

China's Role in the Course of North Korea Transition

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The North Korea nuclear offers a good chance for fundamentally curing this country's structural problems and routinely-erupted crisis. Since all the periphery countries plus the US have formed a consensus that it is urgent for them to find a way out to the current nuclear stalemate, which not only remains in the nuclear program, but also touches upon other sectors of North Korea and its long-existed concern towards outside. In other words, the solution needs a kind of comprehensive approach and arrangement, or as called by many Korea experts a great bargain plan, among which the economic leverage or incentive will play a significant role.

China has a long history of clientage relationship with North Korea, during the current nuclear crisis, it draws world spotlight through its proactive shuttle diplomacy. If all the participants in the six-party talks can work out a solution package finally, China must be an indispensable guarantor and a contributor in the implementation process. This chapter will elaborate present China and North Korea ties and a possible Chinese role in the peaceful arrangement and positive transition.

A Dissymmetrical Dependent Ties between Beijing and Pyongyang

The status of China and North Korea ties has always been an inconclusive debating issue among Korea experts. In fact, it is a kind of combination of contradictory truth. Given China played a significant role in savaging the DPRK from its total failure in the early period of Korea War through a one-million-strong force fighting, and its special status in maintaining a quasi-alliance (or described as "being close as lips and teeth") relations with the North since the end of war based on their same ideology, and its continuing exchange and symbolic policy consultation, albeit not too close, with North Korea leaders and its endless economic assistance to North Korea, many people hold Beijing's relations with Pyongyang are much closer than North Korea with any other country in the world, thus China has its specific influence on the DPRK. As for their degraded closeness and bitter feeling towards each other in the midst of 1990s', they could be compared to "a couple" with many grievances or distrust, who still live together under same roof but different rooms. They know clearly "divorce" would bring more harm than good to both of them.

Generally speaking, China is North Korea political and security protector and a long-tested ally, since two countries have indeed managed to maintain their fragile relations without being openly reversed in face of global and local environment transformation from time to time. Because of its disadvantage and uncertain position in sense of security in the Korean Peninsula, North Korea has to rely on China's and Russia's support; and because of its insufficient energy and food supply and poor-performed economy, it depends on China and other countries assistance all the time for survival, though this dependence reduced in both absolute and relative terms.¹ In this regards, so long as Pyongyang's diplomatic, economic and security maneuvering rooms are limited or its strategic and political environment hasn't been turned in its favor greatly, it has to regard Beijing as

¹ Alexandre Mansourov, "Giving Lip Service with an Attitude: North Korea's China Debate", please see <http://nautilus.org/DPRKbriefingbook>, December 25, 2003, p.2.

its indispensable patron. Thus, to certain degrees and in theory, China could keep its influence on North Korea by its specific leverages.

However, the scale of Chinese assistance and perceived position to North Korea as a big brother don't match with its practical role and influence in shaping North Korea policy or behavior. One of the reasons for that: Pyongyang is strongly dubious of Beijing's influence, Chinese position over North Korea issue in the collaboration with the US and South Korea, and its willingness of fostering traditional friendship with and its credibility in fulfilling the commitment to the DPRK in case of crisis. In terms of that consideration, the DPRK will try to limit or downplay China's role and its influence openly and privately in the course of crisis-unknottling and North Korea's destiny arrangement, even though a certain kind of PRC's role in tandem with multilateral efforts is reluctantly nodded or acquiesced by the DPRK. Pyongyang, as a usual practice, would de-link its all levels of aids demands on China to the latter's role that could be correspondingly formed in Korea affairs, while trying to diversify its dependence on other countries according to division of needs, such as Russia and international organizations, and it would also attempt to raise its stakes by playing balance against its two giants---China and Russia.² Having noticed North Korea suspicion and perceive the difficulty of the persuasive work on DPRK, China has seldom used those leverages for their political purpose, which in turn restrains China's influence.

Of course, the dependent ties of North Korea on China are not totally one-way, for a long time before 1992; China regarded North Korea mainly in the political and strategic context. After normalization relations with Seoul, this kind of strategic mentality in China's North Korea policy has been lowered greatly, North Korea is not necessary a buffer zone between China with the US and South Korea. However this doesn't mean Beijing has considered DPRK a redundant and unvalued neighboring country, though it is an economic burden and political trouble for China in certain sense. In Chinese leaders mind, a socialist North Korea would be instrumental to keep a balance of power in the Northeast Asia and could avoid the de-socialism trend being further expanded into East Asia---China and Vietnam, producing a backlash on Chinese ideological legitimacy.³ More important, China is not sure the US would feel necessary to develop constructive relations with Beijing if Washington successfully demolishes all the "rogue countries" in the world, including North Korea.⁴ Last but not least, the survival and stability of North Korea amounts to the security, peace and order for Chinese border area.

Traditional Political Relations are in Flux

The astonishingly fast approach between Beijing and Seoul and death of Kim Il-sung play a core role to setback China and North Korea close relations in the years before 2000. After Kim Jong-il visited Beijing in the end of May in 2000, two sides' ties embarked on a gradual warming up. However the nuclear crisis and arrest of Yang-bin re-demonstrated a fact that their relations were so fragile that they could not return to the pinnacle period any more as in the 1950s' and 1960s' when their old generation leaders were in power since their traditional close ties are facing more

² Please see original source, Zong Hairen, "Hu Jintao Writes to Kim Jong-il to Open Door to Six-party Talks", *Hong Kong Economic Journal (Hong Kong Hsin Pao)* (in Chinese), August 28, 2003. It is cited from *Special Report in Northeast Asia Peace and Security Network*, September 5, 2003, p.7. www.nautilus.org

³ Andrew Scobell, "China and North Korea: The Close but Uncomfortable Relationship", *Current History*, September 2002, pp.278—279.

⁴ Zong Hairen, "Hu Jintao Writes to Kim Jong-il to Open Door to Six-party Talks", pp.2, 7.

unprecedented challenges in system and foreign policy. Now Chinese new leaders have come to power for one year, and Kim Jong-Il last visit to China on January 15-20, 2001 and Jiang Ze-min reciprocal trip to Pyongyang in September of 2001 have passed respectively three years and two and a half years, but the two countries' supreme leaders hasn't exchanged visits ever since.

Ostensibly, it is not leaders' intention to disrupt the momentum of mending fences process, it is nuclear issue that makes them apart, at least in the top leader's level.⁵ Unless the nuclear issue appears some breakthrough, Hu Jin-tao and Kim Jong-il would not exchange visits lest two leaders would show unhappy feeling personally for the other in touching upon the fruitless nuclear talks. Of course, the exchanges of visits in the other levels seemingly have continued as usual from 2002 up now. But those formal visits also reflected a kind of dynamical change between Beijing and Pyongyang, they were not just conducted in circumambieny of fostering traditional friendship, but more centered on their relations adjustment , on advising North Korea to have a overall policy transformation and on nuclear issue,.

In China's number 2 leader Wu Bangguo's Pyongyang's trip in the late October of 2003, he reiterated Four Points principles on the development of China and North Korea relations, which are simplified as Inheriting Tradition; Facing Future; Good-neighborliness and Friendship; Strengthening Cooperation. This principle is not new in format, but the reinterpretation implies some new directions.

According to Wu, "Inheriting Tradition was to cherish and take care of their tradition and let it to be further expanded; Facing Future was to let their ties keep abreast of the times---peace and development so as to assure vitality and vigor of the relations; Good-neighborliness and Friendship demanded understanding and mutual support from two countries, attaching importance to the issues concerned to both of them, which were demanded to be tackled carefully; as for Strengthening Cooperation, it was to explore the way for deepening and expansion of the cooperation, rendering cooperation more diversified".

From above expression, we can infer some implied messages: first, two countries haven't gotten along well in preservation of tradition, such as consultation and coordination between them on important issues. In other words, Beijing wanted Pyongyang to pre-notify her more about its important activities and decision that related to international concern and Chinese interests. Second, in Chinese view, the framework of their relations, or rather North Korea policy, didn't adapt to the current international situation, both of them should pursue a common policy that integrated themselves into the international community and globalization based on peaceful diplomacy and cooperation. Their new relations framework should suit the trends of post Cold-War or post 9·11.⁶ Third, North Korea should not always adopt some unilateral policy that endanger Chinese and other countries security and interests, and DPRK should understand Chinese concern, dismantling nuclear

⁵ According to some reports, Kim Jong-Il planned to visit China at the end of December in 2002, but because of the nuclear crisis, China declined his visit. As a matter of fact, Beijing didn't officially admit there were such an arrangement, let alone the cancellation; please see Chinese Foreign Ministry regular press conference on December 13, 2002, the spokesman Liu Jianchao denied a report that Kim Jong IL would visit China. However, people have the reasons to doubt why Kim Jong-il would not ask for such a visit since he had highly praised Chinese economic reform and wanted to learn more and the nuclear crisis also would push him to seek Chinese leaders support. Therefore it is abnormal and showed two leaders' difference.

⁶ In 2003, there were some reports claiming that China was preparing to negotiate with the North Korea about the revision of the a quasi-military treaty, Chinese official denied the reports, but some Chinese scholars have expressed their views to revise the treaty, which is a by-product of Cold War structure. Please see Shen Ji-ru, "Wei hu Dongbeiyuanquandedangwuzhiji" (The Urgency for Safeguarding the Northeast Asia Security---Curbing the Dangerous Game on the North Korea Nuclear Issue), *Journal of World Economy and Politics* (in Chinese), No.9,2003, pp. 57-58.

program. Fourth, their economic cooperation should not always limit on the manner of Chinese official economic assistance, both sides needed to develop new ways to rejuvenate North Korea economy and reform its system, such as offering technical and agricultural guidance, introducing reform and market economy transition experiences by China, diverting official assistance to the commercial cooperation between enterprises in the light of market practice; collaborating to utilize international funding and technology for certain industrial restructuring and infrastructure.

In addition to the adjustment of relations, the nuclear issue almost took up the agendas in the seven or eight visits by Chinese senior officials and two visits by DPRK from 2003 to 2004. Chinese visits included 1. Vice Premier Qian Qi-chen flew to Samjiyon to discuss with Kim Jong-il on March 8---9, 2003 for the proposal of trilateral parties talks; 2. Vice Foreign Minister, Dai Bingguo met Kim Jong-il in arranging six-party talks and presented him a Hu Jintao's letter on July 14, 2003; 3. on August 19 and 20, Xu Caihou, the Director of the Political Department of the Chinese Army, respectively conversed with Jo Myong-rok, Vice Chairman of the National Defense Commission of North Korea and Kim Jong-il about the six-party talks; 4. on August 19, Liu Hongcai, Deputy Minister of the International Liaison Department of the CCP Central Committee also led a party delegation visited Pyongyang, having a meeting with North Korea Worker's Party Secretary Choi Taibok on the nuclear issue; 5. Wu Bangguo had a meeting with Kim Jong-il on October 31, 2003; 6. On December 25-26, Wang Yi, Vice Foreign Minister went to Pyongyang to discuss with his counterparts on the next round of six-party talks; 7. There was also an unconfirmed report that soon after Xu Caihou's visit, Hu Jintao secretly sent a Chinese high-level official to Pyongyang in a bid to coordinate with Kim Jong-il over the first six-party talks; 8. Soon after New Year on January 19, 2004, Minister of the International Liaison Department of the CCP Central Committee, Wang Jiarui had a meeting with Kim Jong-il, but the official new agency didn't disclose any theme of the talks (on all issues to their interests).

On the North Korea side, Kim Yong-il, Vice Foreign Minister, visited Beijing on November 22-24 and Jo Myong-rok came to China on December 2, both of their missions were related to the six-party talks.

The intensified problems-solving visits, on the one hand, don't mean the two countries have a real policy consultation and fundamentally resume closer ties now, rather, they just indicate the nuclear issue has the urgent importance for both of them, by which other issues of mistrust, resentment have to be covered or shelved. Beijing wants to continuously keep the pressure on Pyongyang and push the ball-rolling of the multilateral talks. It is seen China-North Korea ties become more complicated since PRC gives priority to denuclearization on Korean Peninsula in the light of strategic balance and consequence, and it ostensibly sides with American position; while China also worries North Korea would move into a more perilous status in resisting American coercive stance and maneuvering. It is not in Chinese interests to see America toppling down North Korea regime. Thus China-North Korea political relations are restrained by China's concern and anxiety over the nuclear issue. And Beijing begin to use its long-neglected or unwillingly-used leverage and influence to shape North Korea's thinking and behavior, and to cautiously intervene its adventurous policy in face of escalated tension and a likely showdown in the next development.

However, on the other hand, the nuclear issue doesn't simply create trouble for the two countries relations, which also produce some positive effects: 1. Pyongyang has strongly perceived Beijing's uncommon pressure on its recalcitrant position; 2. North Korea is showing some flexibility to listen to Chinese advice in certain degrees, given the US has mounted its pressure on

North Korea with no signs of making concession in form and contents of the talks, and Russia and South Korea's roles have been tested that they are unable to reach to the comparable level as China has done so far; 3. China starts to reevaluate its policy of negligence of North Korea conducted in the past years, attempting to re-bolster its substantive influence upon the DPRK through more kindly consideration, communication with reasons and understanding, and carrots.⁷

As a result, Chinese influence, though not reaching to the previous stage, rebounds a bit, which could be seen mainly within the limited bounds of nuclear issue. Noticeably North Korea leader Kim Jong-il made an unusual comment in discussing with Wu Bangguo that two countries ties had a strategic significance in maintaining peace and stability in Asia.⁸ While on other occasions of senior officials meetings, North Korean also tended to tout the relationship to a high pitch that ever had since their ties turned worse from 1992, which explicitly showed their efforts to ensure Chinese support in the resolution process of nuclear crisis or in case of conflict. However Beijing also understands that North Korea has its own interests and bottom line, they would not give in to American pressure and Chinese persuasion if they don't find a resolution reach their basic goal.

A Unbalanced and Backward Economic Cooperation Pattern between two Countries

Over a long time in the Cold War, China was the biggest North Korea economic supporter, however since 1992, China's economic assistance to DPRK has dropped sharply on the grounds of China's reform, its marketization of external economic relations and the soured ties between Beijing and Pyongyang. In other aspects of their economic relations, their scope is very small in comparison with Chinese trade with South Korea, the US, Japan, Taiwan and other East Asian regions.

There are several characteristics for their economic relations. Since China adopted cash transfer trade method instead of governmental account bartering trade in 1992, their trade amount has declined for several years until recently. Take the climax year 1993 as a frame of reference, the amount of trade had dropped from \$899 million to \$370 million in 1999. From 2000, the situation began to improve a bit: the trade amount totaled \$488 million with the growth rates 31.8% in comparison with the previous year. In 2001, the trade boosted again, reaching to \$739 million with the growth rate 51.6%. In 2002, it maintained almost same level with \$ 738 million. Obviously, the figure nearly re-climbs to the original top level again. In the first nine months of 2003, China imported from the North increased 12.3% to 112.2 millions dollars, and its export to the North rose 10.6 % to 232.3 million dollars.⁹

The reasons for the growth are diverse. First, North Korea's economy has a bit improvement, especially after it adopted a reform policy toward wage and price, losing control on market and border trade with China and Russia. As its minerals industry production has recovered considerably, other enterprises that had suspended in the previous years short of energy resume their production. Therefore it has a bit more goods to export and more money to import industry-related or processing

⁷ In order to induce North Korea to participate next round of six-party talks, China pledged to offer \$50 million additional assistance to DPRK when Wu Bangguo, Chairman of Chinese People's Congress visited Pyongyang in October of 2003. China denied the linkage between the assistance and the talks, but confirmed the grant and their ongoing discussion for how to utilize this amount of money on January 13, 2004. Please see "China will Offer Free Aid to North Korea 300 million Korea Won (currency) <http://chinese.chosun.com>, November 30, 2003 and check the website of China's Foreign Ministry: www.fmprc.gov.cn .

⁸ Please see China's Xinhua News Agency report on October 31, 2003.

⁹ See Agence France-Presse report, "China Reports Rising Trade with North Korea," October 25, 2003.

materials, ending its export decline in previous years.¹⁰ The goods North Korea exports to China are mainly minerals, base metals and wood. And according to the Chinese businessmen, who are dealing with trade with North Korea counterparts in the border area, DPRK companies now are able to pay foreign cash for purchasing goods. Second, there are a growing numbers of new trading companies, enterprises in various forms across the border, which expand the chance and channels of trading. Third, in the previous years before 2002, North Korea imported more foods, agricultural goods and daily-necessaries, which were in relative low price. But now they import more machinery, chemical goods, which are in high price that could increase the total trade amount. Fourth, North Korea started to increase the capacity of processing-on-commission in 2002, encouraging the enterprises to import as more materials as possible to be processed and then export them, so the portion of processing trade expands.¹¹ Yet, the trade composition also tells us that China still owns a big share for its export (\$ 451 million in 2000 and \$573 million in 2001), in other words, the improvement is limited and the prospects are not seen optimistically since DPRK's consumption capacity is very low, its big imbalance trade is irreversible in the near future and the market still lacks vitality.

The situation for Chinese investment in North Korea is also very disappointing. By the end of 1999, there are altogether 13 Chinese enterprises in the North, investing \$ 2.727 million, and in 2001 China only has two items of investment in North Korea, totaling \$ 3.95 million (amount in agreement). Chinese investing areas mainly cover restaurants, shops, mineral water production, aquatic breeding and other light industry. And its investment is mainly in form of equipment, material and technique with relatively smaller size. Except for restaurants and shops, most of investments didn't obtain profitable return.¹² Besides the investment, the main economic cooperation item is labor contract. By the end of 1999, the accumulative Chinese labor contract value in North Korea is \$98.71 million. In the year 2001, the newly signed labor contract value in North Korea is \$32.84 million, turnover \$18.28 million, the number of labors in North Korea is 1485.

The cause of difficulty in China-North Korean economic cooperation is very complicated, but the main reason lies in different economic system and North Korea poor investment environment. Chinese economy is now running on the basis of market, no matter it is a state enterprise or a private company, its prime purpose for business is profits and its requirement for its partner is good commercial credibility and economic environment that corresponds to the international rules. So far, North Korean economy is still operated under the highly centralized commanding system, which does not meet minimal commercial requirement for Chinese companies. And there is no evidence indicating North Korea wants Chinese businessmen to play an active role in reviving DPRK' decaying economy through their typical practice of marketing. Given that background, aside from the limited governmental assistance projects, most of Chinese companies would reluctantly pour their big money into North Korea as long as the current status remains. So long as China-North Korea economic cooperation could not be fully expanded in a profitable way, Chinese businessmen would maintain disinterest in developing economic relations with the North, and it would be unlikely to expect China to play a big role in buoying up North Korea economy in a commercial

¹⁰ In border city Dandong, North Korea's export to China rose 2.8 times higher to the amount \$ 150 million in 2002, whereas its import decreased 10 %. Cited from An Zhenli, "Recovery amid Adjustment: Observing North Korea Economy Trend from China-North Korea Economic Exchange," a paper presented for a seminar held at Fudan University in the summer of 2003, pp.2-3.

¹¹ An Zhenli, "Recovery amid Adjustment", P. 3.

¹² For figures in detail, please check website of Chinese Ministry of Foreign Trade and Economic Cooperation, PRC , www.moftec.gov.cn.

way.

In addition to normal economic cooperation relations, China continues to support massive economic assistance to North Korea, but the amount of those aids are not stable, they fluctuates according to the degrees of North Korea's shortage of fuel and food, the closeness of their ties, the frequency of leaders reciprocal visits, Chinese Premier's personal attitude in pursuing commercial practice in developing external economic relations, China's interest and imperative in playing a role or exerting specific influence in some cases, and Chinese strategic thinking, etc. As a usual estimation, China offers 500,000 tons of fuel and provides 500,000 to 600,000 tons of grain each year (approximately \$ 500 million).¹³ China is aware that such a free assistance would only be good for North Korea minimum sustenance, but not helpful for their reform. However should China not give such assistance, DPRK would likely go collapse, which would seriously affect Chinese security and strategic interests. Thus so long as North Korea isn't determined to completely change its system and its external security relations are not normal, China would have to continue this kind of assistance format.

A Joint Role for China and Other Surrounding Countries in the "Grand Bargain"

There are maybe diverse reasons that contribute to the developing nuclear program by North Korea. However from an outside observer's view, the main or deep cause for DPRK pursuit of nuke that runs counter to the world trend is the scarcity of correct knowledge of the world development and abnormal linkage with the developed countries, which lead to an isolated ideology, short of confidence in security, suspicion of the Western world, brinkmanship policy and poor economic performance. Thus to fundamentally dismantle its nuclear program and other mass destruction weapons as well as other conventional threat, we need not only set up a rigid inspection regime, maintain a strong military deterrence, but also a reasonable and attractive arrangement in a multilateral approach to induce North Korea to build its confidence, open its door to the outside and to assist it to revitalize its economy and to be engaged in the international community.

By this token, a possible grand bargain between multilateral parties and DPRK for a solution to the North Korea threat would involve two parts. One is about terminating of all North Korea nuclear and conventional threat in a verifiable and complete approach. The other is about economic rewards and incentives for North Korea in corresponding steps to the progress of former part of action.¹⁴ In that grand plan, all the other five parties should form a unanimous voice and demands on what North Korea should implement, while they should have a clear division of labor for the inspection, technical work of dismantlement and obligation for sharing the costs of denuclearization and economic assistance to the DPRK.

China's role and its obligation should become the important part of the integral plan. First, in

¹³ Liu Ming, "China and the North Korean Crisis: Facing Test and Transition", *Pacific Affairs*, Vol. 76, No. 3, 2003. Please also refer to www.ParaPundit.com, Alexandr Nemets and John L. Scherer write that Beijing increased its economic support of Pyongyang following the May 2000 meeting. Exports from China to North Korea - primarily crude oil, oil products, grain and food items - jumped from around \$330 million in 1999 to a little more than \$450 million in 2000. Chinese imports from North Korea decreased from nearly \$42 million to \$37 million. Exports minus imports amount to subsidies from Beijing to Pyongyang, and these grew from \$288 million to \$413 million.

¹⁴ See Michael E. O'Hanlon, "A 'Master Plan' to Deal with North Korea," *Policy Brief*, # 114, The Brookings Institution, January 2003, pp.5-6.

the denuclearized arrangement, China needs to play two-aspect role, one is to serve as an inspector to check the progress of North Korea's implementation of the accord in tandem with other parties; another is to take a role of the guarantor for North Korea security and American commitment to the North. At this point, Beijing might dilute its role as a mediator, shifting its foothold to the multilateral common position, their joint action and willingness. Since deal would likely to be a phased process, China's role should stand out in each stage for pressing North Korea to faithfully follow the designed procedures and urging the US to take prescribed action as an incentive. In the midst of the implementation, if there appears some friction, frustration or misunderstanding between DPRK and the US, China needs to find way to iron out the difference by persuasion, explanation and sometimes by strong joint action or unilateral compensation and symbolic placation.

Second, on the issue of reduction of North Korea conventional force and building confidence-measures, China's role is also positive but may be a bit different with the allied countries. Beijing would support in principle the same proportional cuts in North and South Korea and American weaponry as well as their forces.¹⁵ However, given the fact that DPRK's weapons are quite outdated and low quality, and the US has reinforcement forces in the other parts of west Pacific, the above-proposed reduction only in quantity would not be acceptable for North Korea, which surely would demand the US to withdraw certain types of advanced weapons from the Korean Peninsula and ask South Korea to dismantle some of its modern equipments, or propose a dissymmetrical reduction that takes the imbalanced military capabilities across DMZ into account, which would allow the DPRK to reserve more forces and some of offensive weapons. PRC is supposedly not to fully opt for North Korea idea, but will show understanding toward the DPRK's vulnerability in security, hoping the US and South Korea would give North Korea a bit advantage in the numbers of forces and weapons.

Third, in the political level, China also has several missions. One is to do its utmost to push forward inter-Korean reconciliation and cooperation through its meeting with Kim Jong-il and other DPRK leaders, particularly urging Chairman Kim to take a reciprocal visit to Seoul after a nuke deal is reached and if the atmosphere in South Korea is amicable. Two is to encourage Washington and Tokyo to take some reconciliatory stances to engage North Korea, solving the major pending issues by bold and flexible action, realizing normalization. Three is to offer practical experience for North Korea on how China can maintain political stability while fully opening its door to the world and integrating itself with the globalization and international regime. In view of North Korea concern about its security, political stability, independence and dignity in undertaking reform and developing cooperative relations with the Western countries, China would likely to continue to provide political support for North Korea, in a symbolic and substantive way.

Fourth, China needs to gradually or partly transform its traditionally bilateral way to deal with North Korea to the multilateral setting in the economic cooperation, i.e., moving portion of its routine assistance to the North Korea to the multilateral package deal, which could serve four purposes: adding strength of common position of surrounding countries; linking contribution with the multilateral arrangement for the lion's share in the economic re-construction projects in DPRK; rendering North Korea's behavior and survival subject to the international economic cooperation; mitigating China's dilemma in dealing with North Korea's endless demands for economic

¹⁵ *ibid.* pp.6-8.

assistance in the crisis or other economic difficulties.¹⁶

Fifth, China, together with South Korea and other countries, should help North Korea to join in several key international financial organizations. China also could share some experience with DPRK on the procedures and qualification to join in World Bank, International Monetary Fund (IMF) and Asian Development Bank (ADB). As a full member for these three international financial institutions, and being a transitional country not long ago from planned economy to market economy, China is quite aware of North Korea's problems and the way how the DPRK could make efforts to solve them. Therefore, Beijing could provide some useful advice to Pyongyang, urging it to take some concrete measures to adapt to the requirements of these international bodies and make full preparations for the time to come when the US is ready to strike off DPRK name from the terrorist list. Meanwhile, China can join hands with South Korea to press the US and Japan to accelerate the process of handling North Korea application for the Banks and IMF. Only when Pyongyang fully enters international financial organizations and it develops economic relations with rest of the world based upon the internationally commercial norms could the North Korea consider forgoing its isolated ideology and military-first strategy. Of course, China has already an ambitious plan to first draw DPRK into Asia-Pacific Economic Cooperation Meeting (APEC), in which North Korea could work together with other members in the various working groups such as on Agricultural Technical Cooperation, Industrial Science and Technology. Furthermore Shanghai APEC Finance and Development Program and APEC School in China also could train North Korean financial officials and organize study groups addressing all urgent economic issues entrusted by North Korea.¹⁷

Sixth, China has the interests to continue all levels of contacts with North Korea's officials, officers, artists, scholars, correspondents and ordinary people, through which Beijing could display the achievements of reforms to them and help them to know better about outside world. It would be worthwhile for China in setting up more fellowships programs for young people and middle level officials. Some prominent Chinese institutions and universities have already begun such educational courses for North Korean, for example, Shanghai Academy of Social Sciences (SASS) had admitted two batches of North Korea study groups, three scholars in each team, in 2002 and 2003. And PRC would also like to keep providing free sanatoriums to the North Korea's officers' delegations.

In regard to North Korea economic system and situation, Chinese contribution may focus on the following:

- In the aspect of economic system, both China and South Korea can do following work: advising North Korea to continue its financial or price reform, but with more sophisticated calculation, moderate steps and a long-term blueprint based on market, while maintaining party leadership on macro economic management and policy guidance; encouraging its people to explore all means for better living and wealth by best using their distinct wisdom, specialty and available materials throughout the country, which would certainly vitalize its overall economic atmosphere and expand the size of market; urging DPRK to loose its grip on the contact between North Korea people and foreigners and the traveling limitation for foreigners.

¹⁶ There is a view that rebuilding the DPRK is expected to fall largely to the ROK because it has the deepest pockets and PRC and Russia have less interest in paying for extensive redevelopment. This is not all true for China since Beijing already contribute a great deal of money to North Korea. If the prospects are clear for North Korea reform and opening-door to the outside based on international standard, Chinese entrepreneurs would actively invest in the DPRK. Please see James Brooke, "Quietly, North Korea Opens Markets," *New York Times*, November 19, 2003.

¹⁷ The Finance and Development Program was founded in the State Accounting School in Pudong, Shanghai, which would be appropriated by Chinese Central Government.

- Given the scarcity of capitals for construction infrastructure, China could introduce three concepts or financing modality, which were successfully used in Chinese infrastructure development, to North Korea—Lease On Batches; Differential Ground-Rent and Building-Operation- Transfer (BOT). If North Korea can agree to lease some pieces of land in the coast areas to foreign companies for dozens of years, it could not only get back many developed land in a certain time, but also could obtain sufficient capitals needed for infrastructure in the other areas. Obviously, all the land should be leased based differential-ground rent, which means the grade of rent should be decided according to the distance to the urban area and its potential prospects for the commercial development for the land. As for the burden to build infrastructure for the South Korean investing companies in North Korea, the Chinese construction companies and South Korean, EU companies could organize a joint-venture to engage in this kind of construction on the condition that they are allowed by the DPRK to operate the finished projects for a period of years to retrieve the yields.
- There are other means for China and South Korea to have collaboration on the work of salvage of North Korea economy. Considering Pyongyang is unable to join the International Financial Institutions (IFIs) and get the concessionary loans in a short time, China and South Korea can consider to organize several consortia on different sectors to finance those companies in investing in North Korea and develop some badly needed joint projects there.¹⁸For example, they can jointly explore oil in the East Sea and natural gas in Siberia of Russia, extending the joint pipeline of natural gas invested by China, South Korea, Russia and Japan to North Korea. The funding could come from government’s donation as well as the specific bond issued by DPRK government and the consortium.
- China and South Korea also can set up some training schools in different parts of China to teach North Korean officials and scholars as well as managers, technicians about international law, business management, finance, agriculture technology, and the ways, rules to negotiate with foreign companies and IFIs on business agreements. Further more, they can jointly or separately dispatch excellent farmers to North Korea to alleviate its agricultural problem by assisting to improve seeds, ameliorate soil, select best economic plants to grow, and breed aquatic products, the last two of which are suitable for export in the international market and could be exchanged for foods. China and South Korea also could help North Korea to remold old industrial facilities and re-link Kyongui Line, which will finally connect European line through Chinese railway.¹⁹
- As for the Sinuiju Special Autonomous Region (SAR), China is more worry about its real purpose and function (like gambling, money-laundering), and the impact on Chinese border management by allowing foreigners to enter Sinuiju freely through Chinese passage. If six

¹⁸ The author is enlightened by two South Korean scholars’ idea that they propose it should set up an Interim North Korea Development Assistance Group (INKADG). Please refer to Suchan Chae and Hyoungsoo Zang’s paper, “Creating Interim North Korea Development Assistance Group”, which is presented in the Conference on North Korea in the World Economy in Washington D.C. on August 26-28, 2001.

¹⁹ According to the calculation of South Korean National Institute of Territory, the connection of Kyongui Line with Chinese border city Dandong and then Russian railway will render part of passengers and cargoes, which usually arrive and depart Shenyang and Beijing through Dalian Port and Tianjin Port, to use railway line instead, and Busan-Shenyang Line will become an optimal tool to facilitate Northeast Asian economic cooperation. And for air transportation, this railway line will take away 32% passengers of Seoul-Beijing airline and 27.1% passengers of Beijing-Seoul airline. Please refer to An Zhen-li, *Lianjichaxianbandaozhiyaoutilu: yiyijiducixianze* (“Connection of Korean Peninsula and Euro-Asia Railway: Implication and Option”), a paper for the Conference on Promoting Korean Peninsula and Northeast Asian Cooperation, which jointly held by Institute of Asia-Pacific Studies, Chinese Academy of Social Sciences and Korea Economic Institute of America on June 7—8, 2002 in Beijing.

parties can reach a package deal and DPRK is determined to adopt a serious reform policy, China would be willing to consult with North Korea about the design and development of SAR and would like to actively participate in the development and even turn it into a big free economic zone that includes Dandong, a Chinese border city.

Of course, all of the contribution efforts should be carried out through consultation with North Korea and on the basis of its own policy alternative. Before DPRK makes decision on reform, PRC should avoid advising it to take that road or make any radical suggestion.

Conclusion:

The nuclear crisis offers a chance for China to increase its influence on North Korea and adjust its traditional relations with and approach to the North. But this kind of role in nuclear issue is limited since North Korea has its own interests, China doesn't want to let North Korea collapse, and more important China-North Korea ties are not so good and trustful and North Korea specially wants to obtain American rewards. However, if the US and North Korea could reach an agreement in a comprehensive plan, which would broaden the scope for China's role and fully explore the potentials that China owns in helping North Korea feel secure, confidence, opening door, and finally reform its system, revitalizing its malfunctioned economy. Of course, all these lie at North Korea determination and American flexibility and policy adjustment.