



# KOREA'S ECONOMY

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Volume 27





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# KOREA–CHINA ECONOMIC RELATIONS

## A NEW PHASE IN CHINA–NORTH KOREA RELATIONS

*By Gordon G. Chang*

Fundamental changes to the nature of politics inside China's Communist Party are occurring at the same time Beijing and Pyongyang work out a new relationship. These developments are already affecting the external policies of the two hard-line states, whose formal military alliances are with each other only.

For almost a decade, Chinese generals and admirals have been accumulating influence at the expense of civilian leaders. This trend is set to continue as flag officers act as power brokers in the ongoing political transition as the so-called Fourth Generation leaders, led by Hu Jintao, give way to the Fifth.

Now, senior officers, as a result of their newfound clout, appear to be acting independently of civilian officials, openly criticizing them and making pronouncements on areas once considered the exclusive province of diplomats. As evidence of the military's growing power, Chinese policy is evolving to positions the top brass favors. Beijing's noted belligerence in 2010, for instance, looks like it was largely the result of increasingly influential flag officers playing more prominent roles in decision making.

This rise of the Chinese military has special implications for the Korean Peninsula because the country's generals have traditionally endorsed pro-Pyongyang policies. Therefore, it should have come as no surprise that in 2010 China stood behind North Korea after its military committed two horrific acts, the sinking of the *Cheonan*, a South Korean frigate, in March—46 dead—and the November shelling of the island of Yeonpyeong—four killed, two of them civilians.

The two countries are aligning their foreign policies at the same time they are integrating their economies. Significantly, the Korean People's Army is at the forefront of this increasing interaction. About 63 percent of North Korea's exports to China are minerals, a sector increasingly controlled by Pyongyang's military, and mineral exports to Chinese buyers are on the fast track, jumping from about \$15 million in 2003 to \$213 million in 2008. Today that number could be double the 2008 figure.

Partly because of mineral sales, trade between the two nations is up, increasing from \$370 million in 1999 to \$3.47 billion in 2010. In 2010, China–North Korea trade increased 32 percent from 2009. Last year, about 83 percent of the North's international commerce was with China, up from 25 percent in 1999.

Chinese investment into the North has followed a similar trajectory. In 2003, China put \$3.5 million into its neighbor. Five years later, the Chinese supplied \$41.2 million. Now the figure is undoubtedly higher than that as observers report a noticeable increase in the last three years. Premier Wen Jiabao's October 2009 trip to Pyongyang, ostensibly to celebrate 60 years of diplomatic ties, marked the beginning of a new phase in Beijing's economic relations with the North.

Since then, China has accelerated plans to penetrate the North Korean economy with investment cash, especially in the strategically important port of Rason, at the mouth of the Tumen River. Beijing's long-term plan is to control the city to give its northeastern provinces easy access to the sea. Rason, therefore, may be the stepping-stone to

making North Korea a Chinese protectorate. As Jeremy Paltiel of Carleton University observes, the increasing interaction between China and the North is falling into “a pattern not seen since the 1950s.”

That interaction has military implications. Beijing in January 2011 denied Seoul newspaper reports that China’s forces were already in Rason. But even though Chinese security analysts professed surprise at the news, they know that their country’s officials have had discussions with their Pyongyang counterparts about basing China’s troops in North Korea. And as one source told the *Chosun Ilbo*, “The North has apparently concluded that it is unavoidable to accept the Chinese military presence on its land to woo Chinese investment, even if it’s not happy about it.”<sup>1</sup>

So, the ties between the People’s Republic of China and the Democratic People’s Republic of Korea are taking on even more of a military dimension. We should expect the new relationship to further roil North Asia.

*Gordon G. Chang is the Author of Nuclear Showdown: North Korea Takes On the World. He is a Columnist at Forbes.com.*

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1. “Chinese Troops Stationed in N.Korean Special Zone,” *Chosun Ilbo*, 17 January 2011, [http://english.chosun.com/site/data/html\\_dir/2011/01/17/2011011700465.html](http://english.chosun.com/site/data/html_dir/2011/01/17/2011011700465.html).





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