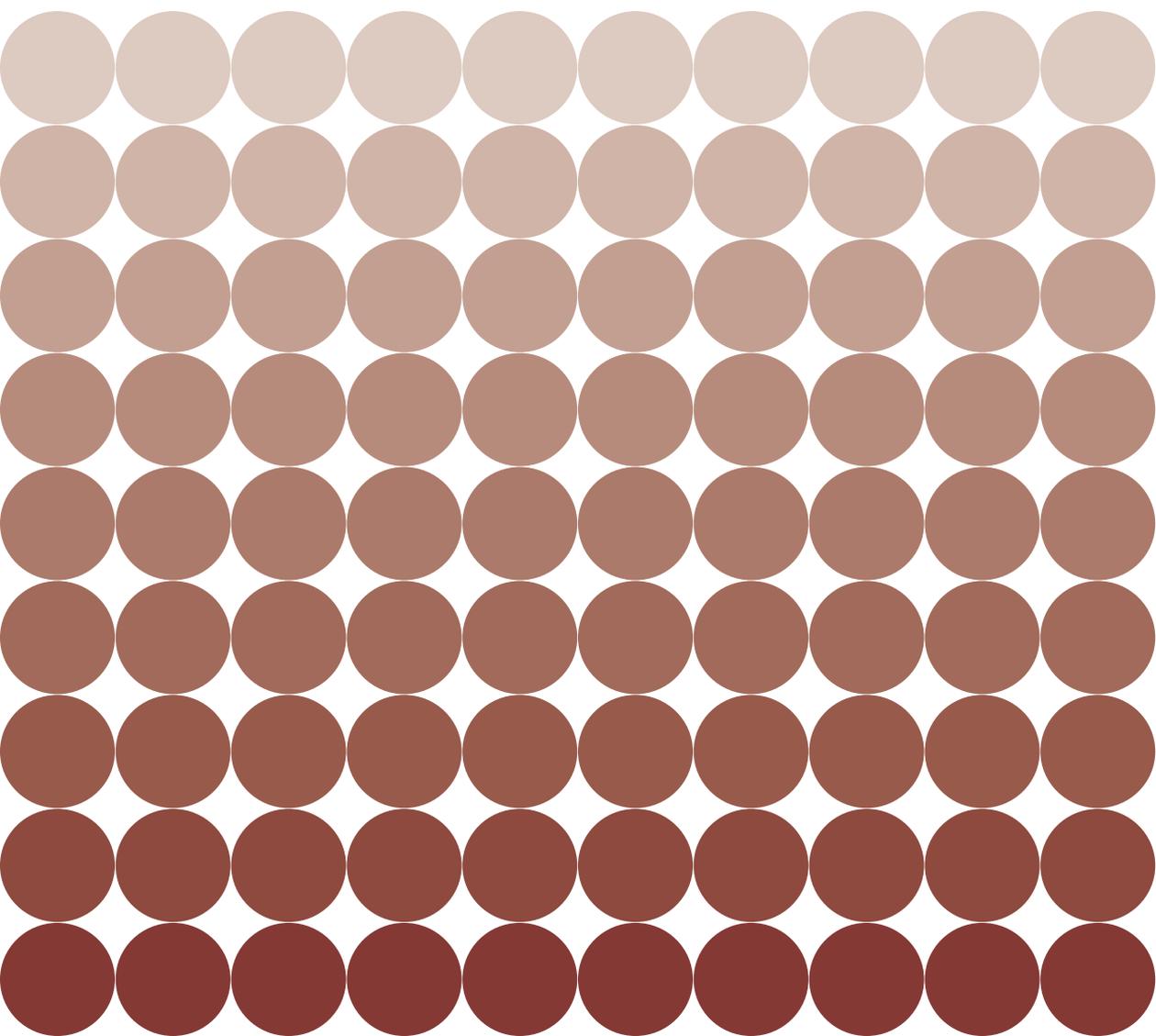


# **CHINA'S POLICY ON NORTH KOREA**

**Economic Engagement  
and Nuclear Disarmament**

**MATHIEU DUCHÂTEL AND  
PHILLIP SCHELL**



## **STOCKHOLM INTERNATIONAL PEACE RESEARCH INSTITUTE**

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# China's Policy on North Korea

## Economic Engagement and Nuclear Disarmament

SIPRI Policy Paper No. 40

MATHIEU DUCHÂTEL AND  
PHILLIP SCHELL



**STOCKHOLM INTERNATIONAL  
PEACE RESEARCH INSTITUTE**

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# Preface

There has been a long-running debate about whether punitive sanctions or the offer of financial incentives, negotiations and reassurance is the best means of bringing a recalcitrant state into line with the rest of the international community. In the case of North Korea, neither approach has been successful in curbing its nuclear weapon programme since the crisis first erupted two decades ago. The international response has generally favoured targeted sanctions, isolation and pressure. However, after the second nuclear test, in May 2009, as the United States, South Korea and Japan were cutting aid and restricting their economic exchanges with North Korea, China adopted a divergent approach and began to intensify bilateral economic engagement.

This report is the first to systematically examine the impact on the nuclear issue of China's growing economic engagement with North Korea. In exploring the scope and the strategic rationale of the engagement, it concludes that China's promotion of economic reform in North Korea is part of a long-term re-engagement process that aims to change the way in which North Korea perceives nuclear weapons. The authors—Dr Mathieu Duchâtel, who is based in Beijing, and Phillip Schell—have placed a unique emphasis on Chinese perspectives, drawing on open-source analyses published by Chinese academics and experts, media reports that provide insights into China–North Korea economic relations, and extensive research interviews with Chinese academics, experts and officials over a period that saw the political succession and the third nuclear test in North Korea.

SIPRI is grateful to the Norwegian Ministry of Foreign Affairs for funding the research that led to this report. Thanks are also due to the authors for this excellent contribution to the literature on China–North Korea relations. Its insights and advice will have an impact in policymaking, diplomatic and academic communities around the world.

Professor Tilman Brück  
Director, SIPRI  
Stockholm, December 2013

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As with all SIPRI publications, the research was conducted independently and the views expressed in this Policy Paper are those of the authors.

Dr Mathieu Duchâtel and Phillip Schell  
Beijing and Stockholm, December 2013

## Summary

Since the death of Kim Jong Il, in December 2011, the new leadership of the Democratic People's Republic of Korea (DPRK or North Korea) has taken important steps to further develop its nuclear weapon programme and to consolidate the programme's political status. These developments, which culminated in a nuclear test explosion in February 2013, suggest that the acquisition of a nuclear deterrent is a strategic goal, rather than a tactical bargaining chip for North Korea.

China has played an important diplomatic role in efforts to curb the North Korean nuclear programme. In addition to supporting United Nations Security Council resolutions sanctioning North Korea, from 2003 the Chinese Government hosted the Six-Party Talks and is engaging in active diplomacy to try to restart the process. In response to the suspension of the talks in 2009, China returned to an approach that prioritized the bilateral relationship, with the immediate goal of stabilizing North Korea in a period of strategic uncertainties. The subsequent and unprecedented expansion of China–North Korea economic relations further influenced and complicated the strategic equation on the Korean peninsula.

China has taken steps over the past four years that suggest that support for North Korean economic development policies is now a key element of its policy on North Korea, although it has never been elevated to the rank of a formal policy guideline. On the one hand, China's economic engagement is most probably intended to consolidate its strategic position and leverage over North Korea; on the other hand, it proceeds on the assumption that economic strangulation by the international community would have no impact on North Korea's nuclear programme, which would be protected by the regime even in case of a new famine.

The long-term sustainability of China's economic engagement can be debated. Despite signs that the economic relationship is still developing, albeit slowly, after the 2013 nuclear test, Chinese policy priorities now appear more focused on the resumption of the Six-Party Talks and on providing assurances to the international community that progress is being achieved on better enforcement of UN Security Council sanctions.

Since China's own government transition in November 2012, the new Chinese leadership has given no public sign of high-level political support for deepening economic ties. Under Chinese President Xi Jinping, the question of the North Korean leadership succession is no longer a concern. The development of north-eastern China and, over the long term, the shaping of an environment conducive to strategic stability and nuclear disarmament on the Korean peninsula are the two main factors underpinning China's economic engagement with North Korea. However, a number of factors may converge and lead to a resumption of high-level support by China in the near future, including the stalemate on the Six-Party Talks, North Korea's emphasis on economic growth, the interests of China's

north-eastern provinces, and the perception that targeted UN Security Council sanctions should be balanced by economic support.

One of the risks of Chinese economic engagement is that it may enable North Korea to further develop its military capabilities and increase its procurement and proliferation activities. However, most Chinese experts on the Korean peninsula argue that greater economic exchanges can serve the dual purposes of non-proliferation and nuclear disarmament.

At the same time, China appears to be re-examining the role of sanctions and pressure in addressing North Korea. There are now signs that China's policy—which increasingly balances elements of pressure with political and economic inducements—is becoming more integrated in a general Chinese non-proliferation strategy.

While these observations do not postulate a fundamental change in China's policy on North Korea, they posit trends that suggest clear policy adjustments. These trends may be temporary and reversible, but they are a basis on which China can play a greater role to address risks of nuclear proliferation emanating from North Korea's nuclear weapons programme. While the denuclearization of the Korean peninsula still appears to be China's foreign policy goal, it seems increasingly out of reach in the short term. With the nuclear status of North Korea enshrined in its constitution, it is now evident that the nuclear programme is a non-negotiable strategic goal for North Korea, rather than something that can be bargained away. As a result, although the international community will not send signals that it could recognize the nuclear status of North Korea, non-proliferation and containment increasingly appear as intermediary goals that should be pursued through diplomatic efforts, including coercion through sanctions.

# Abbreviations

CPC	Communist Party of China
DPRK	Democratic People's Republic of Korea
FDI	Foreign direct investment
KCNA	Korean Central News Agency
KPA	Korean People's Army
MFA	Ministry of Foreign Affairs
MOFCOM	Chinese Ministry of Commerce
NDC	National Defence Commission
OSC	Open Source Center
PDS	Public Distribution System
SEZ	Special economic zone
SOE	State-owned enterprise
UN	United Nations
WFP	World Food Programme
WMD	Weapons of mass destruction
WPK	Workers' Party of Korea

# 1. Introduction

Between the second nuclear test conducted by the Democratic People's Republic of Korea (DPRK or North Korea), in May 2009, and the third test, in February 2013, and in a context of political succession in North Korea, a new development started to have an impact on the strategic equation in the Korean peninsula: the expansion of China–North Korea economic relations at an unprecedented pace. A visit by the Chinese Prime Minister, Wen Jiabao, to Pyongyang in October 2009 to celebrate the 60th anniversary of the establishment of diplomatic ties between the two countries—the first visit of a Chinese prime minister in 18 years—signalled an adjustment of China's policy towards North Korea.<sup>1</sup> The visit took place within the context of a strengthening of the United Nations sanctions regime, interruption of aid from the Republic of Korea (ROK or South Korea) and the United States, and criticism of North Korean brinkmanship reaching new heights in the Chinese public sphere.<sup>2</sup> In response to the suspension of the Six-Party Talks on North Korea's nuclear programme, China returned to an approach that prioritized the bilateral relationship. The immediate goal was to stabilize North Korea in a period of strategic uncertainties, as reliable information regarding the poor health of Kim Jong Il was reaching Beijing and other capitals. This shift in Chinese policy coincided with a change of approach in North Korea, where Kim Jong Il decided to rely on China to help North Korea achieve economic development—a constrained choice best explained by a lack of alternatives.

Despite the death of Kim Jong Il in December 2011 and the power transition to his son, Kim Jong Un, there has been complete continuity in the development of North Korea's nuclear weapon programme. In the year following the transition, the new leadership took three important steps to further develop nuclear weapons and their means of delivery and to consolidate the political status of the programme: in May 2012 the Supreme People's Assembly (the North Korean Parliament) enshrined the acquisition of nuclear weapons in a revised preamble to the country's constitution; in December North Korea successfully launched a satellite into orbit (after a failed attempt in April) in violation of UN Security Council resolutions barring the country's use of ballistic missile technology; and on 12 February 2013 North Korea conducted a third nuclear test explosion, which it claimed used a miniaturized device.

These developments, along with official statements and other evidence, suggest that the acquisition of a nuclear deterrent is a strategic goal, rather than a tactical bargaining chip for North Korea.<sup>3</sup> Indeed, in April 2013 North Korea started linking resumption of talks with the USA with prior recognition of its status as a

<sup>1</sup> '杨洁篪谈温家宝访问朝鲜取得两个成果' [Yang Jiechi describes the two main achievements of the visit of Wen Jiabao to North Korea], Xinhua, 6 Oct. 2009.

<sup>2</sup> Chinese strategic debates after the 2nd nuclear test are documented in International Crisis Group (ICG), *Shades of Red: China's Debates Over North Korea*, Asia Report no. 179 (ICG: Brussels, 2 Nov. 2009).

<sup>3</sup> Official statements include e.g. Korean Central News Agency (KCNA), 'Law on consolidating position of nuclear weapons state adopted', 1 Apr. 2013. The KCNA is the North Korean state news agency. Its statements are available on the website of the Korean News Service in Tokyo, <<http://www.kcna.co.jp/>>.

nuclear-armed state. However, official North Korean statements still support the denuclearization of the Korean peninsula and general international nuclear disarmament, which suggests that North Korea may retain some degree of policy flexibility regarding its nuclear weapon programme.<sup>4</sup>

China has played an important diplomatic role in trying to curb the North Korean nuclear programme. In addition to supporting UN Security Council resolutions sanctioning North Korea, from 2003 the Chinese Government hosted the Six-Party Talks—an ambitious multilateral negotiation framework under which an agreement to dismantle the North Korean nuclear programme was reached in September 2005.<sup>5</sup> Although North Korea pulled out of the talks in April 2009 and announced it was not bound by the agreement, China is engaging in active diplomacy to try to restart the process. It has also reportedly taken other steps to try to persuade North Korea to negotiate nuclear disarmament and to refrain from proliferation, although these efforts have never been made public. At the same time, observers have criticized China for putting insufficient efforts into enforcing UN Security Council sanctions and refusing to exert serious pressure at the bilateral level on North Korea, a country with which it is still formally linked by an alliance treaty.

Economic engagement at the bilateral level has never been elevated by China to the rank of a formal policy guideline when dealing with North Korea, nor do Chinese officials publicly argue that they support the adoption of a Deng Xiaoping-style approach to reform and opening by North Korea. Nonetheless China has taken steps over the past four years that suggest that support for North Korean economic development policies is now a key element of China's policy on North Korea. The goal of this support can be debated in the light of a set of broader questions regarding Chinese policies: To what extent does China still see North Korea as a buffer against the USA and its allies? Is China merely trying to build political influence through increased and deepened economic exchanges? Or, on the contrary, is North Korea a strategic liability that would endanger many of China's interests without Chinese economic support? China's economic engagement most likely mixes these approaches. On the one hand, it consolidates China's strategic position and leverage over North Korea. On the other hand, it proceeds on the assumption that economic strangulation by the international community would have no impact on North Korea's nuclear programme, which would be protected by the regime even in case of a new famine.

However, the long-term sustainability of China's economic engagement can be debated. First, this policy was adopted in reaction to the risks of instability during the political succession in North Korea, that could in a worst-case scenario have created strategic insecurity, regime collapse or even a war. Second, market realities limit the amount of support that China can provide to North Korea, as there are extremely few opportunities to invest and Chinese companies

<sup>4</sup> North Korea uses the term 'denuclearization of the Korean peninsula' (which includes a verifiable promise by the USA not to station nuclear weapons in South Korea), while the USA and South Korea refer to 'North Korean nuclear disarmament'.

<sup>5</sup> The 6 parties to the talks are China, Japan, North Korea, South Korea, Russia and the USA.

remain cautious given the risks of extortion and expropriation. As a result, according to official Chinese sources, bilateral trade was only worth \$6 billion in 2012 and Chinese foreign direct investment (FDI) less than \$1 billion (although the reliability of these figures is uncertain and some exchanges might be unreported).<sup>6</sup> Finally, despite signs that the economic relationship has still been developing, albeit slowly, since the 2013 nuclear test, Chinese policy priorities have focused more on the resumption of the Six-Party Talks and on providing assurances to the international community that progress is being achieved on better enforcement of UN Security Council sanctions.

Since China's own government transition in November 2012, the new Chinese leadership has given no public sign of high-level political support for deepening economic ties. However, a number of factors may converge and lead to a resumption of high-level support by China in the near future, including the stalemate on the Six-Party Talks, North Korea's emphasis on economic growth, the interests of China's north-eastern provinces, and the perception that targeted UN Security Council sanctions should be balanced by economic support.

More broadly, one of the risks of Chinese economic engagement is that it may enable North Korea to further develop its military capabilities and increase its proliferation and procurement activities. However, most Chinese experts on the Korean peninsula argue that greater economic exchanges can serve the purpose of non-proliferation and nuclear disarmament. They describe economic engagement as part of a long-term process of re-engagement that will ultimately alter North Korea's strategic calculus regarding the role of nuclear weapons. According to this logic, once the North Korean people have better economic livelihoods and the economic gap with South Korea is narrowed, the rationale for retaining nuclear weapons will diminish. They also argue that during periods of diplomatic stalemate, economic engagement offers a unique opportunity to maintain a positive strategic dynamic. Trade and economic development address an internal aspect of North Korea's national security concerns, as domestic instability is another source of insecurity, in addition to external threats. Finally, economic engagement allows China to increase its leverage over North Korea, and thus reinforces China's hand in any future settlement of the nuclear issue.

A close examination of growing bilateral economic ties shows that Chinese policies are often reactive and address short-term concerns, such as the economic interests of China's north-eastern provinces or political stability in North Korea. Nevertheless, the overarching rationale that closer economic ties play a positive role in preparation of an ultimate settlement of the North Korean nuclear issue cannot be entirely discarded as a self-serving attempt to gain moral high ground.

This Policy Paper examines this widely held thesis—that China's expanded economic engagement is or was, wholly or partly, intended to bring North Korea back to the Six-Party Talks with the ultimate goal of achieving North Korea's denuclearization. In particular, in looking back at four years of Chinese policy on

<sup>6</sup> See chapter 3 in this volume.

North Korea, it analyses the impact on the nuclear issue of greater economic interactions between China and North Korea. The analysis has been compiled using open-source Chinese- and English-language material and draws on 50 interviews conducted with Chinese experts on North Korea and the Korean peninsula, in Beijing and north-eastern China.<sup>7</sup> Chapter 2 examines Chinese policy adjustments in reaction to the political succession process in North Korea and to Kim Jong Un's decision to conduct a third nuclear test. Based on Chinese sources, chapter 3 details China's support for North Korean economic development policies. Chapter 4 explores China's policies to promote non-proliferation and nuclear disarmament, discussing the relative weight of economic support, the Six-Party Talks and sanctions in order to assess the linkage between economic engagement and China's policy on North Korea's nuclear weapon programme. Chapter 5 presents conclusions and implications for addressing the nuclear issue.

<sup>7</sup> The authors conducted interviews in June 2012, Nov. 2012 and May 2013 in Beijing, Changchun in Jilin province, Yanji in the Yanbian Korean Autonomous Prefecture of Jilin province, and Dandong and Shenyang in Liaoning province. The interviewees were experts, academics, military officers and party officials at Jilin Academy of Social Sciences, Jilin University, Liaoning Academy of Social Sciences, Yanbian University, the National Defense University, the Academy of Military Sciences, the China Institutes of Contemporary International Relations (CICIR), China Institute of International Studies (CIIS), Peking University, Renmin University, Tsinghua University, the China Center for Contemporary World Studies (CCCWS), the China Arms Control and Disarmament Association (CACDA), the China University of Political Science and Law (CUPL), the International Liaison Department of the Communist Party of China (CPC) and the Chinese Academy of Social Sciences. Interviews were also conducted with foreign diplomats and representatives in Beijing of international organizations. Individual interviewees are not identified here since both Chinese citizens and foreigners based in China are reluctant to speak candidly about foreign policy without a guarantee of anonymity.

## 2. China's balancing act: supporting a stable succession in the context of nuclear crisis

Even prior to its announcement on 12 February 2013, there were many signs that North Korea would conduct a third nuclear test. After the UN Security Council condemned the attempted satellite launch on 13 April 2012 as a violation of its resolutions banning North Korea's use of ballistic missile technology, North Korea stated that it was no longer bound by any moratorium on nuclear testing and was 'able to take necessary retaliatory measures, free from the agreement'.<sup>8</sup> North Korea had responded with similar rhetoric to earlier condemnations of rocket launches in 2006 and 2009 (see tables 2.1 and 2.2), culminating in nuclear tests. Most observers expected that pattern to be repeated, as commercial satellite imagery indicated activity at the Punggye-ri test site.<sup>9</sup>

A satellite was subsequently launched successfully on 12 December 2012 and, following the established pattern, the UN Security Council adopted a resolution on 22 January 2013 condemning the launch. The North Korean National Defence Commission (NDC) reacted by announcing that 'We do not hide that a variety of satellites and long-range rockets . . . will be launched . . . and a nuclear test of higher level . . . will be carried out'.<sup>10</sup> As in previous cases, North Korea reiterated the country's right to use outer space for peaceful purposes under international law and rejected the Security Council resolution as establishing double standards by framing the satellite launch as a long-range ballistic missile test.<sup>11</sup> These statements were followed by the test on 12 February 2013 (see box 2.1), which North Korea stated diversified its nuclear deterrent to 'defend the country's security and sovereignty' against 'U.S. hostile policy and arbitrary practices' and contributed to 'ensuring peace and stability in the Korean Peninsula and the region'.<sup>12</sup> In reaction to the test, the UN Security Council unanimously adopted Resolution 2094, which introduced new, stricter targeted sanctions.<sup>13</sup>

<sup>8</sup> United Nations, Security Council, Statement by the President of the Security Council, S/PRST/2012/13, 16 Apr. 2012; and Korean Central News Agency, 'DPRK rejects UNSC's act to violate DPRK's legitimate right to launch satellite', 17 Apr. 2012. The KCNA statement refers to the bilateral North Korean-US agreement of 29 Feb. 2012 (the 'Leap Day Deal'), which the USA suspended after the satellite launch attempt in Apr. 2012. For details of the agreement see appendix B in this volume.

<sup>9</sup> Brannan, P., 'Satellite imagery of North Korean nuclear test site shows growth in pile of material near test shaft; unclear if nuclear test will follow', Institute for Science and International Security (ISIS) Report, 10 Apr. 2012, <<http://isis-online.org/isis-reports/detail/commercial-satellite-imagery-of-north-korean-nuclear-test-site-shows-growth/>>.

<sup>10</sup> Korean Central News Agency, 'DPRK succeeds in satellite launch', 12 Dec. 2012; UN Security Council Resolution 2087, 22 Jan. 2013; and Korean Central News Agency, 'DPRK NDC issues statement refuting UNSC resolution', 24 Jan. 2013.

<sup>11</sup> Korean Central News Agency, 'DPRK FM refutes UNSC's "resolution" pulling up DPRK over its satellite launch', 23 Jan. 2013.

<sup>12</sup> Korean Central News Agency, 'KCNA report on successful 3rd underground nuclear test', 12 Feb. 2013; and Korean Central News Agency, 'DPRK's underground nuclear test is just measure for self-defence: KCNA commentary', 12 Feb. 2013.

<sup>13</sup> UN Security Council Resolution 2094, 7 Mar. 2013.

**Table 2.1.** United Nations Security Council sanctions resolutions on North Korea

Date	Resolution	Details
15 July 2006	1695	Condemns launch of ballistic missiles by North Korea on 5 July; demands that it suspend all its activities related to its ballistic missile programme and re-establish its commitments to a moratorium on missile launches; and imposed sanctions
14 Oct. 2006	1718	Condemns the 9 Oct. nuclear weapon test by North Korea; demands that it not conduct further tests or launch ballistic missiles; imposes sanctions against the country and individuals supporting its military programme and sets up a sanctions committee; and demands that North Korea cease its pursuit of weapons of mass destruction
12 June 2009	1874	Condemns the 25 May nuclear weapon test by North Korea; strengthens the sanctions against the country by blocking funding for nuclear, missile and proliferation activities; widens the ban on arms imports and exports; and calls on UN member states to inspect and destroy all banned cargo to and from North Korea if there are reasonable grounds to suspect violation
22 Jan. 2013	2087	Condemns the 12 Dec. 2012 missile launch by North Korea; again demands that the country end its nuclear weapon and ballistic missile programmes; strengthens the sanctions against officials of its missile launch facility and satellite control centre; and calls on UN member states to exercise 'enhanced vigilance' in preventing the transfer of funds related to North Korea's nuclear weapon and ballistic missile programmes
7 Mar. 2013	2094	Condemns the 12 Feb. nuclear test by North Korea; strengthens the sanctions on North Korea's trade and banking, extending them to officials involved in the trade in arms-related material and to the Second Academy of Natural Sciences in Pyongyang; demands that the country retract its announcement of withdrawal from the 1968 Non-Proliferation Treaty; and reaffirms its decision that North Korea 'shall abandon all nuclear weapons and existing nuclear programmes, in a complete, verifiable and irreversible manner'

Source: Bodell, N., 'Chronology', 2006–12, *SIPRI Yearbook: Armaments, Disarmament and International Security*, 2007–13 (Oxford University Press: Oxford, 2007–13).

### China's reaction to the third nuclear test

#### *China's official policy response*

China's reaction to the third nuclear test included support for tightened UN Security Council sanctions, efforts to improve enforcement of sanctions, a decrease in the level and the frequency of political contacts with North Korea, attempts to resume the Six-Party Talks, and less political support for North Korea's economic development policies.

In its first reaction, in the form of a statement issued by the Ministry of Foreign Affairs (MFA), the Chinese Government expressed its 'firm opposition', called for the resumption of the Six-Party Talks, and 'strongly urge[d] [North Korea] to honor its commitment to denuclearization and refrain from any move that may further worsen the situation'.<sup>14</sup> Within hours of the announcement of the test, the

<sup>14</sup> Chinese Ministry of Foreign Affairs, Statement, 12 Feb. 2013, <<http://www.fmprc.gov.cn/eng/zxxx/t1013361.shtml>>.

**Table 2.2.** United Nations Security Council presidential statements on North Korea

Date	Statement	Details
6 Oct. 2006	2006/41	Expresses concern over North Korea's declaration that it will conduct a nuclear test
13 Apr. 2009	2009/7	Condemns the 5 Apr. missile launch by North Korea as a contravention of Resolution 1718; and demands that North Korea not conduct further launches
9 July 2010	2010/13	Condemns the 26 Mar. attack which led to the sinking of the South Korean corvette <i>Cheonan</i> ; and encourages the settlement of outstanding issues on the Korean peninsula by peaceful means
16 Apr. 2012	2012/13	Condemns North Korea's failed rocket launch of 13 Apr. as a serious violation of resolutions 1718 and 1874; directs the Sanctions Committee to take steps to update and strengthen the sanctions regime; and expresses determination to act in the event of another North Korean launch or nuclear test

Sources: Bodell, N., 'Chronology', 2006–12, *SIPRI Yearbook: Armaments, Disarmament and International Security*, 2007–13 (Oxford University Press: Oxford, 2007–13); and Security Council Report, 'UN documents for DPRK (North Korea)', <<http://www.securitycouncilreport.org/un-documents/dprk-north-korea/>>.

Chinese MFA reportedly summoned North Korea's ambassador to deliver the same message.<sup>15</sup> While the MFA statement was relatively mild, it is rare for China to publicize the summoning of an ambassador, suggesting that its rhetorical reaction was more intense than that following the second nuclear test, in 2009.<sup>16</sup>

In the UN Security Council, not only did China vote in favour of Resolution 2094, it closely cooperated with the USA in drafting the resolution.<sup>17</sup> US officials took this as a positive sign of stricter implementation of sanctions by China. The US Treasury Under Secretary, David S. Cohen, stated that 'We've heard nothing but the strong intention to implement the Security Council resolution, and we fully expect to work very cooperatively with the Chinese in the robust implementation of that resolution'.<sup>18</sup> The MFA described the resolution as 'balanced', and supporting 'common interests of the whole international community to safeguard peace and stability of the Peninsula and Northeast Asia'.<sup>19</sup> However, the Chinese Foreign Minister, Yang Jiechi, also emphasized that China believed 'that sanctions are not the end of the Security Council actions, nor are sanctions the funda-

<sup>15</sup> Agence France-Presse, 'China summons North Korea ambassador over nuclear test', *South China Morning Post*, 13 Feb. 2013.

<sup>16</sup> Chinese Ministry of Foreign Affairs, 'Foreign Ministry spokesman Liu Jianchao's regular press conference on 10 October 2006', 11 Oct. 2006, <<http://www.fmprc.gov.cn/eng/xwfw/s2510/2511/t275804.shtml>>; and Chinese Ministry of Foreign Affairs, 'Foreign Ministry spokesperson Ma Zhaoxu's regular press conference on May 26, 2009', 27 May 2009, <<http://www.fmprc.gov.cn/eng/xwfw/s2510/2511/t564893.shtml>>.

<sup>17</sup> Lauria, J., 'U.S. and China reach deal on North Korea sanctions', *Wall Street Journal*, 5 Mar. 2013.

<sup>18</sup> Jones, T. Y., 'U.S. hopeful of strong Chinese action on North Korea', Reuters, 22 Mar. 2013. On China's view of sanctions see chapter 4 in this volume.

<sup>19</sup> Chinese Ministry of Foreign Affairs, 'Foreign Ministry spokesperson Qin Gang's remarks on the Security Council's adoption of a resolution on the DPRK's nuclear test', 8 Mar. 2013, <<http://www.fmprc.gov.cn/eng/xwfw/s2510/2535/t1019774.shtml>>.

**Box 2.1. North Korea's nuclear programme**

As of December 2013 North Korea had carried out three underground tests of nuclear explosive devices: the first, on 9 October 2006, which had an estimated yield of less than 1 kiloton and was widely considered to be a failure; the second, on 25 May 2009, which had an estimated yield of 2–6 kt; and a third test on 12 February 2013.<sup>a</sup>

On 12 February 2013 the Korean Central News Agency (KCNA) announced that North Korea had carried out an underground nuclear explosion in a tunnel at the Punggye-ri test site in the north-east of the country. According to the KCNA, 'The test was conducted in a safe and perfect way on a high level with the use of a smaller and light A-bomb unlike the previous ones, yet with great explosive power'.<sup>b</sup>

The Comprehensive Nuclear-Test-Ban Treaty Organization (CTBTO), which has a worldwide network of monitoring stations to detect nuclear explosions, recorded a 'seismic event with explosion-like characteristics' with a magnitude of 5.0, twice as large as North Korea's nuclear test in 2009 and much larger than the one in 2006.<sup>c</sup> In April 2013 the CTBTO detected radioactive noble gases that could be attributed to the latest North Korean nuclear test.<sup>d</sup> At the time of writing, no analytical results are available. Additional information about the technical parameters of the tested device will be difficult to determine. It will be virtually impossible to determine if the device was miniaturized, as North Korea claims.

There has been considerable speculation that North Korea is seeking to build nuclear weapons using highly enriched uranium (HEU) as the fissile material, rather than plutonium, which is believed to have been used in the first two tests.<sup>e</sup> While it is not known whether North Korea has produced HEU for use in nuclear weapons, it is believed to have an active uranium enrichment programme. By using HEU for nuclear weapons, North Korea could potentially overcome the constraints posed by its limited stock of weapon-grade plutonium. In 2008 North Korea declared that it had separated 31 kilograms of plutonium from the spent fuel produced by its 5-megawatt-electric graphite-moderated research reactor at Yongbyon prior to the reactor being shut down; it subsequently produced an estimated 8–10 kg of separated plutonium. Following the 2006 and 2009 tests, and depending on the amount of plutonium used in those tests, North Korea had sufficient plutonium to construct six to eight rudimentary nuclear weapons, assuming that each weapon used 5 kg of plutonium.<sup>f</sup> North Korea is currently building a new indigenously designed pressurized light water reactor at the Yongbyong site; while this is ostensibly a step toward a nuclear power generation capacity, the reactor could be used to produce plutonium for its nuclear weapon programme.

<sup>a</sup> On the 1st test see Fedchenko, V. and Ferm Heggren, R., 'Nuclear explosions, 1945–2006', *SIPRI Yearbook 2007: Armaments, Disarmament and International Security* (Oxford University Press: Oxford, 2007), pp. 552–54. On the 2nd test see Fedchenko, V., 'Nuclear explosions, 1945–2009', *SIPRI Yearbook 2010: Armaments, Disarmament and International Security* (Oxford University Press: Oxford, 2010), pp. 371–73.

<sup>b</sup> Korean Central News Agency, 'KCNA report on successful 3rd underground nuclear test', 12 Feb. 2013, <<http://www.kcna.co.jp/item/2013/201302/news12/20130212-18ee.html>>.

<sup>c</sup> Preparatory Commission for the Comprehensive Nuclear-Test-Ban Treaty Organization, 'On the CTBTO's detection in North Korea', 12 Feb. 2013, <<http://www.ctbto.org/press-centre/press-releases/2013/on-the-ctbtos-detection-in-north-korea/>>.

<sup>d</sup> Preparatory Commission for the Comprehensive Nuclear-Test-Ban Treaty Organization, 'CTBTO detects radioactivity consistent with 12 Feb. announced North Korea nuclear test', 23 Apr. 2013, <<http://ctbto.org/press-centre/press-releases/2013/ctbto-detects-radioactivity-consistent-with-12-february-announced-north-korean-nuclear-test/>>.

<sup>e</sup> Kile, S. N., 'North Korea's military nuclear capabilities', *SIPRI Yearbook 2013: Armaments, Disarmament and International Security* (Oxford University Press: Oxford, 2013), pp. 323–24.

<sup>f</sup> Kile (note e), p. 324; and Glaser, A. and Mian, Z., 'Global stocks and production of fissile materials, 2012', *SIPRI Yearbook 2013* (note e), p. 328.

mental way to resolve the relevant issues'.<sup>20</sup> He clearly stated that Chinese support for tougher UN sanctions on North Korea should not be interpreted as a basic change in China's attitude.

In addition to Security Council diplomacy, there were other signs indicating that China was becoming more willing to openly apply pressure on North Korea, although these do not amount to a major policy shift.<sup>21</sup> A strong indicator of this is the low frequency of official visits between the two countries: the number of visits has fallen since Kim Jong Un came to power, and there was only one high-level meeting between August 2012 and May 2013 (see tables A.1 and A.2 in appendix A). In particular, at the time of writing no political exchange since August 2012 had addressed economic cooperation. China has also taken public steps to enforce the new round of UN Security Council sanctions (see chapter 4).<sup>22</sup> While these moves were intended to curb North Korea's nuclear proliferation, they also served a more short-term objective: to send a message to Kim Jong Un that being blatantly provocative, unpredictable and vocally threatening, without giving China sufficient warning before taking actions, was not without consequences.

*Expert debates in China: the overstated rise of the 'abandonment school'*

North Korea's actions prompted the first significant policy debate in China about North Korea since 2009, with analysts debating whether China's policy on North Korea should change course.<sup>23</sup> This debate has raised a particularly challenging question: should North Korea be abandoned? Those who think that it should—known as the 'abandonment school'—argue that North Korea has become a liability and China should use pressure to rein it in in order to prevent damage to China's security interests.<sup>24</sup> During the escalation of North Korea's belligerence in early 2013, this line of thinking was supported by a number of Chinese foreign and security policy analysts who expressed their frustration with North Korea in leading Western and Chinese media outlets. This open criticism gave the mistaken impression that the abandonment school reflected government thinking, was gaining ground and could lead to a major policy change.<sup>25</sup>

Professor Shen Dingli of Fudan University in Shanghai wrote in February 2013 that it was time for China 'to cut its losses and cut North Korea loose', arguing that North Korea's nuclear weapons and threatening behaviour are the cause of instability in the region.<sup>26</sup> According to Shen, 'the loss of this "ally" would be little felt in Beijing' as 'North Korea's value as a security buffer had much diminished'.

<sup>20</sup> Perlez, J., 'China says it won't forsake North Korea, despite support for U.N. sanctions', *New York Times*, 9 Mar. 2013.

<sup>21</sup> Romberg, A. D., 'The Sunnylands summit: keeping North Korea in perspective', 38 North, 14 June 2013, <<http://38north.org/2013/06/aromberg061413/>>.

<sup>22</sup> Moore, M., 'China breaking UN sanctions to support North Korea', *Sunday Telegraph*, 13 Apr. 2013.

<sup>23</sup> International Crisis Group (note 2).

<sup>24</sup> Ren X., 'Rowing together: a Chinese perspective', Pacific Forum CSIS, *Issues & Insights*, vol. 13, no. 9 (July 2013).

<sup>25</sup> Kleine-Ahlbrandt, S., 'China's North Korea policy: backtracking from Sunnylands?' 38 North, 2 July 2013, <<http://38north.org/2013/07/skahlbrandt070213/>>.

<sup>26</sup> Shen, D., 'Lips and teeth', *Foreign Policy*, 13 Feb. 2013.

In the same month, Deng Yuwen, deputy editor of the journal of the Central Party School of the Communist Party of China (CPC), argued that there was no hope that North Korea would overhaul its economy and become a normal country and that China should support Korean reunification under South Korea's lead.<sup>27</sup> He was later dismissed from his job after the Chinese MFA complained about the article.<sup>28</sup> Ren Xiao of Fudan University also argued that China should be prepared to accept a deterioration of relations with North Korea as a cost for policy change.<sup>29</sup> Other proponents of the abandonment school have also argued that North Korea's quest for nuclear weapons and brinkmanship had given the USA many reasons to strengthen its military presence in East Asia, including the development of a theatre missile defence system by Japan, South Korea and the USA, which is clearly not in China's interest.

It may have seemed that this line of thinking gained ground prior to the December 2012 satellite launch and the February 2013 nuclear test. Many Chinese analysts saw a window of opportunity to re-engage North Korea regarding its nuclear weapon programme within a multilateral framework, provided that there would be a period of calm with no provocations from either side. At the same time, they argued that a third nuclear test would have severe consequences for North Korea and would probably result in a reconsideration of China's stance towards the North Korean regime.<sup>30</sup> In reaction to the possibility of a third nuclear test, the Chinese Vice-Foreign Minister, Cui Tiankai, issued a rare public statement implying that another North Korean nuclear test would violate China's national interest: 'I am opposed to any act that damages peace and stability on the Korean Peninsula and in Northeast Asia, since such acts can damage the national security and interests of not only other countries but China's as well'.<sup>31</sup>

However, the majority of Chinese analysts disagree with the abandonment school, arguing instead that abandonment is naive and extreme.<sup>32</sup> They suggest practical and timely adjustments to a policy that has served Chinese interests well, rather than entirely recalibrating the policy.<sup>33</sup> Many Chinese experts agree that China should adjust its North Korea policy to better serve its own national interests.<sup>34</sup> In the words of a *Global Times* editorial,

The North has annoyed most Chinese. Voices pushing to 'abandon North Korea' can be heard. They have even become formal suggestions by some strategists. There is no need to hide Chinese society's dissatisfaction with the North, and the interests of North Korea and China have never coincided. However, the North remains at the forefront of China's geopolitics. The US pivot to the Asia Pacific has two strategic prongs, namely Japan and

<sup>27</sup> Deng, Y., 'China should abandon North Korea', *Financial Times*, 27 Feb. 2013.

<sup>28</sup> Perlez, J., 'Chinese editor suspended for article on North Korea', *New York Times*, 1 Apr. 2013.

<sup>29</sup> Ren (note 24).

<sup>30</sup> Interviews with author, Beijing, Nov. 2012.

<sup>31</sup> 'China warns N.Korea off nuclear test', *Chosun Ilbo*, 26 Apr. 2012.

<sup>32</sup> Interviews with author, Beijing, Nov. 2012.

<sup>33</sup> Zhang, L., '张琨: 朝鲜核问题与我国安全' [Zhang Liangui: the North Korean nuclear problem and China's security], *Lingdao Zhe*, no. 2, 2012.

<sup>34</sup> Chen, X., '中国应掌握半岛问题战略主动权' [China should control the strategic initiative on Peninsula issue], China Institute of Contemporary International Relations, 16 Apr. 2013, <<http://www.cicir.ac.cn/chinese/newsView.aspx?nid=4697>>.

South Korea, and North Korea is still a buffer closer to them. Whether there is a friendly North Korea toward China will impact the strategic posture in Northeast Asia.<sup>35</sup>

Li Kaisheng, professor of international politics at Xiangtan University, summarizes the mainstream view among the Chinese expert community as follows: although China should continue its efforts to make a breakthrough via the Six-Party Talks, given the instability caused by North Korea's nuclear activities and the USA's continued military presence, lasting security and peace on the Korean peninsula requires more than just a resolution of the nuclear issue.<sup>36</sup> He explains that China should act on two fronts.

1. It should begin by strengthening the security alliance with North Korea. Li notes that, although North Korea should not have nuclear weapons, it remains vulnerable in a legal state of war and does indeed have security concerns. He asserts that China has always been its ally and should not give up its security responsibilities in this regard.

2. In addition, China must actively promote political and economic steps that will help North Korean leaders realize that reform and opening up is the general trend, in line with the Korean nation and in the best interests of those in power.

### **China's perceptions of regime stability in North Korea**

#### *Fears of a regime collapse, 2009–12*

China's response to the third nuclear test differed from its response to the second test due to the very different circumstances in which the tests occurred.

The accession to power of Chinese President Hu Jintao in 2002 brought significant changes to China's North Korea policy. China had not played a major role in the first nuclear crisis, in 1993–94, but less than one year after Hu took office it began facilitating the Six-Party Talks, hosting six rounds of talks between 2003 and 2008. This was widely interpreted as showing China's growing confidence in playing a greater role in its immediate neighbourhood.<sup>37</sup> In addition to its support for UN sanctions after the tests in 2006 and 2009, between 2003 and 2009 China cooperated with the USA to stop and reverse the North Korean nuclear programme.

Against this background, 2009 marked a profound shift in China's approach to North Korea. Chinese experts began to debate the risk of regime collapse in North Korea as a result of the stroke suffered by Kim Jong Il in August 2008 and the enhancement of the sanctions regime after the nuclear test in May 2009.<sup>38</sup> At

<sup>35</sup> 'Geopolitics makes abandoning NK naive', *Global Times*, 12 Apr. 2013. The editorial was altered after publication. Among other changes, the revised version, available at <<http://www.globaltimes.cn/content/774425.shtml>>, does not include the sentence 'There is no need to hide Chinese society's dissatisfaction with the North, and the interests of North Korea and China have never coincided'.

<sup>36</sup> Li, K., '朝鲜停核与中国的政策' [North Korea to stop nuclear policy with China], *People.com.cn*, 2 Mar. 2012, <<http://bbs1.people.com.cn/postDetail.do?id=116814788&bid=11>>.

<sup>37</sup> Zhu, F. and Beauchamp-Mustafaga, N., 'Chinese policy toward North Korea in the post-Kim Jong Il era', *Korea Review*, vol. 2, no. 2 (Nov. 2012).

<sup>38</sup> Interviews with author, Beijing, Nov. 2012.

the time, China's overriding priority on the Korean peninsula was to prevent political change or economic collapse in North Korea given the potential consequences for China's social and economic stability.<sup>39</sup> Experts argued that instability within North Korea could have pushed the regime to take further provocative action. Escalating tensions could then lead to actual military confrontation on the Korean peninsula or increased international pressure on North Korea, which would threaten China's own national interests.<sup>40</sup> In addition, China's support was related to the assessment that the USA and its allies were stepping up efforts to provoke regime change in North Korea. News of the bad health of Kim Jong Il produced radically different assessments in China and the USA, with the latter perceiving an opportunity to advance changes and the former fearing regime change. According to one Chinese analyst, 'in 2009 appeasement becomes a priority in order to handle the succession' and this led to a 'renewed alliance relationship'.<sup>41</sup>

Another strong concern, which started to emerge after the 2009 nuclear test, was that instability in North Korea could result in hundreds of thousands of refugees fleeing across the porous 1416-kilometre border into China—far more than the thousands who crossed the border at the height of North Korea's famine in the 1990s. Chinese policy advisers were also concerned about the possible trafficking of small arms and other items from North Korea, indicating their belief that the refugees might bring social, political and criminal complications with them.<sup>42</sup> Chinese analysts already emphasized that the collapse of the regime would result in strategic uncertainty in the form of potential South Korean or US intervention, and that Korean reunification could lead to China sharing a border directly with a US ally. The presence of US troops in such a sensitive region would fundamentally alter China's regional security perceptions and priorities.<sup>43</sup>

China's main concern thus became regime stability in North Korea. Its policy on North Korea was significantly adjusted, with reinforcement of the bilateral relationship, greater economic exchanges and increased support for North Korea.

*China's support of the political succession and regime consolidation under Kim Jong Un*

China took a number of actions to facilitate a smooth political succession in North Korea. According to Chinese experts, the most significant moves were to shape a stable security environment—to help assure the North Korean leadership that external pressure would not derail the process—and to provide strong public support to Kim Jong Un immediately after the death of his father.<sup>44</sup> According to Chinese scholars, a number of visible indicators exemplify China's policy shift after 2009: the sequence of high-level Sino-North Korean contacts between 2010

<sup>39</sup> International Crisis Group (note 2).

<sup>40</sup> Interviews with author, Beijing, Oct. 2012.

<sup>41</sup> Interview with author, Beijing, Nov. 2012.

<sup>42</sup> International Crisis Group (note 2).

<sup>43</sup> International Crisis Group (note 2).

<sup>44</sup> Interviews with author, Beijing Oct.–Nov. 2012.

and 2011, China's reactions to the sinking of the South Korean corvette *Cheonan* (26 March 2010) and the shelling of Yeongpyeong Island (23 November 2010), as well as increasing economic assistance (see chapter 3).<sup>45</sup>

China has not publicly condemned North Korea for either the sinking of the *Cheonan* or the shelling of Yeongpyeong. China prevented the UN Security Council from denouncing North Korea for sinking the *Cheonan* and instead favoured language calling all parties to exercise restraint. In the presidential statement agreed in July 2010, the Security Council 'takes note of the responses from other relevant parties, including from the DPRK, which has stated that it had nothing to do with the incident' and 'condemns the attack which led to the sinking of the *Cheonan*'.<sup>46</sup> MFA spokesman Qin Gang declared:

We condemn any act that undermines peace and stability of the Peninsula. We do not take sides and we make our judgments based on the merits of issues. What we should do at present is to proceed from the overall interests of peace and stability of the Korean Peninsula, call on and work with all parties to exercise calmness and restraint so as to prevent escalation of tension and in particular, avoid conflicts.<sup>47</sup>

The Prime Minister, Wen Jiabao, reiterated that 'The pressing task for the moment is to properly handle the serious impact caused by the *Cheonan* . . . incident, gradually defuse tensions over it, and avoid possible conflicts'.<sup>48</sup> In an interview with NHK, a Japanese TV channel, Wen described China's position as 'impartial'.<sup>49</sup>

This position reflects the widespread view in China that the evidence gathered by the international investigation team—made up of 49 South Korean experts and 24 experts from Australia, Sweden, the United Kingdom and the USA—was inconclusive. The report, released on 20 May, concluded that a 'strong underwater explosion generated by the detonation of a homing torpedo below and to the left of the gas turbine room' that had 'a shockwave and bubble effect' that in turned caused the *Cheonan* 'to split apart and sink'.<sup>50</sup> A majority of Chinese experts reject the conclusions of this investigation, believing that the *Cheonan* incident was engineered to create the political conditions to justify a military offensive by South Korea.<sup>51</sup> Some argue that this belief is demonstrated by the ambiguous support for the report shown by the Swedish members of the

<sup>45</sup> Interviews with author, Beijing Oct.–Nov. 2012.

<sup>46</sup> United Nations, Security Council, Statement by the President of the Security Council, S/PRST/2010/13, 9 July 2010.

<sup>47</sup> Chinese Ministry of Foreign Affairs, 'Foreign Ministry spokesperson Qin Gang's regular press conference on June 29, 2010', 30 June 2010, <<http://www.fmprc.gov.cn/eng/xwfw/s2510/t712798.htm>>.

<sup>48</sup> Xinhua, 'Wen calls for defusing tensions over ROK warship sinking', *China Daily*, 30 May 2010.

<sup>49</sup> 'Highlights of Wen's interview with NHK', Xinhua, 2 June 2010.

<sup>50</sup> A 5-page summary of the report was published in May 2010 and the full report was released in Sep. 2010. Joint Civilian–Military Investigation Group, 'Investigation result on the sinking of ROKS "Cheonan"', South Korean Ministry of National Defense, 20 May 2010, <[http://news.bbc.co.uk/1/1/shared/bsp/hi/pdfs/20\\_05\\_10jigreport.pdf](http://news.bbc.co.uk/1/1/shared/bsp/hi/pdfs/20_05_10jigreport.pdf)>; and Joint Civilian–Military Investigation Group, *Joint Investigation Report on the Attack against ROKS Cheonan* (Myungjin Publication: Seoul, Sep. 2010).

<sup>51</sup> Shi, Y., '天安号事件与国际危机管理' [The *Cheonan* incident and international crisis management], *Heping yu Fazhan*, no. 5 (Oct. 2010), pp. 45–57; and Senior expert, Interview with author, Beijing, Nov. 2012.

investigative team.<sup>52</sup> Only a minority argues that 'few people in China realize that the political system in the United States and South Korea make a conspiracy impossible'.<sup>53</sup> China has neither endorsed the investigation report nor openly challenged its conclusions.

The frequent bilateral contacts between China and North Korea were also an important indicator of a shift in China's policy during that period. In 2010 and 2011 Kim Jong Il visited China four times, an unusually high frequency given that he had only visited China four times during the prior 15 years (see appendix A). This suggests that China played an active role in ensuring a peaceful succession. According to several media reports, during his August 2011 visit Kim introduced his son, Kim Jong Un, to the Chinese leadership. On 28 September 2010, at the first conference of the Workers' Party of Korea (WPK) since 1966, Kim Jong Un was elected a member of the WPK Central Committee and vice-chairman of the NDC.<sup>54</sup> Soon after the conference, the WPK Central Committee Secretary, Choe Thae Bok, visited Beijing to brief the CPC on the latest political developments in North Korea, a sign of strong party-to-party strategic coordination.

After the announcement on 19 December 2011 of the death of Kim Jong Il, in a highly unusual move, Hu Jintao and representatives of the CPC Politburo, the National People's Congress, the State Council and the Central Military Commission visited the North Korean Embassy to express the condolences of the CPC and to show Chinese support for a stable transition under the leadership of Kim Jong Un:

President Hu . . . expressed the belief that the Korean people will follow in the footsteps of Comrade Kim Jong Il, be closely united around the Workers' Party of Korea, and under the leadership of Comrade Kim Jong-un, turn grief into strength and make tireless efforts to build a powerful socialist country and achieve lasting peace and stability on the Korean Peninsula.<sup>55</sup>

#### *Regime consolidation under Kim Jong Un: Chinese analyses*

Today, an overwhelming majority of Chinese experts on North Korea argue that the regime enjoys domestic stability and can withstand enormous pressure from the international community without collapsing. Three main arguments are invoked to explain regime stability under Kim Jong Un: (a) the sources of legitimacy of the North Korean regime, (b) the capacity of the party-state to maintain control over society and (c) the cohesion in the regimes caused by the external threats, despite some divergences regarding the economic development strategy. According to a Chinese analyst interviewed as part of a previous analysis of

<sup>52</sup> Interviews with author, Beijing and Jilin, Nov. 2012; and Kwon, O., 'Sweden attempts to distance itself from Cheonan report', *The Hankyoreh*, 14 Sep. 2010.

<sup>53</sup> Interview with author, Beijing, Nov. 2012 (authors' translation).

<sup>54</sup> Huey, F., 'Understanding Kim Jong Un: the view from Beijing', *Asia Pacific Focus*, Australia Network, 12 Feb. 2012, <<http://australiannetwork.com/focus/s3430486.htm>>.

<sup>55</sup> Chinese Ministry of Foreign Affairs, 'Hu Jintao and other Chinese leaders offer their condolence on the death of Kim Jong Il at the DPRK Embassy in China', 21 Dec. 2012, <<http://www.fmprc.gov.cn/eng/wjdt/wshd/t889681.htm>>. See also Cathcart, A. (ed.), *China and the North Korean Succession*, China-North Korea Dossier no. 1 (Sino-NK: [sinonk.com](http://sinonk.com), Jan. 2012), p. 13.

China's North Korea policy, 'creating a sense of external crisis serves to stimulate hostile perceptions of the external environment, building national morale. North Korea needs stability . . . and nuclear provocation is the only way for the country to ensure its security.'<sup>56</sup>

Nevertheless, if most Chinese experts agree that the political succession of Kim Jong Un has proceeded smoothly, there are a greater variety of views regarding his actual power and the institutional balance of power within the regime. China has paid a great deal of attention to actions taken by Kim to consolidate his authority. Despite China's support, lots of uncertainties remain among the Chinese expert community concerning the future domestic political situation in North Korea and whether China can influence the outcomes. Some Chinese experts argue that North Korea is a system of collective leadership, with the NDC the most powerful institution.<sup>57</sup> Others argue that the regime-consolidation period is characterized by 'transitional collective leadership' (过渡性集体领导, *guodu xingjiti lingdao*).<sup>58</sup> However, most agree that the dismissal of Ri Yong Ho as chief of the General Staff and vice-chairman of the NDC in July 2012 marked the return to familial authoritarian rule, while also suggesting that this should be seen as Kim Jong Un's process of promoting individuals he can trust, and not trying to undermine his father's closest allies.<sup>59</sup>

Although Kim Jong Un was endorsed by his father, many scholars posit that he may suffer a deficit in legitimacy given his youth and lack of experience.<sup>60</sup> Before inheriting power, Kim spent a much shorter time in the highest circles than his father had prior to his ascension in 1994.<sup>61</sup> However, he was the only guarantee of political stability: according to most scholars, all other options would have led to an explosion of tensions among different interest groups within the regime.<sup>62</sup> Chinese experts often explain North Korea's testing of ballistic technology in April and December 2012 as achievements that have been positioned as Kim Jong Il's revolutionary heritage, which Kim Jong Un was simply following.

After the increased frequency of high-level contacts during the succession period, there was a clear decrease after Kim Jong Un came to power, with an dramatic fall-off after August 2012 (see appendix A). Moreover, after the resumption of mutual visits in May 2013, all visits reflect China's active diplomacy to convince North Korea to return to the negotiation table and resume the Six-Party Talks without preconditions (see chapter 4).

In addition, North Korean communication channels with China were relatively weakened in 2013 as a result of the purge of Jang Song Taek in December for

<sup>56</sup> International Crisis Group (note 2), p. 9fn.

<sup>57</sup> Interviews with author, Jilin, Nov. 2012.

<sup>58</sup> Interviews with author, Liaoning, Nov. 2012.

<sup>59</sup> Interviews with author, Liaoning, Nov. 2012.

<sup>60</sup> Interviews with author, Beijing, Oct. 2012.

<sup>61</sup> Kim Jong Il was appointed a member of the Presidium of the Politburo, the Secretariat of the Central Committee and the NDC in 1980 and he was ranked 2nd in the leadership when his father, Kim Il Sung, died on 8 July 1994. The whole country had expected Kim Jong Il to take over since the 1960s. Cumings, B., *Korea's Place in the Sun: A Modern History*, 2nd edn (W.W Norton & Co.: New York, 2005), p. 425.

<sup>62</sup> Interviews with author, Liaoning, Nov. 2012.

'anti-party, counter-revolutionary factional acts'.<sup>63</sup> Jang was regarded by many in China as a reliable interlocutor and a strong advocate of the development of China–North Korea economic relations.<sup>64</sup> As a member of the Politburo and the National Defence Commission, Jang was one of the most senior leaders in the North Korean political system. In particular, he played a key role in supporting the development of special economic zones (SEZs) on the border with China, including during a high-level visit to Beijing in August 2012. Jang's demise seems motivated more by a power struggle and considerations of political loyalty than by issues of policy or an ideological rift.<sup>65</sup> North Korea has deprived itself of a senior official with good access in Beijing and will have to find a suitable replacement.

<sup>63</sup> Korea Central News Agency, 'Report on enlarged meeting of Political Bureau of Central Committee of WPK', 9 Dec. 2013.

<sup>64</sup> Interviews with author, Beijing and Jilin, Nov. 2012.

<sup>65</sup> Mansourov, A., 'North Korea: the dramatic fall of Jang Song Thaek', 38 North, 9 Dec. 2013, <<http://38north.org/2013/12/amansourov120913/>>.

### 3. China's support for North Korean economic development policies

In late 2009 China started providing greater economic support to North Korea. Although this policy was primarily designed to mitigate risks of regime collapse, Chinese experts overwhelmingly argue that supporting North Korean economic development policies can also help solve the North Korean nuclear issue.

However, the degree to which this argument underpins China's current economic policy towards North Korea is nuanced. In reality, political support in China for China–North Korea economic relations face the enormous obstacle of market realities. As detailed below, Chinese firms remain cautious and often reluctant to invest in North Korea, given the risks of expropriation and the prospects of low returns or losses. Although during the past few years economic issues have gained more attention in China, since the conclusion of the political succession in North Korea political support for economic initiatives seems to have been significant only for those few projects that also serve Chinese economic interests, such as the port of Rason or the mining industry in the north of North Korea.

It could appear contradictory that, while promoting Chinese-style reform and opening, China only supports self-serving economic projects. However, this is in fact the quintessence of China's approach: identifying what in North Korea's economic agenda aligns with China's economic interests and selectively supporting projects, with the overarching rationale that all projects serve a long-term strategic agenda of promoting Deng Xiaoping-style economic reform (without political reform affecting one-party rule), stability in the Korean peninsula and, ultimately, nuclear disarmament.

#### **The North Korean economy<sup>66</sup>**

Despite an ideology of self-reliance (주체, *juche*), North Korea's economy has depended heavily on foreign assistance since the end of the 1950–53 Korean War. North Korea was able to benefit from the cold war to obtain aid and trade on preferential terms from the Soviet Union and China. The energy sector was particularly dependent on foreign assistance, with a direct impact on food security: imports of subsidized oil sustained the chemical industry that produced the fertilizer needed for agricultural production. Bruce Cumings estimates that, until the early 1980s, North Korea's per capita revenue was roughly equivalent to

<sup>66</sup> Statistics on North Korea are notoriously unreliable, including on such basic information as population and gross domestic product (GDP). The latest census counted a total of 24 million people in 2008. North Korean Central Bureau of Statistics (CBS), *DPR Korea 2008 Population Census: National Report* (CBS: Pyongyang, 2009). North Korea does not publish GDP data. The CIA estimates North Korea's GDP to have been \$28 billion at the official exchange rate in 2009 and \$40 billion at purchasing power parity in 2011. US Central Intelligence Agency (CIA), 'Korea, North', *The World Factbook* (CIA: Washington, DC, 2013), <<https://www.cia.gov/library/publications/the-world-factbook/geos/kn.html>>.

South Korea's, while production of electricity, steel and fertilizer was comparable or higher.<sup>67</sup> The abrupt end of Soviet assistance in 1987–91 revealed the country's absolute dependence on subsidized trade and external financing of structural current account deficits. China's decision in 1993 to apply market prices to previously subsidized exports of fuel and food dealt another major external blow.<sup>68</sup> At the same time, the collapse of the Soviet bloc resulted in the sudden shrinking of North Korea's traditional export markets. Exports dramatically decreased while natural disasters, such as the cataclysmal floods of August 1995, amplified structural weaknesses. The North Korean economy contracted for nine consecutive years between 1990 and 1998; by the end of the 1990s, it was only one-third of its size in the 1980s.<sup>69</sup>

The succession from Kim Il Sung to Kim Jong Il in 1994 coincided with a famine in 1995–98—known as the Great Famine or the 'Arduous March'—that started with the collapse of the Public Distribution System (PDS), the rationing system ensuring distribution of food, and killed between 900 000 and 3.5 million North Koreans.<sup>70</sup> Fifteen years after the end of the famine and despite the introduction of market mechanisms, improvements in the agricultural sector and significant international aid, North Korea still faces a chronic malnutrition problem. The prevalence of global chronic malnutrition (stunting) among children under 5 years old was 27.9 per cent in 2012, a modest decrease from 32.4 per cent in 2009, and down from 45.2 per cent in 2000 and 62.3 per cent in 1998.<sup>71</sup> In July 2013 the World Food Programme (WFP) started implementing a new two-year programme. The cost of full implementation is estimated at \$200 million in food aid for a programme targeting 2.4 million women and children.<sup>72</sup> The November 2013 WFP assessment report on the crop and food situation in North Korea also found that, despite a new increase in the production of cereals, local agriculture was still unable to meet the nutritional needs of the population: 84 per cent of households had borderline or poor food consumption and the number of stunted children remained high.<sup>73</sup> Although the overall situation has improved over the past decade, economic development in North Korea is still a matter of human security.

<sup>67</sup> Cumings (note 61), p. 434.

<sup>68</sup> Cumings (note 61).

<sup>69</sup> Lin, J. and Quan, Z., 现代朝鲜经济 [The modern North Korean economy] (Yanbian University Press: Yanji, 2011), p. 67.

<sup>70</sup> Estimates vary regarding the total number of deaths. Noland, M., Robinson, S. and Wang, T., 'Famine in North Korea: causes and cures', *Economic Development and Cultural Change*, vol. 49, no. 4 (July 2011).

<sup>71</sup> North Korean Central Bureau of Statistics (CBS), *Democratic People's Republic of Korea: Final Report of the National Nutrition Survey 2012, September 17th to October 17th 2012* (CBS: Pyongyang, Mar. 2013), pp. 7, 72.

<sup>72</sup> World Food Programme (WFP), 'Korea, Democratic People's Republic (DPRK): overview', <<http://www.wfp.org/countries/korea-democratic-peoples-republic-dprk/overview>>.

<sup>73</sup> Food and Agriculture Organization of the United Nations (FAO) and World Food Programme (WFP), *FAO/WFP Crop and Food Security Assessment Mission to the Democratic People's Republic of Korea* (FAO/WFP: Rome, 28 Nov. 2013), pp. 4, 28.

*North Korea's 'economic improvement measures'*

On 1 July 2002 North Korea announced a package of 'economic management improvement measures' that legalized some market mechanisms within the centrally planned socialist economy.<sup>74</sup> The wording of the announcement was chosen to avoid the term 'reform' and to differentiate North Korea's strategy from Deng Xiaoping's 'reform and opening'.<sup>75</sup> Measures included a relaxation of price controls, increases in wages, a major depreciation of the North Korean won against the US dollar to encourage investment and support exports, the devolution of greater decision-making powers to production units, and the establishment of three special economic zones: at Sinuiju, the Kaesong Industrial Region and the Mount Kumgang Tourism Region.<sup>76</sup> Individuals were authorized to operate businesses in the service sector in the name of their work unit, and trade companies were encouraged to seek profits by being allowed to retain 20–40 per cent of their earnings in foreign currencies.<sup>77</sup> Markets for agricultural products were legalized.<sup>78</sup> To a large extent, the measures institutionalized a 'marketization from below' that had occurred in North Korean society during the second half of the 1990s as a survival strategy to cope with the famine.<sup>79</sup> However, the measures went further, shaping an environment that was less unfavourable to an expansion of market activities.

Nevertheless, the pendulum swung back between 2005 and 2009 when the North Korean Government attempted to re-establish full central control over society and the economy through a major crackdown on market activities. New measures included closure of wholesale market centres, anti-market education campaigns, the banning of women under 40 from trading goods in markets, and severe punishment of black market traders.<sup>80</sup> The crackdown coincided with an attempt by the government to restore its monopoly on grain purchases and food distribution through the PDS.<sup>81</sup> In November 2009 the government announced a new currency reform, aimed at curbing private trade and strengthening the 'principle and order of socialist economic management', as explained by a Central Bank official.<sup>82</sup>

This policy was again reversed as North Korea's external environment worsened in the aftermath of the second nuclear test. In 2009 North Korea

<sup>74</sup> Park, J., 'The July-1 measures: a genuine change for economic reconstruction?', *East Asian Review*, vol. 16, no. 4 (winter 2004).

<sup>75</sup> Interviews with author, Liaoning and Jilin, Nov. 2012.

<sup>76</sup> Cha, V., *The Impossible State: North Korea, Past and Future* (Harper Collins: New York, 2012), pp. 141–47.

<sup>77</sup> Lin and Quan (note 69), p. 388.

<sup>78</sup> Qin, X., '金日成铜像下的自由市场' [Free market under the statue of Kim Il Sung], *Nanfang Zhoumo*, 22 Mar. 2012.

<sup>79</sup> Haggard, S. and Noland, M., *Famine in North Korea: Markets, Aid and Reform* (Columbia University Press: New York, 2007).

<sup>80</sup> Haggard, S. and Noland, M., *The Winter of Their Discontent: Pyongyang Attacks the Market*, Policy Brief no. PB10-1 (Peterson Institute for International Economics: Washington, DC, Jan. 2010).

<sup>81</sup> Lankov, A., *The Real North Korea: Life and Politics in the Failed Stalinist Utopia* (Oxford University Press: New York, 2013), pp. 121–22.

<sup>82</sup> Haggard and Noland (note 80), p. 1.

**Table 3.1.** South Korea assistance and grants to North Korea, 2003–12

Figures are in US\$ million in current prices and exchange rates.

Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Government	218.8	233.3	307.3	238.1	375.4	39.7	23.0	17.6	5.9	2.0
Private	64.3	136.0	76.1	74.3	97.8	65.8	29.5	17.3	11.8	10.5
<b>Total</b>	<b>283.1</b>	<b>369.3</b>	<b>383.4</b>	<b>312.3</b>	<b>473.2</b>	<b>105.5</b>	<b>52.5</b>	<b>34.9</b>	<b>17.7</b>	<b>12.5</b>

Source: South Korean Ministry of Unification, 'Major statistics in inter-Korean relations', <<http://eng.unikorea.go.kr/CmsWeb/viewPage.req?idx=PG0000000541>>.

re-emphasized the goal of achieving the construction of a 'strong and prosperous nation' in 2012 to celebrate the 100th anniversary of the birth of Kim Il Sung. In 2010 the government progressively withdrew the new restrictions or instructed local authorities not to enforce them.<sup>83</sup> A major incentive to allow and expand market activities was the interruption of Japanese, South Korean and US assistance. Japan banned all imports from North Korea after the first nuclear test and all exports to North Korea after the second test.<sup>84</sup> In 2008 South Korean tours to Mount Kumgang stopped after a tourist was shot dead by a North Korean guard outside the tourist zone. In August 2011 North Korea expropriated the assets of South Korean investors in the resort (worth more than \$370 million).<sup>85</sup> In May 2010, after the sinking of the *Cheonan*, South Korean President Lee Myung-bak suspended inter-Korean trade and investment relations, with the exception of the Kaesong Industrial Region. The interruption had a marginal effect on trade figures, as Kaesong represented 70 per cent of bilateral trade in 2010 and continued growing in 2011: thus, bilateral trade increased from \$1.679 billion in 2009 to \$1.971 billion in 2012.<sup>86</sup> Nonetheless, it represented a significant loss of revenue for some sectors of the North Korean economy: South Korea estimates that exports of agricultural and fishery products to the South and industrial production by South Korean firms in the North were bringing annual profits of about \$300 million to the North until their suspension in 2010.<sup>87</sup> Finally, the Lee administration dramatically scaled back humanitarian assistance projects (see table 3.1). The USA also interrupted aid to North Korea in early 2009, having provided over \$1.3 billion in food and energy assistance between 1995 and 2008.<sup>88</sup>

Kim Jong Un's economic policies are in broad continuity with those of Kim Jong Il. North Korea continues to tolerate market activities, to lean towards (—

<sup>83</sup> Lankov (note 81), p. 130.

<sup>84</sup> Office of the Japanese Prime Minister and Cabinet, 'Measures taken by Japan against North Korea (Announcement by the Chief Cabinet Secretary)', 5 Apr. 2013, <[http://www.kantei.go.jp/foreign/96\\_abe/decisions/2013/0405tyoukanhappyou\\_e.html](http://www.kantei.go.jp/foreign/96_abe/decisions/2013/0405tyoukanhappyou_e.html)>.

<sup>85</sup> Laurence, J., 'Pyongyang expels South Koreans from "peace" resort', Reuters, 22 Aug. 2011.

<sup>86</sup> South Korean Ministry of Unification, 'Major statistics in inter-Korean relations', <<http://eng.unikorea.go.kr/CmsWeb/viewPage.req?idx=PG0000000541>>.

<sup>87</sup> 'How the halt of inter-Korean trade hit N.Korea', *Chosun Ilbo*, 24 May 2013.

<sup>88</sup> Manyin, M. E. and Nikitin M. B., *Foreign Assistance to North Korea*, Congressional Research Service (CRS) Report for Congress R40095 (US Congress, CRS: Washington, DC, 11 June 2013). See also table 3.4 below.

边倒, *yibiandao*) trade with China and to reject US and South Korean conditions for resuming aid. After being installed in power, Kim Jong Un appeared to lay ideological foundations for policies prioritizing economic development. On 28 June 2012 he reportedly announced the 'establishment of a new economic management system in our own style' (known as the '6.28 measures', after the date of the speech).<sup>89</sup> The speech emphasized increasing production, and this was reiterated in Kim's 2013 New Year speech.<sup>90</sup> On 31 March 2013, in a speech to the WPK Central Committee, he announced 'a new strategic line on carrying out economic construction and building nuclear armed forces simultaneously'.<sup>91</sup> Known as the 'Byongjin line', it signalled an adjustment of Kim Jong Il's Military First (선군, *songun*) strategy. (*Byongjin*, 병진, means advance side by side, keeping pace, referring to the economy and the military.) While experts and analysts started discussing the '6.28 measures', there was no official confirmation that new measures had indeed been adopted. Chinese analysts argue that change has occurred on the ground since the June 2012 speech, especially with regards to the micro-level management of farming units. They point to measures reducing the farming unit size from 10–25 workers to 4–6 workers and increasing the proportion of harvests that farmers are allowed to keep for consumption or sale on markets. They also argue that subgroups authorized to sell agricultural products at markets have been established within the farming units.<sup>92</sup> While this falls short of adopting a household-based land contract system, as China did in the late 1970s, North Korea under Kim Jong Un seems to have embarked on the path of further decentralization of the agricultural sector in order to generate incentives for farmers to increase production.<sup>93</sup>

In its relations with the USA and South Korea, North Korea has favoured confrontation over opportunities to obtain assistance. By testing ballistic technology in April 2012 and breaking the North Korean–US agreement of 29 February 2012 (the Leap Day Deal), North Korea forfeited the 240 000 tonnes of food aid that the USA would have supplied.<sup>94</sup> In April 2013 North Korea unilaterally expelled South Korean staff from Kaesong and shut the complex until August, even though the industrial zone generates annual revenues of \$90 million in wages for its North Korean workers.<sup>95</sup> The administration of South Korean President Park Geun-hye maintains that South Korea will not resume aid until North Korea apologizes for the sinking of the *Cheonan*. South Korea also maintains pre-conditions for the resumption of tours to Mount Kumgang: a joint investigation

<sup>89</sup> Although the text of the 28 June 28 speech has not been released and there has been speculation regarding the existence of the '6.28 measures', the North Korean press did mention measures taken by the Cabinet in line with new forms of economic management. Kim, S., 'Cabinet acknowledges June 28th news', Daily NK, 13 May 2013, <<http://www.dailynk.com/english/read.php?cataId=nk09002&num=10565>>.

<sup>90</sup> Korea Central News Agency, 'New Year address made by Kim Jong Un', 1 Jan. 2013.

<sup>91</sup> Korea Central News Agency, 'Report on plenary meeting of WPK Central Committee', 31 Mar. 2013.

<sup>92</sup> Interviews with author, Jilin, Nov. 2012, Beijing, May 2013.

<sup>93</sup> Interviews with author, Jilin, Nov. 2012, Beijing, May 2013.

<sup>94</sup> On the Leap Day Deal see appendix B in this volume.

<sup>95</sup> Gale, A., 'Kaesong closure would hurt on both sides of the border', Korea Real Time, *Wall Street Journal*, 3 Apr. 2013, <<http://blogs.wsj.com/korearealtime/2013/04/03/kaesong-closure-would-hurt-on-both-sides-of-the-border/>>.

of the 2008 shooting, a pledge that such incidents will not recur and a safety guarantee for tourists.<sup>96</sup>

*Chinese interpretations and assessment of Kim Jong Un's economic policy*

Chinese analysts tend to dismiss the significance of North Korea's policy reversals on the introduction of market mechanisms. They stress instead a relative continuity in the expansion of market economy since the famine. A comprehensive analysis of the North Korean economy published by Yanbian University argues that the overall trend is a constant progression of the market economy since the late 1950s. According to this analysis, reform and opening are historical necessities.<sup>97</sup> Even though the term 'reforms' remains taboo for North Korean officials, Chinese experts note an improvement from the 1990s, when China's reforms were dismissed as revisionism.<sup>98</sup> Debates in China on North Korean economic policy generally address three main questions: What is the relative weight of market activities in the North Korean economy? Will the current government in North Korea support a significant expansion of market mechanisms in the short term? Will this ultimately lead to large scale reforms?

Some Chinese experts argue that the North Korean economy resembles China's in the mid-1980s because of its reliance on market mechanisms with weak foundations in law and institutions.<sup>99</sup> As the official average monthly income is 6000 North Korean won (\$45), an amount with which it is literally impossible to purchase anything, consumption relies on additional revenue earned in the grey economy.<sup>100</sup> Economists from Jilin argue that roughly half of the distribution of goods in North Korea takes place through illegal markets.<sup>101</sup> Based on interview with traders, *Nanfang Zhoumo* reported the existence of 300 major markets throughout the country in 2012, with a rapid increase in numbers since 2010.<sup>102</sup> Chinese analysts identify the strong support of Korean Chinese people with relatives in North Korea as being a key factor supporting a gradual expansion of market activities.

Chinese experts expect economic development to remain high on Kim Jong Un's agenda, with 'welfare' (民生, *minsheng*)—responding to the basic needs of the population—being a clear priority. They further assert that a significant change of attitude towards economic policy occurred in 2009 in North Korea, resulting from the awareness that it is 'no longer possible to ignore the suffering of the population'. The experts used the keywords 'pragmatic adaptation' and 'adjustments' to describe the change.<sup>103</sup> Chinese analysts tend to give credit to Kim Jong Un's emphasis on living conditions, as reflected in rhetorical adjustments and political appointments. They often quote one sentence from a speech

<sup>96</sup> 'Hyundai Asan faces mounting losses from Mount Kumgang', *Chosun Ilbo*, 11 July 2011.

<sup>97</sup> Lin and Quan (note 69), p. 388.

<sup>98</sup> Interviews with author, Jilin, Nov. 2012.

<sup>99</sup> Interviews with author, Jilin, Nov. 2012.

<sup>100</sup> Interviews with author, Beijing, Nov. 2012.

<sup>101</sup> Interviews with author, Jilin, Nov. 2012.

<sup>102</sup> Qin (note 78).

<sup>103</sup> Interviews with author, Jilin, Nov. 2012 (authors' translation).

made by Kim Jong Un in April 2012: 'It is the firm resolution of the Workers' Party of Korea to enable our people, the best people in the world who have remained loyal to the party, overcoming all difficulties, to live, without tightening their belts any longer, and fully enjoy wealth and prosperity under socialism'.<sup>104</sup>

Chinese analysts point to the increasing influence of the North Korean Government over economic management, which has long been a responsibility of the North Korean Army (the Korean People's Army, KPA) under the Military First policy.<sup>105</sup> They welcome the election in April 2013 of the supposedly reformist Pak Pong Ju as prime minister, who has made declarations on prioritizing the development of light industry and agriculture in order to improve living standards. However, Chinese analysts also underline four principal constraints that hinder a more ambitious adjustment in economic policy.

First, the heavy emphasis on the military undermines prospects for a significant increase in food production, because it diverts the work force and limited energy resources away from the agricultural sector.<sup>106</sup>

Second, they say that there will be no support for an ambitious reform agenda in North Korea as long as the old generation still occupies key posts at the top of the party and the military.<sup>107</sup> While Deng Xiaoping was able to generate support for bold experimentation in China's economic policy in the late 1970s, Kim Jong Un—even if he harboured similar ambitions—may lack the clout to impose a similar agenda on the WPK and its military elders.

Third, they believe that there will be no significant acceleration of economic reforms as long as the strategic environment is perceived as hostile, with regime change seen as the priority of the USA. In this context, Chinese experts often mention the quasi-simultaneity of the establishment of Chinese-US diplomatic relations and the launch of Deng's reforms.<sup>108</sup> Without sufficient security guarantees, they argue that the North Korean regime will resist change as it will continue to perceive economic reforms as opening the gate to 'peaceful transformation' (和平演变, *heping yanbian*, a Chinese term for regime change).<sup>109</sup>

Finally, Chinese analysts believe that North Korea's international isolation is a major problem since it leaves North Korea with a severe lack of capital, energy resources and know-how, giving the progress of market activities only a limited potential to simulate growth.<sup>110</sup> Therefore, the current emphasis on economic development can only have limited effects and a limited chance that they will lead to a more ambitious reform agenda.

Despite these caveats, Chinese experts argue that the current emphasis on raising living standards should not be dismissed as meaningless propaganda.

<sup>104</sup> Korean Central News Agency, 'Kim Jong Un speaks at military parade', 15 Apr. 2012.

<sup>105</sup> Interviews with author, Jilin and Liaoning, Nov. 2012, Beijing, May 2013.

<sup>106</sup> Interviews with author, Liaoning, Nov. 2012. In 2012 the KPA had 1.19 million active service personnel. International Institute for Strategic Studies (IISS), *The Military Balance 2013* (Routledge: London, 2013), pp. 310–12.

<sup>107</sup> Interviews with author, Jilin, Nov. 2012.

<sup>108</sup> Interviews with author, Jilin, Nov. 2012.

<sup>109</sup> Interviews with author, Jilin, Nov. 2012.

<sup>110</sup> Interviews with author, Jilin, Liaoning, Nov. 2012.

**Table 3.2.** Bilateral trade between China and North Korea, 2003–12

Figures are as reported by the Chinese General Administration of Customs.

	Bilateral trade		Chinese exports		Chinese imports		North Korea's trade deficit with China (US\$ b.)
	Value (US\$ b.)	Growth (%)	Value (US\$ b.)	Growth (%)	Value (US\$ b.)	Growth (%)	
2003	1.023	38.6	0.628	34.2	0.395	45.8	-0.233
2004	1.385	35.4	0.800	27.4	0.586	48.4	-0.214
2005	1.580	14.1	1.080	35.0	0.499	-14.8	-0.581
2006	1.700	7.6	1.232	14.0	0.468	-6.3	-0.765
2007	1.976	16.2	1.393	13.0	0.583	24.7	-0.809
2008	2.793	41.3	2.032	46.1	0.760	30.3	-1.272
2009	2.680	-4.0	1.888	-7.1	0.793	4.3	-1.095
2010	3.472	29.6	2.278	20.8	1.193	50.6	-1.085
2011	5.641	62.5	3.165	38.9	2.477	107.6	-0.688
2012	5.933	5.2	..	..	..	..	..

Sources: National Bureau of Statistics of China, <<http://data.stats.gov.cn/>> (for 2003–11); and China Customs Information Center, <<http://www.haiguan.info/>> (for 2012).

## Bilateral trade, investment and aid

### Trade

According to data from China's customs agency, the General Administration of Customs, bilateral trade between China and North Korea is officially valued at \$5.9 billion for 2012, and \$4.69 billion for January–September 2013.<sup>111</sup> This pales in comparison with the \$215.1 billion of goods exchanged in 2012 with South Korea, China's third largest trade partner, and represents less than 0.2 per cent of China's global trade in 2012 (which totalled \$3.9 trillion according to the Chinese Ministry of Commerce, MOFCOM).<sup>112</sup> South Korean estimates of North Korea's trade reliance on China in 2012 vary between 70.1 per cent and 89 per cent.<sup>113</sup> According to Chinese customs data, North Korea's trade dependency on China increased from 25 per cent to 78.5 per cent between 2000 and 2009 when inter-Korean trade is excluded, and from 20.3 per cent to 52.6 per cent when inter-Korean trade is included.<sup>114</sup>

The year 2009 was pivotal (see table 3.2). In 2010, North Korean exports to China increased by 51 per cent, and in 2011 they grew by a further 134 per cent, which can largely be explained by North Korea's change of approach to exporting

<sup>111</sup> Database of the China Customs Information Center, <<http://www.haiguan.info/onlineSearch/TradeStat/StatOriSub.aspx?TID=2>>. See also 'N. Korea–China trade up 4.4 pct in Jan–Sept period despite sanctions', Yonhap, 5 Nov. 2013.

<sup>112</sup> The South Korea customs data are as quoted by the Chinese MOFCOM. Chinese Ministry of Commerce, '2012 年韩国货物贸易及中韩双边贸易概况' [South Korea's trade of goods in 2012 and China–South Korea bilateral trade], Country report, 20 Feb. 2013, <[http://countryreport.mofcom.gov.cn/record/view110209.asp?news\\_id=32719](http://countryreport.mofcom.gov.cn/record/view110209.asp?news_id=32719)>.

<sup>113</sup> Mei, X., '开展对朝经贸, 中企当守稳准决' [In developing China–DPRK economic and trade relations, Chinese firms should be cautious], *Guoji Shanghao*, 25 Feb. 2013.

<sup>114</sup> Lin and Quan (note 69), p. 313.

raw materials produced near the Chinese border. According to Chinese customs data, minerals, iron ore and coal account for more than 60 per cent of Chinese imports from North Korea since 2007, and this share has grown rapidly since 2010, while fishery products and garments as a share of China's import have decreased.<sup>115</sup> The South Korean press reports that exports of mineral resources to China reached 8.4 million tonnes during the first nine months of 2011, up from an annual total of 4.8 million tonnes in 2010 and 2.5 million tonnes in 2008.<sup>116</sup> In 2010, according to Chinese customs data, coal imports from North Korea increased by 54 per cent and iron ore imports doubled. According to South Korean data, Chinese imports of North Korean steel amounted to \$82 million between January and October 2010.<sup>117</sup> Political support on both sides resulted in a trade pattern of imports of raw material from North Korea and exports of products directly benefiting North Korea's food security, such as rice, wheat and oil. There is a remarkable continuity in the past three years regarding trade by items: according to Chinese customs data, minerals and textiles consistently topped the list of categories exported from North Korea to China in 2010, 2011 and 2012.<sup>118</sup>

China's Liaoning and Jilin provinces play a pivotal role. Chinese academics estimate that 60–80 per cent of bilateral trade passes across the Friendship Bridge over the Yalu River, which links the cities of Dandong in Liaoning and Sinuiju in North Korea. Chinese customs data consistently ranks Liaoning first among Chinese provinces trading with North Korea, followed by Jilin and Shandong.<sup>119</sup> According to Shao Zhigao, an official at the Jilin branch of the Bank of China, citing the Jilin branch of MOFCOM, Jilin's trade with North Korea reached \$713.6 million in 2011, an annual growth of 39.9 per cent. Imports grew by 65.8 per cent, to reach \$338.3 million, while exports grew by 22.6 per cent to reach \$375.3 million.<sup>120</sup>

Tourism from China also contributed to the growth of bilateral trade. In 2011, 70 000 Chinese tourists visited North Korea, compared to 3500 from Western countries.<sup>121</sup> Both sides have launched initiatives to further expand Chinese tourism, with North Korea focusing on infrastructure and Chinese travel agencies negotiating new tour packages. Jilin's tourism authorities have noted a boom in cross-border tourism since the launch of charter flights from Yanji to Pyongyang and Mount Kungang in July 2012.<sup>122</sup> Since the launch of a visa-free pro-

<sup>115</sup> Lin and Quan (note 69), pp. 314–15.

<sup>116</sup> 'N Korea, China agree to jointly develop three mines in North', Yonhap, 9 Aug. 2012.

<sup>117</sup> Snyder, S. and Byun, S., 'China–Korea relations: can inter-Korean dialogue revive the Six-Party Talks?', *Comparative Connections*, vol. 13, no. 1 (May 2011).

<sup>118</sup> Database of the General Administration of Customs, <<http://www.haiguan.info/>>.

<sup>119</sup> Lin and Quan (note 69), p. 318.

<sup>120</sup> Shao, Z., '中朝贸易外汇管理便利化路径, 以吉林省对朝贸易为例' [Simplifying the management of foreign currency transactions in China–DPRK trade, the case of Jilin province], *Zhongguo Jinrong*, no. 7 (8 Apr. 2013).

<sup>121</sup> James, A., 'On expertise and ethics: tourism in North Korea', NK News, 27 Apr. 2013, <<http://www.nknews.org/2013/04/on-expertise-and-ethics-tourism-in-north-korea/>>.

<sup>122</sup> '吉林延吉开通直飞朝鲜平壤旅游包机' [Yanji in Jilin province opens tourism direct charter flights to Pyongyang in North Korea], China News Network, 6 July 2012, <<http://news.sina.com.cn/c/2012-07-06/195724727463.shtml>>.

cedure for Chinese nationals for one-day visits to Rason, Jilin tourist companies have started offering daily tours to Rason. North Korea is also trying to attract Chinese tourists to the Mount Kungang resort. It launched a cruise tour from Rason in July 2011 but was not able to operate tours on a regular basis.<sup>123</sup> A newer cruise ship has been commissioned in the hope of attracting more tourists to the scenic area.

Chinese analysts distinguish between legal trade, characterized by standard customs procedures on both sides of the border, and 'trade conducted by individuals' (民间贸易, *minjian maoyi*). The latter consists mostly of trade in second-hand electronic products and cereals and is conducted by North Korean citizens and Korean Chinese citizens visiting their relatives in North Korea.<sup>124</sup> The size of this trade is difficult to estimate but has a strong influence on North Korean consumption patterns. Some Chinese analysts argue that the North Korean population survives on cross-border illicit trade controlled by the North Korean military.<sup>125</sup> It has clearly surpassed trade with Korean communities in Japan as a source of consumer products and revenue.

The structure of the bilateral financial relationship favours illicit and barter trade. As a result of the weakness of North Korean institutions, and the UN Security Council sanctions (as discussed below), Shao estimates that up to 60 per cent of Jilin's trade with North Korea is settled in cash in yuan, while a significant share of the rest is barter trade. Because transactions are mostly conducted in yuan, China enjoys a major advantage in trade with North Korea, argues Mei Xinyu, a researcher with a think tank of the Chinese MOFCOM.<sup>126</sup> Chinese traders do not trust the North Korean won because of its unstable value, and North Korean traders have limited reserves of other foreign currencies. The Chinese Foreign Currency Bureau has trouble providing accurate figures for capital flows between the two countries, a problem aggravated by the fact that firms tend to deposit profits in private rather than institutional accounts, in order to avoid taxation.<sup>127</sup> Although some banks in Dandong can transfer money to counterparts in Pyongyang, this type of transaction seems to be used to remit profits from North Korean economic activities in China rather than for bilateral trade, and UN Security Council sanctions make them increasingly difficult.<sup>128</sup> However, since statistics reflect the flow of registered goods, and not the actual flow of capital, Yanbian-based economist Piao Guangji notes that there is only a marginal impact on the figures for North Korea's foreign trade because North Korea uses yuan cash earned from goods exported to China to import Chinese-made goods.<sup>129</sup>

<sup>123</sup> North Korea trying to attract foreign tourists', NK Brief, Institute for Far Eastern Studies, 27 Feb. 2013, <[http://ifes.kyungnam.ac.kr/eng/FRM/FRM\\_0101V.aspx?code=FRM130227\\_0001](http://ifes.kyungnam.ac.kr/eng/FRM/FRM_0101V.aspx?code=FRM130227_0001)>.

<sup>124</sup> Shao (note 120).

<sup>125</sup> Interviews with author, Jilin, Nov. 2012.

<sup>126</sup> Mei (note 113).

<sup>127</sup> Shao (note 120).

<sup>128</sup> Moore, M., 'China breaking UN sanctions to support North Korea', *Daily Telegraph*, 13 Apr. 2013.

<sup>129</sup> Piao, G., '中国与朝鲜经贸关系转型中的困境与对策' [The transformation dilemma of Sino-DPRK trade and economic relations and its countermeasures], *Dongbeiyi Luntan*, vol. 101, no. 3 (Mar. 2012), pp. 44–53.

In the future, the trade relationship may evolve to include more processing trade, as Chinese entrepreneurs take advantage of low costs in North Korea in labour-intensive sectors.<sup>130</sup> This nascent trend is reflected in the slow growth of Chinese investments in North Korea, as discussed below. According to this scenario, Chinese entrepreneurs would replicate in North Korea the role that firms from Hong Kong and Taiwan played in the development of Chinese SEZs.

For Jilin and Liaoning, economic interactions with North Korea are not without risk, as underlined by illegal immigration and drug trafficking (see boxes 3.1 and 3.2). A particular risk arising from the intensification of trade relations is proliferation of nuclear technology from North Korea.

North Korea is connected to international road, rail, air and sea transport networks, although interdictions of illegal shipments have been reported in only the latter two modes. While North Korea's air and sea fleets appears to have changed little over the past few years, a limited number of vessels sail under a flag other than that of North Korea. In 2010 the total number of vessels owned by North Korea sailing under foreign flags (mainly Cambodia, Mongolia, Panama and Sierra Leone) was estimated to be between 20 and 25.<sup>131</sup> Nonetheless, according to the UN Security Council Panel of Experts on the North Korean sanctions, there are strong indications that North Korea may be using foreign companies to act as front owners or operators. Analysis of recent exits from the North Korean registry suggests that a limited but noteworthy number of other vessels owned by North Korea may have been transferred to foreign front owners or operators located in Dalian and Hong Kong.<sup>132</sup> Under Resolution 2094 countries are to inform the UN Security Council's Sanctions Committee on North Korea when they suspect that a North Korean aircraft or vessel has been renamed or reflagged in order to evade the sanctions.<sup>133</sup> However, with the intensification of trade relations and increased air and sea traffic between North Korean and Chinese ports, such renaming or reflagging is increasing the risk of proliferation activities.

### *Investment*

The Chinese Ministry of Commerce records an accumulated value of \$270 million of Chinese foreign direct investment in North Korea at the end of 2011, but the total amount is most probably higher (see table 3.3). There was a rapid increase in Chinese FDI in North Korea in 2011, which reached an unprecedented annual total of \$55.95 million. In an interview, the Chinese Ambassador to North Korea reported total investment to be \$440 million in 2010.<sup>134</sup> Both numbers represent a minor fraction—much less than 1 per cent—of total outgoing

<sup>130</sup> Mei (note 113).

<sup>131</sup> United Nations, Security Council, Report of the panel of experts established pursuant to Resolution 1874 (2009), 12 May 2013, S/2013/337, 11 June 2013, para. 109.

<sup>132</sup> Lloyds List Intelligence, Maritime Intelligence Unit, Seasearcher, <<http://www.lloydslistintelligence.com>>.

<sup>133</sup> UN Security Council Resolution 2094 (note 13), para. 19.

<sup>134</sup> Gill, B., 'China's North Korea policy: assessing interests and influences', United States Institute of Peace (USIP) Special Report no. 283, July 2011, <<http://www.usip.org/publications/china-s-north-korea-policy>>, p. 5.

**Box 3.1. North Korean illegal immigration: China's refugee problem**

Non-governmental organization (NGO) estimates of the number of North Korean refugees in China usually range between 50 000 and 300 000.<sup>a</sup> While human rights and United Nations organizations call North Koreans who illegally cross the border 'refugees', China defines them as 'illegal economic immigrants', which is the legal basis for their repatriation.<sup>b</sup> China's forced repatriation policy has attracted criticism by the UN and human rights organizations, who argue that China is violating its obligations stated in the 1951 Convention Relating to the Status of Refugees and the 1967 Protocol Relating to the Status of Refugees.<sup>c</sup>

Two main factors explain China's approach. First, China fears a large influx of North Korean refugees, resulting in a permanent refugee population that would have a destabilizing effect on the economy of its north-eastern provinces and on its relationship with North Korea.<sup>d</sup> Second, China has concerns related to public security, such as drugs and human trafficking.<sup>e</sup>

Border crossings significantly increased during the 1995–98 famine in North Korea.<sup>f</sup> In reaction, the Chinese Government has gradually implemented stricter policies since the end of the 1990s.<sup>g</sup> In recent years, in particular since Kim Jong Un came to power, the two governments have further expanded cross-border cooperation against crime and illicit trafficking.<sup>h</sup> The South Korean press has reported increased border controls and the installation of barbed-wired fences along the border, as well as crackdowns on activists from foreign NGOs and religious activists, such as Christian missionaries, who provide support to North Koreans in China.<sup>i</sup> As a result, the influx of North Korean refugees has dramatically decreased since 2012. According to the South Korean Ministry of Unification, the number of North Korean refugees that entered South Korea via China dropped from 2706 in 2011 to 1509 in 2012. In 2013 the number has continued to drop.<sup>j</sup>

<sup>a</sup> E.g. South Korea's Database Center for North Korean Human Rights estimates that around 200 000 North Korean refugees were hiding in China in 2012, while the UNHCR estimates that the number at around 100 000. 'China extends North Korean border fences to bolster security', Radio Free Asia, 5 Aug. 2013, <<http://www.rfa.org/english/news/korea/fences-08052013162858.html>>; Anderson, M. S., 'Stateless: an introduction to the North Korean refugee issue', Sino-NK, 31 Jan. 2013, <<http://sinonk.com/2012/01/31/nk-refugees/>>; and Interview with author, Beijing, Nov. 2012.

<sup>b</sup> Hoon, Y. and Park, J., 'China's "way out" of the North Korean refugee crisis: developing a legal framework for the deportation of North Korean migrants', *Georgetown Immigration Law Journal*, vol. 25, no. 2 (winter 2011), p. 518.

<sup>c</sup> UN General Assembly Resolution 66/174, 29 Mar. 2011; and UN High Commissioner for Refugees (UNHCR), 'UNHCR protests Chinese deportation of North Koreans', Press release, 13 Jan. 2000, <<http://www.unhcr.org/cgi-bin/texis/vtx/news/opendoc.htm?tbl=NEWS&page=home&id=3ae6b81460>>

<sup>d</sup> Hoon and Park (note b), pp. 517–18.

<sup>e</sup> Zhang, Y., 'Drug trafficking from North Korea: Implications for Chinese policy', 3 Dec. 2010, <<http://www.brookings.edu/research/articles/2010/12/03-china-drug-trafficking-zhang>>.

<sup>f</sup> Noland, M., Robinson, S. and Wang, T., 'Famine in North Korea: causes and cures', *Economic Development and Cultural Change*, vol. 49, no. 4 (July 2011); and Freeman, C. and Thompson, D., *China on the Edge. China's Border Provinces and Chinese Security Policy* (Center for the National Interest/Johns Hopkins SAIS: Washington, DC, Apr. 2011), p. 25.

<sup>g</sup> '中朝边境往来者: 哪边能吃饱就涌向哪边' [The wanderers of the China–North Korea border: we go where we find food], *Zhongguo Xinwen Zhoukan*, 24 June 2009.

<sup>h</sup> Cho, J. et al., *White Paper on Human Rights in North Korea* (Korea Institute for National Unification: Seoul, July 2013), pp. 201–204.

<sup>i</sup> 'China blamed for defector abuse', *Korea Herald*, 30 May 2012.

<sup>j</sup> South Korean Ministry of Unification, 'Major statistics in inter-Korean relations', <<http://eng.uni.korea.go.kr/CmsWeb/viewPage.req?id=PG0000000541>>.

Chinese FDI, which was \$74.65 billion in 2011 according to MOFCOM.<sup>135</sup> One reason for under-reporting is that, instead of providing financial support to their joint venture partner, most Chinese companies tend to supply factory facilities and raw materials directly. As a result, the actual total value of investment is larger than the amount of financial support agreed at the start of a joint venture.<sup>136</sup> In addition, a portion of Chinese FDI is simply not registered with MOFCOM.

Liaoning and Jilin are key sources of investment for the North Korean economy. The website of MOFCOM lists 172 Chinese firms with direct investments in North Korea in 2013. Among them, 59 are registered in Liaoning, including 4 in Dalian city, and 60 in Jilin.<sup>137</sup> In a March 2012 report, the Open Source Center (OSC) of the US Central Intelligence Agency (CIA) listed 351 foreign firms with direct investments in North Korea; the largest number, 205, came from China, distantly followed by Japan, with 15 firms.<sup>138</sup> The OSC report noted that 87 per cent of Chinese-operated joint ventures in 2011 had been established since 2004. In addition, 6 of the 10 largest joint ventures in terms of capital were Chinese, and 5 were provincial-level state-owned enterprises (SOEs) registered in Jilin and Liaoning. The report noted that these investments represented less than 1 per cent of total FDI of companies registered in these two provinces.

North Korean officials have identified three main areas capable of attracting Chinese investment: mineral resources, five-stars hotels in Pyongyang and infrastructure in Rason.<sup>139</sup> However, Rason and the Pyongyang luxury real estate sector offer few opportunities, and there has been limited Chinese penetration in these areas.<sup>140</sup> Instead, Chinese investments in North Korea are concentrated in the mining industry, especially extraction of iron ore, gold, coal, copper, zinc, magnetite, molybdenum, lead and titanium. According to the North Korea Resources Institute (NKRI) and the Korea Resources Corporation, Chinese firms signed 31 contracts for 20 mines in North Korea between 2003 and 2009.<sup>141</sup>

<sup>135</sup> Chinese Ministry of Commerce, 对外投资合作国家个别指南: 朝鲜 [Guide to investing abroad: North Korea] (Chinese Embassy in North Korea: Pyongyang, 2012).

<sup>136</sup> Jeong, H., Kim, J., Lee, J. and Hong, I., [Change in North Korea's policy for foreign direct investment and future direction of the inter-Korean economic cooperation], Policy Analysis no. 11-21 (Korea Institute for International Economic Policy: Seoul, 30 Dec. 2011), pp. 27–28.

<sup>137</sup> Chinese Ministry of Commerce, '境外投资企业(机构)名录' [Foreign-invested enterprises (institutions) list], <[http://wszw.hzs.mofcom.gov.cn/fecp/fem/corp/fem\\_cert\\_stat\\_view\\_list.jsp?manage=0&check\\_dte\\_nian=0&check\\_dte\\_nian2=0&check\\_dte\\_yue=0&check\\_dte\\_yue2=0&COUNTRY\\_CN\\_NA=%B3%AF%CF%CA](http://wszw.hzs.mofcom.gov.cn/fecp/fem/corp/fem_cert_stat_view_list.jsp?manage=0&check_dte_nian=0&check_dte_nian2=0&check_dte_yue=0&check_dte_yue2=0&COUNTRY_CN_NA=%B3%AF%CF%CA)>.

<sup>138</sup> 'North Korea: characteristics of joint ventures with foreign partners', Open Source Center, 1 Mar. 2012.

<sup>139</sup> China Overseas Investment, '发起朝鲜投资专项基金' [Special fund investment North Korean launched], 22 Sep. 2013, <<http://www.coi.hk/news/html/?615.html>>. China Overseas Investment (COI) is a private company registered in Hong Kong that specializes in helping Chinese firms to invest abroad. Its CEO has prioritized North Korea. The quote is from the head of North Korea's Investment Office in a Sep. 2012 conference sponsored by COI in Beijing.

<sup>140</sup> Chinese companies are reportedly involved in the construction of a new 5-star hotel in Pyongyang. Loaiza, Y., 'Luxury hotels building boom in Pyongyang continues', NK News, 13 Mar. 2013, <<http://www.nknews.org/2013/03/luxury-hotel-building-boom-in-pyongyang-continues/>>.

<sup>141</sup> Jeong at el. (note 136), p. 81.

**Box 3.2. Cross-border drug trafficking**

Drug trafficking from North Korea is a major public security problem in north-eastern China.<sup>a</sup> Drug use is linked to minor criminal offences and prostitution, but also to the presence of larger criminal organizations that control trafficking.<sup>b</sup> The spread of HIV/AIDS in north-eastern China, which has been described as having reached epidemic proportions, is also connected to drug use, even to non-intravenous drug users.<sup>c</sup>

There is only limited information on which to base an estimate of the value of drug trafficking between China and North Korea; most available data is qualitative and unreliable.<sup>d</sup> Of the drugs seized in north-eastern China, the majority are methamphetamines produced in North Korea, also known as 'crystal meth' or 'ice'.<sup>e</sup> There were 10 000–60 000 drug addicts in Jilin province in 2010.<sup>f</sup> The director of the Chinese Narcotics Control Bureau (NCB, which falls under the Ministry of Public Security), Liu Yuejin, stated that in 2011 over 70 per cent of the drug users who were caught in north-eastern China were using synthetic drugs, such as ecstasy and methamphetamine.<sup>g</sup> There is a clear correlation between the reported increase of methamphetamine production in North Korea around the mid-2000s and its use in Jilin.<sup>h</sup>

Although the manufacturing does not require specialized chemical knowledge, the key ingredients, ephedrine and phenylacetone, are not easy to obtain in North Korea and reportedly often come from China.<sup>i</sup> There is clearly cross-border cooperation, with North Korea perceived as a drug-production safe haven by Chinese criminal groups.<sup>j</sup> Smuggling into Jilin and Liaoning allegedly requires bribing border control officers.<sup>k</sup> Although international trafficking of drugs by North Korean diplomats and security services is well-documented, there is no evidence that North Korea has a state-sponsored programme to smuggle methamphetamines into China to earn foreign currency. The state programme seems to have ceased to function around 2004 or 2005 and been replaced by private production.<sup>l</sup>

The Chinese Government does not publicly acknowledge the North Korean origin of drugs seized in north-eastern China, with the Chinese press pointing instead to drug trafficking from an unidentified country.<sup>m</sup> In addition to steps taken at the national level to increase the efficiency of its struggle against drugs, in recent years the Chinese Government has also launched large-scale drug crackdown campaigns in the provinces that border North Korea, most recently in Jilin during the first months of 2013. The Chinese press reported a decrease in the use of drugs in Jilin after these campaigns.<sup>n</sup>

<sup>a</sup> Yong, Z., 'Drug trafficking from North Korea: implications for Chinese policy', Brookings Institution, 3 Dec. 2010, <<http://www.brookings.edu/research/articles/2010/12/03-china-drug-trafficking-zhang>>.

<sup>b</sup> Swanström, N., 'Narcotics and China: an old security threat from new sources', *China and Eurasia Forum Quarterly*, vol. 4, no. 1 (Feb. 2006) pp. 130–31.

<sup>c</sup> Swanström (note b), p. 130.

<sup>d</sup> Lankov, A. and Kim, S., 'A new face of North Korean drug use: upsurge in methamphetamine abuse across the northern areas of North Korea', *North Korea Review*, vol. 9, no. 1 (spring 2013), p. 58.

<sup>e</sup> Lankov, A., 'Narco-capitalism grips North Korea', Asia Times Online, 18 Mar. 2011, <<http://www.atimes.com/atimes/Korea/MC18Dg02.html>>.

<sup>f</sup> Yong (note a).

<sup>g</sup> Li, C., 'Drugged by comrades', *Global Times*, 12 Mar. 2013.

<sup>h</sup> Lankov and Kim (note d), p. 46.

<sup>i</sup> Lankov and Kim (note d), pp. 49–52.

<sup>j</sup> Lankov (note e).

<sup>k</sup> 'Crystal meth and Tesco', *The Economist*, 16 Feb. 2013.

<sup>l</sup> Lankov and Kim (note d), p. 48.

<sup>m</sup> Yong (note a).

<sup>n</sup> Li (note g).

**Table 3.3.** Chinese foreign direct investment in North Korea, 2003–11

Figures are in US\$ m.

Year	2003	2004	2005	2006	2007	2008	2009	2010	2011
Yearly inflow	1.12	14.13	6.50	11.06	18.40	41.23	5.86	12.14	55.95
Accumulated value	1.17	21.74	31.04	45.55	67.13	118.63	261.52	240.10	312.61

Sources: Chinese Ministry of Commerce data for 2003–10 quoted in Piao, G., ‘中国与朝鲜经贸关系转型中的困境与对策’ [The transformation dilemma of Sino-DPRK trade and economic relations and its countermeasures], *Dongbeiyu Luntan*, vol. 101, no. 3 (Mar. 2012), pp. 44–53; and data for 2011 from Chinese Ministry of Commerce, National Bureau of Statistics and State Administration of Foreign Exchange, 2011 年度中国对外投资统计公报 [2011 statistical bulletin of China's outward foreign direct investment] (China Statistics Press: Beijing, 2012).

Travellers report heavy mining activities near the Chinese border, with Chinese companies bringing their own food.<sup>142</sup>

The flagship investment in North Korea's mining industry was made in November 2007 by Wanxiang (a private company registered in China's Zhejiang province) in Hyesan copper mine, North Korea's largest. The resulting joint venture between Wanxiang and a North Korean state enterprise gave Wanxiang 51 per cent of the exploitation rights in Hyesan for 15 years. According to the Chinese press, Wanxiang agreed to invest approximately 150 million yuan (\$25 million).<sup>143</sup> The case gained international media attention when Wanxiang entered into conflict with North Korean authorities. Costs were continuously raised and Chinese personnel were expelled from the country in early 2009, prompting the intervention of Wen Jiabao during his October 2009 visit, which resolved the case. The Chinese press reported that by 2012 Wanxiang had already injected three times the amount initially agreed, but that copper extracted from Hyesan had still not been shipped to China.<sup>144</sup>

Most Chinese investments in the mining sector are less high profile and proceed without Chinese authorization. These unregistered investments are a mix of licit and barter trade. According to Shao Zhigao of the Bank of China, Chinese companies receive payments in kind, such as mine products, but their investment is registered as trade, as they export the material needed for the exploitation of the mine.<sup>145</sup> Due to the fact that they use trade to circumvent investment regulations, Chinese companies are also left without legal protection in case of conflict.

A second area of Chinese investment is fishery resources. Several Chinese companies from Liaoning and Zhejiang have invested in a joint venture with North Korea's Samtaesung Trading Company. The agreement gives Chinese trawlers the right to fish between June and October off the north-east coast of North

<sup>142</sup> European diplomat, Interview with author, Beijing, Nov. 2012.

<sup>143</sup> ‘投建惠山青年铜矿以超 5.6 亿元’ [Investment in Hyesan copper mine has already exceeded 560 million yuan], *Shidai Zhoubao*, no. 223, 7 Mar. 2013.

<sup>144</sup> ‘投建惠山青年铜矿以超 5.6 亿元’ (note 143).

<sup>145</sup> Shao (note 120).

Korea, near the ports of Rajin and Chongjin. According to a South Korean academic source, payments to Samtaesung include electronic products and cash and are worth about \$25 000–30 000 per ship.<sup>146</sup> Fisheries are perceived as a promising area of bilateral trade in Jilin, where seafood from North Korea has been smuggled for decades.

Chinese firms are also active in the retail sector. Some major Chinese firms are present: for example, Haier sells washing machines with instructions in Korean, and BYD sells cars to, among others, the North Korean police forces and operates an after-sales service centre in Pyongyang.<sup>147</sup> Two other flagship investments are the Tianjin Bicycle Company (Daiji Te'er, 2005) and the Kwangbok area supermarket, which opened in Pyongyang in January 2012, and which Kim Jong Il was pictured visiting shortly before he died.<sup>148</sup> The presence of these Chinese companies has had a transformative effect on consumption patterns, in Pyongyang at least.

Overall, North Korea remains an extremely risky environment for Chinese companies. In 2007 the Liaoning-based Xiyang Group became the largest private investor in North Korea when it agreed to invest \$37.14 million in an iron ore processing plant, in a joint venture owned 75 per cent by Xiyang and 25 per cent by North Korea. In February 2012 North Korea suspended the implementation of the contract and cancelled Xiyang's corporate registration after the Chinese company rejected proposed contract modifications. In March the North Korean police expelled Xiyang's Chinese personnel from the country.<sup>149</sup> The Korean Central News Agency (KCNA, North Korea's state news agency) and Xiyang gave contradictory explanations of the cause of the conflict. Xiyang argued that in 2007 it obtained a promise from the North Korea Government that the joint venture law would soon be amended to raise the limit on foreign shares in joint ventures from 70 to 75 per cent. Five years later, North Korea used the (unchanged) 70 per cent threshold to expropriate Xiyang.<sup>150</sup> Xiyang Group also stated that North Korea violated its own investment laws by raising costs in order to illegally acquire the company's assets and technology.<sup>151</sup> The KCNA accused Xiyang of not fully carrying out its contractual obligations.<sup>152</sup> This development, and the embarrassment caused to both sides by the publication in the international press of Xiyang's vivid description of the corrupt practices of its North Korean guests during trips to China, prompted the Chinese Government to prioritize the question of the legal investment framework in North Korea.<sup>153</sup> In con-

<sup>146</sup> Jeong at el. (note 136), p. 87.

<sup>147</sup> Mei (note 113).

<sup>148</sup> 'Kwangbok department store', North Korean Economy Watch, 21 Feb. 2012, <<http://www.nkeconwatch.com/2012/02/21/kwangbok-department-store/>>; and Korean Central News Agency, 'Kwangbok area supermarket opens', 5 Jan. 2012.

<sup>149</sup> 'Investment in N.Korea has been a nightmare: Chinese group', *Dong-a Ilbo*, 9 Aug. 2012.

<sup>150</sup> 'Investment in N.Korea has been a nightmare: Chinese group' (note 149).

<sup>151</sup> 'North Korea blasts Chinese company in failed deal', Reuters, 5 Sep. 2012.

<sup>152</sup> Korean Central News Agency, 'Media should maintain impartiality in report about DPRK', 5 Sep. 2012; and 'Chinese firm in rare spat with Pyongyang', *Wall Street Journal*, 5 Sep. 2012.

<sup>153</sup> See e.g. the account in Rank, M., 'Chinese company vent venom on North Korea', Asia Times online, 15 Aug. 2012, <<http://www.atimes.com/atimes/Korea/NH15Dg01.html>>.

trast to the Wanxiang case, the Chinese Government did not intercede to help Xiyang, which probably signals an internal assessment that responsibility for the dispute was shared.

As a consequence of their reluctance to build factories in North Korea given the risks of expropriation, Chinese firms have explored another option: bringing North Korean workers to north-eastern China, which eliminates this risk, while allowing them to take advantage of low labour costs. The inflow of North Korean labour to north-eastern China is a new trend: the two sides began discussing the recruitment of North Korean workers in China in 2010 or 2011. *The Los Angeles Times* has reported a non-officially confirmed 2012 agreement under which Chinese firms would hire about 40 000 North Korean labourers to work in China, with estimated annual cash remittances of about \$2000 each.<sup>154</sup> The Chinese press relied mostly on foreign reports to cover this issue, and confirmed neither this arrangement nor the *Chosun Ilbo's* estimate that 120 000 North Korean individuals were working in China.<sup>155</sup> An exception was an investigative report published by *Zhongguo Jingji Zhoukan* based on interviews in north-eastern China. The article reported an average monthly salary of 1200 yuan (\$190) for North Korean workers in Tumen in Yanbian Korean Autonomous Prefecture, Jilin, and 1200–1500 yuan (\$190–237) in Dandong.<sup>156</sup>

### *Aid*

There is clearly a sense of history in China's approach to aid to North Korea, where Chinese refugees have found shelter and which provided assistance to China during the famine caused by the Great Leap Forward (1958–62).<sup>157</sup> There is no official record of the amount of Chinese aid to North Korea. A 2011 white paper defines foreign aid (对外援助, *duiwai yuanzhu*) as encompassing donations, zero-interest loans and preferential loans.<sup>158</sup> Donations dominate the outflow of aid. In 2011 the MOFCOM Vice-Minister, Fu Ziyang, stated that China's aid to North Korea—which started during the Korean War—has never included cash, and instead has focused on goods and industrial projects.<sup>159</sup> However, the most recent case of Chinese aid in the form of an industrial project was the Chinese Government's donation of the Daean Friendship Glass Factory, which was inaugurated by President Hu in 2005.<sup>160</sup>

Since 2010 China has become a minor donor to the WFP assistance programmes in North Korea. It agreed in 2010 that \$500 000 of its general contrib-

<sup>154</sup> 'China hires tens of thousands of North Korea guest workers', *Los Angeles Times*, 1 July 2012.

<sup>155</sup> 'North Korea to export 120,000 workers to China: media', *Caijing*, 25 June 2012, <<http://english.caijing.com.cn/2012-06-25/111910046.html>>.

<sup>156</sup> '揭秘在华朝鲜劳动在华揭秘' [North Korean workers in China], *Zhongguo Jingji Zhoukan*, 24 July 2012.

<sup>157</sup> Interviews with author, Jilin, Nov. 2012.

<sup>158</sup> Chinese State Council, 中国的对外援助 [China's foreign aid], White paper (Information Office of the State Council: Beijing, Apr. 2011).

<sup>159</sup> '中国第一批援助是给朝鲜提供' [The first batch of Chinese aid goes to North Korea], *Zhongguo Xinwen wang*, 26 Apr. 2011.

<sup>160</sup> Interview with author, Liaoning, Nov. 2012; and Xing Z. and Jiang Z., 'Hu ends fruitful visit to Pyongyang', *China Daily*, 31 Oct. 2005.

ution to the WFP be directed to North Korea. It provided a \$1 million grant in 2011 and another in 2012 for North Korean programmes, without an obligation to purchase products in China.<sup>161</sup> Since the interruption of South Korean food aid to North Korea in 2009, China has also become the main bilateral contributor of food aid: international food assistance totalled 28 750 tonnes (98 per cent from the WFP) in 2010/11, about 400 000 tonnes in 2011/12 (including 253 211 tonnes from China and 120 573 tonnes from multilateral sources, mostly the WFP); and about 100 000 tonnes in 2012/13 (including 60 724 tonnes from China and 32 935 tonnes from multilateral sources).<sup>162</sup>

With the exception of recent support for WFP activities, China's aid is handled entirely bilaterally, with little transparency. There is no evidence that Chinese food aid is delivered to the PDS and there is no publicly available information on whether China has a system to monitor deliveries. In all likelihood, Chinese aid is delivered at the border to North Korean authorities.<sup>163</sup> The official MFA line is that China provides aid to North Korea as its 'capacity allows'.

When covering Chinese aid, the Chinese press usually quotes foreign reports, especially from South Korea. However, there have been a handful of reports in the Chinese press in recent years based on first-hand information. In 2009 *Zhongguo Xinwen Zhoukan* reported that China provided 30 million yuan (\$4.4 million) of unconditional aid and 520 000 tonnes of cereals during the 1995–98 great famine.<sup>164</sup> After the death of Kim Jong Il, the Chinese Red Cross Society announced a delivery of 6000 boxes of instant noodles to North Korea (valued at 300 000 yuan, \$46 000) at the request of its North Korean counterpart.<sup>165</sup>

### **North Korean special economic zones and regional economic integration: from neglect and opposition to support**

North Korea's interest in SEZs on the border with China started at the end of the cold war, but China has long disregarded initiatives promoting regional or local integration. In the early 1990s, China was not fully supportive of the 'Greater Tumen Initiative', a regional integration project sponsored by the UN Development Programme (UNDP).<sup>166</sup> Chinese policies now support greater integration between North Korea and Liaoning and Jilin, two border provinces that share a

<sup>161</sup> WFP representative in Pyongyang, Interview with author, Beijing, Nov. 2012.

<sup>162</sup> Food and Agriculture Organization of the United Nations (FAO) and World Food Programme (WFP), *FAO/WFP Crop and Food Security Assessment Mission to the Democratic People's Republic of Korea*, 2011–13 edns (FAO/WFP: Rome, Nov. 2011–Nov. 2013).

<sup>163</sup> Interview with author, Beijing, Nov. 2012.

<sup>164</sup> Chen, X., '中国如何面对朝鲜' [How China faces North Korea], Special report, *Zhongguo Xinwen Zhoukan*, 24 June 2009.

<sup>165</sup> '中国红十字会援助朝鲜 30 万元食品' [Chinese Red Cross announces 300 000 yuan of food aid to North Korea], Chinese Red Cross Society, 16 Jan. 2012, <[http://www.redcrossol.com/sys/html/lm\\_2/2012-01-18/195820.htm](http://www.redcrossol.com/sys/html/lm_2/2012-01-18/195820.htm)>.

<sup>166</sup> The initiative was launched in 1991 as the Tumen River Area Development Programme, involving China, North Korea, South Korea, Mongolia and Russia. North Korea withdrew in 2009.

1416-km border with North Korea and lag behind other eastern provinces in their economic development.<sup>167</sup>

North Korea first established Rajin–Sonbong as a free-trade zone in 1991, with the goal of generating profits from processing trade after the loss of its traditional export markets in the Communist bloc. In 1996 the cities of Rajin and Sonbong were merged in a single administrative entity, Rason, which borders Jilin and Russia in the far north-east (see figure 3.1). But without support from China and South Korea, Rason's economy did not take off and the project was abandoned during the famine in the 1990s.

In September 2002, as part of the 'improvement measures', the North Korean Government announced the establishment of the Sinuiju Special Administrative Region in the far north-west of the country, bordering Liaoning (see figure 3.1). It was equipped with a relatively liberal basic law that recognized private property for 50 years and even authorized foreign nationals to be elected members of the local legislative assembly. However, in October 2002, Yang Bin, a Chinese–Dutch dual citizen who had been chosen by North Korea to head the project, was arrested at his home in Shenyang, Liaoning, on charges of fraud and given an 18-year prison sentence.<sup>168</sup> There are a number of possible explanations for this move. China may have viewed negatively the emergence of a competitor to cities in Liaoning for foreign capital. It may have feared a loss of influence over the North Korean economy if Sinuiju were to successfully attract capital from the USA, Japan and South Korea.<sup>169</sup> Some analysts suggest that the arrest may have been prompted by North Korea's unilateral decision to appoint Yang without prior consultation with China.<sup>170</sup> Most importantly, there was little enthusiasm in China for the plan to develop a casino in Sinuiju, especially under the leadership of a dual citizen with proven ties to the Chinese underworld, as it could have aggravated public security problems on the Chinese side of the border.<sup>171</sup> Lu Chao, a prominent North Korea expert at the Liaoning Academy of Sciences, argues that North Korea learned a lesson: no border project would succeed 'without close China–DPRK cooperation'.<sup>172</sup>

Given this record, Wen Jiabao's 2009 visit marked a policy shift. Border SEZs finally emerged as a cooperation item on the bilateral agenda. In November 2009

<sup>167</sup> In 2012 Liaoning was ranked 7th and Jilin 22nd among China's provinces in GDP, with respective GDPs of \$392.9 billion and \$285.1 billion. In 1978, Liaoning ranked 2nd. Chinese National Bureau of Statistics, *Chinese Statistical Yearbook 2012* (China Statistics Press: Beijing, 2012); and Chung, J., Lai, H. and Joo, J., 'Assessing the "Revive the Northeast" (*zhenxing dongbei*) programme: origins, policies and implementation', *China Quarterly*, no. 197 (Mar. 2009). In terms of GDP per capita, Liaoning ranked 7th among Chinese provinces in 2012 (\$9002.50), while Jilin ranked 11th (\$6908). 2012 年全国各省人均 GDP 排名 延吉超过 25 个省 [Provinces ranked by GDP per capita, Yanji fares better than 25 provinces], *Yanji Caijing Ban*, 2 Apr. 2013.

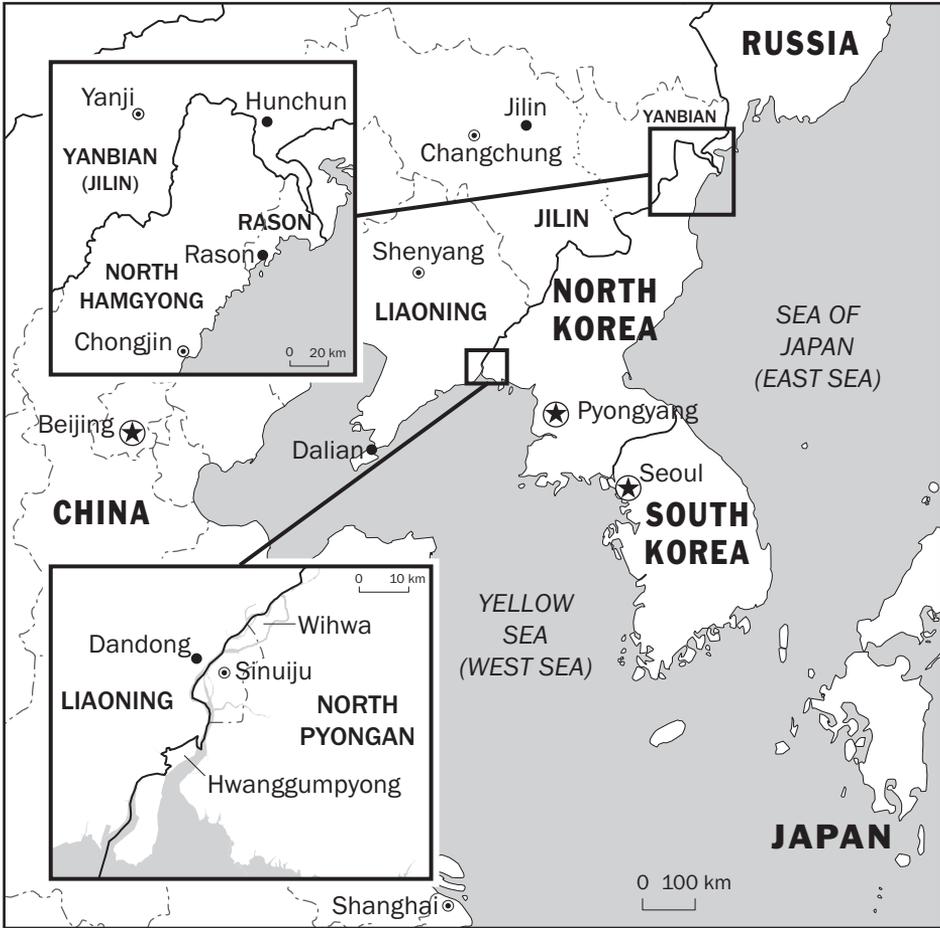
<sup>168</sup> O'Neill, M., 'Tycoon Yang Bin gets 18 years jail', *South China Morning Post*, 18 July 2003.

<sup>169</sup> Kim, W., 'Cooperation and conflict among provinces: the three northeastern provinces of China, the Russian Far East, and Sinuiju, North Korea', *Issues and Studies*, vol. 44, no. 3 (Sep. 2008).

<sup>170</sup> Interviews with author, Beijing and Liaoning, Nov. 2012.

<sup>171</sup> Snyder, S., 'China–Korea relations: Beijing in the driver's seat? China's rising influence on the two Koreas', *Comparative Connections*, vol. 4, no. 4 (2002).

<sup>172</sup> Liu, Y., '一桥两岛与世界机遇' [One bridge, two islands and a world-class opportunity], *21 Shiji Jingji Baodao*, 22 Jan. 2013 (authors' translation).



**Figure 3.1.** North Korean special economic zones and the China–North Korea border

the Chinese State Council approved the National Development and Reform Commission's 'Planning guidelines for cooperation and development in the Tumen River Area—Changchung/Jilin/Tumen as a pilot for regional development', a plan initiated by Jilin Provincial Government.<sup>173</sup> In April 2010 North Korea granted Rason the administrative status of 'special municipality', similar to Pyongyang and Kaesong. However, the key moment in the development of the SEZs was Kim Jong Il's May 2010 visit to China. The two sides reached a consensus on how to operate the SEZs, which led to the creation of two 'joint steering committees for the guidance of development cooperation' (开发合作联合指导委员会, *kaifa hezuo lianhe zhidao weiyuanhui*), one for each SEZ. In June 2011 North Korea officially

<sup>173</sup> Jilin Provincial Government, Special dossier on the Greater Tumen Project, <<http://jl.gov.cn/zt/cjtkfkfxdq/>>.

approved guidelines to develop the Hwanggumphyong and Wihwa Economic Zone in the greater Sinuiju area, and amended Rason's regulatory framework.<sup>174</sup>

The two SEZs are continuing to make slow progress under Kim Jong Un. In March 2012 North Korea made public the 2011 Law on the Hwanggumphyong and Wihwado Economic Zone and the most recent version of the 1993 Law on the Rason Economic and Trade Zone.<sup>175</sup> In August Jang Sung Taek led a North Korean delegation to Beijing and attended the third meeting of the joint steering committees with Chen Deming, the Minister of Commerce. The joint communiqué mentioned the creation of a management committee for the two zones.<sup>176</sup> While the steering committees appear to focus on strategic guidance and political impulse, the management committees were conceived to handle daily affairs. The two North Korean laws mention management committees but no article stipulates that their composition should be exclusively Sino-Korean. In essence, while North Korea prepared a legal framework for international investors from any number of countries, it operates the two zones bilaterally.

The following two subsections describe China's cautious support for the North Korean SEZs. While Jilin province, Yanbian prefecture and Dandong city are the most enthusiastic supporters of the North Korean SEZs, there is no sign that the central authorities in Beijing view this issue as a strategic priority. China offers limited support in the form of infrastructure (mostly on the Chinese side of the border) in order to create the conditions for future success, and responds positively to North Korean requests only insofar as they also serve Chinese economic interests.

### *Rason*

China sees Rason as an opportunity to promote the global integration of Jilin, a landlocked province.<sup>177</sup> As the northernmost ice-free port in North East Asia, Rason provides Jilin with a route via the Sea of Japan (the East Sea) to sell products to East Asia, and possibly an Arctic route to Europe. The immediate priority for China in Jilin is to reduce logistical costs and transport goods to the Shanghai area.<sup>178</sup> Between 2011 and May 2012, Hunchun Chuangli Logistics Company regularly shipped coal from Jilin to Shanghai through Rason.<sup>179</sup> Some Chinese experts argue that Rason is more reliable than Russian ports because of 'forces in Russia that oppose Chinese investment' and 'increase costs regularly' as

<sup>174</sup> Zhang, L., '罗先经济特区新历记' [Chronology of the Rason Special Economic Zone], *Huanqiu zazhi*, 10 Dec. 2012.

<sup>175</sup> Law of the Democratic People's Republic of Korea of the Hwanggumphyong and Wihwado Economic Zone, Adopted by Decree no. 2006 of the Presidium of the Supreme People's Assembly 31 Dec. 2011; and Law of the Democratic People's Republic of Korea on the Rason Economic and Trade Zone, Adopted by decision no. 28 of the Standing Committee of the Supreme People's Assembly on 31 Jan. 1993, as amended up to 3 Dec. 2011—both available via 'KCNA publishes DPRK SEZ laws', North Korean Economy Watch, 19 Mar. 2012, <<http://www.nkeonwatch.com/2012/03/19/kcna-publishes-dprk-sez-laws/>>.

<sup>176</sup> Chinese Ministry of Commerce, 'China-DPRK joint steering committee of economic zones held third meeting in Beijing', 15 Aug. 2012, <<http://english.mofcom.gov.cn/aarticle/newsrelease/significantnews/201208/20120808286632.html>>.

<sup>177</sup> Interviews with author, Jilin, Nov. 2012.

<sup>178</sup> Interviews with author, Liaoning, Nov. 2012.

<sup>179</sup> Wu Y. and Liu M., 'Stronger links show countries mean business', *China Daily*, 21 Sep. 2012.

a result of their 'unrealistic mentality'.<sup>180</sup> In addition to its strategic location, Rason benefits from the proximity of ethnic Koreans in the Yanbian Korean Autonomous Prefecture, who enjoy simplified visa procedures to travel to and invest in North Korea.<sup>181</sup>

China's support for Rason has centred on infrastructure. A new 48-km paved road from Hunchun to Rason, completed in 2012, reduced the transport time from at least 3 hours to less than 1 hour. The Hunchun Municipal Government financed the road at a cost of 150 million yuan (\$24 million). Hunchun is connected to Changchun, the capital of Jilin, by a highway completed in September 2010. China is also building a high-speed railway that will reduce the transportation time from Jilin City to Hunchun from the current 8 hours to 2 hours in 2016, at an estimated cost of \$6.3 billion.<sup>182</sup> In March 2013 the Jilin Provincial Government also announced plans to renovate the railway connection between Tumen, in Jilin, and Rason and Chongjin over the border.<sup>183</sup> Meanwhile, State Grid Corporation, a major central SOE, has completed a study on the feasibility of constructing a power line linking Rason to the Chinese network, a project approved by the State Council.<sup>184</sup> However, plans to export Chinese electricity to Rason have yet to be implemented.<sup>185</sup>

Chinese firms are also active in improving infrastructure inside North Korea. Contradictory information circulates regarding the proportion of infrastructure at Rason port that is Chinese. There are currently three piers at Rason harbour. A Yanbian-based company secured an agreement to use (but not run) pier 1 in 2008, while pier 2 is run by North Korea and pier 3 by Russia. There have been discussions on the construction of piers 4, 5 and even 6 by Chinese companies, and their subsequent lease for 50 years.<sup>186</sup> An August 2012 report by Choson Exchange, a non-governmental organization that runs projects in support of economic development in North Korea, argues that the construction of three additional piers is not going to start until traffic justifies an increase in capacities.<sup>187</sup> Another Yanbian-based company signed a joint venture agreement in 2012 to operate two piers at Chongjin harbour for 50 years.<sup>188</sup> These recent developments show that market considerations prevail. China's interest is sea access, not the development of Rason into a market economy outpost from which economic development could spread into North Korea.

<sup>180</sup> Mei (note 113) (authors' translation).

<sup>181</sup> According to the 2010 national census, there are c. 2 million ethnic Koreans in China, including 850 000 in the Yanbian Korean Autonomous Prefecture. Liu, W., Meng, H. and Liu, W., '延边朝鲜族自治州成立 60 年, 探寻幸福风景' [Yanbian Korean Autonomous Prefecture was founded 60 years ago: explore the landscape of happiness], *Renmin Ribao*, 3 Sep. 2012.

<sup>182</sup> Page, J., 'China builds up its links to North Korea', *Wall Street Journal*, 6 June 2013.

<sup>183</sup> Wang, Z., 'China-North Korea railway links to undergo upgrade', *Global Times*, 27 Mar. 2013.

<sup>184</sup> Zhu, C., 'China moves ahead with North Korea trade zone despite nuclear test', Reuters, 28 Feb. 2013.

<sup>185</sup> Abrahamian, A., '*The Honeymoon Period Is Over*': *Short Report on Rason Special Economic Zone, Democratic People's Republic of Korea* (Choson Exchange: Beijing, Aug. 2012).

<sup>186</sup> '从罗先透视朝鲜改革' [Reform in North Korea as observed from Rason], *Zhongguo Xinwen Zhoukan*, no. 30, 2012.

<sup>187</sup> Abrahamian (note 185).

<sup>188</sup> Xu, T., 'China inks second port deal with North Korea', *Global Times*, 12 Sep. 2012.

Chinese economic activity in Rason is real but limited. North Korea welcomes Chinese companies to take advantage of low labour costs in Rason and develop its processing trade.<sup>189</sup> So far, only a few companies have explored this opportunity. The flagship investments are a cement factory built by Changchun-based Yatai Group, a model farm operated by the Heilongjiang-based Beidahuang Group, and a cigarette factory. Jilin-based economists estimate that small- and medium-sized Chinese enterprises represent 78.7 per cent of total foreign investment in Rason, but there are no reliable figures regarding the amount invested.<sup>190</sup>

### *Hwanggumpyong and Wihwa*

The Hwanggumpyong and Wihwa Economic Zone is part of a larger administrative ensemble that includes Sinuiju. Geographically, Hwanggumpyong is the only part of North Korean territory located on the right bank of the Yalu River, while Wihwa is a small island further upstream (also known as Wihwado). Development in the new SEZ is planned to start in Hwanggumpyong and then expand into Wihwa, Sinuiju and surrounding territories. North Korea has identified three priorities for development in Hwanggumpyong: fish processing, software development and garment production.<sup>191</sup>

North Korea's best ally in the development of Hwanggumpyong is the ambition of Dandong, a Chinese city running daily advertisements on Chinese TV describing itself as the 'hub of North East Asia'. Dandong plans to take advantage of a future opening of the North Korean economy and become a major regional trade centre. A number of infrastructure projects have been authorized in the past few years. A new bridge over the Yalu River, the third, bears particular strategic importance as it is expected to play the key role in linking North Korea with a network of railways, highways and port facilities in the Dandong area.<sup>192</sup> Dandong is not on the route of the Harbin–Changchun–Shenyang–Dalian high-speed railway, which started operating in December 2012. However, in March 2010 construction started on high-speed railways linking Dandong to Shenyang and Dandong to Dalian, both expected to be completed in 2014. The city of Dandong has invested in improving port infrastructure. Although far behind Dalian in levels of traffic, Dandong handled 1.25 million containers in 2012 and 96 million tonnes of merchandise traffic.<sup>193</sup> In addition, Liaoning Provincial Government and the China Council for the Promotion of International Trade supported Dandong's initiative to launch the first China–North Korea Economic, Trade, Culture and Tourism Fair in October 2012, with a delegation of 500 North Koreans, strong representation from China's trade-promotion agencies and

<sup>189</sup> Xia, Y., '商务部专家, 中方制裁朝鲜并非断绝贸易' [MOFCOM expert: China sanctions North Korea but it doesn't mean interruption of trade], *Xinhua*, 10 June 2013.

<sup>190</sup> Guo, R. and Su, H., '朝鲜式特区与中朝边境经济合作' [North Korea-style SEZ economy and China–DPRK cross-border cooperation], *Yatai Jingji*, Feb. 2013, pp. 119–25.

<sup>191</sup> Interviews with author, Liaoning, June 2012.

<sup>192</sup> Mei (note 113).

<sup>193</sup> Chinese Port and Harbours Association, '丹东港: 货物吞吐量增 26.2% 集装箱吞吐量增 117.9%' [Dandong Port: cargo throughput increased by 26.2% and 117.9% increase in container throughput], 20 Feb. 2013, <<http://www.port.org.cn/info/201302/161602.htm>>. Dalian port ranks 7th in China container traffic, with 8 million containers in 2012.

400 Chinese enterprises.<sup>194</sup> A Chinese investigative report noted that although Dandong was successful in attracting investors from China and Singapore to the city's real estate sector, North Korea owed more than \$30 million to Dandong-based trade companies.<sup>195</sup>

Two years after the bilateral agreement was signed and joint steering committees established, the future of Hwanggumpyong remains uncertain. According to a Japanese media report, China withdrew support for Hwanggumpyong in May 2012 after the failed satellite launch, but the Chinese MFA denied this.<sup>196</sup> Sceptical observers doubt the level of support of the Liaoning Provincial Government, as Dalian, the major provincial port, certainly perceives Dandong as a potential competitor.<sup>197</sup> They also complain that Dandong lacks autonomy, as most decisions related to infrastructure need to be approved at the provincial and central levels. In addition, the strategic rationale for the central government to support Hwanggumpyong is weaker than for Rason, which offers China a new sea route.

In mid-2013 Hwanggumpyong was still a wasteland without basic infrastructure, and its development continued to face bureaucratic complications. According to a Chinese expert, it took North Korea several months to remove a military unit that was positioned in the SEZ.<sup>198</sup> Satellite photos show that construction started in the early autumn of 2012, with a main access road, an administrative building, and customs and security buildings.<sup>199</sup> Although progress is slow and there are reasons to doubt its viability without political support at the highest level in China, Hwanggumpyong may emerge in the medium term as a production centre for simple industrial products.

<sup>194</sup> Si, X., '中国“边城”丹东打造东北亚对朝贸易“桥头堡”' [China's 'border town' Dandong constructs its role as the 'bridgehead' of North East Asian trade with North Korea], *Guoji Shangbao*, 17 Oct. 2012.

<sup>195</sup> Liu (note 172).

<sup>196</sup> Chinese Ministry of Foreign Affairs, 'Foreign Ministry spokesperson Hong Lei's regular press conference on June 26, 2012', 27 June 2012, <<http://www.fmprc.gov.cn/eng/xwfw/s2510/2511/t946238.htm>>.

<sup>197</sup> Interviews with author, Liaoning, June 2012.

<sup>198</sup> Interview with author, Liaoning, Nov. 2012.

<sup>199</sup> 'New construction activity at the Hwanggumpyong Economic Zone', 38 North, 17 June 2013, <<http://38north.org/2013/06/hgp061713/>>.

## 4. China's strategy to promote denuclearization: the role of economic engagement

During the four years between the second and third nuclear tests, China's priority moved from creating the conditions for a stable succession to resuming the Six-Party Talks. As shown below, economic engagement, which started as a policy to address risks of regime collapse, was also intended to prepare the ground for a reduction of strategic tensions and, ultimately, nuclear disarmament by North Korea. Although denuclearization is not the primary goal of China's economic engagement, bilateral economic relations nonetheless play a role in shaping the strategic environment in which North Korea pursues its nuclear weapon programme.

Expanded trade also creates additional proliferation risks if not complemented by adequate inspections of shipments transiting through Chinese ports and airports. After the third nuclear test, China put more emphasis on enforcing sanctions and much less on economic engagement, while diplomatic efforts focused on the seemingly impossible task of resuming the Six-Party Talks. In the absence of multilateral negotiations, China's strategy to promote denuclearization and non-proliferation thus increasingly seems to stand on the two pillars of economic engagement and sanctions. The respective importance of these pillars at any moment depends on a number of factors, such as North Korea's proliferation activities and China–USA relations.

### **Chinese views of the North Korean nuclear weapon programme**

#### *Reasons for acquiring nuclear weapons*

Most Chinese analysts argue that North Korea's pursuit of nuclear weapons is rational and view its origin as stemming from the pursuit of national security. Assessments by Chinese experts routinely describe North Korea as having been 'forced' down the nuclear path to seek 'self-protection' since it is faced with 'double standards' and threats of 'nuclear coercion'.<sup>200</sup> North Korean declarations in the lead-up to its third nuclear test stated that it would not give up its nuclear weapons until 'the denuclearization of the world is realized'.<sup>201</sup> Such wording mirrors that used by China to describe the origins of its own nuclear deterrent.<sup>202</sup> Chinese experts also often cite the US-led 2003 invasion of Iraq as an event that significantly strengthened North Korea's perception that, in order to avoid a similar fate, it had to quickly develop a nuclear capability. The North Atlantic Treaty Organization (NATO) operation in Libya in 2011 reinforced this per-

<sup>200</sup> Interviews with author, Beijing, Nov. 2012 (authors' translation).

<sup>201</sup> Korean Central News Agency, 24 Jan. 2013 (note 10); and Korean Central News Agency (note 11).

<sup>202</sup> Sun, X., 'Analysis of China's nuclear policy', *China Security*, vol. 1, no. 1 (summer 2005).

ception. Chinese experts view the relinquishment by Iraq and Libya of their nuclear-weapon programmes as having inevitably led to the collapse of their regimes.<sup>203</sup>

In sum, Chinese experts have a deep understanding of and empathy with the logic behind North Korea's nuclear and other weapon programmes, which is often attributed to hostile US policy and insufficient security guarantees given to North Korea.<sup>204</sup> While Chinese experts continue to stress North Korea's non-proliferation obligations, there appears to be a tendency for them to do so in tandem with the caveat that they comprehend the motivations behind North Korea's nuclear weapon programme. At the same time, Chinese scholars recognise that North Korea's vulnerable nuclear weapon capability paired with its aggressive and hostile policies are likely to invite coercive responses rather than encourage diplomatic efforts—this can be seen as one reason for China's growing frustration with North Korea's belligerent actions.<sup>205</sup>

Other prominent North Korea scholars point out that, although North Korea mainly attributes its nuclear weapon programme to the USA's hostile policy and its need for self-defence, the current motives appear to be more complex. According to many experts, North Korea has been playing a double game by presenting different, simplified versions of its motives, depending on the party to whom it talks (见人说话, *jian ren shuohua*).<sup>206</sup> To many Chinese analysts, however, the fact that North Korea continued to push ahead with its nuclear weapon programme in opposition to the global non-proliferation regime reveals the multifaceted rationale behind its pursuit of nuclear weapons.<sup>207</sup> As well as a reaction to perceived US hostility, they see North Korea's nuclear weapons as being a tool to restore the strategic balance in relation to South Korea's increasing conventional superiority and a means to strengthen the North's claim for unification on its terms.<sup>208</sup> In addition, Chinese experts see a strong domestic and ideological role for North Korea's nuclear weapons. They argue that, since nuclear weapons are considered to be a paramount national scientific achievement and an indicator of national strength and power, the development of nuclear weapons is at the core of the Military First policy but is also a means to consolidate the absolute authority of the leadership.<sup>209</sup>

Based on these assessments, it is the mainstream view among Chinese North Korea scholars that acquiring a nuclear capability is the ultimate strategic goal of North Korea, rather than a bargaining chip. After North Korea's first nuclear test in 2003, many in China argued that the aim of the weapon programme was to obtain diplomatic recognition from the USA and Japan, a peace treaty with the

<sup>203</sup> Saalman, L., *Balancing Chinese Interests on North Korea and Iran* (Carnegie-Tsinghua Center for Global Policy: Beijing, Apr. 2013).

<sup>204</sup> Sun (note 202).

<sup>205</sup> Interviews with author, Beijing, Nov. 2012.

<sup>206</sup> Interviews with author, Beijing, Nov. 2012; and Zhang (note 33).

<sup>207</sup> Interviews with author, Beijing, Nov. 2012.

<sup>208</sup> Interviews with author, Beijing, Nov. 2012.

<sup>209</sup> Zhang (note 33).

USA, or economic assistance from its neighbours.<sup>210</sup> This perception has changed over time. Today, most analysts argue that North Korea has followed a policy of 'two steps forward and one step back' (进二退一, *jin er tui yi*) in the sense that North Korea knows when to be assertive and proactive and when to offer a compromise, while ultimately achieving all it wants (鱼熊兼得, *yu xiong jian de*, which literally means 'get both fish and the paws of a bear'). Zhang Liangui, a prominent scholar, summarizes these perceptions by stating that 'as a result, North Korea is able to conduct nuclear tests, be viewed as pragmatic and flexible, and gain economic benefits—hitting three birds with one stone'.<sup>211</sup>

### *Is denuclearization still an option?*

China's current stance on nuclear issues marks a departure from the policies of the first generation of Chinese leaders. China no longer promotes nuclear proliferation; it has gradually adhered to the non-proliferation regime since the early 1990s and now consistently supports the 1968 Non-Proliferation Treaty (NPT).<sup>212</sup> However, while there has been an official break with a past policy that viewed non-proliferation as cementing discrimination and inequality, these sentiments have not been entirely eradicated. Many in the Chinese arms control community often argue that countries seeking nuclear weapons are frequently trying to guarantee their security and survival in the face of external threats, often seen to be emanating from the USA.<sup>213</sup>

Despite the official policy on non-proliferation, China views the continued development of nuclear weapons by North Korea as well as its proliferation activities as less of a direct threat than does the USA. However, Chinese analysts emphasize that the North Korean nuclear issue involves China's major security interests and that North Korea's weapon-procurement activities threaten to result in a deterioration of China's security environment. Within China, non-proliferation is often framed as an excuse behind which the USA is able to expand missile defence capabilities and more frequent military exercises in China's neighbourhood. South Korea and Japan for their part are seeking to upgrade their missile defence and precision strike capabilities. While South Korea's military spending has risen quickly since 2003, the Japanese Ministry of Defence has requested a significant increase in 2013 for the first time in years.<sup>214</sup> Chinese accounts even emphasize how the hostility and rigidity of US policies on North Korea have exacerbated proliferation.<sup>215</sup> As a result, achieving denuclear-

<sup>210</sup> Interviews with author, Beijing, Nov. 2012.

<sup>211</sup> Zhang (note 33) (authors' translation). See also Interview with Professor Li Kaisheng, '李开盛: 中国应改善对朝交往方式, 而不是放弃朝鲜' [Li Kaisheng: China should improve DPRK relations, rather than abandon Korea], Huanqiu Wang, 25 May 2012, <<http://bbs.huanqiu.com/thread-1406308-1-1.html>>.

<sup>212</sup> Treaty on the Non-Proliferation of Nuclear Weapons (Non-Proliferation Treaty, NPT), opened for signature 1 July 1968, entered into force 5 Mar. 1970, IAEA Information Circular INFCIRC/140, 22 Apr. 1970. China became a party to the NPT in 1992. Medeiros, E. S., *Reluctant Restraint: The Evolution of China's Non-proliferation Policies and Practices, 1980–2004* (Stanford University Press: Stanford, CA, 2007).

<sup>213</sup> See e.g. Wang, X. and Song, J., '朝核问题: 内在逻辑与中国的外交政策选择' [The North Korean nuclear issue: internal logic and China's foreign policy choices], *Guoji guancha*, no. 3 (2011).

<sup>214</sup> Takenaka, K., 'Japan seeks biggest defense budget rise in 22 years', Reuters, 30 Aug. 2013.

<sup>215</sup> Saalman, L., 'Why Beijing stands by Pyongyang', *Wall Street Journal*, 20 Feb. 2013.

ization and preventing proliferation on the Korean peninsula is important to Chinese interests but has been deemed less critical than maintaining peace and stability in the region.<sup>216</sup>

With North Korea's nuclear status now enshrined in its constitution and the resulting awareness among Chinese North Korea experts that a nuclear capability indeed appears to be North Korea's national strategic goal, the question remains whether denuclearization still is or can be a viable option. The majority of Chinese scholars interviewed agree that it is still an option, but they differ on ways to achieve it.

While analysts concur that the denuclearization of the Korean peninsula is out of reach in the short term, it is still cited as one of China's foreign policy guidelines. China's North Korea policy is still based on the strategic principles of 'no war, no instability, no nuclear weapons' (不战, 不乱, 无核, *bu zhan, bu luan, wu he*).<sup>217</sup> Chinese experts emphasize that, while these three strategic principles reflect China's policy priorities in relation to the North Korean nuclear issue, it is paramount to understand that they also reflect interim stepping stones as part of an incremental process to re-engage North Korea on nuclear disarmament. The three pairs of characters are seen as having a strong internal logic and causality: the first pair is a prerequisite of the latter two and the order cannot be changed.<sup>218</sup>

China's current emphasis on economic engagement can be explained as resulting directly from this policy.<sup>219</sup> In this sense, although the implications for each single step are a lot more complex, Chinese scholars explain the rationale behind this approach as mitigating tensions and avoiding conflict by bringing all parties back to the negotiation table. Experts argue that since the North Korean nuclear issue currently cannot be solved by political means, the domestic economic situation should be given a higher priority to stabilize the country internally. It is their view that, by focusing on economic tools for assistance, China will be able to use this cooperation to create an environment that is conducive to renewed engagement on political issues—including the nuclear and ballistic missile programmes.<sup>220</sup>

This marks a fundamental difference between the Chinese and the US approaches. Chinese experts often state that the USA is only interested in deals yielding immediate results, by setting nuclear disarmament as a precondition for new negotiations. China, in contrast, views denuclearization as the outcome of a long and incremental process, in which North Korea needs to be convinced to give up its nuclear weapons in exchange for enhanced security. At the same time, Chinese analysts believe that it is ultimately the responsibility of the USA to

<sup>216</sup> Guo, X., '美国“重返亚洲”对中国外交的消极影响' [The negative impact of the US 'pivot to Asia' on China's foreign policy], *Xue Lilun*, no. 7 (July 2012), pp. 34–35.

<sup>217</sup> The term is widely used by Chinese experts. Although only a few official statements mention it, the Chinese Ministry of National Defence has used the term. 我国国防部: 韩媒报道捕风捉影 [Our Ministry of Defence: South Korean media reports unfounded], *Chengdu Wanbao*, 19 June 2013.

<sup>218</sup> Interview with author, Beijing, Nov. 2012.

<sup>219</sup> Interviews with author, Beijing, Nov. 2012.

<sup>220</sup> Interviews with author, Jilin, Nov. 2012.

address the root cause of the North Korean nuclear problem by easing the country's security concerns. In reference to the USA, Chinese strategists often say, 'the one who ties the knot is responsible for untying it' (解铃还需系铃人, *jie ling hai xu xi ling ren*). Chinese analysts believe that the USA is not only responsible for creating the problem but also for missing opportunities in the past two decades by neglecting the issue. In this context, the USA's approach of 'strategic patience' is seen in China as 'strategic ignorance'. Furthermore, even despite the recent North Korean provocations, China still ultimately holds the view that the USA and its allies pose a greater challenge to China's regional strategic interests than North Korea.<sup>221</sup>

### **China's support for the Six-Party Talks**

Despite North Korea's violation of UN Security Council resolutions and defiance of the global non-proliferation regime, the Chinese Government has consistently responded with continuous diplomatic commitment to resolve 'the issue of denuclearization of the Peninsula through dialogue and consultation within the context of the Six-Party Talks'.<sup>222</sup> Since their inception in 2003, China has consistently viewed the Six-Party Talks as the most viable framework to address the North Korea nuclear issue in a peaceful manner and is actively attempting to restart the negotiations.<sup>223</sup> While allowing China to remain engaged, the role as host and chair of the Six-Party Talks does not necessarily require China to take sides. Instead, it allows China to shape the talks' outcome.

Today, while some prominent academics have gone so far as to argue that multilateral diplomacy and sanctions have in fact shaped a regional environment conducive to peaceful and stable denuclearization of North Korea, it appears more likely to Chinese analysts that the Six-Party Talks are seen less as a real exercise in denuclearization than an exercise in mitigating risk.<sup>224</sup> One prominent Chinese academic has explained that North Korea believes that the USA is not going to attack it as long as the negotiations continue. Throughout the Six-Party Talks, North Korea has therefore alternated between being aggressive, being subdued, being soft or being assertive, depending on whether its tactical priority was to make progress on the denuclearization front or to seek compensations. The academic noted that, through this kind of brokerage, North Korea won six years of peace between 2003 and 2009 and time to accelerate its nuclear programme, enabling it to conduct its first nuclear test in October 2006.<sup>225</sup> However, the mainstream view remains that the Six-Party Talks is the most viable framework to address both regional security in North East Asia in general and the North Korean nuclear issue in particular.

<sup>221</sup> Interview with author, Beijing, Nov. 2012.

<sup>222</sup> Chinese Ministry of Foreign Affairs (note 14).

<sup>223</sup> Interviews with author, Beijing, Oct.–Nov. 2012.

<sup>224</sup> Zhang, L., 'Lacking a bottom line, Americans have become mired in North Korea's nuclear imbroglio', *Huanqiu Ribao*, 3 Mar. 2009; and Saalman (note 203), p. 9.

<sup>225</sup> Zhang (note 33).

*Chinese views on the role and the concrete achievements of the Six-Party Talks*

Although the Six-Party Talks have so far failed to achieve their ultimate goal—the verifiable and irreversible denuclearization of the Korean peninsula—China is still persevering in its efforts. Chinese experts stress that the framework's achievements should be measured by the process itself and by the incremental steps that it has achieved (see appendix B). Analysts view a number of developments throughout the six rounds of talks between 2003 and 2009 as positive results pertaining to the denuclearization of the Korean peninsula and contributing to regional stability.<sup>226</sup>

When the Six-Party Talks were launched in 2003, they were hailed not only for establishing a platform for multilateral consultations but also for facilitating bilateral contacts, easing confrontation and preventing an escalation of tensions in North East Asia.<sup>227</sup> Chinese analysts emphasize that the Six-Party Talks defused the second Korean nuclear crisis that started in 2002, which had led to the breakdown of the Agreed Framework reached in October 1994. In addition, two statements by the chairman and the Joint Statement of 19 September 2005 built basic consensus and established general principles that narrowed the differences in interests of the six parties and increased their mutual trust.<sup>228</sup> Although differences between the USA and North Korea over the scope and method of investigating the dismantlement of North Korea's nuclear facilities eventually prevailed, the 2005 Joint Statement led to North Korea disabling its nuclear facilities at Yongbyon, with the televised demolition of the cooling tower of the experimental reactor at the site in June 2008.<sup>229</sup> One Chinese expert states that an additional major achievement of the talks was that the parties reached consensus that the first step towards denuclearization is to implement a nuclear freeze, and they agreed to seek a peaceful resolution of the nuclear issue in an incremental process, following the principle of 'words for words' and 'action for action'—that is, every statement or action by one side of the dispute is met by an equivalent statement or action from the side.<sup>230</sup>

It is a mainstream perspective in China that China has always prioritized maintaining a stable environment around the Korean peninsula, and that it views this as an additional major goal and achievement of the six rounds of Six-Party Talks. However, experts also argue that, in order to stabilize North Korea, one of the additional goals of the Six-Party Talks was to gain more international support for North Korea's economy. Despite this, after six rounds of talks there were no economic gains for North Korea. With the failure of the Six-Party Talks in 2009, China lost influence over nuclear and ballistic missile developments in North

<sup>226</sup> Interviews with author, Beijing, Nov. 2012; and Huang, H. and Wu, X., '新形势下中国对朝外交政策调整' [The adjustment of China's policy on North Korea under a new situation], *Dongbeiyu Luntan*, no. 5 (2011).

<sup>227</sup> Huang, F. and Jin, X., 'Assessment of the Korea nuclear Six-Party Talks', *Contemporary International Relations*, vol. 22, no. 1 (Jan./Feb. 2012), pp. 96–97.

<sup>228</sup> See appendix B in this volume; Chairman's Statement of third round of Six-Party Talks, 26 June 2004, <[http://english.peopledaily.com.cn/200406/26/eng20040626\\_147642.html](http://english.peopledaily.com.cn/200406/26/eng20040626_147642.html)>; and Statement by Chair of Six-Party Talks, 26 June 2008, <<http://english.peopledaily.com.cn/90001/90776/90883/6437657.html>>.

<sup>229</sup> Huang and Jin (note 227).

<sup>230</sup> Interview with author, Jilin, Nov. 2012.

Korea. A majority of analysts see this as the main rationale for China to focus its policy on North Korea on unilateral economic assistance.<sup>231</sup>

Chinese experts argue that diverging interests and lack of mutual trust among all six parties—China, Japan, North Korea, South Korea, Russia and the USA—hindered the progress of the talks. China prioritizes regional stability, finding a diplomatic and peaceful solution, denuclearization, and maintaining its traditional bilateral relations with North Korea. The USA wants denuclearization with or without stability and either through regime collapse or multilateral diplomacy. South Korea prioritizes denuclearization, stability and unification. Finally, Japan has a specific agenda related to the issue of abductees.<sup>232</sup> Ultimately, Chinese experts see responsibility for the breakup of the framework as lying with the USA. After a long process that started in 2003, the six delegations actually came close to solving the nuclear issue. The problem was that the USA did not accept the final agreement due to a lack of US domestic support.<sup>233</sup> Ever since, political recognition and security guarantees for North Korea have not been an option for the USA, and many in China view this as the reason why the talks collapsed. Chinese analysts argue that North Korea resumed its nuclear activities because of the USA's repeated insistence on new requirements, especially its insistence on verification.<sup>234</sup>

#### *China's efforts to resume the Six-Party Talks*

Despite the breakup of the Six-Party Talks in 2009, the prevailing mainstream view in China is that the Six-Party Talks remain the most viable and effective framework to address the North Korean nuclear issue. Chinese analysts argue that the talks are the best format for all regional stakeholders to address this issue in a cooperative manner.<sup>235</sup>

China is actively mediating between the USA and North Korea. The Chinese MFA has insisted that China is trying to stay in close communication with its neighbour to prompt each side to quickly restart dialogue and consultation.<sup>236</sup> In May 2013, during a visit to Beijing, the North Korean special envoy Choe Ryong Hae expressed Kim Jong Un's support for China's efforts to restart Six-Party-type talks; and during his visit to Beijing in June 2013, the North Korean First Vice-Foreign Minister, Kim Kye Gwan, reiterated an offer to hold high-level talks with the USA, stating, 'The denuclearization of the Korean peninsula was the dying wish of Chairman Kim Il Sung and General Secretary Kim Jong Il'.<sup>237</sup>

In July 2013 China took its message to North Korea by sending Vice-President Li Yuanchao, the highest-ranking Chinese official to visit North Korea since Kim

<sup>231</sup> Interviews with author, Jilin, Nov. 2012.

<sup>232</sup> Wu, A., 'What China whispers to North Korea', *Washington Quarterly*, vol. 28, no. 2 (spring 2005).

<sup>233</sup> Interviews with author, Beijing, Nov. 2012.

<sup>234</sup> Interviews with author, Beijing, Mar. 2012; and Interviews with author, Jilin, Nov. 2012.

<sup>235</sup> Interviews with author, Beijing, Nov. 2012.

<sup>236</sup> Cain, G., 'North Korea plays phone tag', *Global Post*, 17 June 2013.

<sup>237</sup> Zhai, K., 'North Korea ready to accept China's peace effort', *South China Morning Post*, 24 May 2013; Choe, S., 'North Korea proposes high-level talks with U.S.', *New York Times*, 15 June 2013; and Cain, G., 'Denuclearized North Korea was Kim Jong Il's "dying wish", says diplomat', *Global Post*, 20 June 2013.

Jong Un took power. Li delivered a personal message from President Xi Jinping to Kim. In his published comments, Li appeared to encourage North Korea to rein in its confrontational approach. As he reiterated China's call for denuclearization and dialogue, the state-run Chinese news agency Xinhua quoted Kim as saying that North Korea 'supports China's efforts to restart the six-party talks, and is willing to work together with all sides to maintain the peace and stability of the Korean Peninsula'.<sup>238</sup> Kim was also quoted as saying that his country needed 'a stable external environment' so that it could focus on developing its economy. However, reporting on the same meeting, the KCNA made no direct mention of denuclearization or supporting China's efforts to reconvene the Six-Party Talks.<sup>239</sup>

In September 2013 North Korea appeared to be in a newly conciliatory mood after its period of belligerent rhetoric in early 2013. Although it had declared in 2009 that it would never return to the Six-Party Talks, North Korea communicated that it would be open to new negotiations similar to the high-level bilateral talks that it had already offered to hold with the USA in June but without preconditions.<sup>240</sup> Meanwhile, China has been placing pressure on the USA to relax its conditions for re-joining the Six-Party Talks, arguing that North Korea has come closer to the US position and that the USA needs to be more flexible.<sup>241</sup>

As described above, many in China see the USA—and in particular its provision of extended deterrence in North East Asia—as being central to the failure to resolve the nuclear issue. Due to the fact that the maintenance of the status quo has already resulted in a larger US presence and stronger alliances in the region, China also faces the strategic risk of increased US presence and expanded leverage in the region once the nuclear issue is solved. Against this background, Xi Jinping's comment at the Boao Forum in April 2013 that 'no one should be allowed to throw a region and even the whole world into chaos for selfish gains' can be seen as being directed at both North Korea and the USA.<sup>242</sup> Beyond North Korea, the USA's policies in the East and South China seas were also certainly on Xi's mind.<sup>243</sup>

As a result, the gulf between the positions of North Korea and the USA is widely viewed as being the main obstacle to the resumption of negotiations. While the USA has not categorically ruled out the possibility of holding new talks, both countries have laid out their respective preconditions for a return to the negotiation table. Given that each side views the other's preconditions as unacceptable, a quick resumption of negotiations in any form remains unlikely.<sup>244</sup> The USA has made clear that there can only be talks once North Korea has

<sup>238</sup> Choe, S. and Buckley, C., 'North Korean leader supports resumption of nuclear talks, state media say', *New York Times*, 26 July 2013.

<sup>239</sup> See e.g. Korea Central News Agency, 'Kim Jong Un meets delegation of PRC', 25 July 2013.

<sup>240</sup> 'North Korea calls for return to Six-Party Talks on unconditional basis', Global Security Newswire, Nuclear Threat Initiative, 18 Sep. 2013, <<http://www.nti.org/gsn/article/senior-n-korean-official-calls-return-six-party-talks-unconditional-basis/>>.

<sup>241</sup> The authors are indebted to the referee for this point.

<sup>242</sup> 'Full text of Xi Jinping's speech at opening ceremony of Boao Forum (3)', Xinhua, 8 Apr. 2013.

<sup>243</sup> Interviews with author, Beijing, Oct.–Nov. 2012.

<sup>244</sup> Interviews with author, Beijing, Nov. 2012.

proved its commitment to denuclearization. North Korea's preconditions have included a withdrawal of UN sanctions, a permanent suspension of South Korean–US military drills, the withdrawal of strategic offensive means in the vicinity of the Korean peninsula and an apology to restore North Korea's dignity.<sup>245</sup>

In its latest endeavour, China hosted a semi-formal 'track 1.5' discussion among the six states in September 2013. However, the USA and South Korea did not send their high-level negotiators.<sup>246</sup> The USA's special envoy for North Korea policy, Glyn Davies, stated the US Government's view that, without a clear demonstration of North Korea's commitment to denuclearization before any new negotiations will be held, 'it's difficult to imagine how six-party rounds could be productive at the moment'.<sup>247</sup> During the discussions, which took place in Beijing on 18 September to commemorate the 10th anniversary of the inception of the Six-Party Talks in August 2003, North Korea's First Vice-Foreign Minister, Kim Kye Gwan, signalled some change in North Korea's position by calling for a return to the Six-Party Talks without preconditions. The US position, however, remained unchanged.<sup>248</sup>

Despite these efforts, there is a widely acknowledged sense of pessimism among the Chinese expert community that, while the Six-Party Talks have possibly slowed the North Korean nuclear weapon and ballistic missile programmes, the time to achieve disarmament and denuclearization goals through the talks has probably already passed.<sup>249</sup>

### *Non-proliferation instead of denuclearization?*

Despite the widely held view that the Six-Party Talks cannot achieve denuclearization in the short term, many Chinese experts believe that they can still realistically achieve other results, such as regional stability, non-proliferation and the enhancement of China's status as a responsible power. While denuclearization of the Korean peninsula is still viewed as the ultimate goal of the process, most experts concur that issues pertaining to non-proliferation could be addressed instead.<sup>250</sup>

Regarding regional stability, analysts argue that future prospects depend on changes to the North East Asian regional security environment as well as the North Korean–US and Chinese–US relationships.<sup>251</sup> Some experts go as far as to suggest the establishment of a sustainable regional security dialogue in East Asia. A regional security arrangement might serve to address North Korea's security concerns, as North Korea has repeatedly stated that it would be open to talks

<sup>245</sup> Choe (note 237).

<sup>246</sup> 'U.S., China discuss possible North Korea nuclear talks', Global Security Newswire, Nuclear Threat Initiative, 11 Sep. 2013, <<http://www.nti.org/gsn/article/us-discusses-north-korea-situation-china/>>.

<sup>247</sup> 'U.S. demands N. Korea show readiness to denuclearize before any talks', Global Security Newswire, Nuclear Threat Initiative, 9 Sep. 2013, <<http://www.nti.org/gsn/article/us-demands-n-korea-show-willingness-denuclearize-ahead-any-talks/>>.

<sup>248</sup> 'North Korea calls for return to Six-Party Talks in unconditional basis' (note 240).

<sup>249</sup> Interviews with author, Beijing and Jilin, Nov. 2012.

<sup>250</sup> Interviews with author, Beijing, Nov. 2012.

<sup>251</sup> Interviews with author, Beijing, Oct. 2012.

pertaining to regional peace and security.<sup>252</sup> With such a framework in place, the Six-Party Talks could resume with an alternative structure focused on regional security and non-proliferation, and might even be able to achieve some progress on the nuclear issue at a later point.<sup>253</sup> However, experts mostly fall short of offering detailed proposals or possible alternatives.

With regards to North Korea's nuclear weapon programme, the majority of Chinese analysts argue that the 2005 Joint Statement and the 2012 Leap Day Deal are existing concrete achievements of previous negotiations and should be the starting point of future discussions on the denuclearization of the Korean peninsula. They argue that, in such a scenario, North Korea's current nuclear programme could possibly be frozen at its existing stage. Many scholars refer to the proposal of Dr Siegfried Hecker, a former director of the USA's Los Alamos National Laboratory and currently professor at Stanford University, entailing: (a) 'no more bombs—don't make any more plutonium and don't make highly enriched uranium, and then have some way of verifying that'; (b) 'no better bombs', and so 'no more nuclear tests'; and (c) 'no export'.<sup>254</sup> In return, the USA and China would have to address North Korea's concerns about its security.

At the same time, most experts admit that, at this point, such approaches are merely conceptual thinking, and remain doubtful that North Korea is willing to make meaningful concessions or that other countries are prepared to reciprocate such steps.<sup>255</sup> Given recent reporting on the possible restarting of North Korea's plutonium production reactor and the possible expansion of its uranium enrichment facility at Yongbyong, such scenarios appear even more unlikely.<sup>256</sup>

### **China's policies in support of economic exchanges: the interplay of market and strategic considerations**

The Chinese argument that economic engagement serves the goal of ultimate denuclearization by North Korea starts with a balance-of-power rationalization of the North Korean nuclear weapon programme as a means of asymmetric balancing against the South Korean–US alliance. However, the mainstream Chinese view that the North Korean nuclear programme is a strategic objective and not a bargaining chip also recognizes the flexibility in North Korea's official policy line. Indeed, the denuclearization of the Korean peninsula and the entire globe remains a foreign policy goal for North Korea, which suggests that North Korea's strategic calculus can still change, and that economic engagement can play a role in this regard.

<sup>252</sup> Li (note 36).

<sup>253</sup> Interviews with author, Beijing and Liaoning, Nov. 2012.

<sup>254</sup> Interview with author, Beijing, Nov. 2012; and 'What does North Korea really want?', *Stanford Magazine*, Mar./Apr. 2011.

<sup>255</sup> Interviews with author, Beijing, Oct. 2012.

<sup>256</sup> Albright, D. and Avagyan, R., 'Recent doubling of floor space at North Korean gas centrifuge plant: is North Korea doubling its enrichment capacity at Yongbyon?', Institute for Science and International Security (ISIS) Imagery Brief, 7 Aug. 2013, <<http://isis-online.org/isis-reports/detail/recent-doubling-of-floor-space-at-north-korean-gas-centrifuge-plant/>>; and Hansen, N. and Lewis, J., 'North Korea restarting its 5 MW reactor', 38 North, 11 Sep. 2013, <<http://38north.org/2013/09/yongbyon091113/>>.

Since 2009 China has developed a number of policies in support of Chinese investment in North Korea. Although these policies fit into a greater strategic narrative that highlights opening up of the North Korean economy and, ultimately, denuclearization, they have served a much more narrowly defined objective: making sure that interactions with North Korea are economically viable. The emphasis on infrastructure on the Chinese side of the border indicates that, at this stage, Chinese policies focus on external conditions that may boost growth of Chinese–North Korean trade and investment relations in the future. Political and strategic considerations do not mean that China is willing to write a blank cheque for North Korea. In reality, China's policies are market-oriented.

The Chinese Government has focused on improving the legal framework within which Chinese firms operate in North Korea by raising the issue politically or by carrying out capacity-building projects. The issue topped the agenda of Jang Sung Taek's August 2012 meetings with Wen Jiabao in Beijing.<sup>257</sup> The Chinese MOFCOM plays a leading role in the implementation of this policy, as it funds training programmes for North Korean cadres in a number of north-eastern Chinese cities, including Changchun (at Jilin University), Shenyang and Tianjin, with a focus on economics and law. A special programme trains the legal committee of the North Korean Supreme People's Assembly.<sup>258</sup> Building the capability of North Korean officials to improve and enforce their legal system is clearly a Chinese priority.<sup>259</sup>

Indeed, the lack of a sound legal environment and the risk of expropriation weigh more than strategic interests when considering further economic exchanges. A MOFCOM official argues that North Korea's 'extreme nationalism' makes it difficult for Chinese firms to invest.<sup>260</sup> In response to an editorial written by a MOFCOM official encouraging Chinese companies to invest in North Korea, the vice-general manager of Xiyang Group, Wu Xisheng, said publicly that this was a 'wrong' policy.<sup>261</sup> Piao Guangji argues that four main obstacles prevent more Chinese investment in North Korea: the overall weakness of the economy, the lack of flexibility of the political system, the deficiencies of the legal framework (or its absence in certain areas) and the backwardness of the infrastructure.<sup>262</sup> Piao, a leading specialist on the North Korean economy, advocates exercising caution until a legal framework is put in place to protect the rights of Chinese investors. According to him, the Chinese Government should reassess positively the strategic dimension of bilateral trade, as it directly affects the regional security order.<sup>263</sup>

Despite being market-oriented, Chinese policies can also be justified by a narrative highlighting their positive impact on promoting stability, reform

<sup>257</sup> Interviews with author, Beijing and Jilin, Nov. 2012.

<sup>258</sup> Interviews with author, Liaoning, Nov. 2012.

<sup>259</sup> Interviews with author, Liaoning, Nov. 2012.

<sup>260</sup> Xia (note 189) (authors' translation).

<sup>261</sup> 'North Korea blasts Chinese company in failed deal' (note 151).

<sup>262</sup> Piao (note 129).

<sup>263</sup> Piao (note 129).

and denuclearization. A Chinese four-character proverb best encapsulates this dimension: 'exert a subtle and imperceptible influence to transform someone' (潜移默化, *qianyimohua*). Chinese actions also aim at discretely promoting the Deng Xiaoping model of reform, through a modus operandi characterized by two courses of action: indirect communication and tactical passivity.

First, China proceeds indirectly by providing North Korean officials with an opportunity to experience Chinese development. During his four trips to China in 2010 and 2011, Kim Jong Il's agenda included many economic items, including a visit to the Pudong SEZ in Shanghai, the symbol of China's integration into the global economy. The rationale for this was to 'provide North Korea with a communication channel and a window to observe the outside world' and an 'opportunity to learn the rules of the game of international trade'.<sup>264</sup> Along these lines, China's approach is also based on the assumption that a success story in a North Korean SEZ would lead North Korea to reassess positively the benefits of reforms.<sup>265</sup> This approach has been pursued at all levels of bilateral interactions, with North Korean delegations being shown Chinese development successes.

Second, while China does not actively promote particular economic development projects, it responds positively to North Korean requests for economic cooperation while insisting that projects should be economically viable and should be implemented by businesses. In 2005 the Chinese Prime Minister, Wen Jiabao, announced a 16-character policy framework to guide the development of China–North Korea economic relations: 'governments provide guidance, firms are the core element, exchanges follow market mechanisms, relations are win-win and mutually beneficial' (政府引导, 企业为主, 市场运作, 互利共赢, *zhengfu yindao, qiye weizhu, shichang yunzuo, huli gongying*).<sup>266</sup> This formula has been discussed for years between the two sides. Despite patient diplomacy, China has never been able to fully overcome North Korea's reluctance to apply 'market mechanisms' to economic relations.<sup>267</sup> The formulation of the policy framework, and Chinese efforts to persuade North Korea to adopt market principles, have met continuous opposition from North Korea, which prefers to frame economic exchanges in purely political and strategic terms. In that sense, passivity is tactical, as being proactive is perceived as counterproductive: China prefers to build on the requests coming from North Korea. North Korea also strongly mistrusts China, seeing it as having come too close to the Western economic model.

Chinese experts defend this indirect and passive approach by arguing that this is the only realistic path. China does not 'push for reforms, it contributes an atmosphere conducive to reforms'.<sup>268</sup> In the words of one analyst, 'Directly telling the North Koreans that the investment climate is hostile does nothing to improve

<sup>264</sup> Interviews with author, Jilin, Nov. 2012 (authors' translation).

<sup>265</sup> Interviews with author, Jilin, Nov. 2012.

<sup>266</sup> Teng, K. and Yang, X., 中朝金融合作的驱动因素与对策分析 [Driving factors and countermeasures of Sino-DPRK financial cooperation], *Dongbeiyu Luntan*, vol. 22, no. 105 (Jan. 2013), pp. 10–18 (authors' translation).

<sup>267</sup> Interviews with author, Beijing, Aug. 2012.

<sup>268</sup> Interviews with author, Beijing, Nov. 2012 (authors' translation).

the situation'.<sup>269</sup> Most North Korean officials see proactive advocacy of 'economic reforms' as hostile, so Chinese negotiators avoid confrontation in order to foster more constructive discussions.<sup>270</sup>

There are three main arguments linking economic support to the goal of denuclearization.

First, trade and investment address one of the most important sources of North Korea's sense of insecurity: its economic backwardness compared to South Korea.<sup>271</sup> According to this line of thinking, the nuclear programme is North Korea's only leverage to balance against South Korea, whose economy is four times larger. Trade and economic development address an internal aspect of North Korea's national security concerns, as domestic weakness is another source of insecurity, in addition to external threats.

The second argument involves pragmatism. According to Chinese analysts, addressing the nuclear issue first is bound to fail because it creates direct antagonism, while gradual economic change is a more realistic entry point, and the only area of China–North Korea relations in which actual progress can be secured.<sup>272</sup> Advocates of this approach argue that as denuclearization talks are currently stalled, economic engagement is China's only viable option to serve its policy goals. According to this view, economic and trade relations can contribute to shaping an environment conducive to a re-evaluation by North Korea of the role of nuclear weapons, and can serve as stepping stones in the incremental process of re-engaging North Korea on its nuclear programme.

Third, China's approach is motivated by a quest for leverage and strategic influence. This last argument fits into the discourse that Chinese influence over North Korea is constantly overstated. Chinese experts argue that Russian President Boris Yeltsin's decision to terminate aid to North Korea resulted in an absolute loss of influence over Korean strategic affairs.<sup>273</sup> According to this view, China takes a longer-term approach aiming at creating the future conditions for exerting decisive influence on the question of nuclear armament on the Korean peninsula. This is closely linked to China's fear that North Korea would turn to the USA if China interrupted economic support or put heavy pressure on North Korea, an argument that is heard more frequently in Beijing since Myanmar adopted political reforms and turned to the West.<sup>274</sup>

### **China's evolving approach to United Nations Security Council sanctions**

UN Security Council sanctions against North Korea have targeted conventional weapons, weapons of mass destruction (WMD) and their components and means of deliveries, and luxury products. They have included embargos, travel bans,

<sup>269</sup> Interviews with author, Beijing, Nov. 2012 (authors' translation).

<sup>270</sup> Interviews with author, Jilin, Nov. 2012.

<sup>271</sup> Interviews with author, Beijing, Nov. 2012.

<sup>272</sup> Interviews with author, Jilin, Nov. 2012.

<sup>273</sup> Interviews with author, Beijing, Nov. 2012.

<sup>274</sup> Ding, G., 'Myanmar today is guide for NK of tomorrow', *Global Times*, 14 Apr. 2013.

financial freezes on targeted individuals and entities, and demands on UN member states to inspect cargo to and from North Korea. Sanctions have sought to minimize the impact on human security in North Korea by targeting the ruling elite and individuals and entities involved in proliferation.

There is a large body of evidence documenting failed attempts by North Korea to procure conventional weaponry and export both conventional arms and WMD and missile components, although successful illicit transfers have not been documented in open-source material.<sup>275</sup> The most authoritative sources are the reports of the UN Panel of Experts on the North Korean sanctions, the latest of which documents a dozen cases of violations of UN Security Council resolutions.<sup>276</sup>

After voting for UN Security Council Resolution 2094 in March 2013, China took a number of visible steps to enforce the new round of sanctions. The Chinese Government issued orders to a number of government agencies to strictly enforce UN sanctions on North Korea.<sup>277</sup> In September MOFCOM for the first time released a 236-page list of dual-use items and technologies subject to export control that could be used in the production of missiles and nuclear, chemical and biological weapons.<sup>278</sup> According to a government statement, the export ban reflects China's move to further comply with the relevant Security Council resolutions directed at North Korea.<sup>279</sup> The list was clearly adopted to increase the capability of relevant law-enforcement agencies to prevent individuals and firms from pursuing deals in violation of UN Security Council sanctions, rather than as a public diplomacy message to the USA and other proponents of stricter sanctions: no English translation was published, and no prior coordination with the USA or others was undertaken.<sup>280</sup>

These visible steps to enforce the new round of sanctions came after concerns were raised regarding China's record of implementing the sanctions regime. The UN Panel of Experts has documented trans-shipments through Dalian of banned luxury goods purchased via Chinese companies.<sup>281</sup> According to media reports citing leaked US Government cables, the USA's repeated requests that China stop the transport of ballistic missile components from Pyongyang to Tehran through

<sup>275</sup> E.g. on a recent case currently under UN investigation see Griffiths, H. and Sirtoola, R., 'Full disclosure: contents of North Korean smuggling ship revealed', 38 North, 27 Aug. 2013, <<http://38north.org/2013/08/hgriffiths082713/>>.

<sup>276</sup> United Nations, S/2013/337 (note 131).

<sup>277</sup> See e.g. Chinese Ministry of Transport, International Cooperation Department, '关于执行联合国安理会第 2094 号决议的通知' [Notification on the implementation of UN Security Council Resolution 2094], 25 Apr. 2013, <[http://www.moc.gov.cn/zizhan/siju/guojisi/duobianhezuo/guojihyue/duobiantiaoyue/201304/t20130425\\_1402013.html](http://www.moc.gov.cn/zizhan/siju/guojisi/duobianhezuo/guojihyue/duobiantiaoyue/201304/t20130425_1402013.html)>.

<sup>278</sup> Chinese Ministry of Commerce, Ministry of Industry and Information Technology, General Administration of Customs and National Energy Agency, List of banned dual-use items and export ban to North Korea, Notice no. 59 of 2013, 23 Sep. 2013, <<http://file.mofcom.gov.cn/article/gkml/201309/20130900317758.shtml>> (in Chinese).

<sup>279</sup> Chinese Ministry of Commerce (note 278).

<sup>280</sup> Foreign diplomats, Interviews with author, Beijing, Sep. 2013.

<sup>281</sup> See the annual reports of the UN Security Council Panel of Experts on North Korea at <<http://www.un.org/sc/committees/1718/annualreports.shtml>>.

Beijing Airport had been ignored.<sup>282</sup> Other cables reveal that this was not an isolated case, as missile technology-related dual-use goods appear to have been shipped from North Korea to Iran through Chinese territory, in certain cases with the possible direct involvement of Chinese companies.<sup>283</sup> The risk of such shipments going undetected will grow as bilateral Chinese–North Korea trade increases.

China's support for stricter enforcement of sanctions is also notable given that it has generally taken a critical stance towards the concept of sanctions.<sup>284</sup> Today, despite the targeted approach of UN Security Council sanctions, most Chinese experts interviewed by the authors argue that the UN Security Council sanctions regime weakens the North Korean economy and reflects a Western intention to bring the North Korean regime to its knees.<sup>285</sup> In general, Chinese criticism of UN Security Council sanctions now focuses on three elements.<sup>286</sup> First, many experts think that targeting luxury products is counterproductive. The list published by MOFCOM does not include luxury goods, only conventional weaponry and dual-use items that could be used for WMD and missile development. Second, China insists that sanctions must be complemented by dialogue and incentives. Third, some experts argue that North Korea has a right to civilian space technology and that the sanctions imposed by Resolution 2087—which targeted officials of the North Korean missile launch facility and satellite control centre—are severe.<sup>287</sup>

However, there have been no concrete signs that China plans to take action against North Korea beyond the strict letter of the UN sanctions or that China's fundamental view on the role of sanctions had changed. China's policy on sanctions, as described in a *note verbale* to the UN Security Council Sanctions Committee on North Korea, is that 'the implementation of the resolution should not influence the national development of [North Korea], its normal external contacts or the normal lives of its people'.<sup>288</sup> After the adoption of Resolution 2094 in March 2013, the Chinese MFA stated that the resolution was balanced but that sanctions were not the final and only option of the Security Council, calling for renewed negotiations while urging calm and restraint from sides.<sup>289</sup> Many Chinese experts stress that China's rationale for supporting UN Security Council sanctions is not to punish North Korea, but to induce a return to the Six-Party Talks.<sup>290</sup>

<sup>282</sup> 'North Korea supplied powerful ballistic missiles to Iran, cables reveal', Global Security Newswire, Nuclear Threat Initiative, 29 Nov. 2010, <<http://www.nti.org/gsn/article/north-korea-supplied-powerful-missiles-to-iran-cables-reveal/>>.

<sup>283</sup> United Nations, Security Council, Panel of Experts on North Korea (note 281).

<sup>284</sup> Wuthnow, J., 'China and the processes of cooperation in UN Security Council deliberations', *Chinese Journal of International Politics*, vol. 3, no. 1 (spring 2010).

<sup>285</sup> Interviews with author, Beijing, Oct.–Nov. 2012.

<sup>286</sup> Interviews with author, Beijing, Oct. 2012.

<sup>287</sup> UN Security Council Resolution 2087 (note 10).

<sup>288</sup> United Nations, Security Council, Committee established pursuant to Resolution 1718 (2006), *Note verbale* dated 3 August 2009 from the Permanent Mission of China to the United Nations addressed to the Committee, S/AC.49/2009/23, 4 Aug. 2009, para. 8.

<sup>289</sup> Chinese Ministry of Foreign Affairs (note 19).

<sup>290</sup> Interviews with author, Beijing, Oct. 2012.

Some Chinese experts, especially in the north-east, argue that UN Security Council sanctions aim at suffocating economic development in North Korea in order to induce regime collapse. However, as argued by MOFCOM researcher Mei Xinyu after the vote on Resolution 2094, sanctions 'cannot change the fact that China is North Korea's biggest, most reliable and most important trading partner'.<sup>291</sup> Targeted sanctions have not prevented the growth of trade and investment relations since 2009. Although there are considerable difficulties in distinguishing legitimate transactions from activities covering illicit trade, Chinese experts and officials support the UN 'smart' approach to sanctions, which separates proliferation activities from other economic activities.<sup>292</sup>

The most direct impact of sanctions on the development of China–North Korea economic cooperation has been in finance, an area where distinguishing legitimate and illicit activities is particularly difficult. UN Security Council sanctions have targeted financial entities involved in proliferation activities.<sup>293</sup> Resolution 2094 strengthened financial sanctions by taking a catch-all approach, stating that UN member states should not conduct transactions that contribute to North Korea's proliferation activities. This new approach creates a legal basis for more international cooperation, especially between China and the USA, placing the US Treasury, which implements the USA's unilateral sanctions, in a legitimate position to request support from China. In this regard, the announcement in March 2013 by the US Treasury of sanctions against the North Korean Foreign Trade Bank, which is accused of financing proliferation activities, was closely followed by reports that China had cut ties with the bank.<sup>294</sup> The greater emphasis on financial sanctions also creates new challenges, as such sanctions can have a negative impact on humanitarian activities and on the activities of foreign embassies.<sup>295</sup>

While the sanctions regime explains to a certain degree the weakness of financial ties between China and North Korea, another factor is the inherent weakness of North Korea's own financial infrastructure. Shao Zhigao notes that, as a result of sanctions, 'transactions need to be settled through banks in third countries, such as Hong Kong, Macao and Sweden, and exporting companies are usually paid 20 days after receiving an order'.<sup>296</sup> In 1999 the North Korean Golden Triangle Bank established a branch in Hunchun to offer traders the possibility of conducting transactions in US dollars, euros, yen and yuan and signed an agreement with the Jilin branch of the China Construction Bank to facilitate cross-border trade.<sup>297</sup> Other banks, such as Kwangson Banking Corporation

<sup>291</sup> Mei (note 113) (authors' translation).

<sup>292</sup> Interview with author, Beijing, May 2013.

<sup>293</sup> Financial entities sanctioned by the UN Security Council are Tanchon Commercial Bank, Amroggang Development Banking Corporation and Bank of East Land. United Nations, Security Council, Sanctions Committee on North Korea, 'Consolidated list of entities and individuals', 28 Aug. 2013, <<https://www.un.org/sc/committees/1718/>>.

<sup>294</sup> US Treasury sanctions were adopted on 11 Mar. 2013. Rabinovitch, S., 'China banks rein in support for North Korea', *Financial Times*, 13 May 2013.

<sup>295</sup> 'North Korean sanctions threaten humanitarian aid', Reuters, 23 May 2013.

<sup>296</sup> Shao (note 120).

<sup>297</sup> Shao (note 120).

(which is subject to US Treasury sanctions), are authorized to handle border trade settlements in either yuan or North Korean won. New sanctions under Resolution 2094 will arguably make it even more difficult for North Korean banking corporations to play a role in trade and investment exchanges with China. In this sense, sanctions limit the growth potential of bilateral economic ties. In addition, constraints on financial transactions create incentives for exchanges in cash and barter trade and explain why North Korean trading companies are at the forefront of increased economic ties, as they are the best structure to replace banks.

One area of China–North Korea economic relations is particularly controversial from the perspective of UN Security Council sanctions: luxury products. Until Resolution 2094 was adopted, there was no agreed list of what constituted luxury products. Each country had to decide according to its own laws, regulations and policies. The 2012 and 2013 UN Panel of Experts reports documented either trans-shipment or the intermediary involvement of Chinese companies in the transfer to North Korea of luxury products, such as Mercedes cars, alcohol, notebook computers and cosmetics.<sup>298</sup> Between May 2012 and May 2013, Japan reported nine cases of exports of luxury goods to North Korea in which Chinese companies were involved in trans-shipment or as intermediaries.<sup>299</sup> Resolution 2094 now provides a short list of agreed luxury products, limited to jewellery (including gems), yachts, luxury automobiles (without definition) and racing cars, although states can choose to extend this definition.<sup>300</sup> The differences between the UN Security Council list and the longer list of items subject to export control by the European Union, the USA and Japan are likely to continue to provoke controversy regarding the practices of certain companies in China. The implementation of the latest round of UN Security Council sanctions on transfers of cars will be an indicator of China's commitment to adjust its approach to enforcement of bans on luxury products. Meanwhile, a debate continues within the Chinese expert community regarding the effects of sanctions on the lifestyle of the North Korean elites, with many denouncing a counter-productive approach that reinforces mutual hostility without directly affecting proliferating entities.<sup>301</sup>

Several experts in the West have suggested that China could reduce trade and economic relations with North Korea as a means of curbing the latter's proliferation activities, or even cut aid, which would amount to adopting unilateral sanctions. Reports that China unilaterally cut off supplies of oil after the first and the second nuclear tests were never officially confirmed.<sup>302</sup> Chinese experts have denied reports that oil supplies were cut off again during the winter of 2013, citing technical reasons and reduced activity that is routine during the Chinese

<sup>298</sup> See note 281.

<sup>299</sup> United Nations, S/2013/337 (note 131).

<sup>300</sup> UN Security Council Resolution 2094 (note 13), annex IV.

<sup>301</sup> Interviews with author, China, Aug. 2012, Nov. 2012 and May 2013.

<sup>302</sup> Kahn, J., 'China cut off exports of oil to North Korea', *New York Times*, 30 Oct. 2006; and 'China cut off oil supplies to N.Korea after 2009 nuke test', *Chosun Ilbo*, 4 Apr. 2013.

New Year period.<sup>303</sup> Since the third nuclear test, in addition to action taken against North Korea's Foreign Trade Bank, there have also been occasional reports of Chinese customs authorities conducting more extensive checks in the port of Dalian on containers and cargo bound for North Korea.<sup>304</sup>

In sum, all new Chinese actions have a basis in Resolution 2094, and expectations that China might be willing to go further appear groundless. Nevertheless, the current multilateral approach of targeting entities involved in proliferation activities (including transfers of conventional arms), possibly including North Korean trade companies with a representation in China, is clearly a good basis for expanding international cooperation with China.

<sup>303</sup> Interviews with author, Beijing, May 2013.

<sup>304</sup> Abrahamian, A., 'Mixed evidence on Chinese implementation of NK sanctions', NK News, 29 Aug. 2013, <<http://www.nknews.org/2013/08/mixed-evidence-on-chinese-implementation-of-n-korea-sanctions/>>.

## 5. Conclusions

Many argue that Sino-North Korean economic relations and China's policy on the North Korean nuclear issue follow two separate tracks. In fact, the above analysis reveals that they are linked. China views its promotion of economic reform in North Korea as part of a long-term re-engagement process that will affect the way in which North Korea perceives nuclear weapons.

Over the past decade, as this policy has evolved, there have been two broadly continuous factors and two significant policy adjustments. China has continued to support regime stability in North Korea. Unlike mainstream thinking in the West, China's approach is based on the assumption that the North Korean regime is not going to collapse and that the nuclear issue should be dealt with by the existing regime rather than through regime change (although a minority in the expert community has publicly advocated the abandonment of the North Korean regime). The second factor that has not changed is China's commitment to the resumption of the Six-Party Talks, which is still viewed as the most viable framework for addressing security on the Korean peninsula, including the nuclear question. While adhering to these long-term policies, China has clearly adjusted its economic and trade policy on North Korea, greatly expanding bilateral trade and investment since 2009, while more recently adjusting its views on the strategic utility of sanctions on North Korea in order to more strictly implement UN Security Council resolutions and enforce multilateral sanctions.

Between 2009 and 2012, the priority of China's economic and trade policy was facilitating a stable political succession to Kim Jong Il. China's economic engagement thus aimed at relieving external strategic pressure on North Korea. In particular, China countered perceived attempts by the United States and South Korea to seize the opportunity of the succession to foster regime change. As a result, trade and investment grew significantly, and China has provided support for increased cross-border exchanges between its Jilin and Liaoning provinces and North Korea.

The rationale underlying China's economic agenda has evolved since Xi Jinping became president in 2013 and after North Korea's third nuclear test. Under Xi, the succession question is no longer a concern. The development of north-eastern China and, over the long term, shaping an environment conducive to strategic stability and nuclear disarmament on the Korean peninsula are the two main factors underpinning China's economic engagement with North Korea. Chinese policies are market driven, and so differ from previous South Korean and US approaches that favoured humanitarian aid in exchange for military concessions. Although China is only promoting Deng Xiaoping-style reform and opening in North Korea in a low-key manner, the promotion of market mechanisms and special economic zones is underpinned by the overarching belief that providing North Korea with a window on the global economy is a strategic step that will have a positive impact on regional security over the long term.

China's policy of economic engagement with North Korea does not differ in essence from policies pursued by China in unstable or insecure regions or countries. There is clearly a pattern in the combination of narrow economic interests, through selective political support for individual projects, with broader, long-term strategic goals such as regional stability and regional economic development. A similar approach can be observed, for example, in Afghanistan and Pakistan, where the policy discourse portrays market-driven economic projects as contributing to strategic stability. Nevertheless, three factors make China's use of economic development to promote strategic goals in North Korea unique. First, China currently faces no competition from any other economic actor—North Korea is isolated from its other neighbours by UN Security Council sanctions and takes an extremely restrictive approach to economic exchanges with South Korea, Japan and the USA. Second, North Korean trade in strategic goods subject to UN sanctions is a major international security challenge and China's economic engagement risks undermining non-proliferation goals if it is not strictly controlled. Third, ideology matters. In promoting Deng Xiaoping-style development, China is in a unique position to assuage North Korean concerns that adopting market-oriented reforms will bring about contamination by Western political values and ultimately regime collapse.

The mainstream view in China regarding sanctions on North Korea is increasingly converging, albeit to a limited degree, with the mainstream in South Korea and the USA. Undoubtedly, differences remain. Many in China still tend to perceive sanctions as a tool to prevent North Korean provocations and induce it to return to negotiations—in other words, as a diplomatic tactic to achieve immediate stabilization rather than a long-term strategy to promote denuclearization. Increasingly, however, sanctions appear to have become integrated into a Chinese non-proliferation strategy—thus the greater convergence with South Korea and the USA.

More broadly, China appears to be re-examining the role of sanctions and external pressure in addressing North Korea. While traditionally opposed to the concept of comprehensive economic sanctions, there are now signs that China's policy is increasingly balancing elements of pressure with political and economic inducements. UN Security Council Resolution 2094 is a special case, as China closely cooperated with the USA in drafting the resolution. Previously, China had worked to soften the wording and impact of UN Security Council resolutions. The Chinese expert community expresses strong interest in the notion of 'smart sanctions' that target entities directly involved in North Korea's military build-up and proliferation activities while minimizing negative effects on the general population. Some experts argue that this approach can help achieve a decrease in military build-up, allowing freed resources to be used for economic development.

While these observations do not postulate a fundamental change in China's policy on North Korea, they posit trends that suggest clear policy adjustments. These trends may be temporary and reversible, but they are a basis on which China can play a greater role to address risks of nuclear proliferation, either in

the form of improvements of the North Korean military nuclear programme (vertical proliferation) or as illegal exports (horizontal proliferation).

The growth of bilateral trade provides China with new responsibilities but also new capabilities to ensure that UN Security Council sanctions are enforced through increased controls over cargo transiting through Chinese airports and harbours to and from North Korea. Greater transparency in sanctions enforcement, such as public announcements when seizing illicit products transiting Chinese territory, could help China gain international support for its economic engagement of North Korea, especially in South Korea, Japan and the USA, where its intentions are sometimes questioned.

Building on Kim Jong Un's emphasis on welfare and economic development, China is also in a unique position to state clearly that progress in these areas can only be achieved in the absence of proliferation. In this regard, the lack of high-level political support for greater economic exchanges under Xi Jinping suggests that Chinese policy may be moving towards more conditional economic engagement. Building on this trend, China could more explicitly link deeper economic engagement to an effective moratorium on North Korea's nuclear weapon and missile programmes. In the current stalemate, a viable option for China's partners—in particular South Korea and the USA—appears to be focusing diplomatic efforts on sanctions enforcement and the terms of China's economic engagement with North Korea to ensure that they progress in step, while giving China credit for supporting reform and opening in North Korea. If China could be persuaded to explicitly link economic engagement with denuclearization, it would not propose rewarding strategic restraint with aid (as South Korea and the USA did until 2008–2009) but would instead support more market-based exchanges in return for a moratorium, while scaling back support when North Korea takes illegal action.

Similarly, China has a real interest in preventing the proliferation of nuclear materials and missile technologies from North Korea. Chinese analysts acknowledge that, given North Korea's proliferation record, the risk of exports of nuclear and missile technology is real. However, in general, they conclude that, if the regime feels financially secure, then it will have little incentive to engage in such activities. Conversely, if North Korea continues to suffer from international sanctions, then the financial and strategic rewards of proliferation could outweigh the risks. Known examples of North Korean nuclear exports occurred during the high point of economic assistance to North Korea from the USA and South Korea. Stricter monitoring of North Korean trade activities in Chinese ports and airports would limit risks of illicit strategic trade but might be insufficient to stop them.

While the denuclearization of the Korean peninsula still appears to be China's foreign policy goal, it seems increasingly out of reach in the short term. With the nuclear status of North Korea enshrined in its constitution, it is now evident that the nuclear programme is not something that can be bargained away, but rather a non-negotiable strategic goal for North Korea. As a result, although the international community will not send signals that it could recognize

the nuclear status of North Korea, non-proliferation and containment increasingly appear as intermediary goals that should be pursued in priority through diplomatic efforts, including coercion through sanctions. China's increasing economic ties with North Korea, along with its unique potential to enforce sanctions, make it the most important player in the pursuit of these intermediary goals.

# Appendix A. Official visits

**Table A.1.** Official visits from China to North Korea, 2009–13

This non-exhaustive list includes visits by members of the Central Committee of the Communist Party of China (CPC), senior military officers and provincial leaders.

Date	Head of delegation	
	Name	Position
<i>Visits in 2009</i>		
9 Jan.	Hu Zhengyue	Assistant Foreign Minister
21–23 Jan.	Wang Jiarui	Head, International Department, CPC Central Committee
17–19 Feb.	Wu Dawei	Nuclear envoy, Vice-Minister of Foreign Affairs
13–17 Apr.	Li Jinhua	Vice-Chairman, National Committee of the Chinese People's Political Consultative Conference
8–13 May	Wu Donghe	Chairman, China–DPRK Friendship Association
16–21 Aug.	Wu Dawei	Vice-Foreign Minister
16–18 Sep.	Dai Bingguo	State Councillor
21–24 Sep.	Zhang Yannong	President, <i>People's Daily</i> , leading a delegation of Chinese media
4–6 Oct.	Wen Jiabao	Prime Minister
22–26 Nov.	Liang Guanglie	Minister of National Defence
<i>Visits in 2010</i>		
6–9 Feb.	Wang Jiarui	Head, International Department, CPC Central Committee
2–9 May	Guan Youfei	Deputy Director, Foreign Affairs Office, Ministry of National Defence
27 May	Wang Min	CPC official, Liaoning
14–16 June	Chen Weigen	Vice-Governor, Jilin
28 June–2 July	–	State Administration of Radio Film and Television
8 Aug.	Liu Jing	Vice-Minister of Public Security
16–18 Aug.	Wu Dawei	Special Representative for Korean Peninsular Affairs
9–11 Oct.	Zhou Yongkang	Member, Standing Committee of the CPC Politburo, and Secretary, CPC Political and Legislative Affairs Committee
18–22 Oct.	Ma Li	Deputy Editor-in-Chief, <i>People's Daily</i>
19–26 Oct.	–	Delegation of Chinese People's Volunteer Army veterans
23–26 Oct.	Guo Boxiong	Vice-chairman, Central Military Commission
22–23 Nov.	Wang Hemin	Vice-Minister of Commerce
24 Nov.	Chen Zhu	Minister of Health
8–9 Dec.	Dai Bingguo	State Councillor
<i>Visits in 2011</i>		
13–14 Feb.	Meng Jianzhu	State Councillor and Minister of Public Security
20 Feb.	Zhang Zhijun	Vice-Minister of Foreign Affairs
11–15 Apr.	Zhang Mingqi	Vice-President, All-China Federation of Trade Unions
16–20 May	Chen Zongxing	Vice-Chairman, Chinese People's Consultative Conference
10–14 June	Li Yuanchao	Head, Organization Department, CPC Central Committee
24–28 June	Chen Zhenggao	Deputy Secretary, CPC Liaoning Provincial Committee, and Governor of Liaoning
9–12 July	Zhang Dejiang	Vice-Prime Minister
3 Oct.	Guo Shengkun	Alternate member, CPC Central Committee, and Secretary, CPC Committee, Guangxi Zhuang Autonomous Region
27 Oct.	Li Keqiang	Vice-Prime Minister, and Deputy Party Secretary, State Council
<i>Visits in 2012</i>		
20–25 Feb.	Fu Ying	Vice-Minister of Foreign Affairs

Date	Head of delegation	
	Name	Position
5 Apr.	Qian Lihua	Major General and Director, Foreign Affairs Office, Ministry of National Defence
7–14 May	Li Zhaoxing	Chairman, China Association for International Friendly Contact
30 July–3 Aug.	Wang Jiarui	Head, International Department, CPC Central Committee
29–30 Nov.	Li Jianguo	Member, CPC Politburo, and Vice-chairman and Secretary-General, National People's Congress
<i>Visits in 2013</i>		
July	Li Yuanchao	Vice-President and member, CPC Politburo
26 Aug.	Wu Dawei	Special Representative for Korean Peninsular Affairs

**Table A.2.** Official visits from North Korea to China, 2009–13

This non-exhaustive list includes visits by members of the Central Committee of the Workers' Party of Korea (WPK), senior military officers and provincial leaders.

Date	Head of delegation	
	Name	Position
<i>Visits in 2009</i>		
17–21 Mar.	Kim Yong Il	Prime Minister
1 Sep.	Kim Yong Il	Vice-Foreign Minister
22 Sep.	Kil Chol Hyok	Secretary, Central Committee, Kim Il Sung Socialist Youth League
22–26 Sep.	Pak Jae Gyong	Vice-Minister of the People's Armed Forces
27–31 Oct.	Choe Thae Bok	Chairman, Supreme People's Assembly, and Secretary, WPK Central Committee
3–7 Nov.	Kim Kwang Su	Major General and Deputy Commander, Korean People's Air Force
17 Nov.	Kim Jong Gak	Member, National Defence Commission
15–19 Dec.	Ju Sang Song	Minister of People's Security
<i>Visits in 2010</i>		
30 Mar.–3 Apr.	An Yonggi	Director, Foreign Affairs Department, Ministry of the People's Armed Forces
29 Apr.–1 May	Kim Yong Nam	President, Presidium of the Supreme People's Assembly
3–7 May	Kim Jong Il	Unofficial visit
12–22 June	Kim Chang Ryong	Minister of Land and Environment Protection
26–30 Aug.	Kim Jong Il	Visiting north-eastern China
12 Oct.	Kim Gye Gwan	First Vice-Minister of Foreign Affairs and nuclear envoy
12–16 Oct.	Ri Yong Chol	First Secretary, Kim Il Sung Socialist Youth League
14 Oct.	Pyon In Son	Vice-Minister of the People's Armed Forces
30 Nov.–4 Dec.	Choe Thae Bok	Chairman, Supreme People's Assembly, and Secretary, WPK Central Committee
<i>Visits in 2011</i>		
20–26 May	Kim Jong Il	
5–9 July	Thae Jong Su	Alternate member, WPK Politburo, and Member, WPK Central Committee Secretariat
9–12 July	Yang Hyong Sop	Vice-President, Presidium of the Supreme People's Assembly
25–27 Aug.	Kim Jong Il	
26–30 Sep.	Choe Yong Rim	Prime Minister

Date	Head of delegation	
	Name	Position
30 Oct.	Kim Gye Gwan	First Vice-Minister of Foreign Affairs and nuclear envoy
17 Nov.	Ri Yong Chol	Top youth official
13 Dec.	Ri Gun	Chief, US Affairs Bureau, Ministry of Foreign Affairs
15 Dec.	Han Kwang Bok	Deputy Prime Minister
<i>Visits in 2012</i>		
26 Feb.	Kim Gye Gwan	First Vice-Minister of Foreign Affairs and nuclear envoy
21–23 Apr.	Kim Yong Il	Alternate member, WPK Politburo, Secretary for Foreign Affairs, WPK Central Committee, and Head, WPK International Department
7 May	Ri Young Hwan	Secretary, Central Committee of the Kim Il Sung Socialist Youth League
12–18 May	Jang Hyon Chol	Secretary, Central Committee of the Kim Il Sung Socialist Youth League
14 May	Kang Ka Kuk	Vice-Minister of Public Health
24–28 July	Ri Myong Su	Member, WPK Politburo, Member, National Defence Committee, and Minister of People's Security
13–18 Aug.	Jang Song Taek	Head, WPK Central Administrative Department, and member, WPK Politburo
<i>Visits in 2013</i>		
25 May	Choe Ryong Hae	Vice-Marshal and Vice-Chairman, WPK National Defence Commission
18 June–?	Kim Gye Gwan	First Vice-Minister of Foreign Affairs and nuclear envoy
16–24 Sep.	Kim Gye Gwan	First Vice-Minister of Foreign Affairs and nuclear envoy

*Sources for tables A.1 and A.2:* Chinese Ministry of Foreign Affairs, ‘中国同朝鲜的关系’ [China’s relations with North Korea], May 2011, <[http://www.fmprc.gov.cn/chn//gxh/cgb/zcgmzysx/yz/1206\\_7/1206x1/t5543.htm](http://www.fmprc.gov.cn/chn//gxh/cgb/zcgmzysx/yz/1206_7/1206x1/t5543.htm)>; and *Comparative Connections*, various issues.

# Appendix B. Key statements and agreements of the Six-Party Talks

China has continuously called for a resumption of the Six-Party Talks. Although the Six-Party Talks have failed to achieve the denuclearization of the Korean peninsula, Chinese experts draw an overall positive conclusion. They posit that the Joint Statement of 19 September 2005, the subsequent 13 February 2006 Denuclearization Action Plan and the 29 February 2012 Agreement should be seen as particularly positive and tangible outcomes that should act as a basis for negotiations on a future agreement.

These three documents are reproduced below.

## **Joint Statement of the Fourth Round of the Six-Party Talks Beijing, 19 September 2005**

1. The Six Parties unanimously reaffirmed that the goal of the Six-Party Talks is the verifiable denuclearization of the Korean Peninsula in a peaceful manner.

The DPRK committed to abandoning all nuclear weapons and existing nuclear programs and returning, at an early date, to the Treaty on the Non-Proliferation of Nuclear Weapons and to IAEA safeguards.

The United States affirmed that it has no nuclear weapons on the Korean Peninsula and has no intention to attack or invade the DPRK with nuclear or conventional weapons.

The ROK reaffirmed its commitment not to receive or deploy nuclear weapons in accordance with the 1992 Joint Declaration of the Denuclearization of the Korean Peninsula, while affirming that there exist no nuclear weapons within its territory.

The 1992 Joint Declaration of the Denuclearization of the Korean Peninsula should be observed and implemented.

The DPRK stated that it has the right to peaceful uses of nuclear energy. The other parties expressed their respect and agreed to discuss, at an appropriate time, the subject of the provision of light water reactor to the DPRK.

2. The Six Parties undertook, in their relations, to abide by the purposes and principles of the Charter of the United Nations and recognized norms of international relations.

The DPRK and the United States undertook to respect each other's sovereignty, exist peacefully together, and take steps to normalize their relations subject to their respective bilateral policies.

The DPRK and Japan undertook to take steps to normalize their relations in accordance with the Pyongyang Declaration, on the basis of the settlement of unfortunate past and the outstanding issues of concern.

3. The Six Parties undertook to promote economic cooperation in the fields of energy, trade and investment, bilaterally and/or multilaterally.

China, Japan, ROK, Russia and the US stated their willingness to provide energy assistance to the DPRK.

The ROK reaffirmed its proposal of July 12th 2005 concerning the provision of 2 million kilowatts of electric power to the DPRK.

4. The Six Parties committed to joint efforts for lasting peace and stability in Northeast Asia.

The directly related parties will negotiate a permanent peace regime on the Korean Peninsula at an appropriate separate forum.

The Six Parties agreed to explore ways and means for promoting security cooperation in Northeast Asia.

5. The Six Parties agreed to take coordinated steps to implement the afore-mentioned consensus in a phased manner in line with the principle of

‘commitment for commitment, action for action’.

6. The Six Parties agreed to hold the Fifth Round of the Six-Party Talks in Beijing in early November 2005 at a date to be determined through consultations.

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*Source:* US Department of State, Joint Statement of the Fourth Round of the Six-Party Talks Beijing, September 19, 2005<sup>5</sup>, 19 Sep. 2005, <<http://2001-2009.state.gov/r/pa/prs/ps/2005/53490.htm>>.

### **Denuclearization Action Plan, 13 February 2007**

I. The Parties held serious and productive discussions on the actions each party will take in the initial phase for the implementation of the Joint Statement of 19 September 2005. The Parties reaffirmed their common goal and will to achieve early denuclearization of the Korean Peninsula in a peaceful manner and reiterated that they would earnestly fulfill their commitments in the Joint Statement. The Parties agreed to take coordinated steps to implement the Joint Statement in a phased manner in line with the principle of ‘action for action’.

II. The Parties agreed to take the following actions in parallel in the initial phase:

1. The DPRK will shut down and seal for the purpose of eventual abandonment the Yongbyon nuclear facility, including the reprocessing facility and invite back IAEA personnel to conduct all necessary monitoring and verifications as agreed between IAEA and the DPRK.

2. The DPRK will discuss with other parties a list of all its nuclear programs as described in the Joint Statement, including plutonium extracted from used fuel rods, that would be abandoned pursuant to the Joint Statement.

3. The DPRK and the US will start bilateral talks aimed at resolving pending bilateral issues and moving toward full diplomatic relations. The US will begin the process of removing the designation of the DPRK as a state-sponsor of terrorism and

advance the process of terminating the application of the Trading with the Enemy Act with respect to the DPRK.

4. The DPRK and Japan will start bilateral talks aimed at taking steps to normalize their relations in accordance with the Pyongyang Declaration, on the basis of the settlement of unfortunate past and the outstanding issues of concern.

5. Recalling Section 1 and 3 of the Joint Statement of 19 September 2005, the Parties agreed to cooperate in economic, energy and humanitarian assistance to the DPRK. In this regard, the Parties agreed to the provision of emergency energy assistance to the DPRK in the initial phase. The initial shipment of emergency energy assistance equivalent to 50,000 tons of heavy fuel oil (HFO) will commence within next 60 days.

III. The Parties agreed on the establishment of the following Working Groups (WG) in order to carry out the initial actions and for the purpose of full implementation of the Joint Statement:

1. Denuclearization of the Korean Peninsula
2. Normalization of DPRK-US relations
3. Normalization of DPRK-Japan relations
4. Economy and Energy Cooperation
5. Northeast Asia Peace and Security Mechanism

IV. During the period of the Initial Actions phase and the next phase—which includes provision by the DPRK of a complete declaration of all nuclear programs and disablement of all existing nuclear facilities, including graphite-moderated reactors and reprocessing plant—economic, energy and humanitarian assistance up to the equivalent of 1 million tons of heavy fuel oil (HFO), including the initial shipment equivalent to 50,000 tons of HFO, will be provided to the DPRK.

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*Source:* US Department of State, ‘North Korea: Denuclearization Action Plan’, 13 Feb. 2007, <<http://2001-2009.state.gov/r/pa/prs/ps/2007/february/80479.htm>>.

**Main points of the 29 February 2012 Agreement (Leap Day Deal)**

... To improve the atmosphere for dialogue and demonstrate its commitment to denuclearization, the DPRK has agreed to implement a moratorium on long-range missile launches, nuclear tests and nuclear activities at Yongbyon, including uranium enrichment activities. The DPRK has also agreed to the return of IAEA inspectors to verify and monitor the moratorium on uranium enrichment activities at Yongbyon and confirm the disablement of the 5-MW reactor and associated facilities.

The United States ... have agreed to meet with the DPRK to finalize administrative details necessary to move forward with our proposed package of 240,000 metric tons of nutritional assistance along with the intensive monitoring required for the delivery of such assistance.

The following points flow from the February 23–24 discussions in Beijing:

- The United States reaffirms that it does not have hostile intent toward the DPRK and is prepared to take steps to improve our bilateral relationship in the spirit of

mutual respect for sovereignty and equality.

- The United States reaffirms its commitment to the September 19, 2005 Joint Statement.
- The United States recognizes the 1953 Armistice Agreement as the cornerstone of peace and stability on the Korean Peninsula.
- U.S. and DPRK nutritional assistance teams will meet in the immediate future to finalize administrative details on a targeted U.S. program consisting of an initial 240,000 metric tons of nutritional assistance with the prospect of additional assistance based on continued need.
- The United States is prepared to take steps to increase people-to-people exchanges, including in the areas of culture, education, and sports.
- U.S. sanctions against the DPRK are not targeted against the livelihood of the DPRK people.

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*Source:* Nuland, V., Spokesperson, 'U.S.–DPRK bilateral discussions', Press statement, US Department of State, 29 Feb. 2012, <<http://www.state.gov/r/pa/prs/ps/2012/02/184869.htm>>.

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