

## China's Strategic Shift and North Korea's Open-Door to China Policy

September 6, 2011

Seung-Yul Oh

In the first half of 2011, bilateral trade volume between China and North Korea doubled compared to the same period of the previous year. On August 2, North Korean First Vice Foreign Minister Kim Kye Guan concluded his week-long visit to Washington at the invitation of U.S. Secretary of State Hillary Rodham Clinton. Furthermore, North Korean leader Kim Jong Il, during his first visit to Russia since 2002, met with Russian President Dmitry Medvedev at a military base on the outskirts of the eastern Siberian city of Ulan-Ude to talk about bilateral economic cooperation on August 24. Seemingly, North Korea's hectic diplomatic efforts shed light on the long-stalled Six-Party talks, and it tries to counterweigh its heavy dependency on China. Is North Korea changing its attitude toward the outside world? In order to answer the question, this paper delves into the strategic motivation of the North and China for expanding Korea-China economic relations in terms of China's strategic shift and North Korea's open-door to China policy.

Since the global financial crisis, China's hierarchical status in the world economic order in terms of economic volume and influence improved so fast that even China itself has been facing some difficulties in accommodating the changes in its domestic sociopolitical sphere as well as its external strategies. Premier Wen's repeated emphasis on the imperativeness of political reform in China is, to some extent, related to the discrepancies in the speed of changes between China's political institutions and economic power, that is, im-

balances in the basis and the superstructure in terms of the political philosophy of Karl Marx. For Marx, the stubborn capitalistic superstructure was a big problem. But in today's China, the bureaucratic and closed superstructure is in contradiction with its globalized market economy as the world's workshop. China's gains from its peaceful rise have not been free from the pains of growth. Such a dilemma might be understood from the example of the contradiction in China's external political gestures: it categorically argues that it is a member of developing countries when meeting with representatives from those developing countries; nevertheless, at the same time, it deliberately releases news about its achievements in military technologies, for example, those of the J-20 stealth fighter and the super-aircraft carrier. In addition, at the news conference after the closing ceremony of the third China-U.S. Strategic and Economic Dialogue in Washington in May 2011, the Chinese delegation used the phrase "two leaders" frequently, designating the two giants, China and the United States.<sup>1</sup>

As an Asia Security Initiative core institution, the East Asia Institute acknowledges the grant support from the MacArthur Foundation that made this research possible.

The East Asia Institute  
 909 Sampoong B/D, 310-68 Euljiro4-ga, Jung-gu,  
 Seoul 100-786, South Korea  
 Phone 82 2 2277 1683 Fax 82 2 2277 1697  
 Email [eai@eai.or.kr](mailto:eai@eai.or.kr) Website [www.eai.or.kr](http://www.eai.or.kr)

The East Asia Institute takes no institutional position on policy issues and has no affiliation with the Korean government. All statements of fact and expressions of opinion contained in its publications are the sole responsibility of the author or authors.



Since China's embarkation on the economic reform process, its enormous economic success, in large part, has been propelled by market-oriented reforms, inflow of foreign direct investment (FDI) and, last, but not least, its pragmatic and flexible leadership. But it seems that all these ingredients of China's success story have been losing their momentum in recent years. The law of diminishing marginal utilities also applies in this context. China's indigenous effort to marketize its economy in the 1980s and 1990s has lost its creativeness and momentum, and the role and function of FDI within Chinese territory is no longer admired. As well, the pragmatism and flexibility of its leadership is also attenuating in addressing diversified challenges in domestic affairs and international relations. China's dilemma in accommodating itself to the new challenges with old-fashioned ideology is particularly highlighted in the context of the Korean peninsula issues and China's strategic shift in dealing with the two Koreas.

With regard to issues related to the Korean peninsula, several factors brought about China's preference for the status quo and its national-interest maximization strategy. These include: (1) the conservative tendency of the Chinese leadership in dealing with domestic political affairs; (2) China's over-obsession with the animosity of the United States; (3) the stubbornness of North Korea for developing nuclear weapons; and (4) the uncertainty in that isolated country's future.

As a result of the implementation of a new strategy designed to separate North Korea's nuclear development from Chinese-North Korean relations, economic exchanges between the North and China became voluminous, but vulnerable in terms of sustainability. To some extent, strategic cooperation between the two countries is detrimental to exploitation of the possibility of North Korea's economic reforms, which are indispensable for sustainable peace and stability, as well as prosperity in Northeast Asia. In this regard, some might argue that economic cooperation projects between China and North Korea in the Ra-sun area and Hwang-Geum-Pyeong might be considered as a symbol of the

North's intention for economic reforms. Yet in reality, those programs may be substitutes for the North's fundamental economic reforms, not complements of or starting points for meaningful system changes.

To some extent, peacefully risen China is experiencing internal contradictions and friction resulting from the duality of harmonizing the logical importance of their relationship with South Korea with their sentimental inertia in dealing with North Korea. Sometimes China's internal strains due to the imbalance of its economic vitality with its lack of sociopolitical flexibility are reflected in their external relations in the form of aggressive nationalism or undue obsession about confrontation with the source of a potential threat to its national interest. In this regard, the report of the Chinese government that was delivered by Premier Wen at the fourth session of the eleventh National People's Congress on March 5, 2011, reveals some changes in China's policies on defense and diplomacy. The report describes the objective of China's defense strategy as "strengthening national defense and building a powerful people's army." In the past, the objective was described with weaker jargon such as "modernization of defense," not "building a powerful . . . army." In addition, in the same report, China's foreign policy identifies what they call major powers with whom China pursues common interests. As well, they define neighboring countries with whom they want to try to build "friendship and partnership." I would like to interpret the difference as China tries to share the world with major powers to secure its national interest as well as to establish a regional order that is centripetal on China politically. We could understand the expression as a reflection of China's growing power. On the other hand, such a projection of China's power on foreign policy implies, at the same time, that China's strategic shift is subject to ideological constraints. In the press briefing after the third China-U.S. Strategic and Economic Dialogue, Dai Bing Guo, a representative of the Chinese delegation, emphasized that "Asia Pacific is broad enough to accommodate the interests of China and of the United States."<sup>2</sup>



## North Korea's Discomfort with South Korean-Chinese Relations

North Korea's military provocation in the *Cheonan* incident in March 2010 was designed to make South Korea, China, and the United States pay for their reluctance to provide economic aid for the North despite Premier Wen's Pyongyang visit in October 2009. As well, it was a payback for their ignoring the North's alleged contact for a South-North summit also in October 2009 and its restraint from moving further in nuclear and missile issues. Indeed, we observed some signs of cleavages and discomfort between South Korea and China, as well as between China and the United States. To some extent, the North's adventurism was compensated. The South Korean government hastened to investigate the so-called controversial physical evidence of the North's attack to compensate for its failure to take effective counterattack measures at the scene. It also appealed to its constituency by emotionalizing the incident to win South Korea's local election in June 2010, rather than to make an effort for a consensus with China on the North's motivation for the attack and its impact on regional stability. As a result, South Korea and China both suffered from aggravated regional insecurity as well as deteriorated South Korean-Chinese and Chinese-U.S. relations.

Rising conservatism in South Korea and China is another origin for the discomfort between the two countries. Especially in China, I observed a tendency for its leadership to be flexible and reformist in domestic economic affairs and to be conservative in political issues and external affairs. When it comes to the regional issues for which strategic interests of the United States are at stake, China has been obsessed with the United States' offensive intention against it. In addition, as a rapidly growing transitional economy, China has been inevitably faced with some tensions and frictions in a wide spectrum of its society. The nationalistic patriotism painted with ideological conservatism for foreign affairs might be deemed by its leadership as an

effective and cheap way to mitigate its social entropy. In terms of Chinese-North Korean relations, the conservative approach of the Chinese leadership is indirectly reflected in expansion of personal exchanges of high-level party leadership with the Korean Labor Party (KLP) since the second half of 2010.

The current South Korean government's political stance is basically a conservative one. In addition, uncertainties in North Korea's future fueled the South Korean government's intentional rectification of the former government's sunshine policy or engagement policy with the North. Disappointed by North Korea's military provocations and lingering nuclear issue, the South Korean people became intolerant of the high cost of this engagement policy for their bad-tempered northern partner. Apparently, for the South Korean people the cost-benefit considerations of the sunshine policy in terms of its contribution to improvement of the inter-Korean relationship and removal of North Korea's animosity against South Korea were negative. This has driven the South's government to a hawkish position. Uncertainties in North Korea and security concern of conservative leadership in South Korea have enhanced the South Korean-U.S. strategic alliance, which made China become more obsessed with the United States' aggressive strategy against it.

Discomfort between South Korea and China functions as a catalyzer for the strategic shifts of China and North Korea in regard to their relations. North Korea, to some extent, takes advantage of the perceptual cleavage between South Korea and China to show that China is on its side in international politics. In addition, restrictive measures of the South Korean government for inter-Korean businesses in May 24, 2010, accelerated North Korea's pro-China policy implementation. In August 2010, Kim Jong Il visited China just three months after his previous visit in May. China appeared to exploit the situation for its own strategic purpose. North Korea's open criticism of the South Korean government's motivation for a secret meeting of officials from both sides in May 2011 is



based on such a strategic calculation. The North's seemingly irrational exposure of secret dealings with South Korea is a well-calculated gesture to show its strategic connection with China by outguessing South Korea's congenial offensive. China seems to tolerate North Korea's intentional contiguity with it and accommodate its policies in line with the North's strategic objective to make South Korea realize the cost of its leaning toward the United States. In other words, South Korea's strategic importance for China allures China's leadership, paradoxically, to take the risk of improving its relationship with North Korea as pressure to make South Korea dilute its alliance with the United States.

### North Korea's Open-Door to China Policy

Given that there are some special structural features of trade and investment between China and North Korea, North Korea's seemingly enormous trade deficit with China is not a main constraint for economic exchanges. There exists vast room for political manipulation of the statistics for the strategic interests of both sides, that is, a grey zone. China's strategic concern for the Korean Peninsula and domestic political motivation and North Korea's manipulation of its external relations are more important factors for the Chinese-North Korean economic relationship. Despite North Korea's reluctance to be seated for the six-party talks and to recognize responsibility for the *Cheonan* incident, momentum for the Chinese-North Korean economic relationship will be sustained, mainly due to China's strategic shift and North Korea's need.

### China's Commodity Trade with North Korea

(unit: US\$1,000)

Year	China's Exports to North Korea		China's Imports from North Korea		Balances
	Volume	% Change	Volume	% Change	
2004	794,525	26.5	582,193	47.2	212,332
2005	1,084,723	36.5	496,510	-14.7	588,212
2006	1,231,886	13.6	467,717	-5.8	764,168
2007	1,392,453	13.0	581,520	24.3	810,932
2008	2,033,233	46.0	754,045	29.7	1,279,188
2009	1,815,880	-10.6	808,728	7.2	1,094,715
2010	2,277,816	25.4	1,187,862	46.9	1,089,954
2011(Jan.-June)	1,450,000	54	1,560,000	202	392,000

Source: <http://www.chinacustomsstat.com> (Accessed: 2011.8.20)

Because of the enormous statistical bias of China's customs statistics, implications of quantitative analysis of the North Korean-Chinese relationship in terms of trade patterns of commodities and trade balances are quite limited. Since the second half of 2010, one of the salient features of the North Korean-Chinese relation-

ship is their enhanced economic relations. Nevertheless, this increasing economic relationship is a reflection of China's strategic shift with respect to North Korea and the North's distorted and ailing economy due to its deep-rooted antagonism against economic reform. It should not be interpreted as comparative



advantages of the two economies based on standard market mechanisms.

Given North Korea's limited strategic options to adjust to the emerging new international order in the Northeast Asian region, China's strategic choice is a vital factor determining the North Korean-Chinese economic relationship. In this respect, among others, several factors affect China's strategic decisionmaking, including the following: conservatism of the Chinese leadership, changing perspectives about North Korea's nuclear issue, checks and balances in the relationship with the United States, and consolidation of self-interest in the context of North Korea's uncertain future.

China's strategic choices are influential in determining behavioral patterns of businesses involved in the North Korean-Chinese economic exchanges. In terms of their impact on the North Korean-Chinese economic relations, decision-making at the government level and of private business are asymmetric. While the political relationship is deteriorating—and despite reduction of economic aid by China's government—relatively flexible economic activities on the part of businesses and individuals are functioning as a safety net. Usually, China's warning for North Korea's misbehavior falls short of economic sanctions for commercial and private economic activities. In fact, it is a main source of the sterilization of the effectiveness of the international community's economic sanctions against the North. When Chinese-North Korean relations are improving, businesses and individuals tend to go further in the economic sphere to exploit potential economic benefit without political risks.

In summary, the main features of the Chinese-North Korean economic relationship are as follows:

First, strategic decisions of the Chinese government are leading factors that influence the magnitude of economic activities of businesses and individuals involved in North Korean-Chinese economic relations. In that context, Premier Wen's visit to Pyongyang in October 2009 had a profound importance on the direction of changes in the economic relationship.

Second, existence of the grey zone would make it ineffective to seclude the economic relationship between China and North Korea, even if China wanted to abide by the international economic sanctions against North Korea. China's strategic shift to take advantage of the grey zone makes it impossible for outside observers to see the real picture of the economic relationship between North Korea and China.

Third, the trade deficit of North Korea with China does not carry any significant information about North Korea's economic capability. Given the black-box nature of the Chinese-North Korean trade relationship, we can only imagine the commodity structure of the exports and imports and their fluctuations. It is dangerous to assume that North Korea's trade deficit as it is recorded in China's customs' statistics reflects North Korea's economic difficulties or to make a guess for the life expectancy of the North's economy. The hypothesis that asserts that the North's cash earnings from South Korean businesses or government has been used to pay for imports from China is based on mere guesswork. Given China's strategic motivation and the grey zone, the North Korean-Chinese economic relationship has a self-sustaining mechanism, even without extra cash inflow from outside.

Fourth, given so low an operation ratio of North Korean industry, the trade pattern between China and the North does not reflect that the latter has a stable position of comparative advantage. This ad hoc feature of the trade pattern means that trade relations are subject to risky fluctuations and instability. In other words, the abnormal features and political backdrop indicate that normalization in the North Korean economy might be a disturbing factor on the politically biased, strategic economic relationship between North Korea and China.

Fifth, investments in North Korea by Chinese firms are mainly in the area of mineral resource excavation and construction of infrastructure for transportation. Usually, there have existed enormous discrepancies between the scale of investments in currency terms as described in the relevant memoranda of un-



derstanding (MOUs) and realized currency inflow to North Korea. Such a situation is largely due to the disappointment of Chinese partners with their North Korean partners' never-ending list of requests in the process of cooperation and partly because of the over-commitment of the Chinese partners for the scale of intended investment to attract their potential partners' attention for their projects. Such practices might be functioning as potential risks and fluctuations in North Korean-Chinese economic relations as a source of mutual distrust and the feeling of being betrayed.

All in all, proliferating economic exchanges between North Korea and China are mainly due to China's strategic shift aimed at expanding its political influence over the future of North Korea and counterweighing the U.S. hegemony in the region as China continues its peaceful rise. Nevertheless, the economic relationship is quite vulnerable in terms of sustainability and any positive impact on North Korea's economic reform. The pattern of the relationship is steered by political decisions of the Chinese leadership in consideration of the strategic cost-benefit in competition with the United States in the region, management of the North's future, and enhancing the strategic leverage against South Korea. Political and strategic motivation from both North Korea and China are not sufficient to make the economic relations sustainable and conducive to the North's economic reform and the peaceful transition of its political system. The distorted North Korean economy and China's strategic manipulation of the economic relationship make the cooperation mechanism between the two countries quite vulnerable to changes in the international political environment and economic order. Furthermore, North Korea's uneasiness about overdependence on China for its economic survival and international relations would allure the country to manipulate the U.S.-Chinese strategic competition in Northeast Asia for its own benefit. Simply, it would be like a fish in troubled water. The manipulation, the nuclear issue, military provocations, and inter-Korean tension, to some ex-

tent, are useful tools. In that context, North Korea's volatile attitude toward the Six-Party Talks and its intentional approach to the United States might be attention-seeking, not peace-inducing sincere behavior.

### Concluding Remarks

Kim Jong Il's frequent visits to China, and North Korea's new projects for establishment of special economic zones for assembly and processing for export in Hwang-Geum-Pyeong and for logistics in Ra-Sun, as well as expanding bilateral trade might be interpreted as the North's open-door to China policy, but not as a policy of open door to the world. Without fundamental economic reform in North Korea, the efficiency of China's strategic manipulation of the economic relationship with North Korea in terms of sustainability and implications for the North's future would be extremely low. In the case of normalization of the North Korean economy in the future, such a politically biased relationship would be so vulnerable that it would be almost certainly subject to an abrupt reversal or unpleasant collapse. As well, the North Korean business-related grey zone in China's economy would have a detrimental effect on China's robust economic development and on the stability of the Northeast Asian economic order.

In the context of international relations, China's obsession with global competition with the United States and some strategic cleavages and misunderstandings among South Korea, the United States, and China provide nutritious soil for North Korea's brinkmanship and strategic manipulation. Ideological conservatism of the leadership both in China and North Korea expedited North Korea's adoption of the policy of an open door *only* to China. Traditionally, ideological conservatism prefers international relationships based on the concept of alliance to multilateral cooperative mechanisms. For China to be a peacekeeper and engineer of progress in Northeast Asia so that the



region can live up to its potential, its effort to resolve the nuclear problem, to promote North Korea's economic reform, and to improve human rights for its people should not be separated from the North Korean-Chinese relationship. Those issues should be harmonized and synchronized. If China could enhance its effort to pursue the universal value of human beings with regard to its relationship with North Korea, its strategic friction with the relevant stakeholders surrounding issues on the Korean peninsula might be removed. Such a strategic shift for China does not mean that it should implement economic sanctions against North Korea. On the contrary, it is suggested that the economic relationship between China and North Korea based on transparent economic logic and market principle should be enhanced. But the grey zone and strategic give-and-take for myopic interests in China's competition with the United States as well as North Korea's struggle to sustain its abnormal regime should be discarded. Such strategic transition would also contribute to reunification of the peninsula and to permanent peace and stability in the region.

On the part of South Korea and the United States, strategic efforts should be made to reduce the conceptual opportunity cost for China and North Korea for rationalizing their relationship. China's obsession with the hostility of the South Korean-U.S. alliance against it and North Korea's disguised fear for the hypothetical attack from that alliance fostered the black-box nature of the Chinese-North Korean relationship. In this regard, clear definition of the role and functions of the U.S. forces in South Korea is necessary to change the cost-benefit consideration of China in favor of the relationship based on transparent market principles. Consensus among South Korea, the United States, and China of the necessity for strategic cooperation to induce North Korea to embark upon genuine economic reform will leave no room for the North to manipulate the cleavages among them with disguised fear for hypothetical animosity based on the misperception of the South Korean-U.S. alliance. ■

### Acknowledgement

The author appreciates the helpful comments from Chaesung Chun and Dongho Jo.

——— *Seung-Yul Oh* is a professor of Chinese Studies Division at the Hankuk University of Foreign Studies.

### Notes

<sup>1</sup> [www.state.gov/secretary/rm/2011/05/162969.htm](http://www.state.gov/secretary/rm/2011/05/162969.htm)  
(Accessed: 2011.5.11)

<sup>2</sup> [www.state.gov/secretary/rm/2011/05/162969.htm](http://www.state.gov/secretary/rm/2011/05/162969.htm)  
(Accessed: 2011.5.11)

