



IN THE SHADOW OF JANG SONG-TAEK: PYONGYANG'S EVOLVING SEZ STRATEGY WITH THE HWANGGUMPYEONG AND WIHWA ISLANDS

By Adam Cathcart

Abstract

This paper centers upon two potentially transformative Special Economic Zones (SEZs) on the DPRK's northwestern frontier – Hwanggumpyeong and Wihwa Islands. As part of a strategy for development along North Korea's northern rim put in place by Kim Jong-il in the two years prior to his death (and following the visit of Wen Jiabao to the DPRK in October 2009), the islands fell under the management of Jang Song-taek. When Jang was abruptly purged, the role of the economic zones came into question: Would the DPRK continue the development of the zones, which was already moving quite slowly? Why did North Korea start a number of new SEZs along the frontier with China just prior to Jang's purge, apparently without coordinating with Beijing? What does this unilateral recalibration by North Korea of its own use and geographical location of SEZs with China say with respect to internal debates over "reform and opening up" in Pyongyang? Using an array of non-English sources with a focus on Hwanggumpyeong and Wihwa Islands, this paper will reveal how China appears to be going along with North Korea's new SEZ strategy in the border region in a reluctant bid to remain engaged and at the forefront of non-Korean investment in the DPRK.

Key words: *Jang Song-taek, Hwanggumpyeong Island, Wihwa Island, Special Economic Zones, Sino-North Korean trade, Yalu River development, purges and economic strategy*

Introduction

What are the prospects for broader Chinese-North Korean cooperation in the shared border region? The execution of Jang Song-taek on December 13, 2013 provided strong support for a pessimistic view of the future, and clearly opened up a new rift in bilateral relations.¹ With no less an implement than Jang's very execution indictment, the North Korean state brought specific grievances with China to the fore, particularly dissatisfaction with Jang's handling of the SEZ relationships with China.² Some Chinese experts forecast that Jang's dispatch forebode nothing less than a wholesale renegotiation of the SEZs.³ The accusation document for Jang Song-taek was surely "a messy mishmash... reveal[ing] multiple voices," and it is hard to believe that the North Korean state was in some way not intending to use Jang's death to, among other things, send a message to Beijing that roles would be changing and that the SEZ elements would be revised if not scrapped altogether.⁴ In the aftermath of the purge, some analysts and media outlets noted that Jang's centrality to the SEZ projects meant that North Korea was very likely also calling the basic elements of the SEZ agreements into question; i.e., using Jang's death to possibly get out of its prior agreements.⁵

While the immediate aftermath of the purges necessitated careful discussion in the Chinese press of the implications, it did not take long for some frustration to emerge. Zhang Liangui, professor at the Central Party School in Beijing, bluntly noted that Jang's death had been used precisely by North Korea to potentially discredit the entire SEZ project:

In conducting economic cooperation with China, we noticed that it was Jang Sung-taek who came forward to set up last year's agreement with China to develop the

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two islands of Hwanggumnyeong and Wihwa. In terms of China's economic cooperation with North Korea, although Jang was involved in a lot of it, many of the really important decisions were not ones that he alone could have made – for example, deciding for how many years to rent out ports. Obviously this wasn't a case of whatever Jang said went, as this involved issues of national sovereignty and so on. But now that Jang has been gotten rid of, he is said to have been responsible for all of these things.⁶

Jang was indeed the point person for North Korea, but his Chinese Communist Party (CCP) interlocutors had made sure to at least spread nominal power widely – the steering committees for the zones were large, and the institutionalization of slogans about tending to the relationship “from generation to generation” were, in a sense, a way of depersonalizing the ties so that political shocks could be endured. It was in part the North Korean refusal to adhere to this principle that the death of Jang Song-taek and its aftermath portended poorly for the mutual development of Special Economic Zones along the frontier.

State censorship in China has allowed such views out only sporadically, but negative prospectuses abounded.⁷ As one informant told me in Yanji, North Korea had been “extremely indecisive in following through (朝鲜的不确定性还是很大)” on its economic agreements with China, but Jang had been “a bridge” between the two states, and self-evidently an economic leader in his own right. Jang's purge, he continued, created a new “obstacle (障碍)” for relations with China. Not only that, he stated, it isn't simply that Jang is gone, the locating of new interlocutors on the DPRK side takes time (慢慢搭配), and so the recovery from Jang's removal can hardly be expected to be instantaneous.⁸

Setting aside for a moment the question of Kim Jong-un's (or, if one prefers, his court's) own interest and impetus in developing the Hwanggumnyeong and Wihwa SEZs, and the Kim family viewpoint on the Korean northwest, there is no sense in downplaying the meaning of Jang's purge and death: Even if it was not “a total reset of the relationship” with China, the event was a political earthquake which by definition threw a number of working hypotheses into immediate question.⁹ One journalist in Seoul called it “a violent cocktail of Stalinist realpolitik” which put Chinese investment on the back burner.¹⁰ The stern rhetoric about a thwarted coup in Pyongyang, and the anti-Chinese elements in the indictment for Jang, would appear to indicate the need for some level of alarm in Beijing. Jang, after all, had been not just an interlocutor for Beijing on economic issues, but was the co-

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chairman of the two countries' biggest joint Special Economic Zone projects, at the mouth of the Yalu River: Hwanggumnyeong and Wihwa (황금평 & 위화도/黄金坪岛 & 威化岛).

To be clear, we are certainly not witnessing the utter implosion of the Sino-North Korean trade relationship, nor are we likely to see the death of the DPRK's moves to set up SEZs on the northern frontier. But we are seeing North Korea shift its focus away from the previously-agreed zones near Sinuiju and into smaller, different SEZs along the Chinese-North Korean border, doing so with what appears to be minimal consultation with Beijing. Jang Song-taek provides an interesting connection with the SEZs and with China-North Korea relations, and his execution provides interesting points and considerations when looking at the shift by North Korea away from these two SEZs and in their new approach to relations with China. Use of Chinese sources, combined with evidence garnered from fieldwork in the Sino-Korean border region, will assist in illuminating the argument and narrative.

Confusion Over North Pyongan Economic Zones

On November 21, 2013, the Korean Central News Agency (KCNA) made an announcement: Via a decree by the Presidium of the Supreme People's Assembly, “the DPRK decided to set up a special economic zone in some part of Sinuiju, North Pyongan Province [in which] the sovereignty of the DPRK will be exercised.”¹¹ In a separate news release, the KCNA revealed a reorganization of the area around Sinuiju. Under the new scheme, “some part of Ojok-ri, Uiju County, North Pyongan Province will come under the jurisdiction of Ryongun-ri, [which] will belong to Sinuiju and be called North Pyongan Provincial Amnokgang economic development zone [압록강경제개발구].”¹² The new zone was simultaneously announced with new SEZ sites in Chongjin, Nampo, and Hamhung, and others along the Korean-Chinese frontier in Manpo, Hyesan, and Onsong.¹³



This announcement was incongruous for several reasons. The new zones near Sinuiju would be just across the river from China, but not near the Hwanggumpyeong Island zone that the PRC had spent the last four years working with North Korea to build and promote. Speculation about the new SEZ strategy among Western analysts was quickly undercut by focusing on the Jang Song-taek purge, which happened just over two weeks later. One could tender the hypothesis that the divergence over the SEZ question was a reflection over “policy disputes gone wild” in the center, in Pyongyang, and that Jang’s excessively “pro-China” steps were now in the process of being undercut by rivals within the regime.¹⁴ As would be made clear in his death warrant, Jang’s fronting of economic cooperation with Chinese partners would be made part of his downfall, rendering not just Rason, but the fate of the Hwanggumpyeong and Wihwa Island SEZs ambiguous. Since Jang’s death, the apparent embrace of the new economic development zones by a Hong Kong firm and a new “Committee for Economic Development” in Pyongyang indicates that North Korea seems eager to move away from the models which Jang had helped to implement.¹⁵ However, even while Jang was alive and unchallenged publicly, the SEZs were never a particularly sure bet.

This paper will show how, since their very inception, these SEZs have been subject to varying degrees of agreement and discord between the two countries concerned, note several of the drawbacks of the very basis of the idea for the zones, and investigate North Korean tactics and Chinese responses.

A Brief History of the Hwanggumpyeong and Wihwa SEZs

At the extreme northeastern end of the Korean-Chinese frontier, the Rajin-Sonbong (Rason) Special Economic Zone has, relatively speaking, done very well in comparison with its counterpart spaces along the border. In spite of Jang Song-taek’s involvement (as described again in his execution document), Chinese intercourse through the zone has continued there. Jang’s death slowed but did not halt Chinese investment in Rason, whose unique location and older vintage (it was set up in 1991 during the momentary fever for the Greater Tumen Initiative) have left it less vulnerable to political shocks. Rason is also geographically far removed from the population centers of North Korea, making its development and expansion less “dangerous” from a cultural liberalization point of view.

The Sinuiju SEZs, in other words, are both newer and potentially far more important than their counterpart at Rason. Sinuiju is already a major city in its own right, and some 80 percent of bilateral trade flows through the Sinuiju-Dandong hub. If geography is destiny, then the North Pyongan border region with China’s Liaoning province ought to be the most dynamic area of commercial exchange between the two countries.¹⁶

Kim Jong-il, not having travelled to China since an uncomfortable trip in 1983 to confirm his position as successor, returned to the PRC in 2000 and 2001. The following year, he gave his assent to the setting up of a Sinuiju Special Economic Zone along the border with China’s Dandong, which at the time was a somewhat sleepy if steadily growing regional Chinese city with a history of ties to the DRPK. The efforts failed when the Chinese businessman tapped to lead the zone as a kind of extraterritorial governor was arrested in Shenyang for tax evasion, and the project was not returned to for the next seven years.¹⁷

The current SEZs on Hwanggumpyeong and Wihwa Islands are rooted in agreements made during the tumultuous year of 2009. That year witnessed the physical decline of Kim Jong-il, a DPRK nuclear test in May, a summer full of succession propaganda and preparation (Kim Jong-un was as yet unseen in public), and the large economic package brought by PRC Premier Wen Jiabao on his trip to Pyongyang in October 2009. Wen’s largesse was thought to serve China’s desire for a smooth succession, and facilitated by poor inter-Korean relations as well sinking DPRK-Japan relations. In 2009, Jang Song-taek hardly played the leading role in coordinating these policies with China, but, having been appointed to the National Defense Commission in April 2009 and making public appearances that summer, his stock was rising globally and he was cited as a potential regent figure who might guide North Korea forward toward a more reformist path.¹⁸

No sooner had the PRC and DPRK agreed upon moving this major project forward than, again rather unexpectedly, North Korea sought to radically undercut the power of local and “middle-class” traders via a currency reform.¹⁹ The Chinese response to this step was not in the least supportive, and the unsightly chaos in Sinuiju that followed on the heels of the 2009 agreement on the SEZs could not be regarded as anything but negative.²⁰ So stinging were memories of the currency reform that four years later, Jang was later blamed for it in his execution document, being called a “wirepuller” who had “recklessly issue[d] hundreds of billions of won in 2009, sparking off serious economic chaos and disturbing the people’s mind-set.”²¹



Local authorities in Dandong, armed with much central government largesse, began creating “facts on the ground” in and around the city, building an entirely new suburb (the Xinchengqu, or “New City District”) at the end of a bridge construction site that would ultimately reach the DPRK. Dai Yulin (戴玉林), CCP Party Secretary in Dandong, is an important player, with a background as vice mayor to the gregarious Bo Xilai. Dai was appointed to the post in Dandong in August 2010, as plans began to materialize for accelerated ties with North Korea, re-upped for the position by the CCP Party Congress in Beijing in July 2011, and remains in place today.²² His new office, and those of most of the CCP Party Committee, is in Xinchengqu; the impetus to complete the Hwanggumpyeong Island SEZ could hardly be more obvious to those who look at it on a daily basis.

The Problem of Floods

In the Yalu River estuary prone to flooding, the Chinese side appears concerned that the North Koreans have not and will not take physical steps to shore up and protect the presumed Chinese investment in any eventual physical plant. The fact that China went ahead with a public embrace of this idea in spite of open doubts about the viability of the investment, not to mention after so conclusively scotching a larger version of it a decade ago by jailing its foremost advocate Yang Bin, might indicate that the PRC was sufficiently nervous about assuring a stable succession in Pyongyang that they pushed it ahead anyway. In this somewhat “pell-mell and wait” scenario, China’s North Korea policy embraces the logic and long-term imperative of somewhat illogical policy decisions on the frontier, mixed with a few improvised and potentially harmful muddy cocktails.

While the public face put forward about the zones from Beijing’s media was a measured smile and the promotion of trade fairs, there were doubts being expressed by scholars like Tang Longwen. Writing in no less an outlet than *Shijie Zhishi* (World Knowledge), the magazine affiliated with the Chinese Ministry of Foreign Affairs, he expounded the dangers of flooding for China’s investment in the SEZ. Tang noted that in the absence of proper preparation, decades’ worth of construction achievements and huge capital investment can in a moment be turned into soap bubbles. Tang’s assessment is grounded in history, recalling Japanese work on flood control in the Yalu River delta in the 1930s and 40s, including the massive Huichon Dam, which continues to anchor energy production upstream.

But rather than dwell on the shared sacrifices of the Korean War era, Tang noted that since Deng’s policies of opening and reform took hold in the northeast in the early 1980s, the country has again put great financial strength into constructing and extending protective dam projects [which have] made Dandong City’s degree of safety continually increase.” Praise for Deng frequently precedes a Chinese critique of the DPRK, and Tang does not disappoint: “But in this regard, North Korea has invested extremely little, and as a result, every time a flood comes, all suffer its harm.”

In the 2010 Yalu River flood hazard for example, due to the widespread rainstorm in northeastern China, the water level of the Yalu River quickly rose to its upper reaches, and located its lower reaches. North Korea’s Sinuiju and Wihwa Island encountered severe flooding, the likes of which comes once in 30 years.

In the event that upon the island various kinds of businesses and public facilities were constructed, if they suffered such bitter flooding, it would cause huge damage. From the significance of this it can be said that if these two islands become free trade zones, then of necessity floods must first be protected against. And managing the floods will require building huge flood-defensive dams, that is to say, will require huge capital and financial resources investment as a prerequisite. But these kinds of resources are not abundantly available, and the development value of these two small islands is not at all great, and if investment exceeds productive value, whether or not the project is worthwhile still needs to be demonstrated.

In addition, we are still able to try borrowing from the experience of North and South Korea’s Kaesong Industrial Park. It can be said that in the absence of China’s support, North Korea would find it hard to have the huge economic strength to develop the two islands, but without North Korea’s complete economic opening, the actual significance of the development of the two islands is not at all very great.

As a consequence, the key point is not whether or not the DPRK’s two islands are developed, but rather whether or not the DPRK is really prepared to open up.²³

Having personally visited Dandong during the floods, and apart from the lack of Chinese support, I find it remarkable that North Korea plans to build extensively on the islands which were so badly flooded in 2010. Moreover, looking at the area on Google



Earth, it appears that the North Koreans have spent more resources building a huge fence around the new bridge over the Yalu than they have on flood control for the ostensible SEZ.

Details on the Hwanggumpyeong/Wihwa Zones

China has pumped about RMB 2.2 billion (\$354 million) into just one supporting project, a new bridge to handle what is expected to be new and heavy traffic flows – which also helps out should China ever need to move into North Korea – with businesses that make both sides of the Yalu richer.

Both sides have nominally discussed and agreed to the Economic Zone Act. The documents and agreements in the act cover the basic economic zone development and economic zone management. There are also procedures for establishing, registering, and operating enterprises, as well as protecting economic activity (but it is unclear who or what they are protecting it from), encouraging preferential policies and outlining complaint and dispute resolution. The law covers basic economic zone investment related matters, and outlines even more detailed, specific requirements.

The preferred industries for the 16.6 square kilometer zones include industry garment processing, producing consumer electronics, modern and efficient agriculture, culture, creativity and even financial services. The Chinese side in particular hopes major banks will set up branch offices in the zone in order to transfer currencies and allow for foreign remittances of legitimate profits. China even hopes to employ 10-20,000 North Koreans.²⁴

In June 2011 Jang Song-taek arrived in Sinuiju from Pyongyang for the opening ceremony at Hwanggumpyeong Island at the mouth of the Yalu River. But after the red carpet was rolled up, more work remained to do with respect to the particulars of investment law. A few declarations in North Korean media in early 2012 indicated that the DPRK was working on a more palatable legal framework for the Chinese businesses that would ostensibly set up on Hwanggumpyeong — perhaps with cheap North Korean workers. The DPRK also developed and publicized a new law on natural disasters which may have been related. But, by and large, the lack of movement by China in terms of constructing much of anything on the island tells the story. A major Sino-North Korean cultural and trade festival which was to have taken place in June 2012 was quietly backed up to October 2012.

However, even in glowing reviews of the SEZs in Sinuiju, there is much left to do. In a long December 3, 2012 article focusing on those SEZs, *China Economic Weekly* called them “an innovative model of international cooperation [that] still needs much work, thought and human talent.” The article went on to catalogue a laundry list of items that had yet to be resolved, including visa issues, banking regulations, and communications. It is further worth noting that North Korea’s lifting of the ban on foreign cell phones in Pyongyang was pointedly not extended into Sinuiju and surrounding areas, a virtual necessity if North Korea wants Chinese business partners to be functional in the zone. As with so many things, the grand gesture in the capital obscures recalcitrance toward and distrust of the periphery.

Visits to Dandong and Shenyang, along with conversations with experts in China, all confirm China’s searing desire to get economic activity geared up in the Liaoning-Korean frontier zone. The moves to set up SEZs in the Sinuiju area, it bears recalling, are not Kim Jong-un’s brainchild in the least. He has not associated himself with them in any way, either through juxtaposition in the state media or through on-site inspections. In Chinese trips to Pyongyang, the SEZs were conspicuously absent in public pronouncements, even after the big October 2012 trade fair in Dandong. Chinese media stories indicate that the silence on this matter was no indication that relevant problems had been solved by Jang Song-taek when he sojourned to the PRC in August 2012.

China’s goal is for moderate growth in the North Korean economy that allows for what China is trying to become, a “moderately prosperous society.” Meanwhile, Sinuiju remains caught up in North Korean economic and security discourse. Chinese hopes for reform in North Korea are not so much rooted in a desire for Kim Jong-un to start things, but for Kim Jong-un to merely follow through on positive initiatives which had begun in 2010, or, in some cases, 2002. Indeed, Chinese analysts have been trying to understand and use DPRK’s Joint Venture Law to create the basis for more Foreign Direct Investment.

After the Purge

In December 2013, against the backdrop of the image of Jang Song-taek stripped of his coveted Party membership and being marched away to the executioner, a voice from Dandong called for calm, stating that nothing was out of the ordinary. The opinion belonged to Lu Chao, a conservative voice on North Korean affairs based at the Liaoning Academy of Social Sciences in Shenyang,



who had been dispatched immediately to Dandong to deliver a message of calm resolve and stability to a Chinese public nervous about the goings-on in Pyongyang. As Lu explained to the mass foreign affairs tabloid *Huanqiu Shibao*:

In the two years since Kim Jong-un took office, continuous smooth progress has been made on a number of projects, including the development of two islands [i.e., Hwanggumpeong and Wihwa], new bridge construction over the Yalu River, and Rason terminal expansion. While Jang played an important role in Sino-DPRK economic cooperation, including his key part in driving the Hwanggumpeong agreement, the shared policies of China and the DPRK retain strong continuity. As of December 12, the general feeling in Dandong is that the Hwanggumpeong project remains entirely unaffected (by Jang's purge and execution).²⁵

In other words, Jang had carried the ball of Chinese-North Korean economic cooperation forward a certain distance, and his achievements stood, even if the future appeared to be somewhat murky. The reluctance of the Chinese Communist Party – either itself or through its various proxies in the media

or academia – to strike back at North Korea directly for its purge of Jang Song-taek, in a sense, is among the strongest testifiers to Beijing's long-term pragmatism toward the DPRK. Although China had been attacked more or less directly in Jang's indictment and a number of signals indicated the CCP's displeasure with Jang's removal and its methods, the SEZs would still be available as a vessel for bilateral cooperation, even if it were a tarnished symbol. As the DPRK moves to shift its old SEZ strategy into one more of its own devising, Chinese investors will have to watch and wonder if this time will be any different. North Korea's new push for Economic Development Zones in the border region is being grudgingly accepted and adapted to by the local Chinese authorities, as was seen in the case of the Onsong zone just after Jang Song-taek's death. But a smattering of tourism and a few agricultural sales to Chinese in their automobiles or small boats is no substitute for a high-tech zone, an international banking hub, or a huge seafood processing plant, let alone light manufacturing of textiles. Chinese leaders, particularly in the provinces, are not pleased with the North Korean change, but they will surely be willing to open their wallets again and adjust infrastructural and investment plans to suit the DPRK's more limited ambitions in the Sinuiju area.

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Endnotes

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- ⁴ The "mishmash" analysis comes from Jang Jin-song's perceptive but somewhat breathless essay, "We Have Just Witnessed a Coup in North Korea," December 27, 2013, <http://newfocusintl.com/just-witnessed-coup-north-korea/>.
- ⁵ Western views of what Jang's ouster meant for the SEZ question are broached in Tania Branigan, "What does Jang Song-thaek's ousting mean for North Korea? – Q&A," *The Guardian*, December 9, 2013, <http://www.theguardian.com/world/2013/dec/09/jang-song-thaek-north-korea-q-and-a>. For a more in-depth and bearish look at Hwanggumpyeong and Wihwa, see Koichiro Ishida, "Jang's execution halts China-N. Korea joint venture, alienates investors," *Asahi Shimbun*, December 19, 2013, http://ajw.asahi.com/article/asia/korean_peninsula/AJ201312190064. For a more measured Chinese view, see Zhou Wa, "Execution may hit Sino-DPRK projects in short term: Experts," *China Daily*, December 14, 2013.
- ⁶ Zhang Liangui, "张瑾瑰：张成泽事件后的朝鲜及东北亚局势" [Zhang Liangui: The Situation in North Korea and North East Asia following the Jang Sung-taek Incident], *Consensus Online*, January 22, 2014, http://www.21ccom.net/articles/qqsw/qqgc/article_2014012299465.html, translated by Emile Dirks, "Through Frosted Glass: Zhang Liangui on China's DPRK Intel and the Purge of Jang Song-taek," *Sino-NK*, March 29, 2014, <http://sinonk.com/2014/03/29/through-frosted-glass-zhang-liangui-on-chinas-dprk-intel-and-the-purge-of-jang-song-taek/>.
- ⁷ Such are the vagaries of China's highly orchestrated media coverage of North Korea that even on the day that Jang was executed, PRC economists were out talking about the high prospects for economic reform in North Korea in 2014, and noting also that cross-border traffic with North Korea had been unaffected by the purge.
- ⁸ Interview with a leading DPRK policy scholar at Yanbian University, April 2014.
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- ¹³ Given the less-than-enthusiastic Chinese official response to these zones, it stands to reason that there was no actual coordination with PRC comrades across the river in either preparing for or announcing these zones.
- ¹⁴ As one analyst put it: "Of particular concern to the new leadership, which chose to emphasize Kim Jong Il-style patriotism and the DPRK's unique national identity, must have been Jang's insistence on further expanding relations with Beijing—to placate and embrace China, to live the "China dream" and emulate everything Chinese—as well as his intimate connections in Beijing, which were beyond Kim Jong Un's reach. [...]By removing Jang, Kim Jong Un eliminated a possible rival who could have become a popular elderly leader riding the wave of Chinese-style economic liberalization one day." See Alexandre Mansourov, "North Korea: The Dramatic Fall of Jang Song Thaek," *38 North*, December 9, 2013, <http://38north.org/2013/12/amansourov120913/>.
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- ¹⁷ Paul French, "The Reality of Reform: The Case Study of Sinuiju," Chapter 7 of *North Korea: State of Paranoia* (London: Zed Books, 2014), pp. 246-270.
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