau of the Central Committee	1
Kim Kyong-ok	Member of the KWP Central Military Commission and General of the Korean People's Army	1
Kim Phyong-hae	Secretary of the Central Committee of the KWP	1
Pak To-chu	Secretary of the Central Committee of the KWP	1
U Tong-chuk	Secretary of the Central Committee of the KWP	1

These frequent interactions should enable China to come to a close understanding of the strengths, weaknesses, and vulnerabilities of the regime and its most senior elites. This degree of intimacy provides China with significant advantages over other parties in analyzing in detail the prospects for succession and identifying the true power holders within the North Korean regime.

## The Flowering of Provincial Ties

A second relatively new feature of the Sino-DPRK relationship is the active exchange of Chinese and North Korean delegations dedicated to fostering provincial ties (see table A.3). These delegations appear to focus primarily on strengthening local economic relations. For instance, the decision by the central leaderships to pursue special economic zones at Hwanggumpyong Island and at Rajin Port has resulted in groundbreaking for new projects with both central and local oversight. These projects led to the establishment of Development Cooperation and Joint Steering Committees with both Liaoning and Jilin provincial counterparts, led by China's minister of commerce Chen Deming and KWP administrative director Jang Song-taek. In addition, both Liaoning and Jilin provinces have actively pursued enhanced economic ties through the exchange of delegations. For instance, the deputy secretary of the Liaoning Provincial Committee of the Chinese Communist Party, Chen Zhenggao, led a delegation to North Korea and met with DPRK premier Choe Yong-rim in June 2011.

North Korea held an international trade fair August 22–25, 2011, at Rason economic zone that included heavy participation by Chinese companies, and it was announced in December that Dandong would host a Sino-DPRK economic, trade, and cultural expo in June 2012. Various joint ventures, including the Hyesan-China Joint Venture Mineral Company, have promoted exchanges, including an opening ceremony in Ryanggang Province in September 2011 attended by Ambassador Liu Hongcai.

The strengthening of provincial ties appears to be directly connected with increasing local economic relationships, both by local Chinese private sector companies daring enough to seek business opportunities in North Korea and by state-owned enterprises that see opportunities to make profitable investments in strategic sectors in North Korea in such areas as natural resources. The overall trade numbers suggest that such relationships have intensified considerably, given the double-digit growth in Sino-DPRK trade in 2011 to \$5.6 billion, a level equivalent to North Korea's entire recorded trade in 2008.

**Table A.3. Local and Provincial Sino-DPRK Exchanges, 2011**

<b>Date</b>	<b>Event</b>
May 3–7	Kim Jong-il tours economic centers in Dalian, Tianjin, Beijing, and Shenyang during his trip to China for talks with Hu Jintao.
Mid-May	A DPRK Foreign Ministry delegation visits Shenyang, Dandong, and Fuzin for discussions on building a new bridge over the Yalu River.
May 19	Rajin Port chief meets the Hunchun mayor in Hunchun for talks on China's use of Rajin Port.
May 27	Liaoning Party official Wang Min holds economic cooperation talks with KWP official of South Pyongan Province Kim Pyong-hae, who accompanied Kim Jong-il to China in early May.
June 12–22	A KWP delegation led by Kim Chang Ryong, Minister of Land and Environment Protection, visits Beijing, Tianjin, Dalian, and Shenyang.
June 14–16	A Jilin delegation led by Vice Governor Chen Weigen meets Vice Premier Ri Thae-nam in Pyongyang.
Aug. 26–30	Kim Jong-il tours local enterprises in Jilin and Heilongjiang and holds talks with Hu Jintao in Changchun, Jilin.
Sept. 2	Jilin's Yanbian Korean Autonomous Prefecture and the Rajin-Sonbong Special City People's Committee sign an economic cooperation agreement at the sixth Northeast Asia Trade Expo held in Changchun.
Oct. 11	Zhou Yongkang, member of the CCP Political Bureau Standing Committee and Secretary of the CCP Central Commission of Political and Legal Affairs, CCP International Department head Wang Jiarui, Jilin Party secretary Sun Zhengcai, and Chinese Ambassador Liu Hongcai meets Kim Jong-il in Pyongyang.
Oct. 12–16	Kim's delegation includes Vice Premier Kang Sok-ju, Vice Chairman of the National Defense Commission Jang Song-taek, and Secretary of the KWP Secretariat Kim Yong-il.
Nov. 30–Dec. 4	Ri Yong-chol, first secretary of the DPRK Kim Il-sung Socialist Youth League, leads a youth delegation to Beijing and Changchun and Jilin.  Choe Tae-bok, Chairman of the DPRK Supreme People's Assembly, visits Beijing and Jilin.

## The State of Sino-DPRK Military-to-Military Ties

In addition to deeper ties between the Chinese Embassy and North Korean leadership and between Chinese and North Korean provinces, the two countries' military ties may also have been deepening. The military-to-military tie between China and North Korea is difficult to assess, in part because the publicly recorded database of high-level contacts between the two sides may not be complete. But it is clear from figure A.1 above that the military-to-military relationship is a long-standing and consistent component of the relationship. For instance, in the initial stages of China's efforts to facilitate dialogue with the United States including six-party talks, the military seems to have been a main channel. Cho Myung-rok's visit to Beijing in 2003 in advance of a special three-way U.S.-China-DPRK meeting appears to have been designed to facilitate top-level communications to pave the way for six-party talks. Similarly, a combined party-military delegation led by CCP Secretariat member and the director of the General Political Department of the People's Liberation Army, Xu Caihou, and the deputy head of the CCP Central Committee International, Liu Hongcai (the current Chinese ambassador to the DPRK), met with Kim Jong-il in Pyongyang before the first round of six-party talks. On the basis of these exchanges and in the context of North Korea's "military first" policies, it is hard to characterize these ties as exclusively military or to determine the relative significance of military issues as a component of leadership exchanges. Even while Kim Jong-il held the position of chairman of the National Defense Commission, Chinese counterparts appear to have felt more comfortable welcoming Kim wearing their Party hats than their military hats. Aside from top-level exchanges involving Kim Jong-il, senior Chinese delegations have regularly visited Pyongyang to commemorate China's entry into the Korean War.

The military-to-military relationship between China and North Korea remains the least transparent component of the relationship and the least accessible component to outside observers. The periodic exchanges reported publicly suggest that longstanding institutional ties have been maintained, but until 2009 it was hard to argue on the basis of publicly available evidence that they were actively cultivated. Interestingly, one component of Wen Jiabao's 60th anniversary trip, which signified a strengthening of Sino-DPRK military ties, was his visit to the Chinese martyrs' cemetery in North Korea. Reportedly, the North Koreans had not maintained this cemetery or the road to it, so that the decision to make it presentable and to make it a centerpiece of Wen's visit indicates an effort by both sides to deepen military-to-military ties.

Persistent questioning of Chinese interlocutors over the years yields precious little information beyond the observation that the historical legacy of the military relationship with North Korea likely means that significant personal ties between the two sides still remain but that their institutional relationship has deteriorated. China has shown general restraint in responding to North Korean official requests for advanced weaponry. The relatively backward technology and equipment of the North Korean military suggest that China could easily do more to assist North Korea even by providing surplus equipment or castoffs no longer needed by the Chinese military as a result of its own modernization. Lower levels of the military could easily manage this type of interaction, and such transactions would be unlikely to draw attention or censure from the international community.

## Possible Military Roles in Expanded Sino-DPRK Trade and Investment Relations

Advancing trade between the two countries is an indirect vehicle for possible expansion of military relationships. Over time, the China-DPRK economic relationship has become more driven by the desire of local and business interests to make a profit than one managed by central planners. As a result, the number of actors on the Chinese side has multiplied, shifting in the direction of local and private sector exchanges. According to Drew Thompson, former director of China Studies at the Center for the National Interest and now with the U.S. Department of Defense, on the basis of Chinese official statistics, only 4 of 138 Sino-DPRK joint ventures established between 1997 and 2010 are companies owned by the central government, and over 40 percent of such investments are in the extractive industries.<sup>15</sup> It is not clear whether some of these ventures may have their origins in prior personal relationships between Chinese and North Korean military counterparts.

However, no comprehensive database is available for assessing North Korean counterpart companies or their relationship to the military as opposed to other parts of the government in North Korea. North Korean companies require special authorization to engage in official trade and procurement in China and are usually connected with the Party, the cabinet, or the military. The North Korean state trading company system has reportedly played a growing role in the North Korean economy as a result of marketization since the 1990s, with the North Korean military as a primary beneficiary and one of the few institutions with the national logistical and organizational capabilities for conducting trading operations and for moving goods inside the country. This system provided a mechanism that Kim Jong-il could use to maintain overall authority over which institutions were allowed to do business in China; he aligned the opportunities associated with such trade closely with state interests, despite burgeoning opportunities for corruption of side businesses that were available for those entities that receive authorization to conduct external trade in China.<sup>16</sup> Permissions to engage in such trade were also arguably a means by which various parts of the bureaucracy were empowered based on their ability to benefit from increasing trade flows from China into North Korea.

This structure suggests that a disproportionate number of North Korean companies empowered to do business in China may be seeking military procurement, regardless of whether their Chinese counterparts are closely connected to the military, and that the web of these North Korean trading companies may be well equipped to pursue that purpose with both private Chinese companies and Chinese state-owned enterprises. The Panel of Experts report on the implementation of UN Security Council Resolution 1874 suggests that indeed North Korean procurement has been able to proceed through the use of false labeling, front companies, and other mechanisms that may well stem from the disproportionate presence of DPRK military-related trading companies.<sup>17</sup> After all, these are likely to be the areas of exchange with North Korea for which Chinese private sector businesses may find the North Koreans most able and willing to pay.

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15. Drew Thompson, "Silent Partners: Chinese Joint Ventures in North Korea," U.S.-Korea Institute at Johns Hopkins University Report, Washington, D.C., February 2011, <http://uskoreainstitute.org/research/special-reports/silent-partners-chinese-joint-ventures-in-north-korea/>.

16. John S. Park, "North Korea, Inc.: Gaining Insight into North Korean Regime Stability from Recent Commercial Activities," working paper, U.S. Institute of Peace, Washington, D.C., 2009, <http://www.usip.org/files/resources/North%20Korea,%20Inc.PDF>.

17. "Report of the Panel of Experts established pursuant to resolution 1874 (2009)," UN Security Council, 2011, <http://www.ncnk.org/resources/publications/UN-Panel-of-Experts-Report-May-2011.pdf>. UN Security Council Resolution 1874 authorized establishment of a Panel of Experts empowered to investigate

## The Post-Kim Jong-il Era: Factors Influencing Future Party, Military, and Security Ties

The near-term effect of Kim Jong-il's death on China-DPRK high-level exchanges has been an apparent loss of momentum in the institutional relationship between China and North Korea. The transition has resulted in an apparent (albeit possibly temporary) setback to Chinese efforts to constrain North Korea's provocative behavior, as evidenced by Pyongyang's decision to proceed with a satellite launch on April 12, 2012. Much remains to be learned about Chinese diplomatic efforts on this front before and after Kim Jong-il's death. A vice ministerial visit by Fu Ying in late February was accompanied by speculation that high-level Sino-DPRK ties had broken down, but the Party rather than the Foreign Ministry has been the primary conduit for these exchanges among leaders. This speculation is therefore overblown, especially during the mourning period following Kim Jong-il's death, but one factor likely to shape future ties is whether and how rapidly comprehensive Sino-DPRK engagement is likely to resume.<sup>18</sup>

The visit of CCP International Liaison Department head Wang Jiarui to Pyongyang in late July and his meeting with Kim Jong-un signaled a return to normality in Sino-DPRK relations. Kim Jong-un's close association with Ambassador Liu Hongcai (even to the point of enjoying rides together at Pyongyang's newly built amusement park) publicly signaled a seeming resumption of normal relations following Kim Jong-un's apparent consolidation of political power. In that consolidation, General Ri Yong-ho was removed from his positions following the elevation of close Jang Song-taek associate Choe Ryong-hae to vice marshal in April. Jang Song-taek's visit to China weeks later to discuss developments in Sino-DPRK special economic zones at Rason and Hwanggumpyeong and his courtesy calls on Hu Jintao and Wen Jiabao suggest both that North Korea's political consolidation is complete and that North Korea is showing greater interest in strengthening economic ties with China.

Aside from the pace and nature of the recovery of Sino-DPRK ties, the future of the relationship could be influenced by several additional factors. First, China's own leadership succession could have an influence on future relations. Although Xi Jinping has visited North Korea in his capacity as vice premier, he has not yet stated a clear position or policy toward North Korea. Most observers do not expect major changes in China's policy direction toward North Korea, but many factors could have an effect on future ties, including the composition of China's own leadership team, the relative weight China gives to North and South Korea in its overall diplomacy, and the quality and nature of Sino-DPRK consultations on issues affecting the Korean Peninsula.

Second, it is still early days in North Korea under Kim Jong-un, and it is hard to say how North Korea's policies toward China are likely to develop once power in North Korea is fully consolidated. Early indications are that North Korea continues to seek inward investment and thus that the direction of North Korean economic policy may be another influence on the development of relations with China. However, the North may also be uncomfortable with its overreliance on China and might seek to diversify its economic relations. This is one motive ascribed to DPRK president Kim Yong-nam's recent visit to Singapore and Indonesia in an apparent attempt to explore other sources of foreign direct investment.

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and report to the Security Council on cases involving North Korea's suspected noncompliance with the resolution.

18. "China-N. Korea Communication Breaks Down," *Chosun Ilbo*, March 30, 2012.

Third, the outcome of South Korea's presidential elections—and North Korea's response to a new, presumably more engagement-oriented policy by South Korea—is an indirect factor that will also influence the future of Sino-DPRK ties since it will have a direct impact on the diversification and degree of North Korea's dependency on China.

Fourth, North Korea has in the past sought to engage the United States in part to lessen its dependence on China. The outcome of renewed North Korean efforts to use the United States as an economic and strategic counterweight to China would have consequences for the future development of the Sino-DPRK relationship.

Finally, another factor that might influence the future of the Sino-DPRK relationship is reflected in the Chin's public reaction to a May 2012 incident involving the North Korean capture of Chinese fishing vessels and kidnapping of the crew. The volatility of the Chinese public backlash in response to the news raises the question of whether a sustained shift in Chinese public opinion toward North Korea might influence direction and development of the Sino-DPRK relationship.

## Implications for the United States and South Korea

The Sino-DPRK military and diplomatic relationship will likely continue to be viewed as an instrument through which China can attempt to restrain North Korean provocations. While the foregoing analysis suggests that China has searched for the instruments that could enable it to recover Cold War-style restraints against North Korea, it also suggests that successful mechanisms are likely to be elusive because China can no longer provide exclusive backing to North Korea, given its robust economic relationship with South Korea. And that relationship will in turn feed North Korean doubts about the reliability and sustainability of China's political and military commitments. But the relative success or failure of Chinese efforts may have an effect on the frequency and likelihood of North Korean provocations, which will require both U.S. and South Korean readiness and may lead the two countries to fashion a proportionate response to such provocations. In sum, the United States and South Korea may continue to request that China restrain North Korea, but they cannot depend on China to successfully restrain the North, based on its past failures.

As suggested above, the Sino-DPRK military and diplomatic ties may also serve as the main structural channel for expanding the economic relationship on which North Korea finds itself to be dependent for essential goods. The prospects and direction of North Korean economic policies seem to be closely associated with the development of the Sino-DPRK relationship, but China does not appear to have been able to leverage that relationship to induce reform while also using it as a primary instrument for promoting the stability of the North Korean system. China's objective of maintaining the stability of the North Korean system will continue to interfere with and upend its efforts to induce North Korean reforms, especially if China perceives developments inside North Korea that might lead to further instability. North Korea has the ability to manipulate the Chinese lifeline, which also ironically and inadvertently serves as a potential incentive for it to engage in further provocations.

South Korea will continue to view Chinese efforts to strengthen military and diplomatic relations with the North with suspicion, seeing them as a source of potential leverage that serves Chinese interests: that is, not to impose restraint on North Korea but as an instrument for maintaining the status quo and preventing Korean reunification. South Korea will view the North's increasing

reliance on China with a growing frustration that could serve as a pretext for the South to redouble its own economic engagement with the North to counter the North's dependency. Or South Koreans might begin to see China as closing the window of opportunity on Korean reunification that had appeared to open as a result of North Korea's economic unsustainability and its vulnerability to collapse. Some South Koreans might also use such a perception—in combination with renewed North Korean provocations—as justification for a disproportionate South Korean response—intended not only to “teach North Korea a lesson” but also to create conditions that might lead to Korean unification before Chinese influence on North Korea reaches its full strength.

Smaller groups of South Koreans could also argue that reunification might best be pursued through cooperation with China and that such cooperation can be attained only through a diminution of the role of the U.S.-South Korean alliance: that is, by delivering an assurance that indeed a reunified Korea will not be hostile to China. South Koreans will be pulled toward the U.S. alliance at the same time that they will raise expectations for strong U.S. diplomatic and military ties to keep open the window for Korean reunification. In this admittedly hypothetical scenario, the United States would face tough choices as it attempts to restrain its alliance partner while also providing South Korea with reassurances in the face of seeming U.S. incapacity to prevent China from strengthening its bonds with the North.

## Conclusion

China's efforts to strengthen its relations with North Korea over the course of the past decade have been driven primarily by its desire to promote stability on the Korean Peninsula. In so doing, China has sought instruments for imposing restraint on provocative North Korean actions. But despite North Korea's extraordinary dependency on China, the mistrust borne of China's betrayal of the North and its decision to establish diplomatic relations with South Korea in the early 1990s remains an obstacle to North Korea's cooperation with Chinese aims. China's efforts to “buy” North Korea's restraint through comprehensive engagement and economic integration are also likely to come at an exorbitant price, especially if they provoke a North Korean backlash against its high degree of dependence on China. An immediate test may be unfolding as North Korea pursues political consolidation under Kim Jong-un. One cannot help but think that a major issue for discussion and potential division inside Pyongyang must be the question of how North Korea should manage its dependence on China and the implications of that dependence for North Korean economic policies and for its policies toward South Korea and the United States. During North Korea's leadership transition, China's challenges in managing a successful Korea policy may become even more complicated as a result of its failure thus far to find effective tools for imposing restraints on the North.



## APPENDIX B ECONOMIC RELATIONS BETWEEN CHINA AND NORTH KOREA EVIDENCE FROM A FIRM-LEVEL SURVEY

Stephan Haggard and Marcus Noland

The logic of engagement has always stood on two legs. One is strategic: the idea that extending economic incentives might moderate the target state's behavior. The other is more wide-ranging: that economic inducements—whether in the form of trade, investment, or aid—can have a transformative effect on the economy, politics, and even foreign policy of the target state. This latter, transformative conception of engagement was clearly central to the foreign policy of Kim Dae-jung and Roh Moon-hyun, and it is a staple of the current Chinese approach to the country as well. Beijing has not hidden its preference that the leadership in Pyongyang pursue a more reformist route. The stated interest in expanding commercial transactions—and ongoing pique at the failure to provide a welcoming business environment—clearly reflects a wider strategy: to coax North Korea down a more market-oriented path.

It is worth considering the mechanisms through which such a shift is supposed to occur, given that the transformative effect of cross-border integration is by no means assured. We begin with a closed economy and therefore with a political leadership that pays little economic cost—except an ongoing opportunity cost—from bellicose foreign policy positions and a statist economic orientation. The initiating state permits or encourages expanded trade and investment relations with the target. These new economic relations create stakeholders in the target state who now risk losses from aggressive behavior and thus act as a political constraint on the foreign policy choices of the government.

Even if these ties do not affect the marginal costs of discrete foreign policy choices, they gradually shift the overall political balance—the ruling political coalition—in favor of reform. Unless this be thought far-fetched, consider the case of China, where a nominally Communist Party not only opened its economy but also subsequently moderated its foreign policy and even welcomed capitalists into its ranks. At a third, still deeper level, international ties have socializing and learning effects; individuals, firms, officials, and even high-ranking politicians come to reassess their strategies in light of the new information provided through increasing political and economic integration.

Yet the conditions for this benign circle to operate may be more restrictive than proponents of engagement suggest. An ample theoretical and empirical literature shows how sanctions create rents that leaders in the target country can exploit, thus offsetting their adverse effects on core constituencies.

However, it is wrong to believe that economic integration through engagement will necessarily take place in a way that improves the regulatory environment or dissolves rent-seeking opportunities. While governments intent on reform may provide opportunities for such engagement strategies, partial reforms and continued state control of cross-border exchanges provide opportunities

for rent seeking and corruption that are no different from those associated with the imposition of sanctions. Moreover, this partial reform path may constitute a political equilibrium.

A particularly important issue in this regard is whether the state- or military-controlled enterprises in the target nation effectively capture foreign transactions. Think, for example, of an engagement strategy with a country in which a monopoly is allowed to capture the rents from trade. Rather than inducing transformation, such a strategy would have the effect of empowering a strong, status-quo force with limited interest in further economic opening.

Moreover, in such a setting the credibility of dispute settlement mechanisms is likely to remain limited. Not only are trade and investment risky, but also little meaningful recourse in the case of disputes is likely. We document that this is in fact the case, although noting an interesting development in the preference of firms to adjudicate disputes with local—as opposed to provincial or national—officials.

To date, there has been little attempt to examine the nature of cross-border economic integration in countries that are the targets of engagement efforts—in North Korea’s case, cross-border economic integration with either South Korea before the election of Lee Myung-bak or with China. In this analysis, we report on an unprecedented survey of 250 Chinese enterprises that were doing business in North Korea at the time the survey was administered in 2007, drawing on papers that have provided more detailed analysis of the data.

On the one hand, Chinese firms are adopting contracts and trading mechanisms that are self-enforcing: that is, they do not require third-party government enforcement. On the other hand, we document that these strategies have costs, visible in the scale and nature of firm operations, in dissatisfaction with the business environment, in corruption, and in weak dispute settlement mechanisms. The political economy of cross-border exchange is clearly evolving, and we cannot rule out that it will ultimately feed into a process of economic reform. But as of this survey, the evidence did not augur well. Moreover, not much has happened since to suggest that the observed patterns have undergone fundamental change; to the contrary, as we have argued elsewhere in some detail, trends toward controls have become even more clear since the collapse of the six-party talks in 2008 and the extended process of succession that continues to this day.

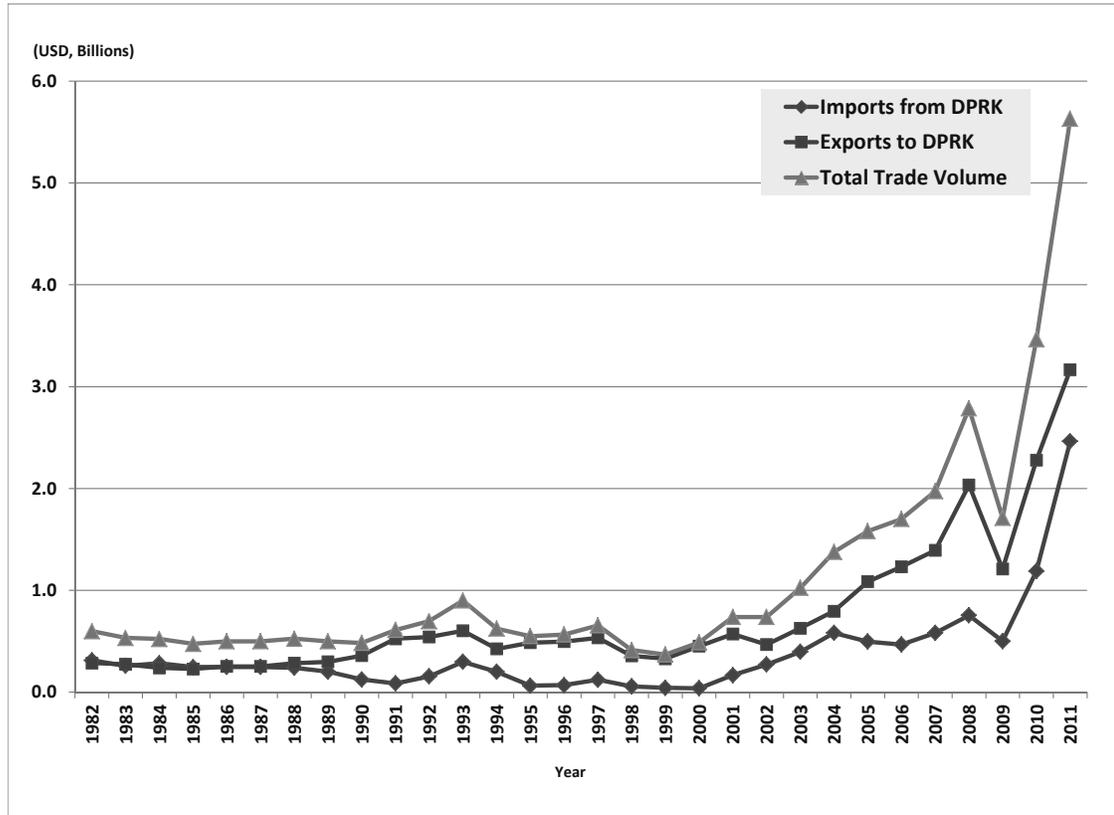
## **An Introduction to Bilateral Trade and Investment**

Before the collapse of the Soviet Union, trade between China and the Democratic People’s Republic of Korea (DPRK) was determined politically and was relatively small. The breakup of the Soviet Union, the dissolution of the Eastern bloc, and the apparent inability of the North Korean leadership to adjust to changing circumstances contributed to an implosion of North Korea’s economy and the great famine of the mid-1990s. The inability of the state to provide food under the existing Socialist compact forced small-scale social units—households, work teams, local government, party offices, and even military units—to engage in entrepreneurial behavior to secure food.

One aspect of this coping behavior was the development of decentralized cross-border barter trade for food between China and North Korea. This barter was eventually monetized and spread to a much broader array of both goods and actors. This “marketization from below” led to a dramatic expansion in bilateral trade, undeterred by the onset of the nuclear crisis.

Indeed, as figure B.1 shows, bilateral trade has even accelerated in recent years exactly as tensions among North Korea, the United States, and South Korea have been at near-peak levels.

Figure B.1. China–North Korea Trade, 1982–2011

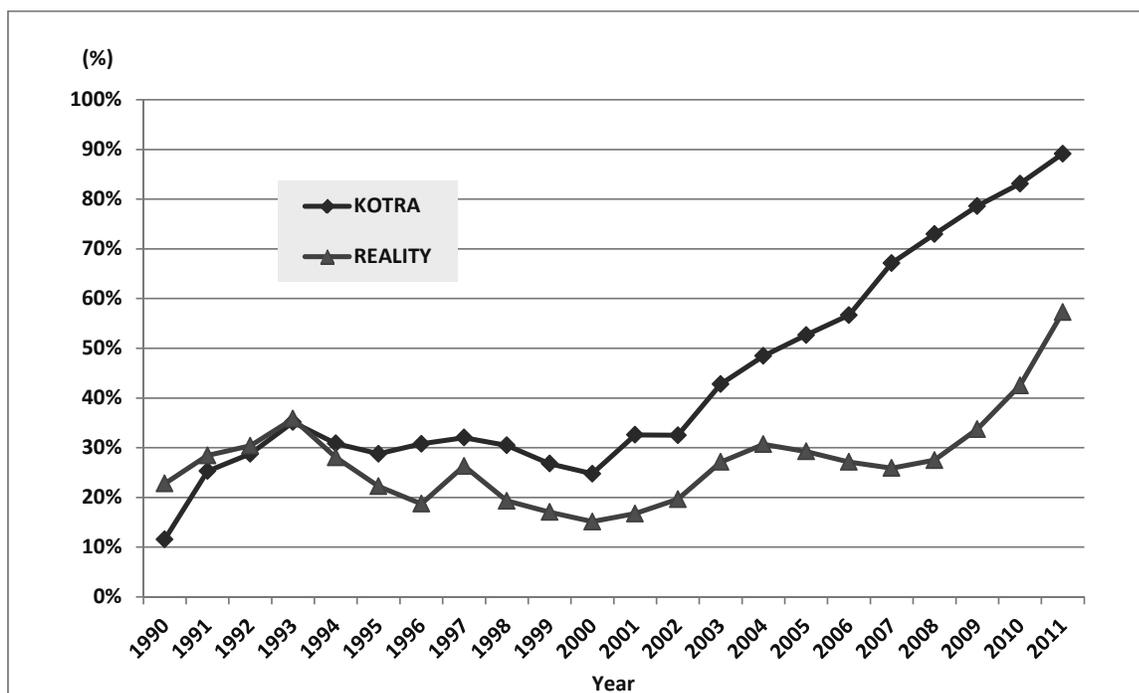


Source: UN Comtrade, Ministry of Commerce of the People's Republic of China.

Yet while this expansion of trade is real, its significance is sometimes exaggerated in policy debates. The government of North Korea regards economic statistics as state secrets. In principle, however, we can at least get a sense of the country's external relations by examining the "mirror statistics" of the country's trade partners: that means calculating what North Korea exports, for example, by adding up what other countries say that they import from the country.

Even such an apparently simple exercise, however, is fraught. Nearly every year, the statistical agency of some country around the world gets North and South Korea confused and reports an amazing spike in trade with North Korea, consisting significantly of imports of North Korean cell phones and automobiles. The most widely cited source on North Korean trade is a South Korean public agency, KOTRA, which carefully screens the mirror data for such obvious anomalies. But KOTRA adopts a number of other conventions that distort the overall trade picture. In calculating North Korean trade, it excludes the country's trade with South Korea (on the constitutional grounds that inter-Korean trade is within the nation) and oddly ignores trade with many Middle Eastern countries that do in fact report trade with North Korea to the United Nations statistical agencies. As a result, the prominence of the trade partners that KOTRA does count is greatly exaggerated. The *New York Times* and *Washington Post*, for example, have both reported that China accounts for 80 percent of North Korea's trade. The actual figure, once North-South and other missing entries are accounted for, is roughly half as much (figure B.2): it is still a large number, but does not hold the overwhelming dominance often claimed in public discussion.

Figure B.2. China's Share of North Korean Trade, 1990–2011



Source: Kotra, IMF DOTS.

This growing cross-border integration takes place in a setting characterized by weak policy and the absence of conventional property rights, protections, and formal dispute adjudication mechanisms, in short, all of the institutions deemed necessary for efficient exchange. How were such trade and investment sustained?

Before turning to that question, we describe the sample. All the firms in the survey operated in the Chinese provinces of Jilin and Liaoning, although they were not necessarily headquartered there. (Details of the survey implementation are provided in the annex.) Two hundred and fifty of the firms (82 percent) were engaged in trade or investment with North Korea at the time of the survey. As there are no public business registries listing firms engaged in business with North Korea, the firms necessarily constitute a sample of convenience, culled from a variety of sources. However, extensive interviews suggest that the sample is broadly representative of the cross-border business. We also surveyed a control group of 50 firms that had left North Korea or had never done business there, but we focus here on characteristics of the sample that is doing business with the DPRK.

These firms were engaged in importing, exporting, investment, and the permutations and combinations of these three activities (figure B.3). Nonetheless, pure exporters make up the largest group. Most are relatively small private enterprises (figure B.4), and most have initiated cross-border exchange with North Korea since 2000, when political relations between the two countries began to thaw after a period of some tension (figure B.5). However there is a distinct minority of a dozen large state-owned enterprises (SOEs), some of which have been doing business with North Korea for more than a quarter-century. Among the newer entrants in this category are firms involved in large-scale extractive industries, such as mining, that have received press in recent years.

Figure B.3. Composition of 250 Enterprises Doing Business with North Korea, 2007

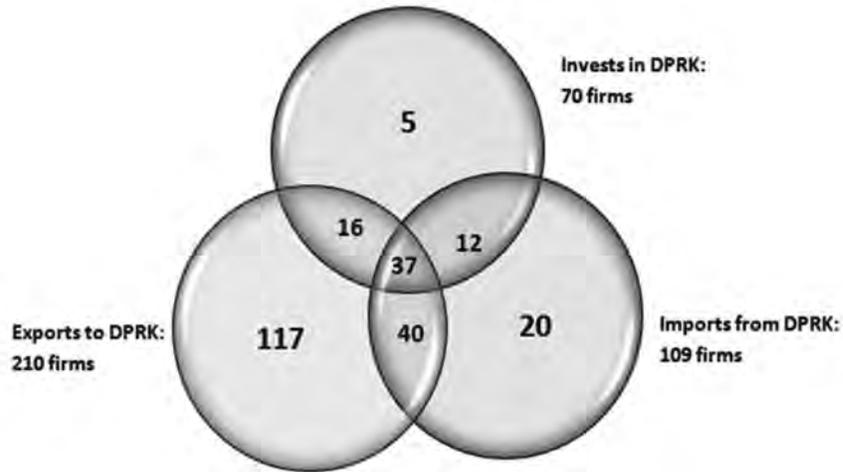
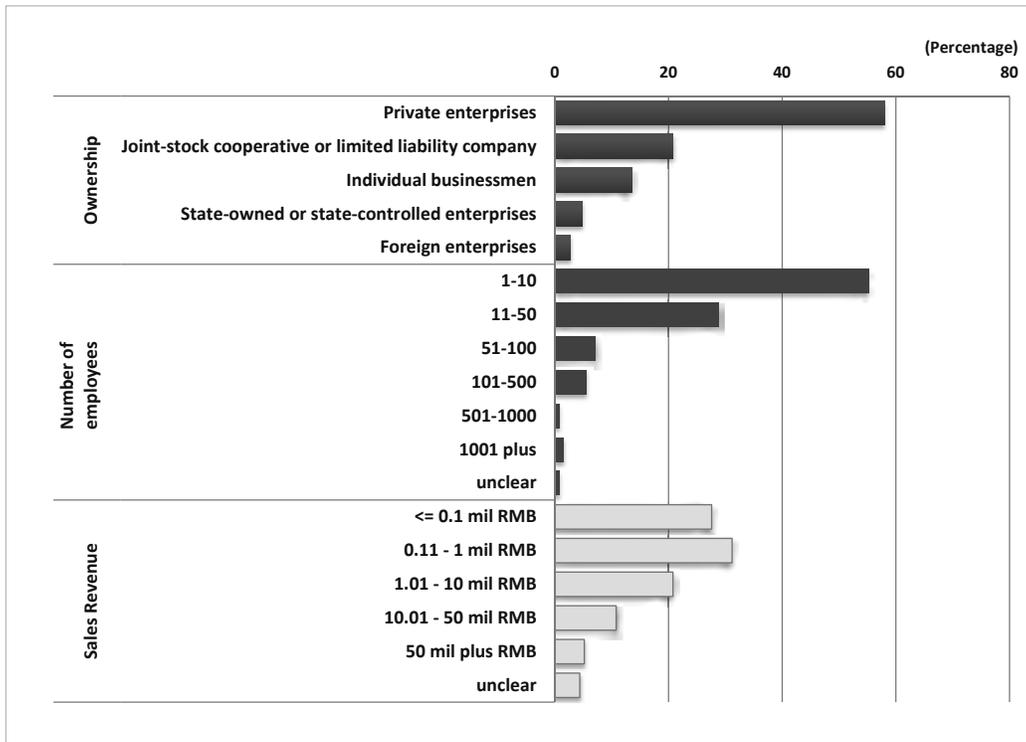
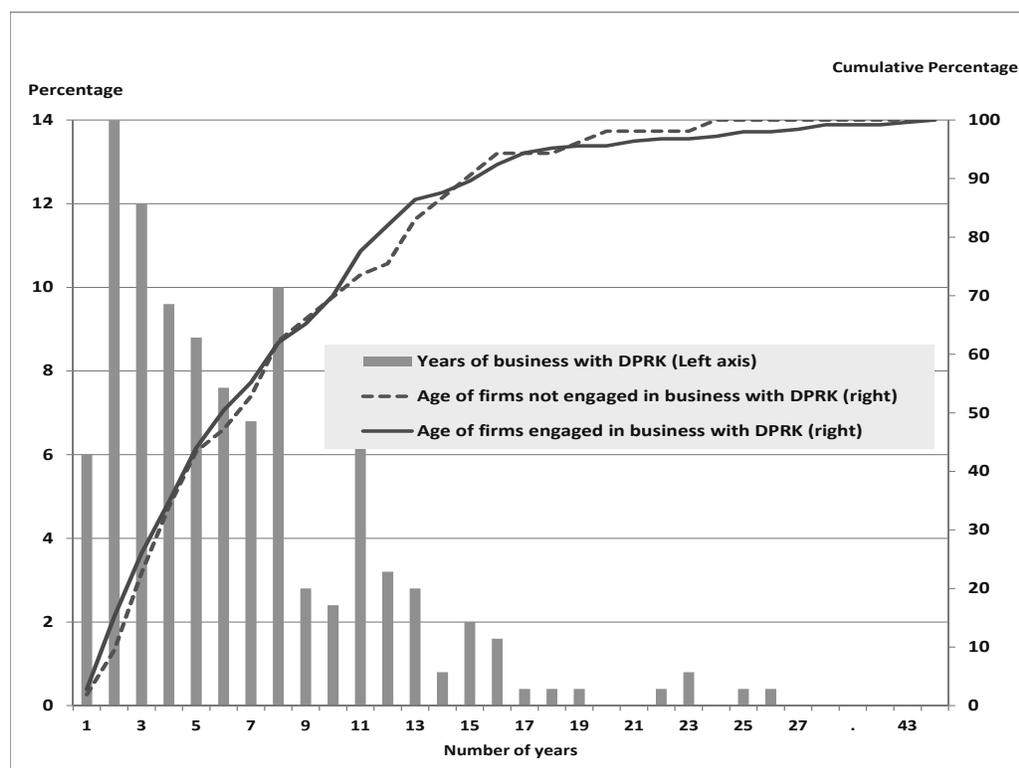


Figure B.4. Firm Characteristics of Those Engaged in Business with the DPRK



Source: Kotra, IMF DOTS.

Figure B.5. Age of Firms and Length of Business Conducted with the DPRK



Source: Author's calculations.

With respect to ownership, 58 percent of the firms in the survey that were doing business in North Korea were private enterprises, and another 14 percent were sole proprietorships; only 3 percent were foreign. Interestingly, there were not many SOEs in the sample doing business in North Korea—about 5 percent—although joint stock companies accounted for about 21 percent of the sample; such firms often have government participation.

Fully 54 percent of the firms doing business in the DPRK report that they are involved principally in trading; another 5 percent identify themselves as diversified groups that have trading operations. Among the other activities represented are construction (16 percent), services (10 percent), and agriculture (6 percent). The traders were asked about the most important product that they exchanged with their largest customer or supplier. The findings comport broadly with what we know about bilateral trade at the time of the survey from aggregate trade data and thus bolster our confidence that the sample is at least broadly representative. For exporters, the major products included construction materials (including upholstery, 13 percent), apparel and clothing (11 percent), grain and edible oils (10 percent), and chemicals and electrical equipment (8 percent each).

On the import side, the product mix is much more concentrated, with aquatic products accounting for nearly 30 percent, metal and metal products accounting for 27 percent, and wood and wood products accounting for 18 percent; indeed, these three product categories together account for almost 75 percent of the top imports from the dominant supplier.

Among investors, the most frequently cited motivations are to expand business in the domestic market (29 percent), to sell there (21 percent), or to exploit natural resources (27 percent). Only

23 percent are locating in North Korea as an export platform, either back to China (13 percent) or to third markets (10 percent). In this respect, Chinese firms are distinct from South Korean firms, which use North Korea primarily as an export platform.

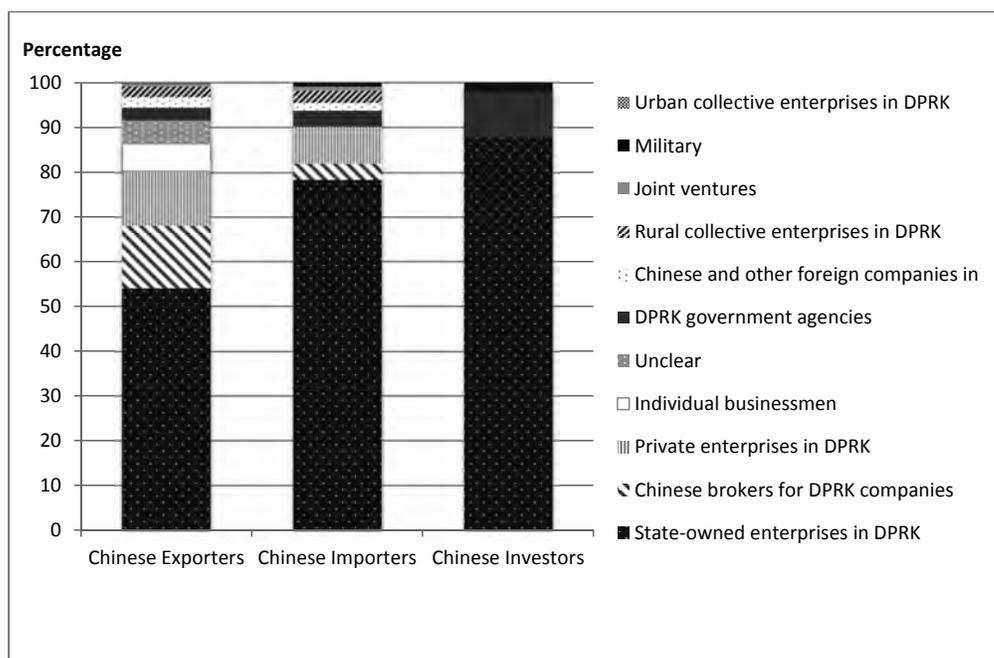
We interpret these results to reflect in part weak infrastructure but also prevailing policies and incentives that limit opportunities for export-oriented investment; the scope for the expansion of processing-on-commission trade, including through export-processing zones, is great but to date remains relatively untapped.

The vast majority of the enterprises in the sample doing business in North Korea are Chinese (98 percent). Forty percent of the respondents report that their chief executive officer can speak Korean, reflecting the fact that a number of these firms are headquartered in the northeast with its relatively large Korean-Chinese population.

While our understanding of the Chinese participants is relatively complete, our understanding of their North Korean counterparts is much weaker. Figure B.6 reports the Chinese firms' responses to a question about the legal status of their primary North Korean counterparty, broken down by importers, exporters, and investors. In all three cases, the majority of respondents report that SOEs are their main counterparties, although this may well encompass entities of very different sorts.

Nonetheless, interesting differences emerge. Pure exporters report a wider array of North Korean counterparties, including Chinese brokers, private firms, and individual entrepreneurs. These actors have played an important role in creating markets in North Korea for imported consumer goods and even intermediates. Importers, and particularly investors, report a much greater dependence on official entities: SOEs, government bureaus, and the military.

**Figure B.6. Ownership of North Korean Counterparties**



Source: Author's calculations.

## Subjective Assessments of the North Korean Business Environment

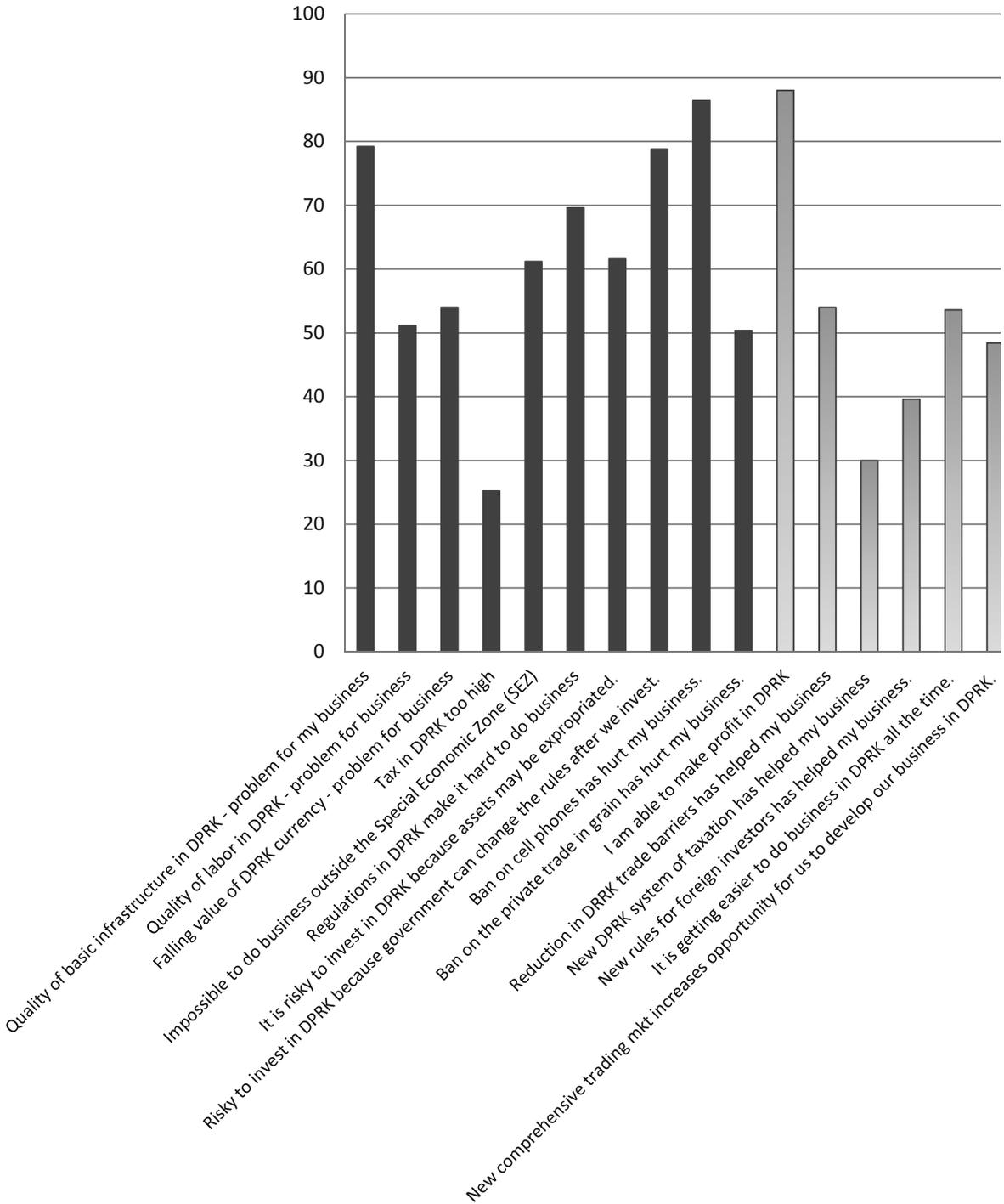
The Chinese firms surveyed generally have a negative assessment of the business environment in North Korea. Almost 88 percent report that they are able to make a profit, which is not surprising; firms select into the sample by surviving North Korea's difficult operating environment. But is this success a political artifact of Chinese government support for trade and investment with the DPRK? In fact, few businesses (and none of the SOEs, surprisingly) report any support from the Chinese government for their activities. Seven percent of the respondents indicated that they received special tariff reductions or exemptions, presumably under Chinese provisions for preferences for local firms engaged in small magnitude "border trade." A handful of firms reports receiving trade insurance, investment guarantees, or preferential finance. But government support, narrowly construed, does not appear to play a significant role in enabling exchange. Put differently, the Chinese policy of promoting commercial—as opposed to subsidized or aid relations—appears in the firm-level data.

Respondents do see some positives in the operating environment. Among the firms doing business in the country, a slight majority believed that it was getting easier to do business in North Korea, which might have reflected the fact that the survey was conducted during a hopeful moment in the course of the six-party talks. About 50 percent cited the reduction in trade barriers and the emergence of general markets as positive features in the operating environment.

However, we also asked the firms doing business in North Korea a series of 10 questions about the factors that impede their activity (figure B.7). Most firms report problems with infrastructure; large majorities identify the ban on cell phones (86 percent) and inadequate infrastructure (79 percent) as constraints. However, regulation is also a major hindrance, with 79 percent citing changing regulations, 70 percent citing the nature of regulations, and just over 60 percent reporting that it is impossible to do business outside the special economic zones and that there is risk of expropriation.

An interesting finding emerges from some simple econometric tests on the determinants of responses to questions about the operating environment. The trading firms doing business in North Korea were more likely than other firms to agree (at the 5 percent level) with the statement that it is too risky to invest because of potential expropriation. This finding suggests that the overall investment climate—and even the fear of outright expropriation of assets—serves as a deterrent to longer-run investment relations.

**Figure B.7. How Those Doing Business in the DPRK Perceive the Business Environment**



Source: Author's calculations.

## Corruption

In the most recent Transparency International survey, North Korea placed dead last, tied with Somalia in 182nd place. Our survey provides evidence of the business environment in North Korea that goes beyond subjective assessments to the extent and magnitude of corruption, the weakness of dispute resolution, and the effects of the environment on the terms of financial settlement.

The findings on corruption are consistent with evidence from refugee surveys, including testimonies of former state and Party officials, of high—and possibly rising—corruption in North Korea.

A majority of the firms in our survey report a need to bribe to do business (55 percent). Investors are much more likely to report a need to bribe (73 percent) than traders (54 percent) or those engaged in exporting only (44 percent). These differences between investors, traders, and exporters are significant at the 1 percent level. We also asked about actual bribe costs, and the differences between investors and traders are once again clear. Nineteen percent of the firms report spending more than 10 percent of revenues on bribes, a pretty hefty tax. But more than half of investors (53 percent) report spending more than 10 percent of annual revenues on bribes. These differences presumably reflect the greater complexity of entering as an investor, the more extensive contact with local officials, and the greater risk of expropriation.

What strategies do these firms employ to deal with these challenges? Table B.1 reports regressions on the question in the survey about whether regulations make it hard to conduct business in North Korea; 70 percent of the surveyed enterprises agreed or strongly agreed with this statement. The results are reported in two forms. In specifications 1.1 and 1.2, the dependent variable is a binary variable taking the value 1 if the respondent agreed or strongly agreed with the statement that regulations were a problem. In specifications 1.3 and 1.4, the values of the dependent variable run from 1 (totally disagree) to 4 (totally agree), and the regressions are estimated using an ordered-probit estimator. In both cases, a positive coefficient is associated with greater sensitivity to regulatory obstacles.

Many of the results with respect to firm characteristics are subtle and possibly not robust. But we find that small private firms appear particularly sensitive (models 1.2, 1.4); medium-sized firms (measured by sales) appear advantaged relative to small firms (models 1.1, 1.3); and SOEs appear relatively untroubled (model 1.1). These findings seem plausible to us, with size and state-ownership giving Chinese firms greater ability to navigate a highly uncertain business environment. Examining the determinants of responses to a question about whether fears of expropriation make it too risky to invest (table B.2) allow another cut at this issue. We again obtain the result that small or small private firms are more likely to agree, fearing predation. Some evidence indicates that firms that expect to need to engage in bribery are uniquely concerned about expropriation, suggesting a political dynamic in which officials effectively threaten those who fail to “cooperate.”

**Table B.1. Regulations in the DPRK That Make It Hard to Do Business**

	Binary		Categorical	
	1 = yes; 0 = no		1 = totally disagree; 4 = totally agree	
	(1.1)	(1.2)	(1.3)	(1.4)
Ownership of firm: private	-5.743 (0.000)	-6.263*** (0.547)	-0.908* (0.504)	-1.222** (0.532)
Ownership of firm: state-owned enterprise	-5.519*** (0.520)	-5.547 (0.000)	-0.106 (0.651)	-0.099 (0.638)
Funding source: relatives and friends	-0.852** (0.429)	-0.878** (0.429)	-0.906*** (0.328)	-0.919*** (0.328)
Funding source: no external fund	-0.389 (0.253)	-0.404 (0.254)	-0.566*** (0.186)	-0.569*** (0.186)
Small private firm: <=10 million RMB in sales value		0.701** (0.299)		0.439* (0.238)
Sales value: 10–50 million RMB	-0.782** (0.318)		-0.501** (0.252)	
Sales value: 50 million RMB plus	-0.267 (0.523)		-0.133 (0.400)	
Dispute settlement: DPRK political sources	0.061 (0.284)	0.041 (0.281)	-0.190 (0.205)	-0.193 (0.204)
Dispute settlement: DPRK court	-0.913** (0.404)	-0.884** (0.400)	-0.362 (0.303)	-0.347 (0.303)
Dispute settlement: Chinese government and court	0.849*** (0.291)	0.867*** (0.291)	0.603*** (0.193)	0.610*** (0.193)
Dispute settlement: Chinese companies	-0.180 (0.285)	-0.194 (0.283)	-0.165 (0.212)	-0.173 (0.211)
Observation	214	214	214	214
Log likelihood	-98.77	-99.06	-241.3	-241.6
Chi-squared	25.20	24.62	29.36	28.79
Pseudo R-squared	0.113	0.111	0.0573	0.0562

Note: Standard errors in parentheses.

\* p < 0.1; \*\* p < 0.05; \*\*\* p < 0.01.

**Table B.2. It Is Risky to Invest in the DPRK Because Assets May Be Expropriated**

	Binary		Categorical	
	1 = yes; 0 = no		1 = totally disagree; 4 = totally agree	
	(1.1)	(1.2)	(1.3)	(1.4)
Ownership of firm: private	-5.743 (0.000)	-6.263*** (0.547)	-0.908* (0.504)	-1.222** (0.532)
Ownership of firm: state-owned enterprise	-5.519*** (0.520)	-5.547 (0.000)	-0.106 (0.651)	-0.099 (0.638)
Funding source: relatives and friends	-0.852** (0.429)	-0.878** (0.429)	-0.906*** (0.328)	-0.919*** (0.328)
Funding source: no external fund	-0.389 (0.253)	-0.404 (0.254)	-0.566*** (0.186)	-0.569*** (0.186)
Small private firm: <=10 million RMB in sales value		0.701** (0.299)		0.439* (0.238)
Sales value: 10–50 million RMB	-0.782** (0.318)		-0.501** (0.252)	
Sales value: 50 million RMB plus	-0.267 (0.523)		-0.133 (0.400)	
Dispute settlement: DPRK political sources	0.061 (0.284)	0.041 (0.281)	-0.190 (0.205)	-0.193 (0.204)
Dispute settlement: DPRK court	-0.913** (0.404)	-0.884** (0.400)	-0.362 (0.303)	-0.347 (0.303)
Dispute settlement: Chinese government and court	0.849*** (0.291)	0.867*** (0.291)	0.603*** (0.193)	0.610*** (0.193)
Dispute settlement: Chinese companies	-0.180 (0.285)	-0.194 (0.283)	-0.165 (0.212)	-0.173 (0.211)
Observation	214	214	214	214
Log likelihood	-98.77	-99.06	-241.3	-241.6
Chi-squared	25.20	24.62	29.36	28.79
Pseudo R-squared	0.113	0.111	0.0573	0.0562

Note: Standard errors in parentheses.

\* p < 0.1; \*\* p < 0.05; \*\*\* p < 0.01.

**Table B.3. You Need to Bribe to Do Business with the DPRK**

	Binary (1=yes 0=no)		Categorical (1=totally disagree - 4=totally agree)		Binary (1=yes 0=no)		Categorical (1=totally disagree - 4=totally agree)	
	(3.1)	(3.2)	(3.3)	(3.4)	(3.5)	(3.6)	(3.7)	(3.8)
Investing in DPRK					0.380 (0.243)	0.413* (0.240)	0.395** (0.194)	0.446** (0.192)
Number of employees: 11-100	0.339* (0.203)		0.373** (0.165)		0.254 (0.210)		0.289* (0.170)	
Number of employees: 101 plus	0.305 (0.391)		0.570* (0.314)		0.184 (0.400)		0.446 (0.319)	
Small private firms: 1 to 10 employees		-0.245 (0.197)		-0.283* (0.161)		-0.161 (0.203)		-0.199 (0.166)
Sector: Construction	-0.610* (0.358)	-0.620* (0.356)	-0.277 (0.286)	-0.313 (0.285)	-0.526 (0.365)	-0.525 (0.363)	-0.191 (0.289)	-0.211 (0.289)
Sector: Services	-0.538 (0.370)	-0.561 (0.368)	-0.397 (0.291)	-0.440 (0.292)	-0.519 (0.372)	-0.534 (0.371)	-0.371 (0.292)	-0.406 (0.293)
Sector: Trade	-0.506* (0.278)	-0.518* (0.271)	-0.454** (0.209)	-0.503** (0.204)	-0.488* (0.280)	-0.490* (0.273)	-0.428** (0.209)	-0.465** (0.205)
Dispute settlement: DPRK political sources	0.406 (0.251)	0.423* (0.249)	0.232 (0.198)	0.269 (0.196)	0.316 (0.259)	0.320 (0.257)	0.134 (0.204)	0.151 (0.203)
Dispute settlement: DPRK court	-0.262 (0.365)	-0.291 (0.362)	0.282 (0.303)	0.258 (0.303)	-0.293 (0.371)	-0.317 (0.368)	0.252 (0.305)	0.232 (0.304)

Table B.3. You Need to Bribe to Do Business with the DPRK (continued)

Dispute settlement: Chinese government and court	-0.138 (0.220)	-0.141 (0.220)	-0.222 (0.181)	-0.230 (0.181)	-0.140 (0.221)	-0.140 (0.221)	-0.140 (0.221)	-0.216 (0.182)	-0.221 (0.181)
Dispute settlement: Other Chinese companies	-0.449* (0.252)	-0.448* (0.251)	-0.366* (0.209)	-0.370* (0.209)	-0.378 (0.256)	-0.370 (0.255)	-0.290 (0.213)	-0.284 (0.212)	
Observation	201	201	205	205	201	201	205	205	205
Log likelihood	-123.2	-123.9	-257.0	-258.8	-122.0	-122.4	-254.9	-256.1	
Chi-squared	19.08	17.71	24.29	20.73	21.55	20.71	28.42	26.16	
Pseudo R-squared	0.0719	0.0667	0.0451	0.0385	0.0812	0.0780	0.0528	0.0486	

Standard errors in parentheses.

\* p < 0.1; \*\* p < 0.05; \*\*\* p < 0.01.

However, regressions on the propensity to bribe reported in table B.3 shed somewhat different light on these findings. Again, they are reported as both simple and polychotomous ordered probits. We find that firms engaged in trading, which involves the least exposure to North Korea and indeed can be conducted within China, feel less compulsion to bribe. While smaller firms have more adverse views of the business environment and are more likely to fear expropriation, larger firms perceive a greater need to bribe: note the statistical significance of three of the four employment dummy variables in specifications 3.1 and 3.3 and the statistically significant negative coefficient on the small private firm status in model 3.2.

According to one interpretation of this result, the North Korean state is predatory, and larger firms make more attractive targets and thus face stronger pressure to give bribes. Once an operation reaches a certain size, North Korean officials begin to prey upon it. But it also suggests that the size of operations could well be endogenous to predation; the small size of firms doing business with North Korea, as well as the nature of their operations, is a result of the constraints placed on firm growth by the prospects of bribery and fears of outright expropriation.<sup>1</sup>

## Dispute Resolution

A critical feature of the institutional environment is the capacity of investors and traders to resolve disputes. Disputes appear to be fairly common. Twenty-one percent of the relationships that involved a primary supplier, customer, or partner had generated disputes. The pattern of disputes was fairly uniform across types of business relationships: exporters (19 percent), importers (24 percent), and investors (23 percent). But if we compare investors with those who export only, we once again see evidence of the strong incentives to avoid more complex relationships such as those related to investment. Fully 41 percent of investors report disputes, while only 4 percent of exporters do. Weak dispute settlement appears to push firms back to less risky, “cash-and-carry” transactions.

More than one-quarter of exporters indicated that there were no third parties from which they could seek help.<sup>2</sup> To the extent that they believed there was recourse, it was entirely on the Chinese side of the border: 21 percent indicated that they would seek help from Chinese government officials, 19 percent would look to other Chinese companies or business associations, and 17 percent would use the Chinese court system.<sup>3</sup> Although the number of disputes reported on the part of pure exporters was small (only 5 of 113 pure exporters), their pessimism was warranted; none of the five reported that they were satisfied with the process of dispute resolution.

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1. Specification searches suggested that firms engaged in services and construction are unusually prone to bribery, although the evidence presented in table B.3 is not compelling on that point. This could possibly relate to the greater propensity for enterprises in these business lines to require a local presence to conduct operations.

2. North Korea has sent a number of officials abroad for formal arbitration training. However, to our knowledge no one has systematically investigated how successfully this mechanism has been used.

3. Multiple responses for dispute resolution modalities were permitted. If the modality figures are calculated as a share of total responses (not number of enterprises), the exports results are Chinese government officials (13 percent), other Chinese firms or business association (12 percent), and Chinese courts (11 percent). For imports, the results are private negotiation (23 percent), North Korean local officials (12 percent), and Chinese officials (9 percent). For investors, the results were private negotiation (21 percent), local North Korean officials (18 percent), and Chinese officials (13 percent). In no case did the North Korean court system's share of responses reach 10 percent.

For the investors, more than one-third would try to settle matters privately (35 percent), 31 percent would appeal to North Korean local officials, and 22 percent would appeal to Chinese officials, presumably reflecting the far greater importance of North Korean officials in settling investment disputes that involve the foreign investor's physical presence in North Korea. It is also notable that the share reporting that they would appeal to local officials (31 percent) exceeded that of provincial officials (16 percent) and central government officials (12 percent).

This pattern is potentially a very important one. The process of “marketization from below” is partly an economic one; households and work units engage in market-oriented activity to survive. But marketization from below may also have political correlates. As local officials seek to attract trade and investment, firms may see local officials as more responsive,<sup>4</sup> particularly as the central government remains infatuated with the imposition of controls.

Whatever the investors thought *ex ante*, their disaffection after the fact is high; 77 percent report that they were not satisfied with the way their dispute was settled (and recall that the share of investors reporting disputes was also much higher than firms involved in export only). When asked about how they would settle disputes in the future, respondents suggest that local and provincial officials may be more willing to protect property rights than their higher ups.

The ineffectiveness of dispute settlement mechanisms can be seen in the following surprising finding: enterprises that believe that they can appeal to either Chinese or North Korean official institutions to manage disputes show no less likelihood to believe in the necessity of bribery to conduct business. The one apparently robust result is that those firms that believe they have recourse to informal Chinese third-party dispute settlement are less likely to report a need to bribe to conduct business. One interpretation is that if a firm is embedded in an informal network, the association or network may deter predation. Such networks may act like a reputational mechanism that raises the costs to North Korean officials of extorting individual firms and may ultimately provide a path toward a more regularized business environment.<sup>5</sup>

## Transaction Currency

An interesting feature of the foreign sector is the dominance of transactions in foreign currency, a development that has probably spread to the wholesale sector of the domestic economy as well. None of the traders report doing any business in North Korean won. While this choice might reflect simple exchange rate risks, a long history of currency revaluations—culminating in the conversion of November 2009—suggests that the risk is also political. Most Chinese exporters to North Korea use Chinese yuan as the settlement currency (55 percent), possibly reflecting the preference of small traders to be paid in local currency, followed by U.S. dollars (34 percent), and barter (8 percent). Imports, by contrast, are settled primarily in U.S. dollars (52 percent), followed by Chinese yuan (29 percent), and barter (15 percent). In any case, the pervasiveness of using foreign exchange, rooted in the economic and political risk of dealing in the local currency, casts

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4. As discussed in the concluding section, during 2011–2012 the North Korean government tried to reverse this trend, specifically centralizing the foreign investment approval process.

5. An alternative way of looking at these is that the results on dispute settlement (and the suggestive though statistically insignificant results for service and construction firms) are simply proxies for investment. When status as an investor is added to the specification, the statistical significance of dispute settlement and sectoral activity variables indeed disappears (3.5–3.8). The result that size is correlated with the propensity to bribe holds up, however.

doubt on the ability of the government to sustain controls on its circulation. Reports of a ban on the circulation of foreign exchange in early 2012 were quickly followed by reports noting that foreign exchange continued to play a central role in the informal economy and that enforcement efforts had waned.

## Conclusion

This study has used an unprecedented survey of Chinese businesses operating in North Korea to explore the prospects that cross-border exchange would have the transformative effects associated with the engagement model. The findings provide a mixed picture at best. Firms engaging in cross-border trade are largely private and do not appear to have substantial support from the Chinese government, if any; these firms are therefore more likely to operate on commercial terms and exit if unprofitable (as some in the survey control group in fact did).

On the export side of the ledger, Chinese traders do interact with a wider array of North Korean counterparties, including private firms. But most transactions that generate foreign exchange for the regime—namely, North Korean exporters and joint ventures with Chinese firms—are dominated by state entities. It is possible that these firms are engaging in market-like behavior beyond the purview of the state, including through rent-seeking activities. But at least as measured by the ownership of North Korean counterparts, the cross-border trade remains largely in state hands. The political economy arguments regarding the transformative effects of engagement frequently overlook the fact that the regimes that are likely to be the target of such strategies are also likely to have statist political economies that are capable of exercising relatively tight control over cross-border exchanges, including through the instrumentality of the state-owned enterprise.

The Chinese enterprises generally have negative appraisals of the North Korean business environment, with large majorities invoking not only the inadequacy of the physical infrastructure but also the problematic nature of the regulatory environment. In response, these firms have adopted various strategies to reduce risk, including limiting their activity to trading and to exporting in particular; these transactions involve less exposure to North Korea and can even be undertaken in China. Such strategies are particularly prevalent among small private enterprises and firms that do not believe that they can call on political connections in North Korea. Transactions are undertaken in ways that suggest limited trust, including not only settlement in hard currencies but also very stringent payment terms and limited credit, in effect, cash and carry.

However, it is impossible to fully avoid the reach of the state, and bribery and corruption are pervasive. According to some evidence, the likelihood of predation is correlated with size, which could add a self-limiting aspect to the expansion of cross-border integration. Firms may limit the scale of involvement to fly beneath the radar of a predatory state.

The survey indicates that Chinese firms receive little support from the government and have a limited belief in the ability of their government to protect them in the face of disputes. Among those firms that believe that they do have access to dispute settlement institutions—typically on the Chinese rather than on the North Korean side of the border—this access does not have any discernible consequences on the extent of relational contracting, measured as firms' willingness to extend credit. Rather, in the absence of formal institutions, firms rely on personal connections in North Korea both to identify counterparties in the first place and to resolve disputes. In addition, some evidence suggests that Chinese businesses may seek to protect themselves from predation

through informal networks capable of imposing reputational penalties on North Korean actors. But these are decidedly second best; clearly, gains would come from stronger institutions in North Korea, not only in the volume of trade and investment but also in an expansion of their scope beyond smaller traders and politically connected SOEs.

The weakness of the enabling environment deters integration, discourages investment relative to trade, probably limits the extent of purely private exchange, and inhibits the development of informal networks and relational contracting. Institutional improvement would clearly have significant welfare implications, affecting the volume, composition, and financial terms of cross-border exchange. These results should give pause to those who expect that engagement between China and North Korea, at least as it is currently proceeding, will foster internal changes in North Korea that could lead either to marketization, reform, or a moderation of its external behavior.

South Korea has attempted to resolve the challenges created by North Korea's weak enabling environment by, in effect, substituting relatively strong South Korean institutions (most notably at the Kaesong Industrial Complex) and socializing risk.<sup>6</sup> It is possible that China will also pursue this sheltered enclave strategy, while at the same time trying to prod North Korea into strengthening its institutions.

A first step in this process is the improvement in physical infrastructure, which as our survey shows continues to be seen as an important barrier to cross-border trade and investment. There has long been a compelling case to develop Rason, primarily as a port serving northeastern China.<sup>7</sup> After languishing for years, it now appears that the zone is on the verge of meeting at least some of its promise. The Chinese are surfacing the dirt road linking Hunchun with Rason, and the Russians are refurbishing the rail link. The next priority would be to dredge the harbor. North Korea also claims that China will build a 600,000 kilowatt coal-fired power plant, but corroboratory evidence of that claim is elusive. In the meantime, transmission lines are being built to bring electricity in from China.<sup>8</sup> One simple leading indicator of the success with respect to infrastructure at Rason would be if off-ramps are built on the road between the port and China. If they are, the road could become the main artery of a growth corridor in that part of North Korea. If not, the highway would be a metaphorical tunnel from China to the sea. North Korea would make rents off the port, but the project would effectively be an enclave and not a catalyst for broader development.

As a recent review of the uneven history of special economic zones around the world released by the World Bank concluded, it is important to distinguish between political support for such initiatives and political objectives in their design. Such zones must have a clear commercial rationale to succeed.<sup>9</sup> Not only are successful zones about infrastructure, but they also embody clear and transparent rules and regulations administered by a capable management authority and are integrated into the broader national economy.

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6. Stephan Haggard and Marcus Noland, "The Microeconomics of North-South Korean Cross-Border Integration," PIIE working paper 12-9, Peterson Institute for International Economics, Washington, D.C., 2012.

7. Marcus Noland and L. Gordon Flake, "Opening Attempt: North Korea and the Rajin-Sonbong Free Economic Trade Zone," *Journal of Asian Business* 13, no. 2 (1997): 99-116.

8. Andray Abrahamian, "A Convergence of Interests: Prospects for Rason Special Economic Zone," KEI Academic Paper Series, February 24, 2012, <http://www.keia.org/publication/convergence-interests-prospects-rason-special-economic-zone>.

9. Thomas Farole, "Special Economic Zones: What Have We Learned?" PREM Economic Premise 64, World Bank Poverty Reduction and Economic Management Network, Washington, D.C., 2011, <http://siteresources.worldbank.org/INTPREMNET/Resources/EP64.pdf>.

In the case of Rason, the law gives extraordinary power and discretion to the Rason City People's Committee relative to the previous rules, which gave more authority to the central government. The localization of decisionmaking may encourage greater pragmatism; as our survey showed, Chinese firms seemed to prefer dealing with local and provincial rather than national officials.

A second set of initiatives centers on the Hwanggumpyong and Wihwa Island zone. This zone reveals the primacy of the legal over the physical infrastructure. China reportedly rejected the initially decreed rules, complaining about problems relating to taxation, accounting, the security of investment, management autonomy, and the remittance of profits. These complaints were lodged despite the fact that the terms under discussion for Chinese activities in the zones—the right to use Chinese currency and cell phones; the establishment of independent banks; Internet access; and the right to lend and sublease leased land—compared favorably with both the Kaesong Industrial Complex (KIC) and Rason. Indeed, a comparison of the Rason rules with those governing the Hwanggumpyong and Wihwa Island zone implicitly reveals China's influence on the latter. The Hwanggumpyong and Wihwa Island regulations are far more detailed, more clearly delineating the responsibility of the zone's management committee, the provincial People's Committee, and the central government, as well as affording foreign investors greater investor rights. Yet the investment targets are clearly aspirational, and we still do not know whether the incentives put in place will be adequate to attract the very ambitious capital flows that the project envisioned.

In 2000, North and South Korea reached an agreement on double taxation (as well as pacts on account settlement, repatriation of profits, and dispute settlement), and the North has concluded double-taxation treaties with a number of other countries, including Egypt, home to its biggest foreign investor, Orascom Telecom. But the DPRK has apparently not reached a similar agreement with its largest trade and investment partner, China. Given the country's demonstrated ability to reach such agreements with other countries, presumably it is just a matter of time. An investment guarantee agreement might help ameliorate the fears of expropriation that appear to deter investment in North Korea. But such laws are ultimately hostage to the larger political environment. The expropriation of South Korean assets at Mt. Kumgang and contract negotiations at KIC are clearly watched closely by other investors; interestingly, China has so far largely stayed far away from any involvement in the Mt. Kumgang project, which remains shuttered.

Unfortunately, North Korea appears to be quashing the sort of decentralized cross-border trade highlighted in this survey, centralizing the investment approval process, and channeling economic integration with China through entities under more direct central political control. These developments raise doubts that engagement between North Korea and its largest trade partner will contribute to a moderation of provocative behavior by altering the state's assessment of its own interests or by contributing to a growth of pluralism that will constrain that behavior.

In 2010, North Korea established the State Development Bank. Late the following year, the government announced a decision to initiate a "10-Year State Strategy Plan for Economic Development" and designated a supra-cabinet body to oversee foreign direct investment under the 10-year plan. The Taepung Group is effectively a holding company for joint ventures and other initiatives outside the central plan. It has been headed by a Chinese-Korean businessman with ties to the North Korean military and has a board consisting of regime heavyweights. This decision put that group effectively into competition with the Joint Venture and Investment Commission, something akin to a conventional inward investment promotion agency operating under the cabinet. It appears that the two organizations were merged in February 2012 as part of an economic develop-

ment plan to be announced during the Kim Il-sung centenary.<sup>10</sup> The implications are unclear. One interpretation is that these changes, which have the effect of centralizing finance and decisionmaking, were undertaken at least partially at Chinese instigation to deal with the problem of cascading corruption that Chinese investors have faced. Under this positive interpretation, the move would establish a one-stop shop for investment approval, and once decisions were made centrally, the bureaucracy would be expected to implement them efficiently.

A more cynical view is provided by looking at the personnel involved: the body would further consolidate the gate-keeping role of those individuals and organizations that constitute the board of the consolidated organization and thus enhance that body's capacity to extract rents from foreign investors. Reputation is not established by passing laws or even creating new institutions but through the iterated play between the state and economic agents that takes place over time. To date, the changeability of North Korean policy has prevented such a positive dynamic from emerging.

Rather than contributing to the development of genuine market-conforming exchange among decentralized participants, North Korean authorities appear to be attempting to direct cross-border exchange with China through channels more amenable to direct central political control. As with the microeconomic processes described here, an understanding of engagement must take into account the core point raised by Solingen:<sup>11</sup> statist political coalitions are perfectly aware of the potentially corrosive effects of market-oriented engagement and, for that reason precisely, seek to control it.

## Annex

A pilot survey was conducted in September 2007 using an instrument designed by the authors with the actual interviews conducted by the Horizon Research Consultancy Group. Horizon was responsible for securing any local permits and ensuring that the survey was conducted according to the rules of the European Society for Opinion and Market Research (<http://actrav.itcilo.org/actrav-english/telearn/global/ilo/guide/iccmar.htm>). The final survey was conducted during October and November 2007. The predominant means of conducting the survey was through face-to-face interviews, although some interviews were conducted by telephone. The success rate in conducting the interviews was around 7 percent. Among the reasons that interviews could not be conducted were refusal by the enterprise to participate before or during the interview, inability to establish contact with the enterprise, and the unavailability of the person within the enterprise eligible to respond, according to the survey instrument (chairman, manager, etc.). The data—and particularly firm addresses—were subject to postsurvey verification by random spot-checking.

Given that there are no known or available registries of all Chinese firms doing business with North Korea, the sample of firms doing business with North Korea was of necessity a sample of convenience. The sample was developed using North Korean, Chinese, and Western press accounts and authors' interviews in northeast China in the summer of 2007 as well as information gathered by the Horizon Group in the process of the pilot and interviews with other firms. The

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10. "North Korea to Announce New Economic Development Plan and Organizational Restructuring," Institute for Far Eastern Studies, February 29, 2012, [http://ifes.kyungnam.ac.kr/eng/FRM/FRM\\_0101V.aspx?code=FRM120229\\_0001](http://ifes.kyungnam.ac.kr/eng/FRM/FRM_0101V.aspx?code=FRM120229_0001).

11. Etel Solingen, *Regional Orders at Century's Dawn: Global and Domestic Influences on Grand Strategy* (Princeton, N.J.: Princeton University Press, 1998). See also Etel Solingen, *Dissuading Proliferators: Do Positive and Negative Inducements Work?* (New York: Cambridge University Press, 2012).

sample was drawn from enterprises operating in two border provinces—Jilin and Liaoning—due to the practical impossibility of implementing the survey on a nationwide basis, particularly with respect to the control group of firms not doing business in North Korea.

The design involved a survey of 300 firms, with 250 doing business in North Korea and 50 not doing business in North Korea. In the end, we had 53 responses from firms not doing business in North Korea. We defined firms doing business with North Korea to include those that were involved in trading (import, export, or both), investment, or that maintained representative offices in North Korea. Those not doing business included 10 firms that had done business and had quit (“the quitters”) and 43 that had never done business with North Korea (“the never-weres”).

The survey began with a pilot of 30 firms from Jilin and Liaoning provinces (20 firms doing business in North Korea and 10 firms not doing business in North Korea). Although it was understood this was a sample of convenience, enterprises reflecting a broad distribution of size, sector, and provincial location were targeted. Following the successful completion of the pilot—which did not require fundamental modification of the survey—we were able to transit directly to the full survey, and all of the pilot firms were included in the final 300 firms. Once the sample of 250 enterprises operating in North Korea was completed, the control group was selected by randomly sampling business registries for Jilin and Liaoning provinces.



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