

CHINA AND NORTH KOREA: COMRADES FOREVER?

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CHINA AND NORTH KOREA: COMRADES FOREVER?

EXECUTIVE SUMMARY

China's influence on North Korea is more than it is willing to admit but far less than outsiders tend to believe. Although it shares the international community's denuclearisation goal, it has its own concept of how to achieve it. It will not tolerate erratic and dangerous behaviour if it poses a risk of conflict but neither will it endorse or implement policies that it believes will create instability or threaten its influence in both Pyongyang and Seoul. The advantages afforded by China's close relationship with the North can only be harnessed if better assessments of its priorities and limitations are integrated into international strategies. Waiting for China to compel North Korean compliance will only give Pyongyang more time to develop its nuclear arsenal.

China's priorities with regard to North Korea are:

- avoiding the economic costs of an explosion on the Korean Peninsula;
- preventing the U.S. from dominating a unified Korea;
- securing the stability of its three economically weak north eastern provinces by incorporating North Korea into their development plans;
- reducing the financial burden of the bilateral relationship by replacing aid with trade and investment;
- winning credit at home, in the region and in the U.S. for being engaged in achieving denuclearisation;
- sustaining the two-Korea status quo so long as it can maintain influence in both and use the North as leverage with Washington on the Taiwan issue; and
- avoiding a situation where a nuclear North Korea leads Japan and/or Taiwan to become nuclear powers.

China's roughly two-billion-dollar annual bilateral trade and investment with North Korea is still the most visible form of leverage for ending deadlock and expediting the nuclear negotiations. However, there is virtually no circumstance under which China would use it to force North Korea's compliance on the nuclear issue. Even

though the crackdown on North Korea's banking activities in Macao in September 2005 demonstrated that China is not completely immune to outside pressures to rein in bad behaviour, Beijing is unlikely to shut down the North's remaining banking activities in the country.

China opposes sanctions on North Korea because it believes they would lead to instability, would not dislodge the regime but would damage the nascent process of market reforms and harm the most vulnerable. It also has reasons related to its own quest for reunification with Taiwan – not to mention human rights issues in Xinjiang and Tibet, and its own economic interests in Sudan and elsewhere – for opposing aid conditionality and infringements on sovereignty and being generally reluctant to embrace sanctions.

The bilateral relationship affords China little non-coercive influence over Pyongyang. Viewing it as one sustained by history and ideology ignores powerful dynamics of strategic mistrust, fractured leadership ties and ideological differences. Pyongyang knows Beijing might not come to its defence again in war and fears that it would trade it off if it felt its national interest could benefit.

One factor shaping China's preference for the status quo in North Korea is the presence of two million ethnic Koreans in the country including an estimated 10,000 to 100,000 refugees and migrants at any one time. Although refugee flows are perceived to present one of the greatest threats to China in case of political or economic collapse in the North, most Chinese analysts and officials are unconcerned about the short-term threat posed by border crossers. Meanwhile, genuine political refugees are now quietly leaving China and being resettled in South Korea without Chinese opposition – sometimes even with its assistance – so long as they depart without causing embarrassment.

Chinese President Hu Jintao's visit to Pyongyang in October 2005 and Kim Jong-il's return visit in January 2006 underscored deepening economic relations. China is undertaking a range of infrastructure projects in and around North Korea and now accounts for 40 per cent of its foreign trade. Since 2003, over 150 Chinese firms have begun

operating in or trading with North Korea. As much as 80 per cent of the consumer goods found in the country's markets are made in China, which will keep trying gradually to normalise the economy, with the long-term goal of a reformed, China-friendly North Korea.

Although it cannot deliver a rapid end to Pyongyang's weapons program, China must still be an integral component of any strategy with a chance of reducing the threat of a nuclear North Korea. No other country has the

interest and political position in North Korea to facilitate and mediate negotiations. It is also the key to preventing transfers of the North's nuclear materials and other illicit goods, although its ability to do this is limited by logistical and intelligence weaknesses, and unwillingness to curb border trade. Over the long-term, Chinese economic interaction with the North may be the best hope for sparking deeper systemic reform and liberalisation there.

Seoul/Brussels, 1 February 2006

CHINA AND NORTH KOREA: COMRADES FOREVER?

I. INTRODUCTION

China has played a key role in confronting the North Korean nuclear threat by convening successive rounds of six-party talks in Beijing. Its unrivalled economic and diplomatic ties to North Korea and its interest in averting North Korea's nuclearisation give it a pivotal position. But insistence on playing the good cop by refusing to use coercive tactics to curb North Korea's confrontational behaviour or delays in negotiations means it is not likely to end the crisis unilaterally. North Korea's attendance at the July, September and November 2005 rounds of talks removed some pressure on China to get tough. But the North's continued obstinacy on the sequencing and content of the denuclearisation deal, the verification and compliance issues, and the challenges of tackling economic reform and human rights, means the question of what China is prepared to do to keep its erstwhile ally in line will be critical.

Many in the U.S. and other governments believe China should simply support U.S. aims and policy choices more strongly. But as recent negotiations over currency revaluation and trade issues show, China responds best when its own interests are respected. The considerable advantages afforded by China's relationship with North Korea can only be harnessed if its priorities and limitations are integrated into international strategies.

This report lays out China's position on critical issues its policy makers take into consideration when dealing with North Korea and spells out what role China envisages playing in ameliorating the North Korean threat. Details of policy making at the highest levels in China and North Korea are as hard, if not harder to access than anywhere in the world. However, a reasonably clear picture of China's domestic and foreign policy priorities and its relationship with North Korea can be gleaned from discussions with senior Communist Party and People's Liberation Army officials, foreign ministry diplomats, academics and foreign analysts. Extensive research in China's border provinces with local trade officials, border guards, merchants, NGO workers and residents provides information and insights into China-North Korea economic relations and the unique perspective of China's Korean minority.

II. AN ENDURING RELATIONSHIP

A. THE CONFUCIAN CONTEXT

During the Ming (1368-1643) and Qing (1644-1911) dynasties, Korea, like other neighbours, had to choose between paying tribute to the Chinese Imperial Court or invasion. Successive Korean dynasties chose tribute, and throughout the pre-modern era the peninsula's proximity to the centre of Chinese civilisation assured a high degree of Chinese political, economic and cultural influence. Most new inventions, techniques and religions (Confucianism and Buddhism) came from China. Chinese was the Korean elite's written language for centuries, and the Korean states adopted Chinese legal and political institutions.¹ Patronage relations were sealed with ritual visits to Beijing and payment of tribute but fealty expressed alliance, not submission. The relationship was seen in both countries as traditionally Confucian, with China in the role of "older", and Korea of "younger brother".²

B. BROTHERS IN ARMS

Neither China nor Korea was strong enough to repel the Japanese invasion, and by the early 1930s the Korean Peninsula and large parts of China had been brutally and systematically colonised. From the late 1920s onwards, Chinese and Korean communists based at Yan'an in China were conducting organised guerrilla warfare behind Japanese lines.³ Among these fighters were future Chinese leaders Mao Zedong and Deng Xiaoping and the future North Korean president, Kim Il-sung, a fluent Mandarin speaker and follower of Russian communism. Like many other Chinese and Korean communists, Mao and Kim forged close personal ties during this time. Japan was

¹ About 70 per cent of Korean words are based on Chinese. See You Ji, "China and North Korea: A Fragile Relationship of Strategic Convenience", *Journal of Contemporary China*, vol. 10, No. 28 (August 2001); and Adrian Buzo, *The Making of Modern Korea* (London, 2002).

² John Fairbank and S.Y Teng, "On the Ch-ing Tributary System", *Harvard Journal of Asiatic Studies*, 1942.

³ Anthony Coogan, "Northeast China and the Origins of the Anti-Japanese United Front", *Modern China*, July 1994.

driven out of China and Korea at the end of World War II, and during the civil war in China between the nationalist Kuomintang (KMT) and the Chinese communists, Kim supplied the communists with food, supplies, and troops.⁴

Chinese and North Korean communists joined to fight again after the Korean War broke out in 1950, one year after the communists took control of mainland China and two years after Kim had established a communist state in North Korea. After U.S. troops poured into South Korea to defend against the North Korean invasion, China suffered up to one million casualties fighting alongside the (North) Korean People's Army (KPA).⁵ Its contribution was vital to stalemating the war at the 38th parallel in 1953, and Chinese forces remained on the peninsula to direct reconstruction for five more years. Mao strongly supported North Korea as an opportunity to claim leadership of Asian communism and to restore China's international role. He also believed the revolutionary struggle would increase his legitimacy with the Chinese masses and help draw Korea back into China's sphere of influence. Mao used the threat to China's territory of U.S. invasion, especially to its heavy industry in the border provinces, and the debt owed to North Korea for support during the civil war, to convince sceptics in the Chinese leadership.⁶

C. EXPLOITING THE SINO-SOVIET RIVALRY

Despite an alliance forged in blood, relations quickly cooled after the Korean War. Ideological fractures in the socialist bloc were exacerbated by the death of Stalin in 1953 and ascendance of Nikita Khrushchev, viewed as a revisionist by Mao and Kim Il-sung, both of whom wanted to be independent leaders of their own movements. Mao particularly saw himself as the rightful leader of world, or at least Asian, communism, while Kim was more concerned with consolidating supremacy in North Korea and achieving reunification. Sino-North Korean relations oscillated, as Pyongyang tried to prevent either Russia or China from achieving too much influence, while extracting military and economic support from both. In 1961 North Korea signed security treaties with China and the Soviet

Union. However, by the time Khrushchev was deposed in 1964, it had moved much closer to Beijing, as both were critical of Moscow's ideological revisionism and shared the goal of supporting socialist revolutions in the third world to defeat imperialism, instead of the peaceful coexistence with the West Khrushchev advocated.⁷

Relations sank to their lowest level during the Chinese Cultural Revolution (1966-1976). The Red Guards denounced Kim Il-sung as a "fat revisionist", and attacked North Korean diplomats in Beijing. North Korea ended its attempt to balance reliance for military and economic assistance and turned to Moscow for almost all aid. After 1970, China sought to counter some of this Soviet influence on its border by restarting transfers of military equipment, food and energy. Relative Russian and Chinese influence oscillated until the 1980s, depending on the economic fortunes of each, but the Soviet Union's greater military and economic development assured it a leading role.⁸ By the late 1980s, China was a marginal contributor to North Korea's economy and military, as Moscow tried to rebuild its alliance with Pyongyang during a time of renewed tension with the West.⁹

Despite its sometimes strained relations with North Korea, China refused throughout the Cold War to recognise South Korea and insisted that the communist government was the legitimate Korean power. However, after Sino-Soviet rapprochement in 1989 and the collapse of the Soviet Union soon afterwards, the competition for Pyongyang's allegiance was over. For the first time since the Korean War, North Korea needed China more than China needed it. In 1991, China refused to veto South Korea's application to join the UN. The next year, it followed the new Russian Federation's lead and normalised relations with South Korea, ending its one-Korea policy.

D. FROM PATRON TO LIFELINE

China's recognition of South Korea in 1992, followed by the death of Kim Il-sung in 1994, led to dramatic changes in its bilateral relationship with North Korea. Although it sought to maintain fraternal relations, in 1993 sending future President Hu Jintao, the leader of the communist

⁴ The Chinese Communist Party (CCP) and North Korea signed a mutual assistance pact in 1946. Robert Simmons, *The Strained Alliance* (New York, 1975).

⁵ The precise figure is still not known. Mao Zedong even lost his own son, Mao Anying, in the first year of the war.

⁶ The propaganda campaign in China promoting the war was dubbed "The Great Movement to Resist America and Assist Korea". For different views about the China-Korea relationship during the Korean War, see Chen Jian, *Mao's China* (Chapel Hill, 2001); Jung Chang and Jon Halliday, *Mao: The Unknown Story* (London, 2005); and Soviet archives at the Cold War International History Project, Woodrow Wilson Center, <http://www.woodrowcenter.org/cwihp>.

⁷ For discussion see Chin Chung, *Pyongyang Between Peking and Moscow: North Korea's Involvement in the Sino-Soviet Dispute, 1958-1975* (Alabama, 1978).

⁸ Between 1946 and 1991 North Korea received foreign aid primarily from the Soviet Union, as well as China and elsewhere in the socialist bloc. Any measure of aid can only be approximate due to the problems of exchange rates and opacity of official records in Russia and China.

⁹ For details of China and the Soviet Union's support to North Korea, see Crisis Group Asia Report N°96, *North Korea: Can the Iron Fist Accept the Invisible Hand?*, 25 April 2005.

party's "Fourth Generation" of leaders, and Defence Minister Chi Haotian to Pyongyang to mark the 40th anniversary of the Korean Armistice Agreement, it also tried to construct a more arms-length relationship. Later that year, it announced it wanted to substitute commercial transactions for the free transfers of grain, petroleum and coal and subsidised sales and barter trade which then accounted for at least one third of North Korean GDP.¹⁰ Despite the famine in North Korea, China did so, and the bilateral relationship nosedived through the 1990s. The annual visit to Beijing by a senior North Korean official to present the country's needs stopped in 1995. By 1999, China's yearly aid and trade with North Korea had fallen by almost \$300 million to less than \$800 million, and Pyongyang was running a trade deficit.¹¹

Between 2000 and 2003, Chinese grants to North Korea also declined, totalling just \$108 million in 2003.¹² They rose slightly in 2004, to \$145 million, reflecting agreements for more technical assistance in agriculture and industry signed during Kim Jong-il's April state visit to Beijing.¹³ With the end in 2002 of heavy fuel oil shipments from the U.S. under the 1994 Agreed Framework to build two light-water reactors, China is now Pyongyang's sole source for between 300,000 and one million tons of this oil annually.¹⁴

¹⁰ *Joongang Ilbo*, 2 February 1995, in FBIS, DR/EAS, 2 February 1995.

¹¹ Figures denoted in dollars (\$) in this report refer to U.S. dollars. Jung Won-joon, "North Korea's Foreign Trade in 1999", Korea Trade Investment Promotion Agency North Korea Department, 17 January 2001, <http://crm.kotra.or.kr/main/info/nk/eng/main.php3>.

¹² "North Korea's Trade in 2004", Korea Trade Investment Promotion Agency (KOTRA), 2005 (in Korean). The Bank of Korea inputs raw data from the National Intelligence Service into a model to reach North Korea estimates. A combination of satellite imagery and eyewitness accounts are used to measure agricultural activity and factory use rates. Some analysts question the accuracy. Crisis Group interviews, Bank of Korea and South Korean government officials, Seoul, December 2004. However, even Korean-Chinese analysts in the Yanbian Special Autonomous Region confirm they find South Korean data more accessible and reliable than Chinese, making it the best available. Crisis Group interview, Piao Cheng-xian, Director, North East Asia Research Institute, Yanbian University, 15 September 2005.

¹³ Willy Lam, "Kim Jong-il's visit to Beijing: what does it mean for the West?", *China Brief*, 29 April 2004.

¹⁴ According to operators at the transfer station outside the Chinese border city of Dandong, the oil comes from the Daching Oil Fields 800km to the north, is refined on the North Korean side and then distributed. "North Korea's Lifeline: The Oil Pipeline from China", Part 2 in series "Is North Korea becoming China's fourth north east province?", *Chosun Ilbo*, 15

China continues to provide some food aid, and its officials meet monthly with North Korean counterparts to make sure the regime can maintain a basic level of food and energy sustainability. However, despite Western estimates that China gave 500,000 tons of grain in 2005, the World Food Program's rigorous household monitoring throughout the North has identified no Chinese-donated food.¹⁵ South Korea and the wider international community are far more important humanitarian donors.¹⁶ Although unable to provide specific figures, Chinese analysts contradict conventional wisdom by describing China's aid relationship with North Korea as "miniscule".¹⁷

Although Chinese aid has fallen, commercial trade has grown dramatically since North Korea started economic reforms in 2002.¹⁸ Chinese products worth \$800 million flowed in during 2004, and North Korea exported goods worth nearly \$600 million back, making the trade relationship its largest. Preliminary 2005 figures show North Korea importing goods worth more than \$1 billion.¹⁹ China now accounts for roughly 40 per cent of the North's trade – double South Korea and more than six times Japan.²⁰ Grain, previously its main export, is now only its eighth largest, preceded by electronics, machinery, and components for manufacturing and industry, reflecting growing investments by Chinese companies in the industrial sector.

The Taean Friendship Glass Factory is an example of a joint Chinese-North Korean project. With a \$25 million investment, Chinese enterprises provided materials, labour and expertise but the factory uses North Korean

July 2004 (in Korean). The financial terms under which the oil is delivered remain unclear.

¹⁵ Crisis Group interviews, Pyongyang-based NGO and UN agency officials, Beijing, June 2005.

¹⁶ North Korea needs 5.5 million tons of grain and rice annually, according to the World Food Program (WFP), which runs the largest feeding program in the country. Of this, on average 4 million to 4.5 million tons are produced domestically (although in 2005 North Korea had unusually high crop yields), and approximately 600,000 tons are provided by the international community. China may make up some of the shortfall but most North Koreans still do not meet basic nutritional standards. Crisis Group interviews, WFP officials, Beijing, October 2004 and June 2005, and Pyongyang October 2005. UNICEF estimates as many as 40,000 North Korean children may die due to malnutrition in 2006, <http://www.unicef.org>.

¹⁷ Crisis Group interviews, Hong Kong, Beijing and Shanghai, May-September 2005.

¹⁸ For detailed analysis of North Korea's economic reforms, see Crisis Group Report, *North Korea: Can the Iron Fist Accept the Invisible Hand?*, op. cit.

¹⁹ Ministry of Unification, *Inter-Korean Issues Weekly*, 13 January 2006, <http://www.unikorea.go.kr>.

²⁰ "China-North Korea Economic Relations are Deepening", KOTRA, 6 January 2006 (in Korean).

workers.²¹ More than 100 Chinese companies are investing in the North, ranging from a three-company, 50-year lease to extract iron ore from the border area of Musan to a ten-year lease to run Pyongyang's largest department store.²² North Korea is setting up IT training centres in Beijing and Shenyang for hundreds of its workers to develop skills to work for Chinese IT companies.²³

Economic ties were given a major boost by state visits: to Pyongyang by President Hu, 28-30 October 2005, and Beijing and China's economically booming south by Chairman Kim Jong-il, 10-18 January 2006.²⁴ China offered more monetary aid during Hu's trip, and signed an "Economic and Technological Cooperation Agreement", rumoured to be worth \$2 billion in trade credits and investment.²⁵ South Korea's leading news magazine, *Sisa Journal*, suggests the package is actually worth \$3 billion, up from \$300 million envisaged when Hu's visit was planned a year earlier.²⁶ In the meantime, China is building highways and railways spanning the border, making it easier for the North to ship iron ore and other raw materials. A Chinese company has agreed to complete paving the road connecting the Chinese north east to the North Korean port of Rajin and signed a 50-year lease on two piers at the port.²⁷

China has achieved its goal of remaining North Korea's main economic lifeline, while cutting the expense of this relationship and incorporating the country into its development plans for the north east. Indeed, Pyongyang watchers in Seoul are now referring to North Korea as China's fourth north-eastern province.²⁸

²¹ "The North Korean Economy is Under China's Thumb", 8 November 2005 (in Korean) and "Construction of Taean Friendship Glass Factory", *KCNA*, 30 June 2005.

²² For an overview of Chinese investments, see "Chinese Businessmen to Run Pyongyang Department Store for Ten Years", Part 3 in series "Is North Korea becoming China's fourth north east province?", *op. cit.*

²³ "North Korea finds IT cooperation with China is the way to survive", *Hankyoreh Shinmun*, 5 January 2006 (in Korean).

²⁴ Four of Kim Jong-il's six foreign trips since coming to power have been to China, with the January 2006 visit the longest yet, in both duration and distance travelled (over 5,000 kilometres).

²⁵ Cho Joong-sik, "China announces its plan of \$2 billion aid to North Korea", *Chosun Ilbo*, 31 October 2005 (in Korean).

²⁶ "Kim Jong-il visits Guangdong province to learn about reform and opening", *Dong-a Ilbo*, 16 January 2006 (in Korean).

²⁷ "North Korea and China agree to jointly develop undersea gas fields", *Chosun Ilbo*, 26 December 2005 (in Korean).

²⁸ See Nam Sung-wook, "China is intensifying its economic occupation of North Korea", *Shindonga* December 2005 (in Korean) and Dong Yong-seung, "We must understand the purpose of China's outreach to North Korea", *Dong-a Ilbo*, 14 December 2005 (in Korean).

E. THE NUCLEAR DISPUTES

China's increasingly arms-length relationship with Pyongyang has been even more evident in its approach to the successive crises over North Korea's withdrawal from the Nuclear Non-Proliferation Treaty (NPT) and the nuclear weapons program. In contrast to its refusal in the 1980s to engage in attempts at regulating the North's nuclear ambitions, the bilateral relationship is preoccupied by the issue. Since 2003, China has staked its prestige by putting itself at the centre of efforts to resolve the crisis, hosting successive rounds of the six-party talks.²⁹

1. The first nuclear crisis

China was drawn into the North Korean nuclear standoff in 1992, when discrepancies between Pyongyang's initial declaration to the International Atomic Energy Association (IAEA) and its on-the-ground facilities and materials first became apparent. It was rumoured to have already pulled some strings behind the scenes to encourage the North's cooperation with IAEA inspections. As international pressure grew for disclosure and wider inspector access in January 1993, there were unconfirmed reports that China invited Kim Il-sung to talks in Beijing.³⁰

When a frustrated IAEA referred the matter to its Board of Governors in February 1993, China agreed to pass messages between Washington and Pyongyang. The U.S. asked China to "act responsibly". Beijing's official response was to send State Department officials a somewhat cryptic poem.³¹ However, when it was time to vote on the IAEA resolution requesting North Korea to implement its safeguards agreement, Beijing's response was more direct: it abstained, allowing the resolution to pass. Two months later, after North Korea had given notice of intent to withdraw from the NPT, China also abstained on (did not veto) a UN Security Council resolution calling on North Korea to accept IAEA inspections under the NPT.³²

Through sixteen months of tense diplomacy in Geneva and New York, as the U.S. tried to win Pyongyang's agreement to accept comprehensive inspections or surrender the

²⁹ The six parties are North and South Korea, China, Japan, Russia and the U.S.

³⁰ Joel S. Wit et al, *Going Critical: The First North Korean Nuclear Crisis* (Washington DC, 2004), pp. 154-155.

³¹ "At the end of the mountain and the river, one may not know where the road lies, then suddenly, one finds a new village with willows and flowers", *Ibid.*, pp. 154-155.

³² China would not support a resolution that included any hint of sanctions. It accepted "further Security Council consideration will take place if necessary", but not "further action", Security Council Resolution 825, 11 May 1993.

plutonium it had separated, China urged the North to cooperate and the international community to refrain from sanctions.³³ Tensions peaked in May 1994 when North Korea pulled fuel rods from a reactor containing sufficient plutonium for five or six weapons. As both sides girded for war, China began preparations to send 50,000 to 75,000 troops to support North Korea in case of a U.S. invasion.³⁴ However, China diluted its previous opposition to UN sanctions, suggesting that it would not veto a resolution.³⁵ After the crisis was averted, China supported the bilateral U.S.-North Korea negotiations that led to the Agreed Framework and used its contacts with the North to persuade it to accept the final deal.³⁶

2. The second nuclear crisis

China's approach to resolving the second nuclear crisis has been altogether more engaged and transparent. After U.S. Assistant Secretary of State James Kelly announced in October 2002 that Washington believed North Korea had a highly enriched uranium (HEU) program, Hu emphasised that he had had no prior knowledge of this program, and criticised Pyongyang's planned withdrawal from the NPT. In a joint statement with Russian President Vladimir Putin in December 2002, Hu called on North Korea to comply with the Agreed Framework. Chinese officials met frequently with Kim Jong-il and lower-level North Koreans, urging them to dismantle the nuclear program and comply with U.S. and IAEA requests for inspections.³⁷

The expulsion of IAEA inspectors and withdrawal from the NPT in January 2003 revealed the limits of China's capacity to control the North by exhortation and advice alone and signalled another turning point in its attitude. It shifted focus from joint Chinese-Russian pressure, to passing messages unilaterally between North Korea and the U.S. In April 2003, after an increase of Washington's military presence in the region and the start of the Iraq war had raised fears of a pre-emptive invasion of the North, China urged the U.S. and North Korea to hold

bilateral negotiations in Beijing. The initiative failed, with Washington adamant that it would not "reward" North Korea's behaviour with negotiations, and Pyongyang threatening a "physical demonstration" of its nuclear capabilities. Throughout the summer of 2003, however, China, with the U.S., South Korea, and Japan, worked to secure North Korea's agreement for a new round of multilateral talks. In late August 2003 the first round of the six-party talks was held in Beijing.³⁸ The former U.S. special envoy for North Korea, Charles Pritchard, has said that without China, there would be no six-party talks.³⁹

China's direct involvement at the talks has been as convenor and mediator, although its officials have taken a central role by drafting statements, and providing detailed commentary. While outside the forum senior Chinese officials have voiced doubts about U.S. intelligence on North Korea's HEU program, questioned U.S. flexibility, and asserted North Korea's right to the peaceful use of atomic energy, they have not imposed these views at the talks or sought to set their own agenda.⁴⁰

The thirteen-month hiatus between the June 2004 and July 2005 rounds showed that although China is proactive and serious about keeping the negotiations on track, its ability to force concessions from the North is limited. Chinese officials shuttled between Seoul, Pyongyang, and Washington, but North Korea responded with intransigence and refused to attend talks. Senior foreign ministry officials made explicit in May 2005 that China would support neither sanctions nor overt coercion, regardless of how long the deadlock. A senior foreign ministry spokesman told *The New York Times* China rejected all suggestions it should reduce oil or food shipments to North Korea, calling them part of its normal trade with a neighbour that should be separate from the nuclear problem.⁴¹

It is not known yet if North Korea's attendance at the 2005 rounds in Beijing indicates a real willingness to deal

³³ China refused to pass a March 1994 Security Council resolution directly threatening sanctions, but agreed to a statement urging full IAEA inspections and obliquely threatening the possibility of sanctions. Statement of the President of the Security Council, S/PRST/1994/13, 31 March 1994.

³⁴ "North Korea Nuclear Crisis, February 1993-June 1994", http://www.globalsecurity.org/military/ops/dprk_nuke.htm.

³⁵ China changed its position from "opposing economic sanctions" to "not favouring economic sanctions", Statement by the President of the Security Council, S/PRST/1994/13, 30 May 1994.

³⁶ *Joong-Ang Ilbo*, 23 March 1995, in FBIS, DR/EAS.

³⁷ Jonathan Pollack, "The United States, North Korea, and the End of the Agreed Framework", *Naval War College Review*, vol. lvi, no. 3 (Summer 2003), pp. 35-38.

³⁸ See Crisis Group Asia Report N°61, *North Korea: A Phased Negotiation Strategy*, 1 August 2003; and Crisis Group Asia Report N°87, *North Korea: Where Next for the Nuclear Talks?*, 15 November 2004.

³⁹ "The North Korea Deadlock: A Report from the Region", Brookings Institution seminar, 15 January 2004, full event transcript available at <https://www.brookings.edu/dybdocroot/comm/events/20040115.pdf>.

⁴⁰ See Crisis Group Asia Report N°61, *North Korea: A Phased Negotiation Strategy*, 1 August 2003 and Crisis Group Report, *North Korea: Where Next for the Nuclear Talks?*, op. cit.

⁴¹ "The normal trade flow should not be linked up with the nuclear issue. We oppose trying to address the problem through strong-arm tactics", the Chinese official said. Quoted in "China rules out using sanctions on North Korea", *The New York Times*, 11 May 2005.

or was just another attempt to stall while building its arsenal. Either way, North Korea's obstinacy on the sequencing and content of any denuclearisation deal, and the scale of the verification and compliance challenges in any agreement, mean the question of what, if anything, China can do to keep its errant neighbour in line will be critically important.

III. CHINA'S PRIORITIES

Reducing China's behaviour to a passive reaction to U.S. aims and North Korean demands ignores its own goals, at home, on the Korean Peninsula, and in the wider region. Calculating which of China's sometimes contradictory priorities is most important is impeded by the opaqueness of senior officials and decision-making bodies. Even Chinese analysts profess not to know the inner workings and calculations of the country's North Korea policy. "It's closed on a good day, and on North Korea even more so", says a long-term observer.⁴² By outlining the main priorities it is at least possible to understand the range of constituencies that influence the policy-making process in Beijing.

A. CAUTIOUS CONSERVATISM

China's supreme leaders, Mao Zedong and Deng Xiaoping, emphasised their shared revolutionary experiences with Kim Il-sung to sustain close ties with North Korea. The 1970s and 1980s are known as a time of "great leader diplomacy", with high-level contacts dominating relations. Although not part of the revolutionary generation, Deng's successor, Jiang Zemin, was too beholden to the still-conservative Chinese Communist Party (CCP) to risk tampering with this legacy.

President Hu Jintao and Premier Wen Jiabao head a new kind of senior leadership, of technocrats rather than ideologues and army generals. Both portray themselves as pragmatic flag bearers for China's new corporate face, who have nothing in common with the reclusive, eccentric Kim Jong-il. In private meetings with U.S. officials, Hu makes clear his impatience for Kim and frustration with the North's self-defeating policies.⁴³ Historical revisions – sensitive in communist countries as they can indicate mistakes by revered leaders or anger allies – have been

⁴² Crisis Group interviews, Beijing and Shanghai, August 2005. For discussion of what is known about the process in China's supreme decision making body, the Standing Committee of the Political Bureau (Politburo), see H. Lyman Miller, "Hu Jintao and the Party Politburo", *China Leadership Monitor*, no. 9 (Winter 2004). President Hu alluded to China's formal priorities during Chairman Kim Jong-il's January 2006 visit, declaring, according to the official Xinhua News Agency, that: "The Chinese government and people sincerely hope for political stability, economic prosperity and the people's happiness in the DPRK and are delighted to see the DPRK's achievements in building a strong and prosperous country". "Top leaders of China and DPRK meet in Beijing 18 January 2005", Xinhua Online, <http://news.xinhuanet.com/english/>.

⁴³ Crisis Group interview, U.S. government official, Washington DC, April 2005.

made. For decades, students learned the Korean War was started by the South. Now texts leave the causes unexplained.⁴⁴

Nevertheless, its leaders cannot change the central position given to the Korean War in China's history and national consciousness. Many young, urban and middle class Chinese are critical of their government's support for the anachronistic North, and many internet blogs and chat-rooms contain posts chiding Pyongyang for its nuclear program amid widespread starvation and questioning China's continuing support. However, sentiments among similarly aged Chinese outside Beijing are different. Many still feel greater affinity and trust toward North than South Korea.⁴⁵ Chinese officially estimate over 500,000 of their soldiers died in the war, although the actual figure could be twice that. The most noteworthy of these veterans are still celebrated alongside historic and contemporary sporting, ideological, military, and cultural heroes.⁴⁶ The war was the first and last time China directly engaged "American imperialists", and its heroes are an important part of modern history.

Some Chinese academics and non-governmental analysts predict history will become progressively less important in determining China's North Korea policies⁴⁷ but Major General Pan Zhenqiang, Director of the Institute for Strategic Studies in Beijing, said conservative opinion still forces leaders to keep at least outwardly friendly relations with the North:

We have to; otherwise public opinion will turn against the government. There is still a very strong opinion on the part of average Chinese people that we should support North Korea, particularly when it seems there is no justification for aggressive action against it.⁴⁸

In another throwback to the Cold War era, many Chinese analysts and policy makers still hold deeply conservative views towards the U.S., seeing a major conflict with it as increasingly likely.⁴⁹ Influential conservatives especially

within the military remain suspicious about long-term U.S. objectives in North East Asia. General Pan explained:

We believe the U.S. might not be inclined to seek a solution to the nuclear issue. They even prefer, we suspect, to let that threat stay, because once it disappears, they would lose the justification of their military presence. Sometimes we ask ourselves, what are the U.S. intentions – is it really for non-proliferation, or is it to keep tension in this region so they can stay?⁵⁰

Progressive and liberal views have been increasingly evident, and some prominent analysts have published strong dissenting opinions advocating greater accommodation with the U.S. over North Korea.⁵¹ For now, these are probably more a symptom of China's increasingly unregulated media and intellectual environment than an indication of substantive policy shifts. Breaking with history and running against deep-seated conservatism would be a gamble for any Chinese leader. Evidence from the two years of President Hu's rule – a cautious, middle-of-the-road policy on currency revaluation, clamping down on the nascent media industry, and stalling political liberalisation – suggests he is not a betting man.⁵² More bluntly, a senior Chinese academic says, "Hu hasn't got the guts to make change".⁵³ However, as the College of William and Mary's Tun-jen Cheng points out, much of Hu's first two years was spent consolidating power and getting out of the shadow of his predecessor, Jiang Zemin.⁵⁴

B. FOREIGN POLICY PRIORITIES

Foreign policy norms from Maoist and Marxist ideology count for relatively little today, according to Chinese

Pentagon's senior China watcher, Michael Pillsbury, *The Future of China's Ancient Strategy* (Washington DC, forthcoming).

⁴⁴ Crisis Group interview, Beijing, June 2005.

⁴⁵ The most prominent of these was published in April 2004 by Wang Zhongwen of the Foreign Economics Research Institute, Tianjin Academy of Social Sciences, "Examining the North Korea Question and the Situation in North East Asia from a New Perspective", *Strategy and Management*, April 2004 (in Chinese). The journal and its website were closed immediately after publication. Many other Chinese academics and officials privately express frustration with China's policy and have written dissenting policy papers. The extent to which these ideas directly influence policy is unclear, even to their authors. Crisis Group interviews, Beijing, June 2005.

⁴⁶ See for example Richard McGregor and Mure Dickie, "The drivers of the rate of change", *Financial Times*, 23 July 2005; "Hu's in charge", *The Economist*, 20 August 2005.

⁴⁷ Crisis Group interview, Beijing, June 2005.

⁴⁸ Crisis Group interview via email, 20 January 2006.

⁴⁴ Second-year high school history texts in Beijing read "on 25 June 1950, the Korean Civil War broke out". Crisis Group interview, Beijing, July 2005; and Robert Marquand, "China, North Korea no longer close as lips and teeth", *Christian Science Monitor*, 25 July 2003.

⁴⁵ Crisis Group interviews, Beijing, Nanjing, Ynji and Dandong, July-September 2005.

⁴⁶ Crisis Group interviews, Museum to Commemorate U.S. Aggression, Dandong, July 2005.

⁴⁷ Banning Garrett and Bonnie Glaser, "Looking Across the Yalu: Chinese Assessments of North Korea", *Asian Survey*, vol. 35, no. 6, June 1995.

⁴⁸ Crisis Group interview, Beijing, June 2005.

⁴⁹ Crisis Group interviews, Beijing and Shanghai, May-September 2005. This conclusion is the thesis of a book by the

academics and analysts.⁵⁵ However, when combined with China's great-power ambitions but poor ability to project power militarily beyond its borders and concerns especially about sovereignty and unification with Taiwan, several priorities are evident. The main doctrine is peaceful coexistence, with its principles of respect for sovereignty and territorial integrity; non-aggression; non-interference in internal affairs; and equality and mutual benefit. Chinese also emphasise the need for a fair and reasonable political and economic world order; the impermissibility of threat or use of force; the equality of nations; and that China should always side with developing countries and never seek hegemony or superpower status.⁵⁶ These help explain the reluctance to coerce North Korea.

1. Territorial integrity

China's overarching priority is to restore its territorial integrity; it is unlikely to endorse any policy which threatens this. It views reunification with Taiwan as its top priority, one which reflects on its credibility as a great power.⁵⁷ It is also concerned about the threat of secession in Xinjiang and to a lesser extent Tibet. It is sensitive to any precedent that could legitimise these regions' separation or foreign intervention on behalf of the rights of their peoples. China is also concerned not to weaken its claim to the north-eastern Korean Autonomous Region ceded to it after the delineation of the border with North Korea at the Yalu River, or to allow economic changes, Korean nationalism, and demographic shifts to threaten the integrity of that region.⁵⁸

KOREANS IN CHINA

Of the Yanbian Ethnic Korean Autonomous Region's two million people, the percentage of ethnic Koreans is under 40 per cent and is expected to continue to drop, after peaking at 70 per cent in the 1940s and being split evenly just a decade ago. Ethnic Han, the majority in China, are moving in, and ethnic Koreans are moving out, most to South Korea, but to Russia and other parts of China as

well. Despite their dwindling numbers and the fact that the largest wave of migration was nearly a century ago, ethnic Koreans retain a strong cultural identity, with the vast majority of even the fifth generation speaking Korean as their mother tongue and less than 5 per cent marrying non-ethnic Koreans. The Chinese government has helped foster this identity by allowing education through high school and a vibrant local media in Korean. Ethnic Koreans can watch over twenty channels of South Korean television via satellite. Public and commercial signs are required to display both Hangul and Chinese in the same font size. Ethnic Koreans are not subject to the one-child restriction.

No explicit incentives are offered Han Chinese to migrate. The most senior ethnic Korean in Beijing heads the State Ethnic Affairs Commission in the State Council.⁵⁹ The National People's Congress is required to have at least one representative of each ethnic minority.⁶⁰ In the Yanbian Autonomous Region, although local Communist Party secretaries are usually Han Chinese, ethnic Koreans comprise 44 per cent of the prefect government.⁶¹

Despite this ethnic identity, Korean-Chinese have a strong allegiance to China. Given the income disparity between China and South Korea, even the most prosperous ethnic Koreans would suddenly become poor cousins in a unified Korea. Culturally, even though ethnic Koreans speak fluent Korean, they are treated as second-class citizens when they visit the South. Ironically, South Koreans are usually the most gracious hosts to foreigners but can be discriminatory and unforgiving with their own people. Until recently, a slight difference in accent made all the difference in one's career path and circle of friends. Even though culturally most Korean-Chinese are now much closer to the South than the North, most go to Seoul only to make money and are relieved to return to China.

Roughly one-third of the Korean-Chinese population has relatives in North Korea, but although they can visit without a visa, few are interested in making long-term investments there. "It will be difficult for the economic situation to really improve, even with reform, because successful reform would lead to a collapse of the regime", one explained. "The reforms undertaken so far were a start, but are not real reforms. Inflation is out of control and the gap between rich and poor is dramatic". Having

⁵⁵ Deng Wang, *In the Eyes of the Dragon* (Oxford, 1999).

⁵⁶ Wu Xinbo, "Four Contradictions Constraining China's Foreign Policy Behaviour", *Journal of Contemporary China*, vol. 10, no. 27, 2001.

⁵⁷ Crisis Group Asia Report N°54, *Taiwan Strait II: The Risk of War*, 6 June 2003.

⁵⁸ Two million ethnic Koreans live in China, its thirteenth largest minority; 90 per cent still live in the Yanbian Autonomous Region across the border from North Korea. Choi Woo-gil, *Studies on Ethnic Koreans in China* (Seoul, 2005) (in Korean); Kim Doo-sub and Kim Jung-min, "Endangered Korean Minority Society in China", *Journal of International and Area Studies*, vol. 12, no. 1, June 2005, and Lee Han-woo, "Kando is Chosun's territory", *Chosun Ilbo*, 11 September 2004 (in Korean).

⁵⁹ Li Dezhu also served as a party official in the Yanbian Korean Autonomous Region before going to Beijing. Crisis Group interview via email with Andy Zhang, Chinese Academy of Social Sciences, 10 January 2006.

⁶⁰ Si-Joong Kim, "The Economic Status and Role of Ethnic Koreans in China", in *Korean Diaspora in the World Economy*, Institute of International Economics (2003).

⁶¹ <http://abazhou.gov.cn/softdown/shaoshu.doc> (in Chinese).

North Korean relatives visit is also a burden for many. “I only allow my relatives to visit once every year or two, because it takes me that long to save up enough money to provide all the computers, televisions, and DVD players for them to take back”, explained another Yenji resident.

It was difficult to find Korean-Chinese who supported Kim Jong-il or the North Korean regime. It is painful for those with relatives in the North to see the oppression and deprivation their family members face. However, few Korean-Chinese believe that cutting off trade would have any deeper impact than to make conditions for ordinary citizens worse. “The North Korean regime can survive without China, but I don’t think the people can”, one said.⁶²

2. Non-interference in internal affairs

China has long held that every nation has the right to choose its own political system and development model and has made this point more emphatically since being condemned for the massacre of pro-democracy demonstrators at Tiananmen Square in 1989. It believes conditionality on aid and trade constitutes interference in internal affairs, a view shaped by its experience of Soviet aid in the 1950s, U.S. trade sanctions between 1950 and 1971, and the European Union (EU) arms embargo imposed after 1989.

China has vigorously and consistently opposed UN sanctions, including recently on Iraq and Sudan. As China’s Permanent Representative noted in September 2004 during a Security Council debate on Sudan’s Darfur region, “it is our consistent view that instead of helping solve complicated problems, sanctions may make them even more complicated”.⁶³

3. Use of force

China’s historical experience of political, economic and military coercion by the U.S., several European countries and Japan has made it strongly opposed to the use of force, especially in the Asia Pacific region.⁶⁴ Taiwan again plays a big part in its thinking. Over the last decade, there has been an escalating contest of ideas in Beijing, Washington and Tokyo about the balance of power in East Asia and how China’s threats against Taiwan affect that balance. Although no Chinese government official has explicitly made the link between U.S. policies towards Taiwan and

China’s toward North Korea – not least because Taiwan is not considered a foreign policy issue in China – Jia Qingguo at Peking University’s School of International Relations said:

If China and the U.S. were allies, China would think about North Korea in a very different light. Your ally’s military capacity is your asset, not a threat. But the U.S. and China are not allies. The U.S. support for Taiwan is harming China’s core national interest, so China has to hedge against potential threat scenarios, and this affects China’s behaviour on the Korean issue. Sub-consciously, these two issues are linked.⁶⁵

4. Support for developing countries

During the Cold War, China tried to act as the leader of the developing world, an approach that its need for friendly relations with oil and mineral-rich countries in Africa and the Middle East has revitalised.⁶⁶ From Latin America to West Africa, China is using massive state-sponsored investments in infrastructure and industry to buy allegiance, and access to resources.⁶⁷ The foreign policy priority is to establish an image of China as a responsible power, willing to cooperate with all countries, regardless of their political systems. It will not draw ideological lines, as long as countries are willing to work with it.⁶⁸

Payoffs from this morally neutral policy include a \$600 million oil and gas agreement with Uzbek dictator Islam Karimov, just one week after his government was condemned internationally for the massacre of demonstrators at Andijon in May 2005.⁶⁹ Support for Robert Mugabe has yielded favoured access to Zimbabwe’s gold and platinum resources.⁷⁰ While the West accuses Sudan’s government of genocide in Darfur,

⁶⁵ Crisis Group interview, academic, Beijing, June 2005.

⁶⁶ See Andy Rothman, “China Eats the World”, CLSA Asia Pacific Markets, 2005; and David Zweig and Bi Jianhai, “The Foreign Policy of a Resource Hungry State”, Centre on China’s Transnational Relations, Hong Kong University of Science and Technology, Working Paper no. 5, 2005. This will be the subject of a future Crisis Group report.

⁶⁷ Thanks partly to China, Africa’s GDP rose 5.8 per cent in 2004 – the biggest increase for 30 years. Jonathan Watts, “No questions, no lies in China’s quest for Oil”, *Guardian Weekly*, 3 June 2005.

⁶⁸ Crisis Group interviews, Chinese foreign policy experts, Beijing and Shanghai, June-August 2005.

⁶⁹ Crisis Group Asia Briefing N°38, *Uzbekistan: The Andijon Uprising*, 25 May 2005.

⁷⁰ “No Questions, No Lies”, op. cit.; and Crisis Group Africa Report N°97, *Zimbabwe’s Operation Murambatsvina: The Tipping Point?*, 17 August 2005.

⁶² Crisis Group interviews, Yanbian Korean Autonomous Province, September 2005.

⁶³ Ambassador Wang Guangya, 18 September 2004. <http://www.chinaun.org>.

⁶⁴ Wu Xinbo, “Four Contradictions”, op. cit. This doctrine did not prevent it from invading Vietnam in 1979.

China has helped develop its oil resources, and used its position on the Security Council to block sanctions.⁷¹

China's well-developed norms do not amount to a foreign policy straitjacket. All the non-intervention principles have been violated in the past. China supported UN sanctions against apartheid South Africa in the 1970s and imposed unilateral sanctions on North Vietnam in 1979. In 2002, it shut down rail links with Mongolia for two days to protest a visit by the exiled Tibetan leader, the Dalai Lama.⁷² Ultimately, its foreign policy is driven by what it believes best serves its national interest, and pragmatism can trump principle when necessary.

C. DOMESTIC STABILITY

In calculating that pragmatism, China has always looked for threats in more comprehensive terms than external or militarily defined situations. "Domestic stability has always been paramount, and external threats are usually perceived in the context of how they will aggravate domestic instability", notes Peng Huaidong, a Chinese foreign policy expert.⁷³ Calculations about the immediate ramifications of political change or economic collapse in North Korea on China's own domestic development, especially in the north-eastern provinces, are influential. Two worst-case scenarios of a rapid collapse in North Korea dominate thinking.

1. Collapse and chaos in North Korea

China and North Korea's 1,400 km land border guarantees that whatever happens in one country will affect the other. The border itself is fairly quiet, sparsely guarded and porous. Apart from a few soldiers at bridge crossings, there is no visible military presence on either side. North Korean soldiers are supposed to be posted at 50-metre intervals but many are easily bribed by both North Koreans leaving and South Korean and other tourists crossing the river from China. Unlike the Yalu in the west, the Tumen River in the east is shallow enough to ford.⁷⁴ Thus, the border itself poses little barrier to entering China; rather, it is reaching that border (the vast majority of defectors are

from provinces bordering China) and staying hidden once in China that is difficult.

China fears that without Kim Jong-il's iron rule, North Korea would descend into uncontrollable civil unrest or civil war between heavily armed rival factions from within the elite and that this instability would spill across the border. "You could imagine that there might be competition or even fighting among different sections inside North Korea. One faction is more pro-China, another pro-U.S. and another pro-South Korea. Each faction could send invitations to come and help in the civil war, and that situation would be very confusing and chaotic", warned a Chinese security analyst.⁷⁵

A new campaign to reverse a quarter-century of economic decline in Jilin, Liaoning and Heilongjiang, the three provinces that border North Korea, raises the stakes of this scenario for Beijing. Premier Wen Jiabao visited these provinces three times in 2003 alone, characterising their rejuvenation and the western development program as the "two wheels" that will propel China's economic growth in the 21st century. President Hu has also invested personal capital in the project, trying to distinguish himself as a more egalitarian leader than his predecessor, Jiang Zemin.⁷⁶ Regenerating this "rust belt" of more than 100 million people and traditional heavy industry steel plants, iron ore mines, oil refineries and shipbuilding factories is a development priority, both for the economic payoff and because the high unemployment and inequality is a dangerous source of discontent.⁷⁷

The region long took a back seat to the eastern and southern coastal cities, and its share of the national output declined from 16.5 per cent to 9.3 per cent. Jiang Zemin's concentration on Shanghai and other coastal cities is widely credited with alienating the general public, fostering rampant corruption, inequality and

⁷¹ Sudan supplies 5 per cent of China's oil, and China is its largest trade partner. See Crisis Group reporting and resources on Sudan at:

<http://www.crisisgroup.org/home/index.cfm?id=3060>

⁷² David Murphy, "Softening at the Edges", *Far Eastern Economic Review*, 4 November 2004.

⁷³ Peng Huaidong, "A Discussion of the Major Differences in Chinese and Western Views of War", *Zhongguo Junshi Kexue*, no. 1, 1997, pp. 127-131, in David Shambaugh, *Modernising China's Military* (London, 2004), p. 284.

⁷⁴ Most of the river is no deeper than 50 cm.

⁷⁵ Crisis Group interview, Beijing, June 2005. This concern is also shared by military analysts in Russia. Crisis Group interview, Moscow, 13 December 2005.

⁷⁶ A strategic plan for rejuvenating the traditional industrial bases was issued at the Third Plenum of the Sixteenth Central Committee of the Chinese Communist Party. Cheng Li, "China's Northeast: From Largest Rust Belt to Fourth Economic Engine?", *China Leadership Monitor*, no. 9 (Winter 2004).

⁷⁷ According to the 2003 annual survey of social trends in China published by the Chinese Academy of Social Sciences (*Blue Book of Chinese Society*), 80 per cent of people surveyed in Liaoning Province think Chinese society is "very unfair" or "not very fair"; 28 per cent would either participate in or support a "collective action" if asked by co-workers or neighbours. These figures cannot be comforting to those hoping to maintain China's stability. Joseph Fewsmith, "China's Domestic Agenda: Social Pressures and Public Opinion", *China Leadership Monitor*, no. 6 (Spring 2003).

unemployment in the provinces, and setting the stage for potentially catastrophic disruption. The Hu Jintao/Wen Jiabao administration is seen as more aware of the problems, and both have paid attention to weaker social groups and more balanced regional development.⁷⁸

China's central banks have given major loans to the provincial governments,⁷⁹ while private and foreign investment has been much higher than the national average, the latter growing 78 per cent in the three provinces from 2003 to 2004.⁸⁰ Keeping this flow coming and regional development on track is central to the revitalisation policy.⁸¹

The Chinese military is rumoured to have a contingency plan to enter North Korea if it collapses into civil war, both to keep stability on the border, and to make sure that whoever gains power in Pyongyang is friendly.⁸² However, in October 2004 the South Korean newspaper *Chosun Ilbo* reported evidence of a Chinese strategy to "incorporate North Korea into its military federation and eventually make it a subordinate state", reflecting a widespread concern in Seoul that China seeks to block Korean unification.⁸³ Chinese analysts are quick to deny any Chinese interest in annexation: "China is poor enough already – what use is another problematic province?"⁸⁴

2. Prevent mass migration

China's second concern about the breakdown of social controls inside the North is the threat of an unsustainable flood of hundreds of thousands of refugees, bringing social, criminal and political problems with them.⁸⁵ Nothing is known about contingency planning, although China is rumoured to have approximately 150,000 troops

on standby ready to close the border if needed.⁸⁶ Indicative of worst-case scenarios, in 2003 Russian border guards and civil defence officials conducted drills in the seventeen-kilometre-long sliver of border Russia shares with North Korea, based on the premise that refugee flows had started. In the exercise, Russia mobilised 75 warships, 20 warplanes and 30,000 soldiers to protect a border area one-hundredth the size of China's.⁸⁷

D. REGIONAL STABILITY

As China sees it, North Korea's behaviour and nuclear program threaten regional stability in North East Asia. It frets that another nuclear neighbour could lead to a chain reaction whereby Japan, South Korea and potentially even Taiwan could start a nuclear arms race. Worse, it fears that definitive proof of North Korean nuclear weapons, such as by a test, might spark a war, started either by a U.S.-led unilateral strike on North Korea, or a pre-emptive strike against South Korea or Japan by a cornered North. This would be catastrophic for China's own economic growth, regardless of whether it directly participated. China's options are limited by its calculation that the two-Korea status quo remains in its strategic interests. Keeping North Korea as a buffer between Chinese and U.S. forces, and more importantly as a card in achieving China's own reunification with Taiwan, is a key priority.

1. Not another nuclear neighbour

A nuclear weapons state itself, China has long contended that such arms have little military significance, and their sole legitimate purpose should be the prevention of nuclear blackmail. China has unconditionally committed not to use or threaten to use nuclear weapons against non-nuclear states. It has frequently challenged the legitimacy of nuclear deterrence⁸⁸ and highlighted its commitment to a nuclear weapons-free Korean Peninsula.

Another Beijing worry is that Japan is using the North Korean threat to justify shifting to a more "normal" defence policy, one that China inevitably interprets as hostile.⁸⁹ North Korea's nuclear weapons program and missile development, along with its history of infiltrating agents into Japan, have already elevated the country's importance in Japanese defence planning, particularly since

⁷⁸ Cheng Li, "China's Northeast", op. cit.

⁷⁹ "NE China province gets huge bank loans for rejuvenation", *People's Daily Online*, 27 January 2005.

⁸⁰ "Three characteristics in China's utilisation of foreign investment", *People's Daily Online*, 18 January 2005; "Six channels for multinational corporations to participate in rejuvenation of the north east", *People's Daily Online*, 22 February 2005.

⁸¹ Comments by Zhang Guobao, in charge of the Leading Group for Revitalising Northeast China and Other Old Industrial Bases, reported in "China To Speed Up Innovation In SOEs To Revitalize Old Industrial Base", Xinhua News Agency, 3 March 2005.

⁸² Rebecca MacKinnon, "Internet rumours of Chinese plans for N. Korea", 20 October 2004. www.NKZone.org.

⁸³ "China's alleged plot to annex North Korea", *Chosun Ilbo*, 19 October 2004.

⁸⁴ Crisis Group interview, Beijing, July 2005.

⁸⁵ Estimates of North Koreans in China during the peak of the famine in the late 1990s vary by factors of ten or more, making it problematic to estimate how many would leave in the event of a regime collapse.

⁸⁶ Crisis Group interviews, Beijing, June-August 2005.

⁸⁷ Crisis Group interviews, Beijing, July 2005; and James Brooke, "Old allies turn up the heat on North Korea", *The New York Times*, 19 August 2003.

⁸⁸ "Fact Sheet: China's Nuclear Disarmament Policy", 27 April 2004, <http://www.fmprc.gov.cn>.

⁸⁹ Japan-China relations will be the subject of a forthcoming Crisis Group report.

Pyongyang tested a missile that flew over Japan in August 1998. The North Korean threat has been cited as justification for missile defence and satellite development, constitutional revisions with respect to allowable use of force, and reinvigoration of the military alliance with the U.S. The nuclear dominos scenario, whereby definitive proof of North Korean nuclearisation could cause Japan to go nuclear, followed by South Korea and potentially Taiwan, is seen as plausible in Beijing, even though the assumption is not born out by research in Japan.⁹⁰

There is also a possibility that a nuclear North Korea could pose a direct threat to China. Chinese analysts privately discuss the possibility that development of Japan's missile defence shield, unwillingness to detonate a weapon on the Korean Peninsula, and the technical obstacles to developing a long-range missile capable of hitting the U.S. could make Beijing the North's only viable high-profile target. Some analysts worry that North Korea could use its weapons to extort aid from China. A more likely scenario is a severe accident at a North Korean nuclear facility along the border resulting in contamination of large areas of north eastern China.⁹¹

2. Averting conflict

Jin Linbo, a foreign policy analyst at the China Institute of International Studies in Beijing, observed that although official policy is that the Korean Peninsula should be nuclear free, there is little evidence to suggest China is very serious about achieving this or that the principle alone is so overwhelmingly important that it will in itself generate firm action.⁹² As obstruction of international efforts to curb Iran's nuclear ambitions shows, domestic calculations come before non-proliferation norms in China's decision-making hierarchy. "Whatever Iran does, we need oil", said Shen Dingli at Fudan University's Centre for American Studies. "Oil is more important than international law".⁹³ China affords Iran diplomatic protection in exchange for lucrative oil and gas contracts. Iranian leaders assume China will block any U.S. attempt to have the UN Security Council take action and that Chinese trade would make any unilateral U.S. or Western sanctions irrelevant. In October 2004 China signed a \$70 billion deal to buy oil and gas from Iran over three decades. The state oil company Sinopec is to develop a major Iranian field.⁹⁴

China's greatest fear about North Korea's nuclear program is that it will trigger a conflict on the Korean Peninsula, with profound economic consequences. War would affect domestic and international confidence in China. Consumers and firms would likely reduce expenditures, immediately curbing economic growth. External trade and investment and short term liquidity flows would be disrupted. Trade with Japan and South Korea, two important suppliers of capital goods, would be affected.⁹⁵ Foreign direct investment, the key driver of export and manufacturing growth and under normal circumstances some 5 per cent of GDP, would fall sharply, according to financial analysts.⁹⁶

The financial sector would be most at risk. China has benefited from large inflows of short-term liquidity, largely in expectation of currency revaluation. If these inflows were reversed, China's banking sector could come under severe pressure. So far, China has not experienced severe financial strains, but sudden outflows of liquidity could expose the cracks in its banking sector and lead to a crippling crisis.⁹⁷ "China is not working to resolve the nuclear crisis for the purpose of helping America or to help North Korea", explained a journalist at the Xinhua News Agency in Beijing. "We are just concerned with the stabilisation of the region, in China's own interest".⁹⁸

To head off this chain of events while maximising economic interaction with its neighbours, China has sought to dampen down flashpoints on most of its borders. Since 2001, it has resolved border disputes with Russia, Kazakhstan, Kyrgyzstan and Tajikistan. With Central Asian states and Russia, it developed the Shanghai Cooperation Organisation (SCO), with a secretariat in Beijing. In the south it linked up with the Association of Southeast Asian Nations (ASEAN) through the ASEAN-plus China mechanism, and embarked on a regional free-trade agreement. It also developed a code of conduct for the South China Sea with the Philippines and Vietnam and signed an agreement for joint surveying.⁹⁹ China's

Crisis Group Middle East Briefing N°15, *Iran: Where Next on the Nuclear Standoff?*, 24 November 2004.

⁹⁵ Japan and South Korea account for 15 per cent and 11 per cent of China's imports overall, giving them the first and second largest share of the Chinese market respectively. Japan is China's fourth largest export market, accounting for 12 per cent, and South Korea its sixth largest at 5 per cent.

⁹⁶ Crisis Group interviews, Andy Rothman, CLSA Asia Pacific Markets, 5 August 2005 and Dominique Dwor-Frécault, Barclays Capital, 12 August 2005.

⁹⁷ Crisis Group interview, Dominique Dwor-Frécault, Barclays Capital, 12 August 2005.

⁹⁸ Crisis Group interview, Beijing, June 2005.

⁹⁹ "Philippines, Vietnam to work with China on offshore resources dispute", Xinhua News Agency, 11 April 2005; and "Oil pact marks new approach to disputes by China", *Financial*

⁹⁰ Crisis Group Asia Report N°100, *Japan and North Korea: Bones of Contention*, 27 June 2005.

⁹¹ Crisis Group interviews, Beijing, Shanghai, Dandong, June-August 2005.

⁹² Crisis Group interview, Beijing, 28 May 2005.

⁹³ Crisis Group interview, 30 August 2005.

⁹⁴ See Crisis Group Middle East Briefing N°18, *Iran: What Does Ahmadi-Nejad's Victory Mean?*, 4 August 2005; and

approach to disputes with its neighbours is still often clumsy; willingness to allow nationalism to shape its policies towards Japan needlessly creates friction in that relationship. Still, North Korea stands out as a particularly dangerous and, most importantly, immediate threat to China's economy.¹⁰⁰

This is why peaks in tensions, like the May 1994 war scare and at various times during the present Bush administration, are always met with heightened Chinese activity and diplomatic ingenuity. Observers in Beijing and Shanghai tend to agree that China's proposal for six-party talks in 2003 was spurred by fear that after the U.S. invasion of Iraq, North Korea would be next.¹⁰¹ The realisation by 2005 that the U.S. would be unable to sustain military action on two fronts has lessened the sense of urgency felt in Beijing.¹⁰²

3. Maintain the regional status quo

China's first generation communist leaders believed they needed North Korea as a strategic buffer zone to keep U.S. forces away from their border.¹⁰³ Although this strategy was downgraded after the shift toward economic reform and rapprochement with the U.S. in the 1970s,

Times, 3 September 2004. In April 2005 Premier Wen signed an accord with India that set out a roadmap for resolving a border dispute, and the military has held further talks in New Delhi and Kolkata to reduce border tensions. S.N.M. Abdi, "PLA chief opens dialogue in India", *South China Morning Post*, 26 May 2005.

¹⁰⁰ The social problems challenging the CCP's continued rule have been the subject of various studies during the thirty years since it started economic reform. See, for example, Victor Louis, *The Coming Decline of the Chinese Empire* (New York, 1979); Christopher Wren, *The End of the Line: the Failure of Communism in the Soviet Union and China* (New York, 1990); and for a more recent insider's account of the challenge posed by the weak financial sector, Gordon Chang, *The Coming Collapse of China* (London, 2001).

¹⁰¹ Robert Marquand, "Watching Iraq, China begins to lean on North Korea", *Christian Science Monitor*, 8 April 2003. In response to these fears, Kim Jong-il is believed to have hidden for several months in 2003 in underground bunkers, waiting for U.S. bombing to start. Thom Shanker, "In Iraq, U.S. learned how to scare top North Korean", *The New York Times*, 11 May 2003.

¹⁰² Crisis Group interviews, Beijing, June-September 2005.

¹⁰³ The idea of American troops patrolling the Korean side of the Yalu River is what spurred a sceptical Chinese leadership to support Mao Zedong's insistence that China should commit troops against the U.S. early in the Korean War. Scott Snyder, "North Korea's Decline and China's Strategic Dilemmas", United States Institute for Peace, October 1997; and Jianwei Wang, "Against Us or With Us? The Chinese Perspective of America's Alliances with Japan and Korea", Asia/Pacific Research Center, June 1998.

China's leaders still feared that if they lost the North the consequences would be unpredictable.¹⁰⁴ Some contemporary Chinese analysts are quick to write the buffer zone strategy off as a "redundant Cold War mentality". Beijing values its fast-growing economic, political and military ties with South Korea, which it clearly no longer regards as a potential enemy, they say. China and the U.S. share an interest in denuclearising the Korean Peninsula, maintaining peace in the region and improving trade ties. Many speculate that as South Korea moves toward a more independent role in the U.S. alliance, unification would not necessarily be harmful to China's interests.

Still, preference for the two-Korea status quo, so long as China can sustain influence in both, is evident, even among the most liberal analysts. "China considers that survival of an independent and communist North Korea is absolutely necessary", said Shi Yinhong at Renmin University in Beijing. With deteriorating Sino-Japanese relations and unpredictable Sino-American relations, he said, it is "indispensable" to a secure environment. Maintaining close relations with both Koreas means foregoing coercion. "If we pressure North Korea, they will both hate us".¹⁰⁵

Shen Dingli at Fudan University's Centre for American Studies goes so far as to suggest that pressure would drive North Korea to become an ally of the U.S. "What would be the benefit then to China?" Besides the loss of the buffer, Shen also fears repercussions on Taiwan policy. "We would not be able to divert the U.S. allocation of military resources and war preparedness in a future military engagement with China in the Taiwan Straits".¹⁰⁶ The two-Korea policy is popular with many Chinese. As Meikyo Ryou, a businessman in Shanghai, noted:

It's better to have two cars than one. North Korea creates a cushion between China and the U.S. and China and Japan. Why should we press North Korea when the U.S. and Japan can do this dirty job themselves? If I was a member of the foreign ministry, I would do the same too. It's very clever.¹⁰⁷

China's concern for regional stability extends to avoiding change in South Korea's status vis-à-vis the U.S. alliance. Although economic and political relations have flourished since normalisation in 1992, overtures from Seoul to move closer to China are seen in Beijing as unnecessary

¹⁰⁴ Ming Liu, "China and the North Korean Crisis: Facing Test and Transition", *Pacific Affairs*, vol. 76, no. 2, Fall 2003, p. 350.

¹⁰⁵ Crisis Group interview, Beijing, June 2005.

¹⁰⁶ Crisis Group interview, Shanghai, 30 August 2005.

¹⁰⁷ Crisis Group interview, Shanghai, 1 September 2005.

and unwanted provocations to the U.S.¹⁰⁸ In March 2005, South Korean President Roh Moo-hyun outlined a policy calling for Seoul to play a balancing role on the peninsula and in North East Asia affairs. This was interpreted in Tokyo, Beijing and Washington as an implicit overture to China.¹⁰⁹ But, a prominent Beijing academic explained, “China doesn’t want to exploit this situation for its own interests, as it would be a return to the confrontational Cold War approach. China won’t encourage South Korea to drop out of the alliance and come to our side; we don’t want to see a sudden change like that. It could create chaos and confusion in the region”.¹¹⁰

IV. THE LIMITS OF CHINA’S INFLUENCE

For all its financial transfers and historical ties, China has not been able to buy North Korea’s trust. Pyongyang values China’s economic support and diplomatic protection and is unlikely to jeopardise the relationship. But “we’re not going to put all our faith in China”, officials say.¹¹¹ This mistrust partly stems, as discussed below, from the humiliating experience of the Korean War, as well as an ideological resentment of China’s reforms. More importantly, North Korea realises that China may not come to its defence if it is attacked, and that China’s self interests are always subject to change, for example if sacrificing North Korea would yield benefits in the Taiwan Straits. Realising its ability to influence Pyongyang directly is limited, Beijing exercises self-censorship in the advice it gives both to the North and Washington, based on its assumptions about the decision making process in North Korea.

A. NORTH KOREAN MISTRUST

1. History

The Korean War did not engender the same sense of loyalty in the North as in China. Kim Il-sung’s legitimacy was founded on downplaying China’s role in defeating the Japanese in North East Asia and boosting his own status as a guerrilla leader single-handedly responsible for Korea’s liberation. As one of his biographers, Suh Dae-sook, noted: “Kim was just a small potentate. His rule depended on his creating a cult of personality. Kim’s personal relations with Chinese were good, but he wanted to be an independent Supreme Leader of the Korean people”.¹¹²

Kim’s legitimacy was supposed to be ratified by a successful invasion of South Korea, which would have installed him as the leader of a unified country. Recently released documents obtained by the Cold War International History Project in Washington show that he consistently refused Mao’s offers of military support before the war. China’s entry was only reluctantly accepted after UN forces crossed the 38th parallel.¹¹³

¹⁰⁸ China in 2004 replaced the U.S. as South Korea’s largest bilateral trade partner. There are more than 300 commercial flights weekly between the two. In 2004 1.8 million Koreans visited China, and 500,000 Chinese visited Korea. There have been more than fifteen Korea-China summit and increasing collaboration between foreign ministries. South Korea’s navy and air force are establishing closer relations with Chinese counterparts. Lee Ha-won, “Special reports on the twelfth anniversary of the Korea-China Relationship”, *Chosun Ilbo*, 24 August 2004 (in Korean).

¹⁰⁹ As Japan’s vice foreign minister, Yachi Shotaro, observed in May 2005, “the United States and Japan stand to the right, and China and North Korea to the left. South Korea appears to be moving from the centre to the left”. “Tokyo riles Seoul with diplomat’s comments”, *International Herald Tribune*, 27 May 2005.

¹¹⁰ Crisis Group interview, Beijing, June 2005.

¹¹¹ Comments made at the conference “North Korea Status Report: What’s Next After Round Four of the Six Party Talks?”, Brookings Institution, Washington DC, 11 August 2005.

¹¹² Crisis Group interview, 21 June 2005.

¹¹³ The Chinese leadership received no prior notification of the attack on 25 June 1950 and learned of it via foreign news services. Kim Il-sung subsequently forbade field officers from sharing information with the Chinese embassy. Shen Zhihua,

Despite Kim's efforts to marginalise and downplay China and Russia's role in the conflict, the experience was a humiliation. The war was fought under Chinese command. Mao's representative, Marshal Peng Dehuai, was scathing about the leadership and organisation of the Korean People's Army, once describing its command as "childish".¹¹⁴ Kim Il-sung was repeatedly overridden on tactics and management, although there was agreement on overall strategy.

Institutionalised resentment is the legacy of this contradiction between Kim's legitimacy and China's dominance. Kathryn Weathersby of the Cold War International History Project noted:

Keeping in mind the war was the formative experience of Kim Il-sung, the North Korean state, and Kim Jong-il too, the Chinese were the big brother who came in and protected North Korea from being destroyed. Just as a brother in a human family might be resented by a brother in a family, that's what happened to North Korea. There was definitely a strong need to define themselves as sovereign and capable of running their own affairs afterwards.¹¹⁵

That legacy continues. China has been written out of all North Korean accounts of the Korean War and Anti-Japanese War. The Korean War Museum in Pyongyang makes no mention of the Chinese troops who died or their role. There are no monuments or displays recognising China's participation in the Korean War, other than a few restricted exhibits shown only to Chinese visitors.¹¹⁶ A former bureaucrat who defected to South Korea said North Koreans are "sick" of the "slave and master relationship" with China. A leading U.S. expert on North Korea, Han S. Park, who has made more than 40 visits to the North, calls the attitude about China among North Koreans more ambivalent¹¹⁷ but at the least the Korean War has not engendered anything like the same sense of nostalgic obligation in North Korea as in China.

2. Ideology

North Korea's divergence from the Soviet and Chinese ideological and economic models accelerated after 1956,

when the communist superpowers were distracted with the Hungarian uprising and their deteriorating bilateral relationship. Kim expelled Chinese troops, purged pro-Chinese bureaucrats and reversed policies on economic liberalisation and peaceful coexistence with the West that had been forced on him by Russia and China earlier in 1956. He set the country firmly on the road of *juche*, a unique ideology of extreme economic centralisation domestically, and isolation and self-reliance externally.¹¹⁸ The extent of North Korea's split from China's economic and ideological models was clear in the 1970s, when Beijing began diplomatic contacts with North Korea's chief enemy, the U.S., and normalised relations with its other main foe, Japan.

The 1989 Tiananmen Square demonstrations were a stark reminder to Kim of the threat posed by economic reform and resulted in all North Koreans being withdrawn from Russia, Eastern Europe and, temporarily, China. The worst blow came in 1992, when China recognised South Korea and refused Pyongyang's request to block its UN membership application. Chinese analysts say this, combined with deep ideological mistrust of China's economic opening, has exacerbated the bilateral rivalry and left a deep sense of betrayal. A Beijing-based academic observes:

The party in North Korea is a pure Marxist-Leninist one. The Chinese Party is not a Marxist party anymore. Even before Mao died, they believed they were the leaders of the communist movement, and that China was no longer communist.¹¹⁹

Although Kim Il-sung died in 1994, and North Korea has implemented modest economic reforms since 2002, it has not begun reforming the core tenets of centralised Marxism, and the changes have not led to a reassessment of China's ideological taint.¹²⁰ According to an academic, North Koreans with whom he has been involved in discussions about economic reform frequently ask: "Since I am a Marxist and you are a revisionist, how can I trust you?"¹²¹ More bluntly, another academic said, "North Korea still really hates China".¹²²

"Sino-North Korean Conflict and its Resolution during the Korean War", *Cold War International History Project Bulletin*, Issue 14/15, Winter 2003-Spring 2004.

¹¹⁴ In an October 1950 report he noted of the North Korean command: "There are no long-term plans, and adventurism is all one can see! Military control has been extremely childish", *Ibid*.

¹¹⁵ Crisis Group interview, 22 June 2005.

¹¹⁶ "China sees itself on holidays in Pyongyang", *Globe and Mail*, 6 October 2003.

¹¹⁷ Crisis Group interview, Seoul, May 2005.

¹¹⁸ Mao and Joseph Stalin intended to keep Kim on a short leash after the war. Neither shared his appetite for another war with the U.S., and both were concerned about achieving consensus and calm in the socialist bloc.

¹¹⁹ Crisis Group interview, Beijing, June 2005.

¹²⁰ For the economic reforms, see Crisis Group Report, *North Korea: Can the Iron Fist Accept the Invisible Hand?*, op. cit.

¹²¹ Crisis Group interview, Beijing, June 2005.

¹²² Crisis Group interview, Beijing, June 2005.

B. POOR ACCESS IN THE NORTH

China's access to North Korean officials is unequalled. For example, between January and June 2003, it sent more than 60 missions. But quantity does not necessarily mean quality. Ability to use its contacts to influence Pyongyang is constrained by the acrimonious realities of the bilateral relationship, and specifically by the poor reception given to the representatives of its party and military, the two main liaison bodies.

1. Party to party relations

For decades China conducted foreign relations with other communist countries at the level of party to party relations, through the International Liaison Department (ILD) of the CCP. In 1995 it started handling bilateral relations with North Korea more on the state level, effectively giving the North the same status as other countries.¹²³ The ILD still exists, and remains an important conduit for contacts with the North. However, its role has been expanded to pursuing friendly and cooperative relations with all countries, regardless of ideology, and its direct involvement in transmitting and implementing Chinese foreign policy has been cut.¹²⁴

Ideological contamination of the ILD's role has reduced its influence in North Korea, according to Chinese analysts. "Now North Korea's leaders see Chinese leaders talking more to the Western world and even South Korea, than to them, and they don't like it", said a CCP official.¹²⁵ North Korea is especially wary of the ILD's role in forging closer relations with the U.S. and South Korea, and its potential complicity in the coercive strategies many in Washington are advocating. Breaking with established tradition, after assuming the leadership in 2003, President Hu Jintao visited Washington before Pyongyang, and is believed to have gone to the latter only in 2005 to save face for the North before travelling to South Korea for an APEC meeting.¹²⁶

North Korea is also keenly aware of the Realpolitik implications of "friendly and cooperative relations" in China's eyes. In 1996, when Beijing attempted to reduce its grain transfers to one-tenth of Pyongyang's request, North Korea threatened to develop cultural and economic ties with Taiwan, a move it had also threatened in 1993 after China recognised South Korea. Beijing quickly

offered a better package.¹²⁷ Similarly in 1997, after Chinese agricultural experts in North Korea with the UN Development Program (UNDP) recommended that the North adopt Chinese-style reforms, Pyongyang called Deng Xiaoping a traitor to socialism. Beijing threatened to curtail food aid, and Pyongyang opened negotiations with Taipei on direct air links, in exchange for which it was promised 500 million tons of food. China dropped its threat, and North Korea broke off the Taiwan talks.¹²⁸

A Chinese party official noted:

We have an Achilles heel. North Korea sees it actually has some leverage over China and that whatever it does China will not do very much back. North Korea is telling China "we have our interests to protect, and you have to respect us". Sometimes it's not China telling North Korea what to do; it's the other way round.¹²⁹

2. Military to military relations

The military ties between China and North Korea appear to be more enduring. Throughout the 1960s, 1970s and 1980s, powerful patronage systems ensured Korean War veterans an influential voice in China's highest echelons, while their former allies in North Korea's army were trusted and known intermediaries. Today, contact between China's leading armed forces liaison body, the Central Military Commission (CMC), and North Korea's National Defence Commission (NDC), is Beijing's preferred avenue for passing security-related information and urgent messages to Kim Jong-il.¹³⁰

The value of the military to military relationship has been partly diluted by natural attrition of formerly influential Chinese officials with war-time ties. All but one of the current CMC members have served their entire careers in posts that did not bring them in contact with North Korea issues. The credibility in the North of those few who handle North Korean affairs is diluted by their other responsibilities for promoting China's interests in the Asia Pacific, U.S. and Europe.¹³¹

¹²³ Banning Garrett and Bonnie Glaser, "Looking across the Yalu: Chinese assessments of North Korea", *Asian Survey*, vol. 35, no. 6, June 1995.

¹²⁴ <http://www.idcpc.org.cn/index.htm>.

¹²⁵ Crisis Group interview, Beijing, June 2005.

¹²⁶ Crisis Group interviews, Seoul, November 2005.

¹²⁷ Andrew Scobell, "China and North Korea: From Comrades in Arms to Allies at Arm's Length", Strategic Studies Institute, U.S. Army War College, March 2004, p. 5.

¹²⁸ Andrew S. Natsios, *The Great North Korean Famine: Famine, Politics, and Foreign Policy* (Washington DC, 2002), p. 139.

¹²⁹ Crisis Group interview, Beijing, June 2005.

¹³⁰ Crisis Group interview, Ken Gause, Center for Strategic Studies, CNA Corporation, Washington DC 22 June 2005.

¹³¹ Kenneth Allen, "China's Foreign Military Relations With Asia Pacific", *Journal of Contemporary China*, vol. 10, no. 29, November 2001.

Director Xu Caihou is the CMC General Political Department's point man on North Korea. He is its only official with experience of North Korean-issues, having spent his career in the Jinan and Shenyang military regions, but has visited the country only once since 2003, while making several visits to Europe, the U.S. and South Korea, according to army archives. At lower levels, the commander of the Shenyang Military Region, which traditionally maintained close relations with the North, visited Cuba in 2003 and South Korea in 2004, but not North Korea.¹³²

The relative lack of importance of North Korean counterparts further inhibits the military's influence. Just two vice chairmen of the National Defence Commission, Cho Myong-nok and Kim Il-chol, are known to have visited China since 2003. A high-level delegation to Beijing led by Kim Jong-il's number two, Pak Pong-ju, in April 2005, revealed North Korea's leading China liaison officers to be functionaries, without a vested interest in the bilateral relationship or clear line to the leadership. "I wouldn't call any of them China policy wonks. None was leading a delegation; none is seen in the inner core of Kim's advisers", said Ken Gause, a Korea-watcher at the Center for Strategic Studies of the CNA Corporation in Washington.¹³³ The CMC has also been largely cut out of foreign policy decision making and implementation, according to U.S. researchers.¹³⁴ Nevertheless, as one China scholar points out, given the opaqueness of policymaking in Beijing and Pyongyang, precise readouts on military to military relations are difficult.¹³⁵

C. CHINA'S MILITARY RESTRUCTURING

On paper the strategic connection between China and North Korea should be the strongest of all. In 1961, the two signed a Treaty of Friendship and Cooperation, a clause of which commits each to come to the aid of the other in case of invasion.¹³⁶ Although the treaty came at a high point in relations which has not been replicated, China has remained rhetorically committed to its obligations.¹³⁷

¹³² Ibid.

¹³³ Crisis Group interview, 21 June 2005.

¹³⁴ Ranjit Singh (ed.), "China's Foreign Military Relations", Henry Stimson Center, Washington DC, October 1999; and manuscript provided by Kenneth Allen, "Showing the Red Flag: The PLA Navy as an Instrument of Foreign Policy".

¹³⁵ Crisis Group interview via email with Tun-jen Cheng, College of William and Mary (U.S.), 20 January 2006.

¹³⁶ "Treaty of Friendship and Co-Operation and Mutual Assistance Between the People's Republic of China and the Democratic People's Republic of Korea", *Peking Review*, vol. 4, no. 28, 1961, p. 5, cited in "From Comrades In Arms To Allies at Arm's Length", op. cit., p. 2.

¹³⁷ China was reeling from the ideological and economic cost of its divorce from the Soviet Union, and North Korea was anxious

When a U.S. invasion of the North seemed possible in May 1994, it made preparations to supply 50,000 to 75,000 troops. Even if North Korea had started the war, China was then willing to support it with spare parts, ammunition and arms.¹³⁸ According to former Major General Pan, now director of the military-affiliated think tank the Institute for Strategic Studies, there has been some change:

If the U.S. preemptively invaded North Korea without hard evidence or justification, or authorisation from the UN Security Council, I think China would be forced to provide assistance to North Korea. But if North Korea strikes first, that would be an entirely different matter. If it was trying to make the situation more chaotic to ensure its own survival, I don't think China would support that kind of action.¹³⁹

Indeed, China's commitment to the defence of North Korea has been wavering. It asked Pyongyang to renegotiate the mutual assistance terms of the treaty in 2003. North Korea reportedly refused, stating that "the time was not good" to discuss the matter.¹⁴⁰ Later that year, during Kim Jong-il's visit, China rejected a request for more military aid and transfers of anti-missile defence systems.¹⁴¹ It has, however, agreed to sell military hardware. South Korea's ministry of defence estimates North Korea spent \$10 million in 2004 on Chinese truck and naval components.¹⁴²

North Korea must also assume China would be reluctant to sacrifice its build-up in the Taiwan Straits for it, as in 1950.¹⁴³ Although China has not explicitly made the linkage between U.S. policies towards Taiwan and cooperation on North Korea – not least because Taiwan is

about revisionism in the Soviet Union. The onset of the Cultural Revolution soon after the treaty was signed meant relations quickly cooled.

¹³⁸ "North Korea Nuclear Crisis February 1993-June 1994", http://www.globalsecurity.org/military/ops/dprk_nuke.htm. Robert Sutter of Georgetown University (U.S.) suggests that China has made it clear to Pyongyang that it would not come to the North's defence if it was the aggressor. Crisis Group interview via email, 19 January 2006.

¹³⁹ Crisis Group interview, Beijing, June 2005.

¹⁴⁰ Quoted in "Old allies turn up the heat on North Korea", op. cit.

¹⁴¹ "Kim Jong-il's visit to Beijing: what does it mean for the West?", op. cit.

¹⁴² North Korea Brief no. 05-10-31-1, Institute for Far Eastern Studies, Kyungnam University, 31 October 2005.

¹⁴³ In 1950 Mao diverted funds and resources from a planned assault on Taiwan to fight the Korean War. In 1954 the U.S. signed a Mutual Defence Treaty with Taiwan, consolidating the island's separation. See Crisis Group reports on the Taiwan Strait at <http://www.crisisgroup.org/home/index.cfm?id=2957>.

not considered “foreign policy” – in December 2003 President Hu was said implicitly to have offered the U.S. a quid pro quo summed up as “Taiwan in return for North Korea”.¹⁴⁴ This was reportedly repeated to Vice President Dick Cheney, during his 2004 visit to Beijing.¹⁴⁵

Even if China did want to support the North, Western assessments of its military modernisation suggest it would be hard pressed to provide even the resources promised in 1994. The three divisions of the Shenyang Military District Army in Dalian and 10,000 rapid deployment troops of the Jinan Military District have been slimmed down and redeployed, in line with the focus on the Taiwan Straits. North Korea must know China’s forces would be no match for the U.S.¹⁴⁶

D. THE NORTH KOREAN DECISION MAKING PROCESS

Given North Korea’s opaque political system, it is difficult even for Chinese analysts to determine precisely the regime’s internal dynamics. Perceptions of the decision making process and internal conditions nonetheless limit the kind of advice offered and the policy options Beijing is prepared to endorse. Whether Chinese insights are superior to those of other foreign analyses is questionable. China’s human intelligence networks in North Korea were compromised in the early 1990s when Pyongyang distanced itself from the wider reforms in the socialist bloc, according to former Chinese officials.¹⁴⁷ Three main assumptions are nonetheless highly influential.

Hardliners ascending. Chinese analysts generally believe “hardliners” – reactionary and confrontational bureaucrats who are opposed to negotiation and accommodation with the U.S. – are in ascendance.¹⁴⁸ Some Chinese analysis is more qualified, describing potential differences between individuals and groups in various offices, departments and organisations throughout the bureaucracy.¹⁴⁹ These divisions are seen as limiting the direct influence of Chinese envoys, as counterparts are

believed to follow a strategy and agenda based on internal politics that is not always disclosed. According to a Chinese analyst:

The North Korean decision making system works best when it is in front of the decision making pattern of the international community, and doesn’t work as well in a reactionary role. They always have to have people reacting to their initiatives, and this makes it difficult for China to dictate, as they have already planned out what to do.¹⁵⁰

Government unresponsive to coercion. Chinese analysts believe political change in North Korea is even more unlikely if China and the international community take a coercive approach. A senior official pointed out: “Even if we say ‘you have to listen to us or we’ll cut off your oil and food’, I do not believe North Korea would just lie down. This is a very proud nation, and the more you press, the more it resists”.¹⁵¹ Analysts argue that outside pressure bolsters the regime’s hardliners, extreme nationalists and political conservatives, and further marginalises those who favour economic liberalisation, trade and accommodation with the U.S.¹⁵²

Social controls continuing. Chinese analysts see no sign of social disorder or even nascent politicisation or opposition to the Communist Party.¹⁵³ Surveys of North Korean refugees/migrants in the border provinces reveal that almost none left for political reasons, and awareness of the abnormal conditions they live under is usually only bred by contact with foreign religious and charitable organisations inside China. Ideological indoctrination and isolation remain strong. An NGO worker observed that however bad a migrant’s conditions at home are, “his adoration for Kim Il-sung and faith in the system is usually still intact”.¹⁵⁴ Paio Cheng-xian at Yanbian University said most Chinese believe the regime can survive without economic aid based on China’s experience during the Great Leap Forward, when over 30 million died without open criticism of the regime.¹⁵⁵

¹⁴⁴ “Kim Jong-il’s visit to Beijing: what does it mean for the West?”, op. cit.

¹⁴⁵ Crisis Group interview, Beijing, September 2005. Some Chinese analysts suggested the overture was made by the U.S.

¹⁴⁶ “Annual Report to Congress: the Military Power of the People’s Republic of China”, Office of the Secretary of Defense, June 2005.

¹⁴⁷ Crisis Group interviews, Hong Kong, April 2005.

¹⁴⁸ Crisis Group interviews, Beijing, June-August 2005.

¹⁴⁹ Crisis Group interviews, Beijing, Shanghai, Dandong, Shenyang and Yenji, July-September 2005. This analysis is broadly shared by U.S. analysts of North Korea. See Kongdan Oh, “DPRK Policy Elites”, Institute for Defense Analysis, Washington DC, 2004.

¹⁵⁰ Crisis Group interview, Beijing, July 2005.

¹⁵¹ Crisis Group interview, Beijing, June 2005.

¹⁵² This situation mirrors that in Iran, where economic and political reformists argue that U.S. sanctions erode their standing and boost that of the regime. See Crisis Group Briefing, *Iran: Where Next on the Nuclear Standoff?*, op. cit.

¹⁵³ Crisis Group interviews, Beijing, June-August 2005.

¹⁵⁴ Crisis Group interview, Beijing, July 2005.

¹⁵⁵ Crisis Group interview, Yenji, 15 September 2005.

V. WHAT IS CHINA PREPARED TO DO?

The well-rehearsed policy options for dealing with North Korea range, on an ascending scale of severity, from acquiescence, to negotiation, coercion short of military force (sanctions), and, as a last resort, military force.¹⁵⁶ China's position on these options is clear. It will not tolerate North Korea's erratic and dangerous behaviour so long as it poses a risk of conflict, but neither will it endorse or implement corrective policies that it believes could in themselves create instability or threaten its continued influence in both centres of power on the Korean Peninsula, Pyongyang and Seoul. China's aversion to coercion does not preclude constructive engagement on the full range of issues that make North Korea a threat and concern to the international community, including the faltering six-party talks, proliferation, economic and systemic reform in North Korea, and protection of North Korean refugees and economic migrants. It shares the goal of denuclearisation but differs on how to achieve it. It has shown reluctance to participate in the Bush administration's Proliferation Security Initiative and barring a very provocative act by the North, such as a nuclear test, is unlikely to support a Security Council resolution authorising coercive measures.

A. NUCLEAR DISPUTE

1. Negotiations

Beijing will continue pressing all parties to stay with the talks, regardless of setbacks or the time it takes. Its seriousness about achieving their satisfactory conclusion is difficult to measure, however, because its enthusiasm for the exercise is more than just a pragmatic desire to see the nuclear crisis resolved peacefully. The spotlight the talks shine on it serves some important goals at home and abroad, providing a strong disincentive for acquiescing to policies that might divert attention elsewhere or decisively end the negotiations process.

Internal. As China's economy grows, influential nationalists expect the government to take a more assertive international political role, commensurate with the country's increasingly important international economic role. Shifts in the centre of political legitimacy from ideology to economy mean the government cannot afford to ignore these voices. "People see China playing such an important role, and the U.S. paying such attention to China, and it gives them great pride", said Suisheng Zhao,

author of *China's New Nationalism*.¹⁵⁷ For most people, "the process itself is more important than the result".¹⁵⁸

External. A central goal of party, military and economic foreign relations in recent years has been to counter the "China threat" perception – the fear that its military and economic growth poses a danger. Unease seems to have been successfully allayed in countries with no recent history of conflict with China. But in Japan, South Korea and Taiwan, a majority still consider China's increasing influence threatening.¹⁵⁹ China's need to prove its commitment to the responsible use of power in the region strengthens its commitment to multilateralism and especially to heading off conflict on the Korean Peninsula.¹⁶⁰ Officials also believe their proactive stance on North Korea has paid off with lessened U.S. support for Taiwan's independence movement. Japanese commentator Funabashi Yoichi¹⁶¹ noted that "Beijing needs to keep the six-party talks alive to maintain the status quo across the Strait or to achieve unification".¹⁶² China also wishes the six-party forum to continue as a leading regional security and cooperation arrangement. At the August 2005 round it included in a draft of a joint statement of principles agreed by the U.S., South Korea, Russia and Japan, but not North Korea, that it would become a permanent institution.¹⁶³

From the U.S. Anti-China sentiment has been bubbling just below the surface in Congressional debates on everything from energy policy to U.S. trade with Central America. High-profile disputes in 2005 over textile trade,

¹⁵⁷ Suisheng Zhao, *A Nation State by Construction: China's New Nationalism* (Palo Alto, 2004).

¹⁵⁸ Crisis Group interview, 3 August 2005. President Hu Jintao has also capitalised on this expectation, allowing himself to be publicly identified as the point man on resolving the North Korean nuclear crisis, chairing the National Security Leading Group in the Politburo and making public statements. "The talks publicly failing would be very bad face for Hu", notes a Beijing-based European diplomat. Crisis Group interview, Beijing, June 2005.

¹⁵⁹ Time/CNN Poll conducted in Australia, Hong Kong, India, Indonesia, Japan, South Korea, Malaysia, the Philippines, Singapore, Taiwan, Thailand and Vietnam, featured in "Japan's Nervous Neighbours", 8 August 2005.

¹⁶⁰ "There has been a major offensive by Beijing to improve relations with all its neighbours, to sell its peaceful image in the region to support its growth. China wants to be seen as a constructive force in the region", Crisis Group interview, Shanghai, 5 August 2005.

¹⁶¹ Yoichi Funabashi is a member of the Crisis Group Board of Trustees.

¹⁶² Yoichi Funabashi, "China's New Thinking on North Korea Policy?", Social Science Research Council, 12 July 2005, <http://www.ssrc.org>.

¹⁶³ "China Wants N. Korea Talks as Security Forum", Reuters, 28 August 2005. This was not discussed at subsequent rounds.

¹⁵⁶ For a fuller discussion of these options see Crisis Group Asia Report N°61, *North Korea: A Phased Negotiation Strategy*, 1 August 2003, pp. 21-29.

intellectual property and China's currency revaluation have energised critics and polarised the debate in Washington.¹⁶⁴ "It is very important that China appear to be constructive now", said Sinologist Thomas Christensen at Princeton University. The proactive role in the six-party talks is one of the only checks on anti-China sentiment, and if Beijing looks like an obstacle to progress, he added, "it's going to be even tougher for Bush to go to Congress talking about a closer strategic relationship, and to oppose sanctions and tougher policies on China".¹⁶⁵ This suggests China has an incentive to keep the process going as long as possible, regardless of the outcome. However, should bilateral relations continue to deteriorate, it will be more difficult to coordinate policy on North Korea. Moreover, given the paramount importance China attaches to a stable Korean Peninsula and the U.S. priority of denuclearisation, North Korea itself could become a wedge issue further dividing the two countries.

China's enthusiasm for lengthy talks means it would strongly resist efforts to move negotiations to other forums such as the Security Council. Only if the six-party forum appears in jeopardy – as in February 2004, when North Korea announced it was pulling out – would it take a more coercive approach, possibly even agreeing to another Security Council resolution condemning the North, provided the end goal was a further round of Beijing talks. State-run media and censored internet chat rooms were uncommonly critical of Pyongyang during the months following that crisis. National television news (CCTV) gave heavy coverage to international condemnation of North Korea and demands that it return to the talks.¹⁶⁶

2. Sanctions

China knows, however, that talks for the sake of talks will not satisfy the U.S. indefinitely. Although its roughly two billion-dollar trade and investment relationship with North Korea is the most visible leverage for expediting negotiations, there are virtually no circumstances under which it would use it to improve Pyongyang's nuclear behaviour. China's economic engagement has stability, not instability, as an objective; it has no doctrine for applying conditionality to its aid relationships (even though it has done so from time to time with countries

like Vietnam and Cambodia), and grave concerns about the effects of regime collapse preclude violating the principle. News reports suggest that oil shipments through the one remaining pipeline to the North were briefly cut in early 2003, but the government has denied this was due to displeasure with the North's failure to negotiate.¹⁶⁷

Chinese analysts are likely right in their analysis that sanctions would not dislodge the North's leadership but would impact harshly on the nascent process of market reform and indirectly on the wider population. Chinese frequently cite the 1994-1999 famine, which may have killed three million North Koreans, and the harsh preceding winter and worsening energy shortage that plunged living conditions for most North Koreans in 2005 to levels as bad or worse than during the famine years.¹⁶⁸

Furthermore, China rightly realises it is not the only component of an effective sanctions regime.¹⁶⁹ South Korea, which accounts for half as much of the North's trade as China, would have to be in full agreement, an unlikely development given broad bipartisan support for engagement in Seoul.¹⁷⁰ Russia has also been reaching out to the North diplomatically and economically since 2000. President Putin in 2001 became the first head of state from Moscow ever to visit North Korea. Since then bilateral has more than doubled.¹⁷¹

China can still apply pressure by withholding further aid to the North. Although there is no evidence to prove it, what is known about its other aid relationships suggests it does have more up its sleeve than the \$145 million of free help South Korea's KOTRA estimates it currently

¹⁶⁴ "China finds few friends in Congress", *Financial Times*, 6 August 2005, and "The Dragon comes calling", *The Economist*, 2 September 2005.

¹⁶⁵ Crisis Group interview, 5 August 2005.

¹⁶⁶ Two large sister newspapers, the *Beijing News* and *South Metropolitan Daily*, ran a scathing commentary by Dongang Shuo, a pen-name sometimes used for articles that reflect an evolving or unofficial view among Chinese experts on North Korea. See "China calls on North Korea to return to regional talks", *The New York Times*, 13 February 2005.

¹⁶⁷ "China appears to be trying to rein in North Korea", Reuters, 31 March 2003. The sight of electronics-laden North Korean apparatchiks boarding flights and trains from Beijing to Pyongyang suggests some of China's wealth transfer falls well short of humanitarian goals. But as China's goal is stability, keeping the elite happy is part of the bargain. Crisis Group interviews, Beijing and Dandong, July 2005. For discussion see "Dependency and Humanitarian Relief: A Critical Analysis", Overseas Development Institute, Humanitarian Policy Group Report no. 19, July 2005, <http://www.odi.org.uk>.

¹⁶⁸ Crisis Group interviews, Beijing, Shanghai and Dandong, July and September 2005.

¹⁶⁹ For detailed analysis of the components needed for an effective sanctions regime against North Korea, see Crisis Group Report, *North Korea: Can the Iron Fist Accept the Invisible Hand?*, op. cit., pp. 17-19.

¹⁷⁰ Crisis Group Asia Report N°89, *Korea Background: How the South Views its Brother from Another Planet*, 15 December 2004.

¹⁷¹ Putin recognises that key Russian political and economic objectives in the Far East cannot be achieved without reengaging North Korea. Crisis Group Report, *North Korea: Where Next for the Nuclear Talks?*, op. cit., p. 22.

provides.¹⁷² In 2004 alone, China offered \$300 million in aid to Mongolia,¹⁷³ \$150 million to Afghanistan,¹⁷⁴ and a raft of financial, infrastructure and technical assistance packages to African countries including Liberia, Mauritania, Zambia, Nigeria, Sudan and Ethiopia.¹⁷⁵ In January 2005 it pledged \$63 million to the tsunami-affected countries.¹⁷⁶

B. PREVENTING ILLICIT TRANSFERS

While negotiations drag on and North Korea's nuclear weapons program and uranium stockpiles are completely unmonitored, the worst-case scenario of it transferring nuclear weapons or materials to another country or even a terrorist organisation cannot be ruled out. Although China has not officially assisted North Korea in the development of nuclear technology since the 1960s, some Chinese companies have provided nuclear and dual-use components. Chinese territory is believed to have been a conduit for transfers of nuclear materials to Pakistan, Iran, Saudi Arabia, Syria, Myanmar, Libya and Egypt, and of counterfeit currency and drugs throughout Asia and to the U.S., which North Korea uses to fund its nuclear program.¹⁷⁷ Chinese authorities have said they are committed to tighter export and border controls to prevent these transfers. However, logistical difficulties, the government's wider political and economic sensitivities, and a prevailing ambivalence about the direct threat to China posed by North Korea's nuclear transfers, mean dangerous loopholes remain.¹⁷⁸

¹⁷² China does not publish its foreign aid budget, and its status as part of the "cooperation with non-member states" program at the Organisation for Economic Development (OECD) means it does not have to provide details to the OECD Development Assistance Committee (DAC). Crisis Group interview, OECD, Paris, June 2005.

¹⁷³ David Murphy, "Softening at the Edges", *Far Eastern Economic Review*, 4 November 2004.

¹⁷⁴ *China Daily*, 1 April 2004.

¹⁷⁵ See the Forum on China-Africa Cooperation at <http://www.focac.org/eng/zt/jmh/default.htm>.

¹⁷⁶ Jim Yardley, "Size of China's aid marks a policy shift but is still dwarfed by that of richer countries", *The New York Times*, 4 January 2005.

¹⁷⁷ "China and Proliferation of Weapons of Mass Destruction and Missiles: Policy Issues", Congressional Research Service (CRS) Report for Congress, 20 May 2004.

¹⁷⁸ For analysis of open-source materials on North Korea's illicit activities, see David Asher, "The North Korean Criminal State, its Ties to Organised Crime, and the Possibility of WMD Proliferation", *Nautilus Policy Forum Online*, 15 November 2005, <http://www.nautilus.org>.

1. Export controls

China's commitment improved significantly during the 1990s to multilateral and bilateral export control regimes, the treaties and agreements designed to prevent the transfer of materials that can be used to develop weapons of mass destruction.¹⁷⁹ Moreover, China has publicly declared on several occasions its support for UN Security Council Resolution 1540 prohibiting the transfer of nuclear material to third countries.¹⁸⁰

China actively participates in multilateral arms control and non-proliferation forums at the UN and IAEA. Officials lobbied in such forums against U.S. missile defence plans and an arms race in outer space. Domestic legislation has been developed and improved. Beginning with the 1994 Foreign Trade Law, a series of regulations, decrees and circulars have been drafted that constitute at least a nascent export control system. The Ministry of Foreign Affairs has a department of arms control and disarmament, and coordination between the government and non-government agencies engaged in arms control has improved.¹⁸¹ White papers were published on non-proliferation in 2003 and 2005, highlighting the challenges facing China's export control regime and reflecting increased importance given to the issue.¹⁸²

Nevertheless, there are serious practical problems to effective enforcement. In 2003, in an unclassified report to Congress, the CIA noted that although Beijing had improved its posture on non-proliferation, the behaviour of Chinese companies remained "of great concern". The

¹⁷⁹ China acceded to the Treaty on the Non-Proliferation of Nuclear Weapons (NPT), signed and ratified the Chemical Weapons Convention, and signed the Comprehensive Test Ban Treaty. In 1996 it pledged not to provide assistance to un-safeguarded nuclear facilities. It also joined the Nuclear Suppliers Group and is in consultation with the other multilateral export control regimes, the Australia Group, the Wassenaar Arrangement, and the Missile Technology Control Regime (MTCR). Beijing has also reached bilateral agreements with the U.S. pledging adherence to the MTCR guidelines, including an agreement not to export missiles "inherently capable of reaching a range of at least 300 kilometres with a payload of at least 300 kilograms", or to assist states in developing "ballistic missiles that can be used to develop nuclear weapons". Jonathan Davis, "Export Controls in the People's Republic of China", Center for International Trade and Security, University of Georgia, February 2005, <http://www.uga.edu/cits>.

¹⁸⁰ For the latest pledge, see official statement, 17 May 2005, <http://www.fmprc.gov.cn/eng/wj/zjg/jks/kjfywj/t195938.htm>.

¹⁸¹ Testimony by Daniel Pinkston before the U.S.-China Economic and Security Review Commission hearing on "China's Proliferation Practices and its Role in the North Korean Nuclear Crisis", 10 March 2005.

¹⁸² "China's Endeavours for Arms Control, Disarmament and Non-Proliferation", White Paper at <http://www.fmprc.gov.cn>.

CIA worried that firms were still cooperating with Pakistan and Iran's nuclear programs and providing dual-use missile-related items, raw materials, and assistance to North Korea, Iran and Libya.¹⁸³ These charges have been strongly rejected by the foreign ministry¹⁸⁴ but there are clearly serious gaps in enforcement. Between 2000 and 2004, Chinese entities violating export controls were sanctioned 50 times by the U.S. In 2004 alone, fourteen Chinese entities were sanctioned 23 times.¹⁸⁵

China's enforcement problems are partly logistical. The sheer size of the country, number of domestic and foreign-owned companies, and volume of exports mean the government needs many highly skilled personnel to conduct licence screenings and reviews, identify illicit or suspicious trade, and use sophisticated information technologies. China needs international cooperation on law enforcement practices, industry training, and outreach and education programs for its traders, as well as increased collaboration with overseas research institutes. It also needs to strengthen its domestic and foreign intelligence agencies to identify front companies and generate relevant information. Chinese officials complain that although they are largely dependent on foreign intelligence to alert them to illicit activities, they are often left out of the loop on investigations.¹⁸⁶

The unresolved contradiction between the government's non-proliferation and economic growth priorities also creates enforcement problems. The government puts budget constraints on state-owned arms manufacturers by reducing or eliminating subsidies but also asks them to limit exploitation of export markets. Many directors of firms have close personal ties to the military – traditionally influential on export policy for sensitive and dual-use items – and consequently good access to established trafficking routes and buyers.¹⁸⁷ However, non-proliferation experts tend to agree that the revenue the defence industry can gain from illicit exports is generally

not enough to make the costs of violating export controls worthwhile in the long term.

2. Border controls

More dangerous than the flaws in the domestic application of China's still-emerging export control regime are the gaping holes in its border controls, which could be exploited by Pyongyang to traffic nuclear and other weapons of mass destruction (WMD)-related materials, and to export narcotics, counterfeit U.S. dollars and cigarettes. Uranium enrichment equipment has allegedly been trafficked by land via the Karakoram Highway linking Pakistan and China, and then overland through Chinese territory.¹⁸⁸ Since 2001, North Korean engineers have been seen working on improvements to the Karakoram Highway, suggesting this is still an important route. North Korean missiles have also allegedly been transported to Pakistan using this road.¹⁸⁹ In summer 2005, law enforcement officials in the U.S. and Taiwan confiscated more than \$5 million in fake \$100 bills produced by state-owned North Korean entities as well as large amounts of narcotics and cigarettes.¹⁹⁰ According to testimony by a senior defector, the North Korean provinces bordering China are riddled with heroin and methamphetamine production facilities.¹⁹¹

China already has the necessary laws for customs controls, and has strengthened and clarified the criminal and civil penalties for violations since 2003.¹⁹² However, a number of border posts and custom houses lack adequate equipment to detect illicit transfers. According to research in June 2004, the customs house at Dandong, through which a high proportion of cross-border trade passes, lacks an X-ray machine or other adequate equipment to scan vehicles and exports. Experts also note that it lacks adequate space for on-site checks and that in 2004 a number of other posts along the North Korean border had poor on-site conditions, although some did have sophisticated equipment to detect radiological, biological and chemical items.¹⁹³ Enforcement also suffers from

¹⁸³ "Unclassified Report to Congress on the Acquisition of Technology Related to Weapons of Mass Destruction and Advanced Conventional Munitions, 1 January through 30 June 2003".

¹⁸⁴ See Chinese Foreign Ministry spokesperson's conference, 18 November 2003, <http://www.fmprc.gov.cn>.

¹⁸⁵ These included missile proliferation sanctions in 2001 that effectively denied satellite exports to China for two years after a Chinese company transferred technology to Pakistan, reimposed and extended by the U.S. State Department in 2003, 2004, and March 2005. "China and Proliferation of Weapons of Mass Destruction: Policy Issues", op. cit.

¹⁸⁶ Crisis Group interviews, arms control experts, Beijing, August 2005; Davis, "Export Controls in the People's Republic of China", op. cit.

¹⁸⁷ Testimony by Pinkston, op. cit.

¹⁸⁸ Andrew Prosser, "Nuclear Trafficking Routes: Dangerous Trends in Southern Asia", Center for Defense Information, 22 November 2004, <http://www.cdi.org>.

¹⁸⁹ Ibid.

¹⁹⁰ "U.S. examines Asian banks for links to North Korea", *Asian Wall Street Journal*, 8 September 2005.

¹⁹¹ Kim Young-il, "North Korea and Narcotics Trafficking: A View from the Inside", *North Korea Review*, vol. 1, issue 1, March 2004.

¹⁹² "The Customs Law of the People's Republic of China" has been regularly updated and supplemented since its promulgation in 1987, http://www.novexc.com/customs_law.html

¹⁹³ Davis, "Export Controls in the People's Republic of China", op. cit. Crisis Group confirmation of the situation in September

insufficient numbers of adequately trained officials.¹⁹⁴ However, U.S. intelligence and government officials said they are confident that when China is given tips about possible illicit transfers, it acts expeditiously and appropriately.¹⁹⁵

China's broader strategic and economic interests further limit its willingness to crack down on illicit trade, so long as the transfers are not deemed a domestic threat. Unwillingness to exert diplomatic or economic pressure on Pyongyang or to curb legitimate border trade means controls remain lax at the border crossing points. In contrast with the Russian border in the north east, which is protected by three barbed wire fences and regular patrols checking for infiltrators, there is no visible military presence on either side of the China-North Korea border.¹⁹⁶ China's close military and trade relationship with Pakistan, which has in the past included sales of nuclear and missile technology, makes imposing tighter restrictions on that border problematic.¹⁹⁷ The Karakoram Highway is also used for transfers of goods and machinery to Iran, another of Beijing's important strategic partners.¹⁹⁸

Proving how decisively China can act if its own interests are threatened, when a local official lost \$423,000 of official funds at the Emperor Casino in North Korea's Rajin-Sonbong special economic zone in late 2004, Beijing forced closure of the casino and cracked down on others in Russia, Myanmar, Laos and Vietnam.¹⁹⁹ So long as North Korea's illicit transfers are directed at the U.S. and other Asian countries, however, Chinese officials agree that their government is unlikely to make curbing them a serious priority.

MACAO – THE POTENTIAL FOR CHINESE ACTION

Even if China does take a more proactive approach towards border control, experience from the world's other

2005 was hindered by designation of the border crossing visited at Rajin-Sonbong as off limits to visitors since June.

¹⁹⁴ Crisis Group interviews, arms control experts, Beijing, August 2005; Davis, "Export Controls in the People's Republic of China", op. cit.

¹⁹⁵ Crisis Group interviews, Washington DC, 29 April 2005.

¹⁹⁶ Crisis Group observations, September 2005.

¹⁹⁷ In 2003 Pakistan and China signed a "Joint Declaration on Directions of Bilateral Cooperation", which codified military exchanges, joint training and cooperative military-industrial development. Xinhua News Agency, 4 November 2003. The CIA suspects this includes nuclear weapons cooperation. See "Unclassified Report to Congress", op. cit.

¹⁹⁸ Prosser, "Nuclear Trafficking Routes", op. cit.

¹⁹⁹ "Chinese main guests at N. Korea casino", *China Daily*, 5 January 2005; Zach Coleman, "Emperor Casino closure tied to graft crackdown", *The Hong Kong Standard*, 20 January 2005.

two leaders in contraband, Russia and Brazil, shows that tackling the organisations behind trafficking is more effective than policing long, remote borders. The U.S. has recognised this and has targeted several organisations facilitating illicit transfers by North Korea, most notably in Macao.²⁰⁰ In September 2005, the Treasury Department's Terrorism and Financial Crimes Division launched an investigation into Macao-domiciled Banco Delta Asia for conducting money laundering for North Korea.²⁰¹ It is also believed to have investigated Seng Heng Bank and Bank of China (Macao) for similar misconduct. The banks concerned deny the allegations but the actions led to a shake-up of Macao's financial institutions, as well as reexamination of Hong Kong's money laundering laws and expedited passage of a money laundering bill. They also sparked a \$40 million run on Banco Delta Asia and a three-day shutdown of Macao's banking system as nervous customers withdrew funds. The main North Korean suspect, the Zhongwang Trading Company, withdrew all its funds, and its staff fled across the border to Shenzhen in China, but had returned to Macao by mid-November 2005.

All this was widely interpreted in Macao and Hong Kong as intended to send a message to China that the U.S. was serious about curbing illicit trade by North Korea and required China to clean its house.²⁰² Western officials in Pyongyang suggested the crackdown also caused a major shock to the North Korean financial system in late September/early October 2005, implying it offered a significant way to exert pressure on the regime.²⁰³ North Korean trading officials have a history of involvement in counterfeiting and money-laundering in Macao dating back to the pre-1999 handover from Portugal to China.²⁰⁴

²⁰⁰ "U.S. examines Asian banks for links to North Korea", *Asian Wall Street Journal*, 8 September 2005; "U.S. focuses on Macau Bank in probe into North Korean ties", *Asian Wall Street Journal*, 16 September 2005.

²⁰¹ See remarks made by David Asher, Senior Adviser for East Asian and Pacific Affairs, U.S. State Department, at the Counter-Proliferation Strategy Group, Woodrow Wilson Center, "The North Korean Criminal State, its Ties to Organised Crime, and the Possibility of WMD Proliferation", 1 October 2005.

²⁰² Crisis Group interviews, Hong Kong and Macao, November 2005; "U.S. encouraged as Macao acts on money laundering", *The Standard* (Hong Kong), 27 October 2005; and "U.S. says radical helped North Korea; Garland indictment marks crackdown on Pyongyang in counterfeiting industry", *Asian Wall Street Journal*, 13 October 2005.

²⁰³ Crisis Group interview, Pyongyang, October 2005.

²⁰⁴ In 1994, North Korean executives carrying diplomatic passports were arrested for depositing \$250,000 in counterfeit notes in a Macao bank. See John Pomfret, "Macao: North Korean crime centre", *International Herald Tribune*, 26 April 1999; William Bach, Director, Office of African, Asian and European Affairs Bureau for International Narcotics and Law Enforcement Affairs, U.S. Department of State, statement to the Senate, 20 May 2003.

The U.S. Justice Department has also indicted a leading member of an Irish Republican Army splinter group on charges of conspiring with Pyongyang to put millions of counterfeit dollars into circulation in Europe, the first time it has formally cited North Korea in a U.S. court for allegedly mass producing counterfeit \$100 bills.

3. Sea and air interdiction

The sea route between Pakistan and North Korea has been used to transfer missiles and nuclear equipment. Shipments would have passed through Chinese waters in the East and South China Seas. Chinese ports have also been used for trans-shipment. In November 2002, an Iranian ship stopped at Tianjin port and picked up missile components, before continuing on to North Korea. In December 2002, the Spanish and U.S. navies interdicted a North Korean ship carrying Scud missiles bound for Yemen. Its last port call had been in China.²⁰⁵ Planes potentially carrying nuclear equipment and materials have flown directly between North Korea and Pakistan and Iran, using Chinese airspace.²⁰⁶ China's legal regime on interdiction is under-developed – there is no precedent or legislation for interdiction of airplanes – although after U.S. satellites detected Iranian planes landing in Pyongyang in October 2005, China agreed under pressure from Washington to deny them overflight rights.²⁰⁷ The coastguard has been criticised as inadequate for interdiction.²⁰⁸

China has participated in joint maritime security exercises with South Korea and Japan since 2003. However, it has refused to join the U.S.-led Proliferation Security Initiative (PSI), a multinational venture involving over 50 states that seeks to stop shipments of biological, chemical and nuclear weapons to terrorists and countries suspected of trying to acquire WMD. Participants pledge rapid response cargo interdictions at sea, in the air and on land; to cooperate on intelligence; and to conduct joint exercises such as Team Samurai, in the Sea of Japan in 2004, and Exercise Deep Sabre, in Singapore's waters in the South China Sea in 2005. During its first two years, the regime has been credited with eleven successful interdictions. Considering there are believed to be at least 65 nuclear trafficking incidents annually, there is clearly room for improvement.²⁰⁹ China has, however, joined another U.S.

initiative, on container security, and allows pre-screening of containers leaving Shanghai and Shenzhen for the U.S.

China's official objection to PSI is that it violates international law by contravening the Law of the Sea Convention, which forbids interdiction of vessels in international waters, and also that – largely due to China's own efforts – it lacks Security Council approval. After negotiations in April 2004 over Security Council Resolution 1540 on the Non-Proliferation of WMD, China's ambassador to the UN, Wang Guangya, claimed his delegation had crafted language that “kicked out” interdiction.²¹⁰ Chinese officials view PSI as an initiative meant to target and exert pressure on North Korea and therefore not something they can endorse.²¹¹

C. ECONOMIC REFORM

China's concern about the destabilising impact sudden change in North Korea's government might have does not mean it wants to see the current system continue indefinitely. Analysts view the three major bottlenecks of the failed central planning system – lack of food, energy and capital – as the core economic problems. Long-term, China wants deeper systemic reform to allow the country to open to foreign investment and normal trade. Beijing does not believe change can be forced, however, on reticent leaders who have already presided over almost 40 years of economic degeneration. It will instead focus on reassuring the North's leadership that economic growth and political stability need not be mutually exclusive, and on building the momentum and tools for a long-term process of economic transition and marketisation similar to what China embarked on in the 1980s.

Kim Jong-il and his inner circle have traveled to see first-hand China's opening and economic reforms on several occasions. In January 2001, Kim spent four days in Shanghai, where he toured the Shanghai Stock Exchange, the Shanghai-General Motors factory, the Zhangjiang High-Tech Science Park, and the booming Pudong development area.²¹² Chinese officials report that Kim

²⁰⁵ “China and Weapons of Mass Destruction”, op. cit.

²⁰⁶ Ibid.

²⁰⁷ Crisis Group interview, Beijing, September 2005; “U.S. widens campaign on North Korea”, *The New York Times*, 24 October 2005.

²⁰⁸ “China won't sign on to PSI”, United Press International, 2 September 2005.

²⁰⁹ See the Stanford Database on Nuclear Smuggling, Theft and Orphan Radiation Sources at <http://iis-db.stanford.edu>; the IAEA Illicit Trafficking Database at <http://www.iaea.org>;

and “Remarks on the Second Anniversary of the PSI”, U.S. Department of State, 31 May 2005, at <http://www.state.gov>.

²¹⁰ See “Rough Waters Ahead”, *Bulletin of the Atomic Scientists*, vol. 61, no. 6, November/December 2005.

²¹¹ Crisis Group interviews, arms control experts, Beijing and Shanghai, August-September 2005.

²¹² Ministry of Foreign Affairs, China, “Foreign Relations”, <http://www.fmprc.gov.cn/eng/wjw/zzjg/yzs/gjlb/2701/default.htm>; “North Korea leader kicks the tires in Shanghai”, *The New York Times*, 18 January 2001.

was impressed by what he saw.²¹³ China believes its experience and Vietnam's in successfully blending economic liberalisation with political conservatism should provide North Korea with a model, if not a blueprint. Since China embarked on economic reforms, its leaders have been encouraging their North Korean counterparts to follow suit. Many analysts in Shanghai believe Kim Jong-il's 2001 visit and his captivation with its advances encouraged him to start reforms at home the following year.²¹⁴

In March 2004, North Korean Premier Pak Pong-ju toured a mobile telephone factory and a brewery on the outskirts of Beijing and then spent two days in Shanghai, where he rode on a high-speed magnetic train, toured a city planning exhibit, visited Pudong, and, in a nod to the past which signified that communist rule and economic development need not be at odds, also visited the site of the CCP's first congress. That venerated site is around the corner from the ultra-modern Xintiandi shopping area and directly opposite the prominent headquarters of multinational and U.S. firms.

Kim Jong-il's January 2006 nine-day trip to Beijing and the south was not only his longest yet to the country but also included the most sites of economic transformation, including high tech companies, port facilities and Shenzhen, the first special economic zone, leading many analysts in Seoul to compare it to Deng Xiaoping's 1992 visit to southern China.²¹⁵ North Korea's central news agency reported that Kim was "deeply impressed with the special economic zone".²¹⁶ Moreover, unlike his 2001 trip to Shanghai, the January 2006 visit included Kim's leading economic technocrats.²¹⁷

China has also helped to build momentum for change lower in the bureaucracy. The Chinese Academy of Social Sciences (CASS) has numerous centres where North Koreans study topics such as energy cooperation, banking, and accountancy.²¹⁸ Several universities host exchange students. Foreign NGOs and South Korea's Hyundai-Asan Corporation have been permitted to give training courses

and study tours for North Koreans in Beijing, Shanghai and Shenzhen.²¹⁹ The exposure to China's booming markets and relatively liberal system is believed to influence profoundly exchange candidates from Pyongyang. There is considerable potential for expanding these programs. Lee Jong-rim of Yanbian University says the school has offered full scholarships to North Korean students but none have been allowed to accept. Nor have Yanbian University professors been invited to lecture in the North.²²⁰

Although North Korea has implemented some market-oriented changes since July 2002, Chinese are quick to write these off as a drop in the ocean. Kim Jong-il has ignored personal efforts by President Hu and Premier Wen to convince him to try some of the free market reforms Deng Xiaoping urged Kim Il-sung to experiment with in the 1980s. In April 2004, Kim told the Chinese leaders he still believed economic liberalisation would lead to the unravelling of orthodox socialist society.²²¹ Cuba, which in 2005 rolled back the same kind of superficial changes as the North has implemented, is cited in Beijing as an example of the insubstantiality of Pyongyang's reforms.²²²

Officially, China blames the nuclear dispute and North Korea's difficult relations with Japan and the U.S. for reform's slow pace. Analysts point to the importance of a "favourable external environment" – normal relations with Japan and the U.S. – during the early years of their country's transition. However, China's wide exposure to the North Korean business environment has made its officials familiar with the institutional obstacles to change there and especially frustrated at the indolence of decision makers in implementing deeper changes.

North Korea's continued mistrust of China's economic reforms, and China's unwillingness to interfere in North Korea's internal affairs, limit the direct contribution Beijing can make to quickening the reform process. The UN, multilateral lending institutions (World Bank, Asian Development Bank, and International Monetary Fund) and bilateral donors, are better suited to providing the needs assessments, technical help, training and infrastructure North Korea requires. Chinese analysts tend to agree that North Korea will not make the strategic decision to reform until it is confident both of its own security and of an economic relationship with the U.S.²²³

²¹³ "With unusual praise for Shanghai's 'Great Changes', North may pursue Chinese-style opening", *Chosun Ilbo*, 21 January 2001 (in Korean).

²¹⁴ For details of the reforms, see Crisis Group Report, *North Korea: Can the Iron Fist Accept the Invisible Hand?*, op. cit.

²¹⁵ "Kim visits Guangdong Province to learn about reform and opening", *Chosun Ilbo*, 13 January 2006 (in Korean).

²¹⁶ "I was deeply impressed with the Special Economic Zone" *Chosun Ilbo*, 19 January 2006 (in Korean); "Kim Jong-il visits the Shenzhen Advanced Institute of Science and Technology", *Takungpao*, 15 January 2006 (in Chinese).

²¹⁷ "Among five top officials accompanying Kim, four are economy-related", *Joongang Ilbo*, 19 January 2005 (in Korean).

²¹⁸ Crisis Group interview, Beijing, July 2005.

²¹⁹ Crisis Group Report, *North Korea: Can the Iron Fist Accept the Invisible Hand?*, op. cit., p. 20.

²²⁰ Crisis Group interview, Yenji, 24 September 2005.

²²¹ "Kim Jong-il's visit to Beijing: what does it mean for the West?", op. cit.

²²² "Cuba's economy: the return of the state sandwich", *The Economist*, 23 June 2005.

²²³ Crisis Group Report, *North Korea: Can the Iron Fist Accept the Invisible Hand?*, op. cit.

China believes the most valuable direct contributions it can make to North Korea's reforms are seed money, raw materials and business opportunities to boost the household enterprise sector and fuel street markets, shops, restaurants and service industries. There has been a dramatic growth of Chinese firms operating in North Korea and running trade over the border. South Korean academics have estimated that perhaps 80 per cent of the commodities in the North's markets are made in China.²²⁴

Increasing trade has not been an organic development.²²⁵ The government plays an important role in most overseas investments by Chinese companies, and political and strategic considerations often underlie its decisions. In 2002, about three quarters of China's overseas enterprises were guided by government bodies. The government also regulates through an approval process for foreign investments. State-run banks have underwritten shares worth hundreds of millions of dollars for joint ventures with North Korea.²²⁶ During his October 2005 meeting in Pyongyang with Kim Jong-il, President Hu promised China would continue to "encourage and support" investment by its companies and "new developments in the economic and trade relationship between the two countries".

China's strategic plan is to consolidate its overseas manufacturing operations into "enterprise groups" mirroring South Korea's Chaebol or Germany's large multinationals.²²⁷ Although most Chinese provinces can conduct foreign affairs autonomous of central government control, the border provinces are subject to considerable oversight.²²⁸ However, China is likely to continue using small companies and entrepreneurs to penetrate North Korea, reflecting local perceptions that investments of \$100,000 or less in the food and consumer goods industries have the greatest chance of success.²²⁹ Plastic, filaments, steel, machinery, electronics and vehicles were among the top eight exports to the North in 2004, reflecting strategic investments by Chinese companies in the weak industrial sector.

China has also encouraged establishment of North Korean trading interests, representing local and provincial

authorities, in Dandong and other border cities. In the late 1990s, more than 800 representatives were active in Dandong alone.²³⁰ Research in 2005 found at least 200 North Korean trade bureaus there²³¹ and ten North Korean trading companies in Yenji, primarily exporting rice and importing iron ore.²³²

To facilitate trade, China has poured investment into infrastructure along the North Korean border. The Chinese border town of Hunchun has been transformed into a zone for free trade and processing-on-commission facilities, but what little trade happens there is dominated by China and Russia, despite efforts to include North Korea.²³³ China has started work on railway lines to connect North Korea's east coast with China's national rail network, and on another line running along the length of the border. It is also constructing railway lines and roads to link the border provinces with Russia. Several new bridges over the Yalu River between North Korea's Musan County and North Hamkyeong Province were built in 2004 and 2005, and a larger replacement for the Friendship Bridge linking Dandong and Sinuiju has been planned. Again, however, the reality of most border crossings is scant vehicular and pedestrian traffic – often no more than two dozen trucks and cars per day.²³⁴

China has also been engaging North Korea in regional economic cooperation projects. Liaoning, Jilin and Heilongjiang provinces have promoted the "Northeast Economic Circle" to strengthen cooperation with Japan and both Koreas since the early 1990s.²³⁵ In 1995, China initiated the Tumen River Area Development Program with North Korea, Russia, Mongolia, South Korea and UNDP. The centrepiece is the Rajin-Sonbong Free Trade Zone in the north eastern-most corner of North Korea, at the border with Russia and China. As noted, a Chinese company leased two piers at Rajin Port from North Korea for 50 years to handle goods directly.

Although the Rajin special economic zone has been failing – primarily due to weak investor confidence and North Korea's unwillingness to allow direct South Korean

²²⁴ "80 per cent of Commodities in General Markets Made in China", *The Northern Magazine*, October 2005 (in Korean).

²²⁵ Crisis Group interview, government official, Tokyo, August 2005.

²²⁶ Crisis Group interview, Beijing, August 2005.

²²⁷ Mark Yaolin Wang, "China's Industrial Investments Overseas", *Pacific Affairs*, vol. 75, no. 2, Summer 2002.

²²⁸ Peter Cheung and James Tang, "The External Relations of China's Provinces", in David M. Lampton (ed.), *The Making of Chinese Foreign and Security Policy In The Era of Reform* (Stanford, 2001), p. 96.

²²⁹ Crisis Group interview, Lee Yong-nan, Commerce Bureau, Yanbian Korean Autonomous Prefecture, 23 September 2005.

²³⁰ Scott Snyder, "North Korea's Decline and China's Strategic Dilemmas", United States Institute of Peace, Special Report 27, October 1997.

²³¹ Crisis Group interview, Japanese researchers, Tokyo, August 2005.

²³² Crisis Group research, Yenji, September 2005.

²³³ Crisis Group interviews and observations, Hunchun and Yenji, September 2005; "China, DPRK arrange seven-day service for cross-border road connections", *People's Daily*, 7 April 2004.

²³⁴ Crisis Group observations, Yanbian Special Autonomous Region and Dandong, June and September 2005.

²³⁵ Peter Cheung and James Tang, "The External Relations of China's Provinces", op. cit., p. 116.

investment – China has repeatedly asked UNDP, which initiated the project, to help keep it open.²³⁶ China is partly motivated by the prospect of using access to alleviate pressure on its other overstressed ports. It is also keen to integrate North Korean businesses into its growth strategy in the north eastern provinces and to use the zone to facilitate cross-border trade. For example, North Korean businesses participated alongside Chinese, Russian, Mongolian and South Korean businesses in the Jilin-Northeast Asia Trade Expo in Changchun in September 2005. Whatever optimism officials in Beijing and Pyongyang express is offset by some officials on both sides of the border who agree they would not personally invest in the zone and privately say the experiment has failed. However, other officials believe the problems are with infrastructure and politics, and Rajin's future will be assured once paved roads are built and telephone lines installed.²³⁷

As well as eroding the command economy, China's investments are diminishing the North Korean government's ability to restrict the flow of people, goods and information around the country. Chinese firms are creating much-needed experience in the basics of capitalism, although China's predominantly corrupt and disorderly trading companies might not be the best models. Reinforcement of the household private enterprise sector was integral to the early stages of economic reform in China and Vietnam.²³⁸ China's economic engagement is also cutting the long-term costs of rehabilitating North Korea. According to a 2005 RAND Corporation (U.S.) report, Korean reunification would impose even larger costs on the South, China and Japan than the \$1.4 trillion transferred from West to East Germany, between 1991 and 2004, due to North Korea's degeneration and isolation. But one of the key variables in reducing costs is the size of the pre-unification North Korean economy, compared to the South's.²³⁹

DOING BUSINESS WITH THE NORTH

Wei Guiming is a former Chinese diplomat trying to arrange a non-governmental line of communication with North Korea. "They are very, very difficult to deal with", he said. "My counterparts change from contact to contact.

They say they can't reply to faxes or make phone calls, and visiting is very complicated". Wei is arranging a transfer of bicycles, which he hopes will bring in exchange iron ore dust and more cooperation but he is not certain of success. "The worst is everything has to be secured with a payment, but often once they've got the payment, the people you dealt with before just disappear, and you are left holding nothing, with no way to get in touch", he said.²⁴⁰ Wei's experience is common among Chinese businesses, leading many to describe North Korea as a "black hole" for investment. The case of the Shenyang Chushi Trading Company, which put \$1 million into a department store in Pyongyang in 1998 but has not been able to open, is well known in the business community. Patience, a good contacts network, and solid ties with counterparts are cited as the most influential factors for success.

D. REFUGEES AND MIGRANTS

Although refugee flows are perceived to present one of the greatest threats to China in case of North Korea's political or economic collapse, most Chinese analysts and officials are unconcerned about the short-term threat. Kim Jong-guk at the Jilin Academy of Social Sciences disputes that there were increased numbers of refugees during the North Korean famine and says his modelling indicates no more than 200,000 would come even in the worst-case scenario of political collapse, with South Korea a more likely destination.²⁴¹

China's treatment of North Korean refugees and economic migrants depends mostly on the degree of international scrutiny. When asylum seekers make their bids publicly – for example by climbing over embassy walls in Beijing while being filmed by a South Korean NGO, as has been commonplace since 2001 – China respects the North's sensitivities and tries to repatriate them, or at least impede their departure from China.²⁴² However, when it can act out of the public eye, it has not obstructed and has even helped facilitate relocation of political refugees to South Korea or elsewhere, and has turned a blind eye to the many economic migrants in the border provinces.²⁴³

²³⁶ Crisis Group interview, Beijing, August 2005.

²³⁷ Crisis Group interviews, Yenji and Rajin, September 2005.

²³⁸ See Crisis Group Report, *North Korea: Can the Iron Fist Accept the Invisible Hand?*, op. cit.

²³⁹ Other key variables are the institutional reform strategy adopted and the resource savings from North Korea's military build-down. Charles Wolf and Kamil Akramov, "North Korean Paradoxes: Circumstances, Costs and Consequences of Korean Unification", RAND National Defense Research Institute, 2005, p. 28.

²⁴⁰ Crisis Group interview, Beijing, July 2005.

²⁴¹ Crisis Group interview, Kim Jong-guk, Yanbian Research Centre, Jilin Academy of Social Sciences, 16 September 2005. He noted that South Korea is closer than China to North Korea's major population centres and is wealthier.

²⁴² In May 2005 more than 100 North Koreans were still residing in embassies in Beijing, according to Amnesty International.

²⁴³ The situation of North Korean refugees in China and third countries will be the subject of a forthcoming Crisis Group report.

The height of the North Korean famine in 1995-1996 was accompanied by a surge of refugees crossing the Yalu River in search of food, jobs, trading opportunities and safety. Numbers have declined but increased freedom of movement and the demise of North Korea's state-run food distribution network (the Production Distribution System, PDS) have meant a steady stream of primarily women and children seeking food and security and men making the journey to trade and look for short-term employment. The PDS still exists, and there were signs in 2005 that North Korea was revitalising it, but on average it has provided at most 50 per cent of dietary requirements to less than 60 per cent of the population.²⁴⁴ Chinese analysts and foreign NGO officials estimate there are 10,000 to 100,000 migrants in China's border provinces at any one time. Aid workers in the border area believe almost all current border crossers are motivated by hunger and unemployment, not political persecution or awareness of the regime's brutality.²⁴⁵ Only two of 65 North Korean refugees in China interviewed by Refugees International in June 2003 and May-June 2004 cited political reasons for leaving.²⁴⁶

According to a bilateral border agreement with North Korea, China should repatriate all illegal border crossers.²⁴⁷ However, until 2001 it avoided this except when immigrants were engaged in criminal activities. Most illegal entrants were simply arrested and jailed for two weeks, then released.²⁴⁸ China's tolerance ended in March 2002, when 25 North Koreans assisted by a Japanese NGO sought refuge in the Spanish embassy in Beijing. In May 2002, seven others entered the Japanese and U.S. consulates in Shenyang, and the next month two entered the South Korean consulate in Beijing. China was forced to balance its international law obligations and ties with South Korea and Japan against its unwillingness to aggravate North Korea. The response was clumsy. Armed police created a diplomatic storm by entering the South Korean and Japanese embassies in Beijing to detain asylum seekers. Thousands of North Koreans were repatriated after a massive search of the border provinces.²⁴⁹ A foreign NGO official said in understatement: "The Chinese

don't respond well to being battered over the head with principles".²⁵⁰

Embassy sit-ins continued until July 2004, when 487 North Korean refugees were publicly airlifted to Seoul from Vietnam. Since then Beijing has collaborated with South Korea to restrict the incentives offered to asylum seekers in Beijing embassies and to curb the activities of politically-motivated NGOs.

As well as trying to avoid diplomatic embarrassment, Beijing is concerned not to create conditions that could constitute a "pull factor" for more migrants. It has barred the UN High Commissioner for Refugees (UNHCR) from constructing camps or providing protection and assistance in the border region, although it has allowed some South Korean NGOs access since 1996. It is content that awareness of the China option is still relatively low in North Korea and that most migrants come for economic reasons and do not intend to stay in China or travel elsewhere in the country.²⁵¹

Out of the public eye, China has proven it can and will adopt a less heavy-handed approach to North Korean border crossers. Keeping the border open is actually seen in Beijing as a useful "pressure valve" to make sure the most desperate and potentially disruptive North Koreans leave the country, while also providing a backdoor route for much-needed money and food to reach the North.²⁵² Officials estimate under normal circumstances no more than 10 per cent of border crossers are forcibly repatriated, and then only for criminal or disruptive behaviour in China.²⁵³ Humanitarian organisations note that crime is possibly having a cooling effect on Korean-Chinese sympathy but contend that only a "small minority of North Koreans" in China resort to crime.²⁵⁴ These groups heavily criticise Chinese raids in search of illegal border crossers, which include incentives for informants and punishments for helpers. In some cases, border crossers are merely fined \$250 to \$600. Some of those detained report fair treatment, others abuse and even collusion with North Korean soldiers.²⁵⁵ In any case, the repatriation of North Koreans is seen as a violation of China's international obligations on refugees.²⁵⁶

²⁴⁴ Crisis Group interviews, Pyongyang, Seoul, Beijing and Yenji, September-November 2005.

²⁴⁵ Crisis Group interviews, Beijing, Dandong and Yenji, June-September 2005.

²⁴⁶ Joel R. Charny, "Acts of Betrayal: The Challenge of Protecting North Koreans in China", Refugees International, April 2005.

²⁴⁷ A similar agreement exists with Mongolia. The text is not publicly available.

²⁴⁸ Crisis Group interview, Kim Kang-il, Yanbian University, Yenji, 16 September 2005.

²⁴⁹ Elisabeth Rosenthal, "North Koreans in China now live in fear of dragnet", *The New York Times*, 18 July 2002.

²⁵⁰ Crisis Group interview, Beijing, July 2005.

²⁵¹ Crisis Group interviews, Beijing, July 2005.

²⁵² Crisis Group interviews, Beijing, June-August 2005.

²⁵³ Crisis Group interviews, Beijing and Yenji, August and September 2005.

²⁵⁴ Charny, "Acts of Betrayal", op. cit.

²⁵⁵ James Seymour, "China: Background Paper on the Situation of North Koreans in China", Writenet, January 2005; "The Invisible Exodus: North Koreans in the People's Republic of China", Human Rights Watch, November 2002.

²⁵⁶ The 1951 Geneva Refugee Convention and its 1967 Protocol includes an injunction not to return refugees to territories where

Increasing numbers of women have reversed a trend of population decline and gender imbalance there caused by the large emigration of Korean-Chinese women to South Korea and other areas of China. The increase in marriages between Chinese men and North Korean women and the many married female refugees obtaining Chinese citizenship mean the decline of ethnic Koreans in northern areas of China was reversed in 2001.²⁵⁷ Human rights groups have pointed out that many North Korean women in the region are sold by brokers and are subject to abuse.²⁵⁸ Many North Korean migrants fill a job vacuum in the border provinces, especially in heavy, dirty and low-paid work that Chinese are unwilling to take. The Chinese Academy of Social Sciences estimates that some areas of north east China have labour shortages of around 10 per cent. According to the Harbin City Labour and Employment Bureau, in the second quarter of 2005 an estimated 50,000 labourers were required in the services and construction industries in Heilongjiang Province alone.²⁵⁹

Meanwhile, genuine political refugees are now quietly leaving China and being relocated in South Korea without Chinese opposition – and sometimes even with assistance – so long as they arrange their departure without publicity or causing embarrassment for China.²⁶⁰

their life or freedom is threatened <http://www.unhcr.ch/cgi-bin/texis/vtx/protect/opendoc.pdf?tbl=PROTECTION&id=3b66c2aa10>. China has been party to this convention since 1982, see <http://www.unhcr.ch/cgi-bin/texis/vtx/protect/opendoc.pdf?tbl=PROTECTION&id=3b73b0d63>. It is difficult, if not impossible, to extrapolate from surveys the percentage of refugees repatriated.

²⁵⁷ The population rose from 1.75 million to 2.05 million. Ming Liu, "China and the North Korean Crisis: Facing Test and Transition", *Pacific Affairs*, vol. 76, no. 2, Fall 2003, p. 354.

²⁵⁸ See "The Invisible Exodus: North Koreans in the PRC", Human Rights Watch, November 2002, <http://www.hrw.org>.

²⁵⁹ Li Fangchao, "Labourers unwilling to work for low wages", *China Daily*, 20 July 2005 and Ming Liu, "China and The North Korean Crisis: Facing Test and Transition", op.cit.

²⁶⁰ Crisis Group interviews, Beijing, June-August 2005. North Korean defectors and refugees will be the subject of a future Crisis Group report.

VI. CONCLUSION

Much changed in China between the first nuclear dispute in 1993-1994 and the second in 2002. The transition to a new leadership unfettered by traditional ideologies and alliances, the burgeoning relationship with Seoul, and the temporary removal of Russia from the geopolitical equation eroded many of the old rationales for close relations with the North. Relaxation of political controls meant dissenting policy opinions filtered into high political and academic circles. Increased media independence and the internet fostered critical views of the North among the emerging middle class. Chinese diplomats gained confidence and freedom to lead an unpredictable, high-risk multilateral negotiation.

Nevertheless, China's core national interest in North Korea's survival is the same – or even stronger – as during the Cold War. Conservative views of historical ties and, more importantly, strategic suspicion of U.S. intentions towards a unified Korean Peninsula are still powerful domestic forces to which China's leaders give heed. As China's economy has boomed, and its leaders have invested more of their legitimacy in continued growth, the stakes involved in conflict on the peninsula have increased. Flagging growth in the north eastern provinces makes avoiding a destabilising North Korean collapse important. Beijing's need to maximise leverage over the U.S. to resolve the Taiwan situation and to maintain regional confidence in its commitment to conflict prevention makes cutting off its neighbour impossible. This approach is apparently well understood in Pyongyang, where it seriously limits Beijing's ability to exercise behind-the-scenes influence.

The most important implication of this analysis for policy makers is that China cannot be relied upon either to bring a more cooperative North Korea to the table or to enforce whatever is agreed there. Its conflicting domestic, regional and international priorities make hosting and mediating the six-party talks and possibly withholding some positive incentives the extent of its constructive actions. Expecting China to compel North Korean compliance will only waste more time and give Pyongyang longer to develop its nuclear stockpile.

By ruling sanctions out, Beijing realises the policy options for dealing with North Korea shrink to accepting a nuclear state and further disintegration of the international non-proliferation regime, disarming and normalising the North through negotiations, or watching a U.S.-led war that would decimate the Korean Peninsula and China's economy. What happens at talks in Beijing is, therefore, more important than ever, not least for China and both Koreas. This at least means that while China will not force

North Korea to disarm, it will make sure it keeps talking if negotiations appear in jeopardy (as they are today), or the U.S. again considers seriously a military option.

Although China shares the goal of North Korean denuclearisation, it has its own distinct vision of how to get there. The advantages afforded by its close relationship with Pyongyang can only be harnessed if better assessments of Beijing's priorities and limitations are integrated into international strategies. China will also keep trying gradually to normalise the North's economy, with the long-term goal of a reformed, pro-Beijing state.

Seoul/Brussels, 1 February 2006

APPENDIX A

MAP OF CHINA AND NORTH KOREA



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APPENDIX B

MAP OF NORTH KOREA



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APPENDIX C

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Crisis Group's approach is grounded in field research. Teams of political analysts are located within or close by countries at risk of outbreak, escalation or recurrence of violent conflict. Based on information and assessments from the field, it produces analytical reports containing practical recommendations targeted at key international decision-takers. Crisis Group also publishes *CrisisWatch*, a twelve-page monthly bulletin, providing a succinct regular update on the state of play in all the most significant situations of conflict or potential conflict around the world.

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