

Joint U.S.-Korea Academic Studies

**NAVIGATING
TURBULENCE**

IN NORTHEAST ASIA:

**THE FUTURE OF THE
U.S.-ROK ALLIANCE**



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THE RISE OF CHINA AND ITS IMPACT ON THE NORTH PACIFIC SECURITY ENVIRONMENT

*John S. Park**

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I. Introduction

What impact will a rising China have on the North Pacific security environment? A close examination of recent developments in Beijing's approach to dealing with North Korea yields insights into the broader implications of China's growing role in North Pacific security affairs. While China's relationships with other neighboring countries and the United States are evolving, China has had close interactions with North Korea since the establishment of both countries in the late 1940s. Despite difficult periods in the bilateral relationship, the Communist Party of China (CPC)–Korean Workers' Party (KWP) ties have proven to be resilient over the decades.

The current period of rapid growth in China's economic, military, and diplomatic activities is intertwined with expanding CPC-KWP interactions. Beijing is applying more of its increasing resources and diplomatic capital to bolster stability in North Korea and achieve denuclearization on the Korean peninsula. In this respect, it appears that China's rise will have a significant impact on the regional security environment as China seeks to address the North Korean nuclear issue—a chronic near-term threat to regional security and stability. To assess the impact of these Chinese activities on the North Pacific security environment, this paper will examine gaps between the international community's perception and reality of China's growing capabilities, how China has tailored its foreign policy principles to the North Pacific region, the specific mechanism through which China engages North Korea, and the implications of the progress that Premier Wen Jiabao achieved in the CPC-KWP relationship during his October 2009 visit to Pyongyang.

II. China—The New Franchise Player?

China's Rapid Economic Gains Fuel Its Growing Influence

China's rapid economic rise has fueled its increasing military expenditures and commercial diplomacy in countries in Africa, Southeast Asia, and South America that are rich in natural resources. In the North Pacific region, China's investments in North Korea's natural resources sector have grown significantly since 2005. From economic development to climate change to nuclear proliferation to the financial crisis, China is being viewed as the new “franchise player.” In professional U.S. sports, a franchise player is a dynamic and talented athlete whose presence on a team creates the impression that it has a shot at the championship. In a similar manner, the United States and other countries view China as a franchise

player in dealing with key security issues in the North Pacific region. At present, the primary regional security issue is the chronic North Korean imbroglio.

Beijing Seeks to Manage Expectations

In response to U.S. calls for Beijing to use its franchise player capabilities to do more in pressuring North Korea to denuclearize, China has repeatedly stated that it lacks the perceived capabilities to resolve the North Korean nuclear issue. Rather than a relationship that is defined by the traditional image of allies who are as close as lips and teeth, Beijing insists that its ties with Pyongyang are a source of deep frustration. North Korea's October 2006 nuclear test was viewed by many in Beijing as an act of Pyongyang's defiance in response to the growing Chinese efforts in the mid-2000s to advance denuclearization activities. (From Pyongyang's perspective, such Chinese efforts were deemed to be excessively intrusive in nature.) Beijing makes the clear distinction that its active role as the chair of the six-party talks process is not intended to project an image as a franchise player. Keen on seeing a nuclear weapons-free Korean peninsula and promoting peace and stability in the region, China has sought to help create an atmosphere conducive to negotiations and engagement. China has consistently pointed out that the nuclear imbroglio is, in essence, a U.S.-DPRK matter and that only Washington and Pyongyang can resolve it.¹

In the course of chairing multiple rounds of the six-party talks, China has welcomed opportunities to project an image of itself as a responsible global actor and stakeholder. In high-profile meetings on issues not related to North Korea, Beijing has emphasized its six-party talks leadership role as evidence of China's peaceful development. Under the surface—in a parallel manner—China has been tailoring its growing commercial and economic capabilities in a discreet effort to bolster stability in the North Pacific security environment through closer cooperation with North Korea on resource development and economic stabilization. Although the high profile and elaborate spectacle of the 60th anniversary celebrations of Sino-DPRK diplomatic relations appear to denote the beginning of Chinese efforts in this area, the celebrations actually represent a culmination of these efforts. Before a close examination of the implications of Premier Wen Jiabao's visit to Pyongyang is undertaken, the broader context of how China adapted its foreign policy principles to the North Korean case will be assessed.

¹ Senior Chinese think tank officials, meetings in Washington, D.C., 7 July 2009.

III. China Tailors Its Foreign Policy Principles to Northeast Asia

Centrality of Xiaokang in PRC's Foreign Policy Principles

China has invoked its “guiding foreign policy principles” to improve Sino-DPRK relations and allay U.S. and South Korean concerns about its bilateral activities.² The Two Primary Principles are (1) nonintervention in the internal affairs of other countries, and (2) cooperation and participation in multilateral institutions.

Beijing has tailored these principles to what it refers to as the “Four Sentences,” which make up China’s North Korea policy: (1) nuclear nonproliferation in Asia, which is a message directed at North Korea, (2) peaceful settlement through dialogue, which is a message directed to the United States and North Korea, (3) peace and stability on the Korean peninsula, which is a message directed to all six parties, and (4) the need to give necessary consideration to North Korea’s security concerns, which is a message directed to the United States.³

Xiaokang Is Core Focus of These Principles

Xiaokang is the concept of elevating the majority of the Chinese population into the middle class through sustained economic development activities. The Two Primary Principles and the Four Sentences are intended to further *xiaokang* goals by fostering the development of the following essential factors: (1) a stable external environment for focusing on internal economic development, and (2) extensive and deep relations with the United States as a pillar for promoting Chinese economic development activities.⁴

Although the Four Sentences have become Beijing’s long-term approach to dealing with the Korean peninsula and they remain unaltered, the means for achieving these objectives have changed significantly. Indeed, Beijing has become more proactive and entrepreneurial in its behavior since the 2003 period when tensions rose considerably between the United States and North Korea following the invasion of Iraq. Senior North Korean officials confided to high-level visiting U.S. delegations that they thought North Korea was the next target for U.S. attack (Gregg 2003). This was a marked change compared with China’s preferred low-key, behind-the-scenes approach during the 1994 North Korean nuclear crisis.

2 Ibid.

3 Senior scholars at the Central Party School and the China Institutes of Contemporary International Relations, interviews with author, Beijing, 2–6 August 2004.

4 Ibid.

IV. China's Parallel Track with North Korea

Recognizing that sustainable Chinese economic development would require sustainable stability, Beijing has focused more of its attention and activities on promoting peace and stability in the region. While Beijing has strongly supported the six-party talks process, it has come to the realization that structural challenges in the U.S.-DPRK relationship—that is, the fundamental lack of trust and frequent shifts in policies caused by changing U.S. administrations—greatly reduce the likelihood of realizing denuclearization goals in the short term.

Closely gauging the policy behavior and intentions of the new Barack Obama administration with respect to North Korea, Beijing reportedly came to the conclusion that the administration's priority was nuclear nonproliferation, not denuclearization. Already concerned about the prospect of a lack of progress in the stalled DPRK denuclearization process, North Korea's second nuclear test in May 2009 sparked an intense debate in Beijing about how China should deal with North Korea. After taking stock of the post-nuclear test situation, the Chinese leadership significantly modified their North Korea policy.

Although shoring up stability in North Korea has been a consistent theme in China's approach to dealing with its troublesome neighbor, the Chinese leadership reportedly decided to use the 60th anniversary celebrations as the moment when Beijing would bolster DPRK regime stability via a significant infusion of political capital into the KWP (Choe 2009a; Ramstad 2009). Joint statements emphasized cooperation between the two countries in realizing mutual prosperity and China's unwavering support to help the Kim Jong-il leadership attain its goal of unveiling "a strong and prosperous nation" [*kangsong daeguk*] in 2012—a goal that is similar to Beijing's core objective of realizing a *xiaokang* society in China by 2020. Through symbolism and substantive measures during the October 2009 visit, Beijing strengthened CPC ties with the KWP. This will be examined in more detail later in the paper.

Why was China deepening its bilateral relations with North Korea in this separate, parallel track? China, like all countries, seeks to further its national interests as it conducts its international relations. Differences and tensions emerge in the specific ways in which countries seek to promote their national interests and attain national goals. In this respect, promoting the six-party talks process and deepening CPC-KWP ties are paths to the same primary Chinese objective—advancing sustainable economic development goals in the mainland. Given the importance of this objective to the CPC—indeed, its legitimacy is intertwined with continued progress in bringing more Chinese into the middle class—it

would be too risky and reckless to pursue just one path or rely solely on the United States to resolve the North Korean imbroglio.

V. How Is China Fostering Sustainable Stability in North Pacific?

A key element in China's efforts to foster sustainable stability in the region is restoring the damaged CPC-KWP relationship. In making the strategic political decision to establish diplomatic relations with South Korea in 1992 in pursuit of investment and trade opportunities with the dynamic Asian tiger, Beijing invoked the wrath of Pyongyang. Citing Beijing's betrayal, Pyongyang severed ties between the two countries. In many respects, a major underlying tone of bilateral and multilateral Chinese efforts to deal with North Korea's nuclear activities has been Beijing's efforts to restore this relationship in order to bolster regional stability. As China grew economically and commercially, new opportunities emerged to gradually reengage North Korea. In the aftermath of devastating natural disasters in the mid-1990s—which overwhelmed a regime still reeling from the death of its founder in 1994 and the loss of its Cold War–era Soviet and Chinese patrons—North Korea desperately needed a bailout. Starting in the late 1990s, Chinese food and oil assistance to North Korea grew significantly. The special characteristic of this aid was that, unlike international organizations and other countries, China did not insist on monitoring how North Korea used Chinese aid. This enabled the Kim Jong-il leadership to buttress the military establishment and, thus, regime stability. This marked the beginning of closer Sino-DPRK interactions, as outlined in *Figure 1*.

VI. What Mechanism Is China Using? North Korea, Inc.

As the Sino-DPRK relationship gradually deepened, China began engaging “North Korea, Inc.” more closely. North Korea, Inc.—the web of state trading companies affiliated with the KWP, the Korean People's Army, and the cabinet (Park 2009, 20)—opened up new opportunities for the two countries to interact in key areas. The CPC-KWP relationship was the primary, overarching channel through which other activities were coordinated. While the widely profiled manifestation of this relationship is the growing high-level Sino-DPRK cooperation in the development of North Korean natural resources, a great deal of low-level market activity inside North Korea that is being facilitated by Chinese partners remains largely underexamined. Each of the DPRK state trading companies outlined in *Figure 2* is able to carry out its functions with the assistance of Chinese counterparts, which serve either a supplier or a buyer role. Chinese partners range from large Chinese state-owned enterprises (SOE) to ethnic Korean Chinese traders based in border provinces on the Chinese side.

Figure 1: Evolution of the Communist Party of China–Korean Workers’ Party Relationship, 1949–2009

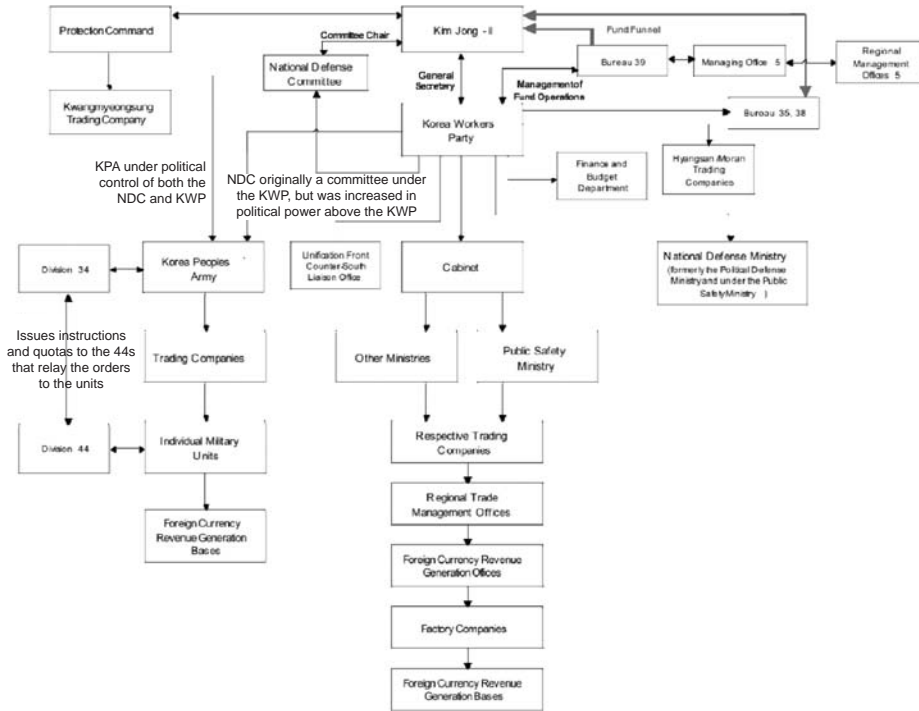
	Key Events	Significance
Oct. 1949	<ul style="list-style-type: none"> ▪ <i>China & North Korea establish diplomatic relations</i> 	<ul style="list-style-type: none"> ▪ <i>Communist Party of China (CPC) & Korean Workers’ Party (KWP) comprise main channel of interaction</i>
Nov. 1953	<ul style="list-style-type: none"> ▪ <i>China & North Korea sign Sino-Korean Agreement on Economic & Cultural Cooperation</i> 	<ul style="list-style-type: none"> ▪ <i>Chinese economic cooperation is a key element to post-Korean War reconstruction efforts</i>
Jul. 1961	<ul style="list-style-type: none"> ▪ <i>China & North Korea sign Treaty on Friendship, Cooperation & Mutual Assistance</i> 	<ul style="list-style-type: none"> ▪ <i>China & the Soviet Union alternate in providing strategic support to North Korea</i>
Aug. 1992	<ul style="list-style-type: none"> ▪ <i>China & South Korea establish diplomatic relations as part of Seoul’s Nordpolitik</i> 	<ul style="list-style-type: none"> ▪ <i>North Korea denounces China for this “betrayal”. Bilateral relations grow cold for much of the 1990s</i>
2003 – 05	<ul style="list-style-type: none"> ▪ <i>China increases its strategic assistance to North Korea</i> 	<ul style="list-style-type: none"> ▪ <i>Sino-DPRK commercial interactions grow during this period</i>
Oct. 2005	<ul style="list-style-type: none"> ▪ <i>Vice Premier Wu Yi attends 60th anniversary celebrations in Pyongyang of founding of the KWP. Wu is accompanied by Commerce Minister Bo Xilai</i> 	<ul style="list-style-type: none"> ▪ <i>Wu states that PRC is willing to help develop DPRK natural resources & infrastructure. Musan iron ore mine deal is concluded</i>
Oct. 2009	<ul style="list-style-type: none"> ▪ <i>Premier Wen Jiabao attends 60th anniversary of founding of bilateral relations. Delegation includes Commerce Minister Chen Deming & National Development & Reform Commission chief Zhang Ping</i> 	<ul style="list-style-type: none"> ▪ <i>While a key focus of meetings is Six-Party Talks, PRC delegation presents a “comprehensive relationship” — party, diplomatic, military, economic, commercial — to the Kim Jong-il regime. Wen’s visit is the culmination of PRC efforts to restore the CPC-KWP relationship</i>

Sources: “Backgrounder: Major Events in Development of Sino-DPRK Relations,” http://news.xinhuanet.com/english/2008-06/17/content_8385203.htm; author’s notes.

VII. How Has China, Inc., Been Actively Engaging North Korea, Inc.?

While financial sanctions continue to dominate Washington’s approach to dealing with Pyongyang, China, Inc.—comprising large SOEs and small trading firms—has been deepening its interactions with DPRK state trading companies. In doing so, Beijing has been able to bolster stability in North Korea. With major aid flows from South Korea curtailed under the Lee Myung-bak government’s principled North Korea policy and North Korean arms sales impeded by UN Security Council resolutions, North Korea, Inc.,

Figure 2: Overview of North Korea, Inc.

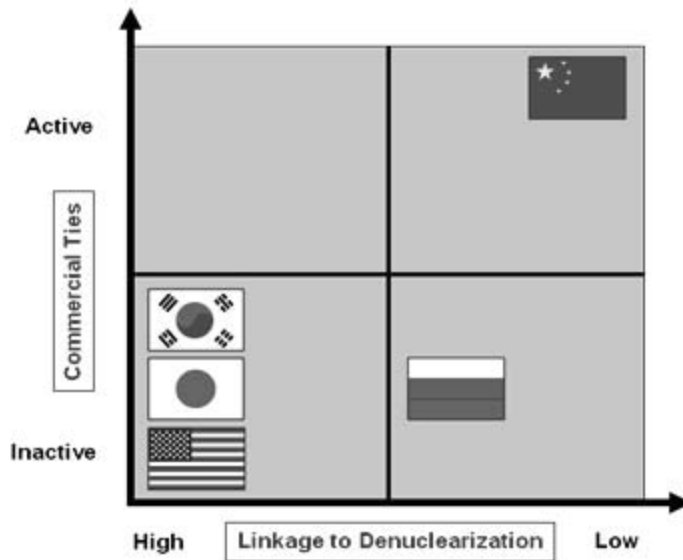


Source: John S. Park, “North Korea, Inc.: Gaining Insights into North Korean Regime Stability from Recent Commercial Activities,” Working paper, U.S. Institute of Peace, Washington, D.C., April 2009. www.usip.org/files/resources/North%20Korea,%20Inc.PDF.

has become more reliant on China, Inc. The latter has been active in facilitating commercial transactions for DPRK state trading companies in a manner that is unique compared with the approach of other countries. As shown in **Figure 3**, the United States, Japan, and South Korea—and, to a lesser extent, Russia—link their commercial activities with North Korea to progress in Pyongyang’s denuclearization activities. As a result, given the lack of progress in this area, commercial activities are concentrated in Sino-DPRK channels.

With respect to Chinese SOE activities in the North Korean natural resources sector, there are strong tangible synergies: China’s commitment of investment and equipment creates opportunities to develop DPRK mines. This type of Chinese economic engagement is occurring on a track completely separate from the six-party talks denuclearization process. It is also supported at the highest levels of the Chinese leadership. In October 2005, Vice Premier Wu Yi signed a multibillion-dollar trade deal with North Korea on the 60th anniversary of the KWP in Pyongyang. The deal was reaffirmed by President Hu Jintao during his visit later that month.

Figure 3: Relation between Commercial Ties and Denuclearization Activity in Various Countries' Approaches to Dealing with North Korea



Source: Author's analysis.

VIII. Wen Jiabao's Visit Deepens Strategic Sino-DPRK Commercial Relationship

Depicted by the Chinese (Yang 2009) as “rich in content, weighty in outcome and significant in meaning,” Premier Wen Jiabao’s October 2009 high-level delegation visit to Pyongyang made use of CPC-KWP ties to further deepen the bilateral commercial relationship for mutual benefit. Beijing shored up the stability of the Kim Jong-il regime, and Pyongyang agreed to jointly develop its natural resources with Chinese counterparts—inputs that will significantly aid the sustainable economic development of China’s three northeastern provinces. Through these actions, China reaffirmed its pledge to assist North Korea with its *kangsong daeguk* development goals. With fewer than two years remaining until 2012—when the Kim Jong-il regime plans to unveil a strong and prosperous nation to the world on the 100th, 70th, and 30th anniversaries of the births of Kim Il-sung, Kim Jong-il, and Kim Jong-eun, respectively—the North Koreans require a sustained partner. The CPC-KWP channel provides an effective mechanism for furthering these *kangsong daeguk* goals by facilitating bilateral China, Inc.–North Korea, Inc. commercial activities.

Although officially announced by Premier Wen as innocuous Sino-DPRK deals in education, tourism, and development amounting to approximately \$21 million, such bilateral cooperation raised concerns in Seoul that Beijing may be undermining international efforts to implement United Nations Security Council Resolution 1874 measures (Shim 2009, 25). North Korea watchers assert that these deals are only the public face of commercial interactions that are growing—in scale and scope—under the surface. As North Korean defectors note, the bulk of the benefits derived from commercial ventures end up in the Kim Jong-il regime's coffers (Park 2009, 9). In practice, both countries are monetizing their party-to-party relationship. Wrapped in Communist Party images and symbolism as depicted in *Figure 4*, Premier Wen's visit served an important function that had more to do with advancing Chinese strategic economic development interests than simply attempting to bring North Korea back to the six-party talks as widely reported in the Western media (Choe 2009b; FlorCruz 2009).

IX. Impact of China's Commercial Diplomacy on North Pacific Security Environment

In recent years, China has applied more of its growing economic and commercial capabilities in addressing the greatest threat to the North Pacific security environment—North Korea. It is important to point out that Beijing remains committed to DPRK denuclearization, but it recognizes that Pyongyang will need a comprehensive partner first. Chinese officials assert that a comprehensive Sino-DPRK relationship would create an environment conducive to convincing Pyongyang that giving up its nuclear arsenal represents the most effective way to coexist peacefully with its neighbors and enjoy economic, political, and security benefits.

In contrast, Washington is adamant that denuclearization must come first. Various concessions will be granted to North Korea only after this crucial initial step is completed and confirmed. At present, the U.S. approach to dealing with North Korea consists of laying out two conditions that Pyongyang needs to satisfy before denuclearization negotiations can resume. The first condition is that North Korea must not only return to the six-party talks and reaffirm its commitment to the 2005 Joint Statement of Principles, but it also needs to engage in substantive negotiations—"talking for talking sake" will not suffice (Rice 2009). The second condition is that denuclearization activity must be irreversible this time, unlike previous periods of nuclear freezes or nuclear disablement at the Yongbyon nuclear complex.

Figure 4: Wen Jiabao Receives Symbolic Communist Party Scarf during Visit to North Korea, October 2009



Source: Korean Central News Agency.

In practice, Beijing is essentially offering North Korea a comprehensive relationship covering political, diplomatic, economic, commercial, security, and military dimensions. This is part of a process that began with Vice Premier Wu Yi's visit in October 2005. Significantly, Bo Xilai, the commerce minister at the time, was in her delegation. The Wu trip marked the beginning of landmark natural resources deals between the two countries that included the signing of long-term leases to North Korean mines. When Premier Wen visited Pyongyang in October 2009 (*Figure 5*), a larger and more comprehensive set of senior officials accompanied him—notably, Commerce Minister Chen Deming and National Development and Reform Commission chief Zhang Ping—in addition to Minister Wang Jiarui of the International Department of the CPC Central Committee, Foreign Minister Yang Jiechi, Minister of Culture Cai Wu, Director of the Research Office of the State Council Xie Fuzhan, Vice Secretary-General of the State Council and Director of the Premier's Office Qiu Xiaoxiong, Vice Foreign Minister Wu Dawei, and Deputy Director of General Political Department of the Chinese People's Liberation Army Liu Zhenqi (Xinhua 2009). Beijing has been increasing the use of its commercial diplomats as a means of promoting this Sino-DPRK comprehensive relationship.

Figure 5: Delegation to North Korea Led by Chinese Premier Wen Jiabao, October 2009



Source: Korean Central News Agency.

Despite Beijing's ongoing efforts, the limiting factor is Pyongyang. As enticing as some of the commercial and economic incentives may seem, the Kim Jong-il regime appears wary about closer ties on such a wide-ranging basis. Pyongyang's preferred approach is to interact with Beijing in a manner in which it can receive the maximum amount of benefits for the least increase in Chinese influence. Rather than accepting Beijing's offer of a comprehensive relationship, Pyongyang seems to be applying this formula as it seeks to build North Korea into a strong and prosperous nation by 2012. Cut off from U.S. and South Korean sources of assistance, Pyongyang has only China as a major partner for a combination of assistance and commercial interactions.

Cognizant that building a comprehensive relationship with Pyongyang will take considerable effort and patience, Beijing has placed its priority focus on shoring up the stability of the Kim Jong-il regime in two key ways. First, Beijing is fostering closer CPC-KWP ties. Second, Beijing is increasing its investment in North Korea's natural resources sector. By doing so, Beijing believes that it has effectively addressed a key risk variable in the North Pacific region—for now.

X. Summary of Key Points

China's economic rise has fueled the growth of its influence in the security realm. Although its military spending continues to expand, Beijing's priority in the North Pacific security environment is stabilizing North Korea. Through its commercially centered diplomacy, Beijing has worked toward offering the Kim regime a comprehensive relationship to shore up stability as well as an environment conducive to mutually beneficial economic development and eventual denuclearization.

Beijing has realized significant progress in its separate CPC-KWP track, which has bolstered DPRK stability. Innocuous Sino-DPRK education, tourism, and development agreements set the stage for more joint-venture deals in mining and in economic development projects. These interactions are not linked to progress in DPRK denuclearization activities. To outside analysts this may appear to be a counterproductive arrangement, in which North Korea will be able to receive economic development concessions while it retains its nuclear arsenal, but Chinese officials emphasize that Beijing's approach will prove to be effective in the longer term. These officials assert that China's multifaceted, unlinked approach will result in advancements in economic development in both countries as well as a nuclear weapons-free Korean peninsula.

On a broader international level, Beijing argues that its tailored bilateral engagement of Pyongyang serves to support six-party talks efforts and goals. In what appear to be Chinese incentives to North Korea, be it in the form of building a glass factory in the North or increasing oil shipments, Beijing has also used its bilateral channel to the Kim Jong-il regime through the CPC-KWP track as a means to encouraging Pyongyang to participate in the talks. Although there have been periods of Chinese anger and frustration following North Korean acts of brinkmanship—for example, the first and second DPRK nuclear tests in October 2006 and May 2009—Beijing has been consistent in focusing on rebuilding the CPC-KWP relationship. As we have seen with Premier Wen's October 2009 visit to Pyongyang, Beijing is attempting to make progress in establishing a comprehensive relationship with its reclusive neighbor. Should it succeed, Beijing firmly believes that it will be able to achieve increased economic development in both countries and help realize nuclear rollback in North Korea.

This proactive Chinese approach has one major fundamental weakness—North Korea. The key question is: What will be the impact on the North Pacific security environment should Pyongyang choose to curtail or block Chinese engagement? Stability in the region largely remains a function of North Korean action or inaction, even in the shadow of a rising China.

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