

A NEW INTERNATIONAL ENGAGEMENT FRAMEWORK FOR NORTH KOREA?

Contending Perspectives

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China's Role in the Course of North Korea's Transition

Liu Ming

The North Korea (Democratic People's Republic of Korea [DPRK]) nuclear drama offers a good chance for fundamentally curing the North's structural problems and routine crises. All the countries on North Korea's periphery plus the United States have formed a consensus that it is urgent to find a way out of the current North Korean nuclear stalemate, which also touches upon other sectors in North Korea and that country's long-standing concern toward the outside. In other words, any solution to the problem of North Korea needs a kind of comprehensive approach and arrangement or, as called by many Korea experts, a great bargain; economic leverage or incentives will play a significant role.

China has a long history of a client relationship with North Korea; during the current nuclear crisis, it draws the world spotlight through its proactive shuttle diplomacy. If all the participants in the six-party talks—North Korea, South Korea, China, Japan, Russia, and the United States—can finally work out a package of solutions, China must be an indispensable guarantor and a contributor in the implementation process.

Asymmetrical Ties between Beijing and Pyongyang

The status of China-North Korea ties has always been inconclusive and an issue for debate among Korea experts. In fact, their relationship reflects inherent contradictions. Given that China played a significant role in salvaging the DPRK from its total failure in the early period of the Korean War through a million-strong fighting force, its special status in maintaining a quasi alliance (described as being "as close as lips and teeth") with the North since the end of the war on the basis of their same ideology, 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 that Beijing's relations with Pyongyang are much closer than any relations North Korea has with any other country in the world. Thus, China has a special influence on the DPRK. As for the tension and bitter feelings toward each other during the mid-1990s: they could be compared with a married couple with many grievances or distrust who still live together under the same roof but in different rooms. They know clearly that a divorce would bring more harm than good to both of them.

Generally speaking, China is North Korea's political and security protector and a long-tested ally; the two countries have indeed managed to maintain their fragile relations without being openly at odds in the face of periodic global and local-environment transformations. Because of its disadvantage and uncertain position in its sense of security on 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 poorly performing economy, North Korea constantly depends for survival on China's and other countries' assistance, although this dependence has been reduced in both absolute and relative terms (Mansourov 2003). As long as Pyongyang's diplomatic, economic, and security maneuvering room is limited or its strategic and political environment has not been greatly turned in its favor, it must regard Beijing as its indispensable patron. In theory, therefore, China could keep a certain degree of its influence over North Korea through the use of specific leverage.

However, the scale of Chinese assistance and China's perceived big-brother position vis-à-vis North Korea do not match its practical role and influence in shaping North Korea policy and behavior. One reason is that Pyongyang is wary of Beijing's international influence, its ability to collaborate with the United States and South Korea, its willingness to foster traditional friendship, and its credibility in fulfilling its commitments to the DPRK in case of crisis. Therefore, both openly and privately, the DPRK will try to limit or downplay China's role and influence during the resolution of the current crisis and as it affects North Korea's future, even though a certain level of involvement for the PRC in tandem with multilateral efforts is reluctantly acknowledged by the DPRK. Pyongyang generally seeks to avoid any linkage between its requests to China for economic aid and China's views on Korean peninsula issues, and to diversify its other potential sources of aid, such as Russia and international organizations. It would also attempt to raise the stakes by balancing its two neighboring giants—China and Russia—against each other (Zong 2003). Because China is aware of North Korean suspicions and perceives the difficulty of influencing the DPRK, China has seldom used its leverage for a political purpose; this in turn restrains China's influence.

The dependence of North Korea on China is not totally one way. Before 1992, China regarded North Korea mainly in political and strategic contexts. After normalization of relations with Seoul, this kind of strategic mentality in China's North Korea policy decreased greatly. To China, North Korea is no longer a necessary buffer between itself and the United States and South

Korea. This does not mean that Beijing considers the DPRK a redundant and unvalued neighboring country even though the DPRK is an economic burden and causes political trouble for China in a certain sense. In the minds of Chinese leaders, a socialist North Korea is instrumental in keeping a balance of power in Northeast Asia and could hinder the trend away from socialism that is spreading across East Asia and that is producing a backlash against Chinese ideological legitimacy (Scobell 2002, 278–9). More important, China is not sure the United States would feel it necessary to develop constructive relations with Beijing if Washington successfully demolishes all the “rogue countries” in the world, including North Korea (Zong 2003). Last but not least, the survival and stability of North Korea amounts to security, peace, and order for the Chinese border area.

Traditional Political Relations in Flux

The astonishingly fast warming of relations between Beijing and Seoul and the death of Kim Il-sung played key roles in cooling down the close China-North Korea relations in the years before 2000. After Kim Jong-il visited Beijing at the end of May 2000, the two sides' relationship gradually warmed up. However, the nuclear crisis and the arrest in China of Yang Bin (immediately after North Korea had announced his appointment as governor of the Sinuiju special administrative region) demonstrated once again the fact that China-DPRK relations are now fragile and can no longer return to their high point of the 1950s and 1960s, when the older generation of leaders was in power. Their traditional close ties are clearly facing unprecedented challenges in both their internal systems and their foreign policies.

Beginning in November of 2002, Chinese fourth-generation leaders came to power, but the new top Chinese leader, Hu Jintao, did not meet Kim Jong-il until April of 2004. Ostensibly, it was not the leaders' intention to disrupt the momentum of the fence-mending process; instead it has been the nuclear issue that keeps them apart, at least at the top leadership level.¹ Hu Jintao must have thought that if he met Kim Jong-il in 2003 at the climax of nuclear deadlock, before all parties concerned could sit down seriously to explore possible outcomes, the meeting would likely have aroused criticism from the United States and other members of the international community for appeasing North Korea, and it would also have made it awkward for the two leaders to touch upon the situation.

1 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. Beijing didn't officially admit to such a request, let alone the cancellation; at a regular press conference at China's Ministry of Foreign Affairs on 13 December 2002, spokesperson Liu Jianchao denied a report that Kim Jong-il would visit China. Observers believed, however, that Kim Jong-il would ask for such a visit because he had praised highly the Chinese economic reform and wanted to learn more about it; the nuclear crisis also would push him to seek support of Chinese leaders.

Of course, the exchanges of visits at other levels seem to have continued as usual from 2002 until today. But those formal visits also reflected a kind of dynamic change in the relationship between Beijing and Pyongyang. They were not conducted only to foster traditional friendship. Instead, they were more centered on adjusting relations and on advising North Korea on overall policy transformation and on the nuclear issue.

During the late October 2003 trip to Pyongyang of China's second in command, Wu Bangguo, Wu reiterated the "four points" principles on the development of China-North Korea relations; simplified, the principles are inheriting tradition, facing the future, good-neighborliness and friendship, and strengthening cooperation. These principles are not new in format, but the reinterpretation implies some new directions:

- **Inheriting Tradition** encouraged cherishing and safeguarding their traditions, permitting further expansion.
- **Facing the Future** was designed to let their ties keep abreast of the times, including a focus on peace and development so as to assure vitality and vigor in their relations.
- **Good-Neighborliness and Friendship** demanded understanding and mutual support for each other, attaching importance to issues of concern to both countries as well as addressing these issues.
- **Strengthening Cooperation** highlighted the need to explore how to deepen and expand the cooperation, rendering cooperation more diversified.

From the four points above, we can infer:

- The two countries have not gotten along well in the area of preservation of tradition, such as consultation and coordination between them on important issues. In other words, Beijing wants Pyongyang to pre-notify China more about North Korea's important activities and decisions that relate to international concerns and Chinese interests.
- In the Chinese view, the framework of PRC-DPRK relations, or rather North Korea policy, has not been adapted to the current international situation, and both countries should pursue a common policy that integrates them into the international community on the basis of peaceful diplomacy and cooperation. Their new relations framework should suit the trends of the post-Cold War and post-September 11 worlds.²
- North Korea should not always adopt a unilateral policy that endangers China's and other countries' security and interests, and the DPRK

² In 2003, some reports claimed that China was preparing to negotiate with North Korea about the revision of the quasi-military treaty. Chinese officials denied the reports, but some Chinese scholars have encouraged revision of the treaty, which is a by-product of the Cold War (Shen 2003, 57–58).

should understand Chinese concern about dismantling its nuclear program.

- PRC-DPRK economic cooperation should not limit the manner of Chinese official economic assistance. Both sides need to develop new ways to rejuvenate North Korea's economy and reform its system. These include China offering technical and agricultural guidance, introducing reform and market economy transition experiences, diverting official assistance to the commercial cooperation between enterprises in the light of market practice, and collaborating to use international funding and technology for industrial restructuring and infrastructure.

In addition to the adjustment of relations, the nuclear issue almost took up the agendas during the visits by Chinese senior officials and three visits by the DPRK between 2003 and May of 2004. Chinese visits included:

- Vice Premier Qian Qichen flew to Samjiyon on 8–9 March 2003 for discussions with Kim Jong-il to propose three-party talks.
- Vice Foreign Minister Dai Bingguo met Kim Jong-il on 14 July 2003 during arrangements for six-party talks and presented a letter from Hu Jintao.
- Xu Caihou, director of the political department of the Chinese army, on 19–20 August 2003 conversed with Jo Myong-rok, vice chairman of the National Defense Commission of North Korea, and Kim Jong-il about the six-party talks.
- Liu Hongcai, deputy minister of the International Liaison Department of the Chinese Communist Party (CCP) Central Committee, on 19 August 2003 led a party delegation to visit Pyongyang and met with the Korean Workers' Party secretary, Choi Tai-bok, on the nuclear issue.
- Wu Bangguo met with Kim Jong-il on 31 October 2003.
- Wang Yi, vice foreign minister, went to Pyongyang on 25–26 December to discuss with his counterparts details of the next round of six-party talks.
- 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 (this is an unconfirmed report; the visit is said to have taken place soon after Xu Caihou's mid-August 2003 visit).
- Minister of the International Liaison Department of the CCP Central Committee Wang Jiarui on 19 January 2004 met with Kim Jong-il, but the official news agency did not disclose the theme of the talks (they reportedly discussed issues of interest).
- Foreign Minister Li Zhao-xing of China on 23–25 March 2004 visited Pyongyang for talks with Kim Jong-il and other North Korean leaders that covered issues of nuclear plans and Sino-North Korean relations.

On the North Korea side, all of the visits were related to the six-party talks:

- Kim Yong-il, vice foreign minister, visited Beijing on 22–24 November 2003;
- Jo Myong-rok, vice chairman of the DPRK's defense committee, came to China on 2 December 2003; and
- North Korea's deputy foreign minister, Kim Kye-kwan, visited China on 7–9 February 2004 for consultation on the next round of six-party talks.

Intensified problem-solving visits do not mean the two countries have real policy consultations and fundamentally resume closer ties; such visits can possibly indicate just that the nuclear issue has an urgent importance for both of them and other issues of mistrust and resentment have to be covered or shelved. Beijing wants to keep continuous pressure on Pyongyang and keep the ball rolling for multilateral talks. It is perceived that China-North Korea ties have become more complicated since the PRC has given priority to denuclearization on the Korean peninsula in light of questions of strategic balance and consequences; the PRC ostensibly sides with the U.S. position. China also worries that North Korea could move into a more perilous status of resisting the U.S. coercive stance and maneuvering. It is not in the Chinese interest to see the United States toppling the North Korea regime. Thus China-North Korea political relations are restrained by China's concern and anxiety over the nuclear issue. Beijing has begun to use its long-neglected or unwillingly used leverage to influence and shape North Korea's thinking and behavior and to cautiously intervene in North Korea's adventurous policy in the face of escalated tension and a likely showdown during the development of North Korea's next phase.

The nuclear issue does not simply create trouble for relations between the two countries, however; it also produces some positive effects:

- Pyongyang clearly perceives Beijing's uncommon pressure on its recalcitrant position.
- North Korea is showing some flexibility and is listening to Chinese advice to a certain degree, given that the United States has mounted pressure on North Korea without making concessions on the form and content of the talks (so far, Russia and South Korea have been unable to achieve a level of influence comparable with that of China).
- China has begun to reevaluate its policy of negligence toward North Korea, and it has attempted to bolster its substantive influence on the DPRK through increased goodwill, communication through reason and understanding, and certain incentives.³

3 The press (China Will Offer Free Aid to North Korea—300 million Korea Won [30 November 2003], <http://chinese.chosun.com>) and China's Ministry of Foreign Affairs (www.fmprc.gov.cn) report that to induce North Korea to participate in the next round of six-party talks, China pledged to

As a result, Chinese influence, though not reaching its earlier heights, has rebounded a bit, which can be seen mainly within the limited bounds of the nuclear issue. This was noticed (and reported by Xinhua on 31 October 2003) when North Korean leader Kim Jong-il made an unusual comment in discussing with Wu Bangguo that the two countries' ties had a strategic significance in maintaining peace and stability in Asia. On other occasions of meetings of other senior officials, North Korea also tended to tout its relationship with China, now at a new high since ties worsened in 1992. This shows explicitly the DPRK efforts to ensure Chinese support during the resolution of the nuclear crisis and in case of other conflicts. Beijing also understands, however, that North Korea has its own interests and its own bottom line; North Korea will not give in to U.S. pressure and Chinese persuasion if it does not find a way to reach its basic goals.

Unbalanced and Backward Economic Cooperation

For a long time during the Cold War, China was North Korea's biggest economic supporter; since 1992, however, China's economic assistance to the DPRK has dropped sharply because of China's internal reform, the market orientation of its international relationships, and the soured ties between Beijing and Pyongyang. The scope of PRC-DPRK economic relations is very narrow in comparison with Chinese trade with South Korea, the United States, Japan, Taiwan, and other East Asian regions.

PRC-DPRK economic relations exhibit several characteristics. Following 1992, when China switched from a bilateral barter system to a cash payment system for trade between the two countries, the amount of PRC-DPRK trade declined steadily until recently. With the peak year of 1993 as a frame of reference, the amount of trade dropped from \$899 million to \$370 million in 1999.⁴ In 2000, the situation began to improve a bit: PRC-DPRK trade totaled \$488 million, with a growth rate of 31.8 percent in comparison with 1999. In 2001, trade increased again, reaching \$739 million, with a growth rate of 51.6 percent. In 2002, trade was maintained at almost the same level, at \$738 million, a figure close to the 1993 level. According to a 28 March 2004 announcement by China's Ministry of Commerce (www.mofcom.gov.cn), this growth maintained its momentum in 2003, when the total amount of PRC-DPRK trade reached an astonishing \$1.023 billion, up 38.51 percent, which broke down to \$628 million in Chinese exports and \$395 million in Chinese imports.

offer \$50 million of additional assistance to the DPRK; Wu Bangguo, chairman of the Chinese People's Congress offered this when he visited Pyongyang in October of 2003. On 13 January 2004, China denied the linkage between the assistance and the talks but confirmed the grant and the ongoing discussion of how to use this amount of money.

4 These 2000 data were from the Web site of China's Ministry of Foreign and Economic Cooperation (www.moftec.gov.cn); the ministry has since been merged into the new Ministry of Commerce.

The reasons for the growth are diverse:

- North Korea's economy has improved a bit, especially after it adopted a reform policy toward wages and prices, loosening control on markets and on border trade with China and Russia. Because its minerals production has recovered considerably, other enterprises that had suspended operations in recent years because of energy shortages resumed production. Therefore North Korea has a few more goods to export and more money to import industry-related or processing materials, which has ended its export decline of the preceding years.⁵ The goods North Korea exports to China are mainly minerals, base metals, and wood. According to Chinese businesspeople who trade with their North Korean counterparts in the PRC-DPRK border area, DPRK companies now are able to pay with foreign cash when they purchase goods.
- There are growing numbers of new trading companies and various kinds of enterprises across the DPRK border, which expands the chances and the channels of trade.
- In the years preceding 2002, North Korea imported more food, agricultural goods, and daily necessities, which were sold to North Korea at a relatively low price. But now the DPRK imports more machinery and chemical goods, which are more costly and which could be increasing the total value of trade.
- In 2002, North Korea started to increase its capacity to process on commission, encouraging enterprises to import as many materials as possible to be processed and then reexported, in order to expand the country's processing trade (An 2003, 3). The composition of trade also tells us that China still accounts for a large share of North Korea's exports (\$451 million in 2000 and \$573 million in 2001); in other words, the improvement in trade is limited, and the prospects are not seen optimistically because the DPRK's consumption capacity is very low, its large trade imbalance is irreversible in the near future, and the market still lacks vitality (An 2003, 3).

Chinese investment in North Korea is also disappointing. At the end of 1999, there were 13 Chinese enterprises in the North, with investments of \$2.73 million, but in 2001 China had only two investments in North Korea, totaling \$3.95 million (contractual amount). Chinese investments are mainly in equipment, materials, and technical knowledge for restaurants, shops, mineral water production, aquatic breeding, and other light industry. Except for restaurants and shops, China's Ministry of Foreign Trade and Economic Cooperation reports that most of these investments have not been profit-

5 In the border city of Dandong, North Korea's exports to China rose to \$150 million in 2002, 2.8 times earlier levels, but its imports decreased by 10 percent (An 2003, 2-3).

able. Besides such investments, the economic cooperation centers mainly on labor contracts. At the end of 1999, the cumulative Chinese labor contract value in North Korea was \$98.71 million; in 2001, the newly signed labor contract value in North Korea was \$32.84 million, turnover was \$18.28 million, and the number of laborers in North Korea was 1,485 (MOFCOM 2000).

The causes of the difficulties in China-North Korea economic cooperation are complicated, but the main reason lies in the differing economic systems and North Korea's poor investment environment. The Chinese economy is now market based; no matter whether the enterprise is a state enterprise or a private company, its prime focus is profits, and it requires a partner with good commercial credibility and an economic environment that corresponds to international rules. So far the North Korean economy is still operated under the highly centralized command system, which does not meet minimal commercial requirements for Chinese companies. In addition, there is no evidence indicating that North Korea wants Chinese businesspeople to play an active role in reviving the DPRK's decaying economy through their typical practice of marketing. Given that background, aside from the limited government assistance projects, most Chinese companies would only reluctantly invest their money in North Korea as long as the current status remains. As long as China-North Korea economic cooperation cannot be fully expanded in a profitable way, Chinese businesspeople will remain uninterested in developing economic relations with the North, and it is unlikely that China will play a big role in buoying up North Korea's economy in a commercial way.

In addition to normal economic cooperation, China continues to support massive economic assistance to North Korea, but the amount of this aid is not stable; it fluctuates according to variations in North Korea's shortage of fuel and food, the closeness of their ties, the frequency of the leaders' reciprocal visits, the Chinese premier's personal attitude in pursuing commercial practice in developing external economic relations, China's interest and imperatives in playing a role or exerting specific influence in some cases, and Chinese strategic thinking. In a normal year, China offers 500,000 tons of fuel and provides 500,000 to 600,000 tons of grain (worth approximately \$500 million) to North Korea (Liu 2003).⁶ China is aware that such free assistance supplies North Korea only minimum sustenance, but it is not helpful for its reform. Should China not provide such assistance, however, the DPRK would likely collapse, which would seriously affect Chinese security and strategic interests. Thus, as long as North Korea is not determined to

6 Nemets and Scherer (2003) report 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.

completely change its system and it has not built normal security relations with other countries, China will have to continue this kind of assistance.

Joint Role for China and Surrounding Countries in the “Grand Bargain”

There may be diverse reasons that contribute to the developing nuclear program by North Korea. However from an outside observer’s view, the main causes for the DPRK’s pursuit of nuclear weapons, which runs counter to the world trend, are the lack of accurate knowledge of world developments and its abnormal relations with the developed countries. These factors lead to an isolated ideology, a shortage of confidence in security, suspicion of the Western world, a policy of brinkmanship, and poor economic performance. Thus, to prod North Korea to fundamentally dismantle its nuclear program and other weapons of mass destruction as well as other conventional threats, we need to not only set up a rigid inspection regime and maintain a strong military deterrence but also arrange a reasonable and attractive multilateral approach to induce North Korea to build its confidence and open its doors to the outside. We should also assist it to revitalize its economy and be engaged with the international community.

A possible “grand bargain” between the multilateral parties and the DPRK for a solution to the North Korea threat would involve two parts. One part concerns terminating all North Korea nuclear and conventional threats in a verifiable and complete approach. The other concerns economic rewards and incentives for North Korea consistent with the progress in addressing part one (O’Hanlon 2003, 5–6). In that grand plan, all five of the other parties should form a unanimous voice and demand what North Korea should implement just as they should have a clear division of labor to carry out inspections, technical work toward dismantlement, and the obligation for sharing the costs of denuclearization and economic assistance to the DPRK.

China’s role and its obligation should become an important part of the integral plan:

- China needs to play a role in two aspects of the denuclearized arrangement: one aspect is to serve as an inspector to check the progress of North Korea’s implementation of the accord in tandem with the other parties; the other is to take on a role of guarantor for North Korea’s security and the U.S. commitment to the North. At this point, Beijing might dilute its role as a mediator and shift to the multilateral common position. Because the deal would likely be a phased process, China’s role should stand out at each stage and press North Korea to faithfully follow the designed procedures as well as urge the United States to take prescribed actions as an incentive. In the midst of the implementation, if there appears some friction, frustration, or misunderstanding between the DPRK and the United States, China will need to find a way to iron

out the difference by persuasion, explanation, and sometimes by strong joint action or unilateral compensation and symbolic placation.

- To reduce the buildup of North Korea's conventional forces and to build confidence, China can also play a positive role, but this may be a bit different from that of the allied countries. Beijing would support in principle the same proportional cuts in North Korean, South Korean, and U.S. weaponry and forces (O'Hanlon 2003, 6–8). However, given the facts that the DPRK's weapons are quite outdated and of low quality and that the United States has reinforcement forces in the other parts of the western Pacific, the proposed reduction in quantity would not be acceptable to North Korea. North Korea would surely demand that the United States withdraw certain types of advanced weapons from the Korean peninsula or that South Korea dismantle some of its modern equipment, or it could propose an asymmetrical reduction that takes the unbalanced military capabilities on both sides of the DMZ into account, which would allow the DPRK to reserve more forces and some offensive weapons. The PRC would not side completely with the North's positions but would show understanding toward the DPRK's security vulnerabilities, hoping the United States and South Korea give North Korea a bit of advantage in the numbers of forces and weapons.
- On the political level, China has several missions. One is to do its utmost to push forward inter-Korean reconciliation and cooperation during meetings with Kim Jong-il and other DPRK leaders; this means particularly urging Chairman Kim to make a reciprocal visit to Seoul after a nuclear deal is reached if the atmosphere in South Korea is amicable. Another is to encourage Washington and Tokyo to adopt conciliatory stances to engage North Korea and solve the major pending issues by bold and flexible action in order to achieve normalization. China should also offer practical advice to North Korea on how China has been able to maintain political stability while fully opening its doors to the world and integrating itself with the global economy and international standards. In view of North Korea's concern about its security, political stability, independence, and dignity in undertaking reform and developing cooperative relations with the Western countries, China would likely continue to provide political support for North Korea in a symbolic and substantive way.
- China needs to gradually or partly transform its traditional bilateralism to deal with North Korea in a multilateral setting for economic cooperation; that is, China should move a portion of its routine assistance to North Korea to a multilateral package deal. This could serve four purposes: adding the strength of developing a common position among surrounding countries; linking China's contribution with a multilateral arrangement, thereby gaining the lion's share of economic reconstruc-

tion projects in DPRK; rendering North Korea's behavior and survival subject to international economic cooperation; and mitigating China's dilemma in dealing with North Korea's endless demands for economic assistance during crisis or other economic difficulties.⁷

- China, together with South Korea and other countries, should help North Korea join several key international financial organizations. China also could share with the DPRK its experiences with the procedures and qualifications to join the World Bank, the International Monetary Fund (IMF) and the Asian Development Bank. As a full member of these three international financial institutions (IFIs) and as a transitional country that not long ago moved from a planned economy to a market economy, China is quite aware of North Korea's problems and how North Korea could make efforts to solve them. Beijing could provide some useful advice to Pyongyang, urging it to take concrete measures to adapt to the requirements of these international bodies and make full preparations for the time when the United States is ready to strike the DPRK from its terrorist list. In the meantime, China can join with South Korea to press the United States and Japan to accelerate the process of handling North Korea's applications for the international banks and IMF. Only when Pyongyang fully enters international financial organizations and develops economic relations with the rest of the world on the basis of international commercial norms will North Korea be able to consider forgoing its isolated ideology and military-first strategy. China already has an ambitious plan to first draw the DPRK into the organization on Asia-Pacific Economic Cooperation (APEC), in which North Korea could work together with members of the various working groups on topics such as agricultural technical cooperation and industrial science and technology. Furthermore, the Shanghai APEC Finance and Development Program and the APEC School in China also could train North Korean financial officials and organize study groups to address urgent economic issues suggested by North Korea.⁸
- China wants to continue all levels of contact with North Korea's officials, officers, artists, scholars, correspondents, and ordinary people in order to make clear the achievements of its reforms and help North Koreans know more about the outside world. It would be worthwhile for China to set up more fellowship programs for North Korean young people and middle-level officials. Some prominent Chinese institutions

7 Some expect that rebuilding the DPRK will fall largely to the ROK because it has the deepest pockets and the PRC and Russia have less interest in paying for extensive redevelopment. This is not true for China because Beijing already contributes a great deal of money to North Korea. If the prospects are clear that North Korea will reform and open its doors on the basis of international standards, Chinese entrepreneurs would actively invest in the DPRK (Brooke 2003, W1).

8 The Finance and Development Program was founded in the State Accounting School in Pudong, Shanghai; it is now part of the Chinese central government.

and universities have already begun such educational courses for North Koreans; for example, the Shanghai Academy of Social Sciences admitted two batches of North Korea study groups—three scholars in each team—in 2002 and 2003. And the PRC would also like to keep providing free sanatoriums to delegations of North Korean officers.

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

- Both China and South Korea could advise North Korea to continue its financial reforms and price reforms, but it should make use of more sophisticated calculations, moderate steps, and a long-term blueprint based on a market orientation while it maintains party leadership on macroeconomic management and policy guidance. China and South Korea should encourage North Koreans to explore all possibilities for better living and increased wealth by best using their distinct wisdom, specialties, and materials available throughout the country, which would certainly revitalize the DPRK's overall economic atmosphere and expand the size of its markets. They should also urge the DPRK to loosen its grip on contacts between the North Korean people and foreigners and on restrictions on foreigners traveling to the DPRK.
- Recognizing the scarcity of capital for infrastructure construction in North Korea, China could introduce to North Korea three concepts, or financing modalities, that were used successfully in Chinese infrastructure development—lease on batches; differential ground rent, and building operation transfer. If North Korea can agree to lease some pieces of land in the coastal areas to foreign companies for dozens of years, it could not only receive back a great deal of developed land after a certain time but also could obtain sufficient capital for infrastructure in the other areas. All the land should be leased on the basis of differential ground rent, in other words, the amount of rent should be decided according to the distance from the urban area and the potential for commercial development of the land. The need for infrastructure for South Korean companies that invest in North Korea could be handled by Chinese, South Korean, and European joint ventures if they are allowed by the DPRK to operate the finished projects for a period of years to retrieve the yields.
- China and South Korea could collaborate in other ways to help salvage North Korea's economy. Because Pyongyang is unable to join the IFIs and receive concessional loans in a short time, China and South Korea can consider organizing several consortia to finance companies investing in North Korea and develop some badly needed joint projects there.⁹ For

9 Two South Korean scholars (Chae and Zang 2001) propose an Interim North Korea Development Assistance Group (INKDAG).

example, they can jointly explore oil in the East Sea and natural gas in Russian Siberia, extending to North Korea the joint China-South Korea-Russia-Japan natural gas pipeline. The funding could come from government donations as well as a specific bond issued by the DPRK government and the consortium.

- China and South Korea also could set up training schools in various parts of China to teach North Korean officials and scholars as well as managers and technicians about international law, business management, finance, agriculture technology, and the methods and rules of negotiation with foreign companies and IFIs for business agreements. Furthermore, China and South Korea could jointly or separately dispatch farming experts to North Korea to alleviate its agricultural problem; they could help to improve seeds, ameliorate soil problems, select the best plants to grow, and breed aquatic products (certain plants and aquatic products are suitable for export in the international market and could be exchanged for needed food). China and South Korea also could help North Korea remold old industrial facilities and relink the Kyongui rail line, which could finally connect Europe to China by rail.¹⁰
- China is concerned about gambling, money laundering, and the impact on Chinese border management of the Sinuiju Special Autonomous Region (SAR). If the countries involved in the six-party talks can reach a package deal—agreement on the nuclear issue, DPRK agreement to a reform policy, and with all parties to the talks willing to assist the DPRK with its reforms—and if the DPRK changes the focus of its economic development efforts in the Sinuiju SAR, China would be willing to consult with North Korea about the design and development of the Sinuiju SAR and would like to actively participate in its development. It might even evolve into a large free economic zone that includes Dandong, a Chinese border city.

All Chinese contributions and efforts should be carried out through consultations with North Korea and on the basis of the DPRK's policy alternatives. Before the DPRK makes decisions on reform, the PRC should avoid advising it to take any specific road or make any radical suggestions.

10 The South Korean National Institute of Territory reports that the connection of the Kyongui rail line with the Chinese border city of Dandong and then with Russia's railways will divert passengers and cargo (which usually arrive and depart Shenyang and Beijing through the ports of Dalian and Tianjin) from ships to railroads. The Busan-Shenyang line could become an optimal tool to facilitate Northeast Asian economic cooperation. This rail line would divert 32 percent of the passengers from the Seoul-Beijing air route and 27.1 percent of the passengers from the Beijing-Seoul air route (An 2002).

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 China's role in North Korea's nuclear issue is limited because North Korea has its own interests and China does not want to let North Korea collapse. More important, current China-North Korea ties are not particularly good and the level of trust is not great, and North Korea especially wants to obtain U.S. rewards. If the United States and North Korea reach an agreement on a comprehensive plan, it could broaden China's role and allow China to fully explore its potential to help North Korea feel secure, confident, and outward looking enough to finally reform its system and revitalize its malfunctioning economy. North Korea must be determined to carry out its reforms, and the United States must be flexible enough to adjust its policies.

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