China and the Democratic People’s Republic of Korea

May 2012

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**Background Briefing: China and the Democratic People’s Republic of Korea**

**Executive summary**

Although China is the Democratic People’s Republic of Korea’s (DPRK) main economic, political and diplomatic partner, the relationship between the two is tense and characterised by a lack of trust. As a result, China’s leverage has only been useful insofar as it does not run counter to the regime’s number one priority – its own survival. China has not been able to persuade the DPRK to carry out any meaningful and long-lasting economic reforms, and neither has there been any progress made on denuclearisation. This is largely because the regime in Pyongyang has been able to exploit the differences in the priorities of the members of the Six-Party Talks to its own advantage, gaining leverage through brinksmanship and keeping long-term solutions to the crisis on the peninsula elusive. While the emergence of a new leader in the DPRK may still provide a window of opportunity, the Unha-3 rocket launch has put any hopes of progress on the peninsula on hold, leaving the international strategy unclear and the possibilities of further crisis high.

**Main points**

- China’s political and diplomatic relationship with the DPRK is well-established, as are its economic ties. China is currently the DPRK’s main economic lifeline.
- The China-DPRK military relationship remains ambiguous, although there has been a trend towards greater Chinese support for the North Korean military.
- Nevertheless, China’s leverage over the regime in Pyongyang remains limited. ‘Self-reliance’ (‘Juche’) remains a key governing ideology of the North Korean regime and Chinese mistrust of their North Korean counterparts is high.
- The Six Party Talks have been hindered by the conflicting priorities of its members. While the US is largely focused on using sanctions as a way to negotiate towards North Korean denuclearisation, China is not willing to use its leverage in a way that might compromise North Korean stability.
- Beijing has tried to use its leverage to encourage the regime in Pyongyang to follow the China model and open up economically without political reform.
- While the death of Kim Jong-il and the succession of Kim Jong-un may provide scope for a changed set of priorities in the DPRK, for the time being, it appears that the regime intends to steer the course set by Kim Jong-il.
• The lack of progress on finding a permanent solution to the crisis on the peninsula coupled with the succession of a provocative new leader, means that concerns about North Korean regime collapse are high. Although Beijing’s steadfast commitment to stability means that this point has not yet been reached, it also means that there has been a commitment to maintaining the status quo rather than making progress on the North Korean issue.
An assessment of China’s leverage in the DPRK

China and the Democratic People’s Republic of Korea (DPRK) have a well-established political and diplomatic relationship, one that goes back to the start of the Korean War when, in 1950, China stepped in to defend the North. It has only become stronger in recent years: in the two years before his death in December 2011, Kim Jong-il went to China four times (three of which were official visits), while the only other foreign trip he made was to Russia, in August 2011. As the plans for Kim Jong-un’s succession firmed up, in May 2010 his father took him to China for formal introductions and Beijing’s public blessing. China has also been willing to put its reputation on the line internationally: after the sinking of the Cheonan in 2010 and the shelling of Yeonpyeong, a group of inhabited South Korean islands, in 2011, the Chinese response remained steadfastly committed to its ‘two Koreas’ policy, refusing to – at least publicly – take sides and condemn the attacker. In February of this year, China came under fire for its policy of repatriating North Korean defectors, transporting them across the border in the dead of night on buses with drawn curtains.

The economic ties between the DPRK and China are also extensive and present at every level: state-to-state, the private sector and the black market. Conservative estimates suggest that, despite UN sanctions, trade between the two countries has at least doubled since 2006, with China now accounting for between 60 and 80% of the DPRK’s foreign trade. According to data from the Chinese Ministry of Commerce, bilateral trade for the first quarter of 2012 surged 40%. Chinese investment is also on the rise, as seen in the attempts to either establish or re-establish special economic zones (SEZs) in the DPRK, the most notable being the port in Rason. Less public efforts are also underway. Chongjin, one of the DPRK’s biggest ports until the famine of the 1990s, is coming back to life. And the private sector is active too. On 27 April 2012 the Chinese Chamber of Commerce opened its first North Korean office in Pyongyang. While Chinese businessmen are reluctant to trust their North Korean counterparts, there is profit to be made and private partnerships are present in both the legal and the black markets. The DPRK’s illicit cash products - whether drugs, people, or counterfeit goods - find some of their main trade routes through, and many of their consumers in, Chinese territory. The restrictions placed on foreign travel and communication mean that there is a reliance on Chinese colleagues to facilitate both trade and connections with eventual consumers or middlemen suppliers. As a result, China is currently the DPRK’s main economic lifeline.
With regard to military-military contact, there is at least the appearance of a strengthening relationship. In 2001 the two countries renewed the 1961 Sino-North Korean Mutual Aid and Cooperation Friendship Treaty, which includes a mutual defence pact, although there has been little evidence of practical military-military cooperation. However, China has systematically provided the military with resources, especially energy and food aid – something the broader international community has balked at. On 18 November 2011, China announced its intentions to increase military ties with the DPRK and made vague promises of greater exchanges between the two sides. In a DPRK military parade shortly after the Unha-3 rocket launch, a Chinese-made missile carrier was placed front and centre, despite UN sanctions on the transfer of military equipment to the DPRK. While the China-DPRK military-military relationship is currently an ambiguous one, it is clear that there is presently a trend towards greater Chinese support for the North Korean military – at least on the surface.

But despite the apparent closeness of the relationship, China’s leverage over the regime in Pyongyang has been limited. In the last years of Kim Jong-il’s reign, the level of Chinese involvement in the DPRK’s economy made the country’s elite acutely nervous. ‘Juche’ (or, ‘self-reliance’), the governing ideology since Kim Il-sung founded the regime, has meant that successive North Korean leaders have staked their legitimacy on their ability to keep out foreign influence and avoid being a pawn in the games of the world’s super powers, using the memory of prolonged colonial exploitation under the Japanese in the early half of the 20th century as a powerful reminder of North Korean suffering at the hands of outsiders.

Chinese strategists, for their part, were hardly filled with admiration for Kim Jong-il, and the assessment of Kim Jong-un seems to be even worse, with many voicing concerns about his inexperience and immaturity. Chinese businessmen suffer at the hands of North Korean counterparts who will not uphold their end of deals, to the point where the norm is to demand cash upfront in transactions. Mistrust is so endemic that when the Cheonan was sunk, some US, South Korean and Chinese officials and analysts privately believed that the regime had carried out the attack not as a threat to Seoul, but to embarrass and put pressure on Beijing.
**Conflicting strategies: sanctions vs. economic engagement**

The Six-Party Talks, established in 2003, were originally primarily conceived as an effort in coordination. The guiding assumption was that all members of the talks – China, the United States, South Korea, Japan, Russia and North Korea – were not only necessary for working out a solution, but also ultimately shared the same mutually compatible goal, that of a denuclearised, unified and more stable peninsula. While this remains true, in reality, conflicting priorities of the various actors mean that there has been, and continues to be, very little room for progress. By and large, the United States is focused on using sanctions as a way to negotiate towards denuclearisation, an outcome that the DPRK has made clear it will not accept. China, for its part, will not use its leverage in a way that might compromise North Korean stability and has instead attempted to convince the regime to follow its own model of economic reforms. South Korea has shifted between the two but never fully committed to either, instead moving from the progressive ‘Sunshine Policy’ of 1998 to 2008, to the more hawkish policies of the Lee Myung-Bak administration, with another shift possible as South Korea goes through its presidential elections later this year. The regime in Pyongyang has masterfully played these divergent interests off against each other, prolonging its own survival.

While it is debatable whether harsher sanctions outside of the United Nations are the right policy for advancing a resolution to the conflict with the DPRK, it is certain that, unless Beijing signs up, they are futile. When China has given its support, there have been instances where sanctions have had an economic impact on the regime. The most effective were the 2007 efforts against Banco Delta Asia, a small bank run out of Macao which held around 25 million USD (EUR 19 million) in North Korean cash reserves, and was also accused of aiding the regime in its money laundering activities. The sanctions dealt a real blow to the regime, tying up their reserves, but – more significantly – also putting a stop to many of the DPRK’s financial operations and seriously disrupting the regime’s access to international goods and services.

The effectiveness of these (and indeed all) sanctions in bringing about progress on the peninsula, has been the subject of much debate, and there are real concerns – especially in Beijing - that increased sanctions may even be counter-productive. China has argued that although further isolating the regime might help weaken its hold on power, it will also
encourage further antagonistic behaviour and re-entrenching the ‘military first’\(^1\) policy it had pursued until late-2010/early-2011. Beijing benefits from being able to keep an eye on the regime and from its ability to intervene if there are signs of instability and it has been unwilling to give that access up for the tougher public condemnations or sanctions that the United States has called for, and that it does not believe will accomplish very much by way of real progress.

Instead, China has tried to use its leverage to encourage the regime to reform its economy and gradually open up.\(^2\) The advice to the North Korean regime has been that it should follow the China model, opening up economically without political reform. While, at least under Kim Jong-Il, the DPRK has been willing to dabble in economic reforms, allowing spontaneous street markets to flourish on and off since 2002, letting citizens accumulate cash savings, freeing up regulations to allow for more robust tourism, and establishing a number of SEZs, many of the reforms have either not seen success or have been abruptly reversed. The currency reforms of 2009 essentially destroyed the markets and took away all of the savings that North Korean citizens had accumulated. Since then, markets and savings have been allowed to rebuild, but the threat of similar action remains. After years of trying, Beijing has made only moderate progress with its agenda. In private, Chinese officials and analysts voice tremendous frustration about the stubbornness of the regime.

The North Korean regime has consistently held a single priority: securing its own survival. It has been swayed from this course by neither the promise of financial enrichment, the starvation of its people, the honouring of political relationships or humiliation. China’s economic reasoning has fallen foul of the regime’s reliance on an unbending version of

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\(^1\) The policy of prioritising the Korean People’s Army in the allocation of national resources (including food, energy, transportation, etc.) and in the decision-making processes of the state.

\(^2\) China has exercised its ability to influence North Korean economics for other purposes as well. In 2004-2005, with a drug epidemic underway in China’s North Eastern provinces, Beijing cracked down on the methamphetamine trade, an industry initiated and then supported by the regime in Pyongyang to pull cash into North Korean coffers. North Korean production of methamphetamines seems to have been cut drastically in the years since then. While it is not inconceivable that this effort was carried out with the support of Pyongyang (the DPRK was also suffering from increasing domestic consumption of the drug), it does demonstrate that the extent to which the Chinese market is integrated into the North Korean economy gives it a variety of ways and means to squeeze the regime’s finances.

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totalitarianism to keep control of both the elites\textsuperscript{3} and its population. Agreements reached between the US and the DPRK that include steps toward denuclearisation have been reversed by the regime’s belief that its nuclear capabilities give it immunity against international intervention, a belief that has likely been reinforced by the fall of Saddam Hussein in Iraq, and now Muammar Gaddafi in Libya. While the death of Kim Jong-il and the succession which followed may still provide the scope for a changed set of priorities, the Unha-3 rocket launch and the voiding of the US-DPRK Leap Day Agreement\textsuperscript{4} suggests that – for the time being at least – the regime (regardless of who is in charge) intends to steer the course set by Kim Jong-il.

What next?
In all quarters, there is now a significant lack of political will to seek solutions proactively. In China, the leadership transition later this year and the continued political turbulence over the fall of former party secretary of Chongqing and Politburo member Bo Xilai has only served to strengthen Beijing’s desire to see stability rather than push for change on the Korean peninsula. Were the DPRK to collapse, refugees would pour into China’s Northeastern provinces, and even nearby Beijing, on a scale that could put serious pressure on the country’s infrastructure and slow the country’s growth. US and probably also South Korean troops would move in to secure the DPRK’s nuclear arsenal, bringing them uncomfortably close to Chinese territory. China, for its part, would need to deploy its own troops – at least to the Sino-North Korean border – to help stem the tide of refugees and to make a show of support for the regime, which, in a worst case scenario, could bring Chinese and US troops up against each other. Over the longer term, a collapsed DPRK would not only lose China an ally, but could end up as part of a peninsula unified on South Korean terms - terms which would involve democracy and a close relationship with the United States, both of which are unappetising for an already nervous political elite in Beijing.

And South Korea, after having tried both engagement and the more hawkish methods of its current President, Lee Myung-Bak, is tired of investing energy in its neighbour. The

\textsuperscript{3} Even when the country has been at its most impoverished, the North Korean regime has kept the elites loyal by maintaining a constant supply of luxury cars, cognac and fine clothing.

\textsuperscript{4} The name given to the deal announced on 29 February 2012, in which the US agreed to resume food shipments in exchange for a North Korean moratorium on uranium enrichment and long-range missile tests.
peninsula has been split for 64 years, and the generations of people that remember a unified Korea, and whose families and friendships were split with the country, are dying out. Younger generations of South Koreans not only see unification as unimportant, they are wary of it, believing that the backward and poverty-stricken North will simply drag the South down and damage their futures. This transformation in national psychology has been visible in South Korea’s parliamentary and presidential election debates, which – despite the death of Kim Jong-II – have made little mention of the DPRK, and have instead focused on a battle of ideas over the correct formulae for social welfare.

The Obama administration, for its part, is in a quandary. It had framed the Leap Day Agreement as a test of the new regime, an attempt to figure out whether or not a changed leadership would make for a changed set of North Korean priorities. In the first week of March, shortly after the Leap Day Agreement but before the Unha-3 launch, the US and the DPRK met to discuss the parameters and redlines of the deal they had, at least publicly, already reached. Kim Kye-gwan, the North Korean negotiator, detailed a conversation that he explained had taken place between Kim Jong-il and Kim Jong-un in the months leading up to the elder Kim’s death, in which it had been decided that the DPRK would be willing to give up uranium enrichment and proliferation in exchange for food, investment, and an improved relationship with the United States, but that it would not denuclearise nor agree to stop satellite launches until the country, and the regime, felt secure. This was not a deal that the United States was willing to accept. Not only are promises to stop uranium enrichment and proliferation easy to turn back on (as the North Korean regime has proved time and time again), but it would also send a signal of tolerance to other would-be nuclear weapons states, seriously undermining the Obama administration’s denuclearisation agenda. The result is that all sides are again at an impasse with no clear way forward in sight.

With no progress having been made on finding a permanent solution to the crisis on the peninsula, and with a new leader who has proven his willingness to be provocative and whose grip on power is unlikely to be a firm one, concerns about North Korean regime collapse are high. There is a great deal of nervousness about the lack of contingency

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5 While the cheap labour and resources of the North would benefit the Korean economy over the long run, the costs of reunification would be astronomical – far higher than those for German unification.

6 This account was related to the author by a US official involved in the negotiations.
planning talks between the Chinese, South Koreans and the United States. Beijing has repeatedly rejected Washington and Seoul’s requests for direct military-military conversations, conversations which stand in direct opposition to its alliance agreements with the DPRK and would be seen as seriously antagonistic in Pyongyang. While China’s reasons for choosing not to engage in joint contingency planning are understandable, the absence of mutually agreed plans means that there is a real risk of confrontation. Beijing’s steadfast commitment to stability means that this point has not yet been reached, but also means that – despite the big changes in the DPRK – there has been a commitment to maintaining the status quo rather than making progress.

Conclusions and policy implications
Over the longer term, Europe will face a choice between two opposing strategies:

- **Economic engagement.** More European economic engagement with the DPRK would be welcomed by both Pyongyang and Beijing, and may help stabilise the country and improve the lives of the North Korean people, but it could also prolong the life of the regime and give it the cash needed to create a more convincing nuclear threat. Although civilians have profited from the marketisation process in the DPRK, those who have most benefited most are the military (who have access to oil, vehicles, and a wide network of contacts) and the traditional elites (who are able to solicit bribes from those carrying out any number of illegal economic activities).

- **Economic isolation.** The DPRK is more desperate than ever before for food and resources. Not only does Kim Jong-un desperately need to prove his ability as a leader, the North Korean people have been promised that the centennial celebrations of Kim Il-sung’s birth, which took place in April 2012, would mark the start of a new and more prosperous future. At a point when the North Korean people are expecting improvements in their livelihoods rather than the constant decline that they have become accustomed to, it is possible that any cuts to existing economic engagement would help to squeeze the regime. Kim Jong-un also needs to prove to the elites that he is able to protect the DPRK from becoming overly reliant on China, so a reduction in the number of
international actors that the regime is able to engage will weaken his grip. However, although further isolation would certainly weaken the regime, it would almost certainly precipitate provocations and increase instability on the peninsula.

One of the key questions is whether or not North Korean reliance on China will help or hinder European priorities on the peninsula. More European economic engagement would balance China’s influence and afford more direct insight and leverage over the regime. But further economic isolation would give China a better hand in its relations with the DPRK, which – because of the historical relationship, political ties, and the increased pressures it would put on the regime – could help force the regime to make more meaningful progress on reforms and opening up its economy.

For the moment, however, neither is a risk free option. Not only is there currently no united international strategy, but China, South Korea and the United States are all at the stage where they are having to reconsider their own individual strategies and priorities. Despite US claims that the Leap Day Agreement was a test of the new leadership in Pyongyang, it is still unclear whether Kim Jong-un will mean business as usual, opportunities for progress, or instability and potential collapse. Without greater clarity, there is little scope for decisive action, and Europe is left with few policy options.

However, Europe can take advantage of its own leverage to help an old ally – the United States – and a new friend – South Korea – develop a coherent and realistic strategy and set of priorities vis-à-vis the DPRK. Europe has a lot to offer: all of the EU’s Member States have some form of representation in Pyongyang; there are currently four EU Member States sitting on the UN Security Council; there is a well-established aid relationship with the DPRK; and Europe’s relative neutrality means that it may be able to help relieve some of the tensions in the US-China relationship over DPRK policy. Europe is in a good position to help – but, at the moment, it is unclear what that help should look like.