



China-Korea Relations:
Pyongyang Tests Beijing's Patience

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North Korea's missile launch on April 5 and nuclear test on May 25 posed a test to the international community following two UN Security Council resolutions in 2006 condemning North Korea's actions. For China, the tests again highlighted the tensions between its emerging role as a global actor with increasing international responsibilities and prestige and a commitment to North Korea as an ally with whom China shares longstanding historical and ideological ties. On June 12, China voted in favor of UN Security Council Resolution 1874 condemning North Korea's nuclear test, banning sales of nuclear and missile-related technology and heavy weapons to North Korea, authorizing financial sanctions against companies involved with North Korea's missile and nuclear programs, and authorizing the implementation of an inspections regime for suspect shipments into and out of North Korea. China now must decide whether it will actively implement the resolution. As a result of North Korea's declining trade with South Korea and the international community, China's economic leverage with North Korea has grown. But it is unclear whether China will utilize such leverage given strategic concerns about regional stability and the impact on the political succession process now underway in Pyongyang.

Meanwhile, economic policymakers in Seoul are aggressively seeking to expand South Korea's share of the Chinese market in an effort to shore up the economy and benefit from Beijing's massive stimulus plan. However, there is growing Sino-South Korean competition to secure overseas export markets and energy sources. This competition is influencing South Korean assessments of China's role as a global economic power.

China responds to DPRK tests

Prior to North Korea's April 5 multi-stage rocket launch, *Xinhua* reports referred to North Korea's planned activity as a satellite launch despite persistent international characterizations of it as a missile test. As a result, there were doubts about how China would deal with the issue in the UN Security Council (UNSC), even though Presidents Lee Myung-bak and Hu Jintao expressed mutual concern in a meeting on the sidelines of the London G20 summit only two days prior to the launch. Following the test, U.S. President Barack Obama vowed that "violations must be punished," placing the onus on the UNSC to come up with a tough response.

The Chinese blocked consideration of a UNSC resolution condemning the test in favor of a UNSC President's Statement condemning the missile tests, maintaining that "China disagrees with a Security Council resolution on the launch, let alone new sanctions against the DPRK." China cited the distinction between a satellite and missile test and the right of peaceful use of outer space, urging the UNSC to "act prudently." However, the passage of the UNSC President's Statement indicated that China supported the view that North Korea's actions constituted a violation of UNSC Resolution 1718, which called upon North Korea to cease tests of ballistic-missile related technology.

Moreover, the statement included provisions for the imposition of sanctions on three North Korean companies alleged to have been involved in the missile trade. North Korea responded with outrage, threatening "never" to return to the Beijing-hosted Six-Party Talks and vowing to conduct further nuclear and missile tests. Despite Beijing's attempts at measured condemnation of North Korea's test, the situation continued to escalate.

North Korea's May 25 nuclear test prompted a stronger reaction from China, which announced its "resolute" opposition to the test. China's support for UNSC Resolution 1874 demonstrated its commitment to play a "constructive" role and resulted in a considerably harsher resolution (i.e., "with teeth") than many had expected China would support, although Beijing made sure that implementation of the key provisions of the resolution would be optional rather than obligatory.

Although China joined international condemnation of North Korea's nuclear test, the People's Republic of China (PRC) Foreign Ministry also noted that Resolution 1874 "is not all about sanctions" and that diplomatic means is "the only way" to resolve Korean Peninsula issues, arguing that the DPRK should be recognized as a "sovereign country and UN member." At an International Atomic Energy Agency (IAEA) board meeting on June 17, Tang Guoqiang, head of the Chinese delegation, affirmed that the DPRK as a sovereign state "should have the right to peaceful use of nuclear energy after it returns to the treaty on Non-Proliferation of Nuclear Weapons (NPT)," and that diplomatic means is the "only right way" to address the North Korean nuclear issue.

Following the test, a number of high-level consultations occurred between South Korea and China. A previously planned defense ministerial exchange went forward shortly following the nuclear test as Lee Sang Hee made his first trip to China as ROK defense minister to meet his counterpart Liang Guanglie and Vice President Xi Jinping, who pointed to "increasing political trust" between the two countries. Following meetings with Chinese counterpart Wu Dawei and Foreign Minister Yang Jiechi in Beijing on June 10, South Korean Nuclear Envoy Wi Sung-lac confirmed China's support for the new UNSC resolution that was passed two days later.

North Korea's nuclear test has sparked open debate on whether China should support harsher UN sanctions. China's *Global Times* survey conducted shortly after the test in late May showed a 50-50 percent divide in views among Chinese foreign policy experts on tough sanctions against North Korea. This suggests a gradual shift toward support for sanctions, given that most Chinese experts have doubted the effectiveness of sanctions and warned against their impact on stability and refugee flows into China.

Some Chinese analysts publically denounced North Korea's actions and called for a change in China's approach. According to Zhang Liangui of the Central Party School, who sees recent developments as "the most serious crisis" since China-DPRK normalization, the nuclear test "offended the core interests of China." Zhang questions the likelihood that China will maintain its friendly relationship with the North. But former Vice Foreign Minister Yang Wenchang has indicated that "China's influence over North Korea is inevitably limited" given changes in the bilateral relationship. Such views suggest that Beijing may be reassessing its strategy of relying primarily on incentives to influence North Korea.

Other Chinese analysts do not foresee a major change in China's approach. Liu Jiayong of Tsinghua University suggests that a stable China-DPRK relationship is in the international interest since China's role would otherwise change "from a contact man to the enemy of North Korea." Based on this perspective China's new toughness is a familiar tactic to pressure the DPRK back to the negotiating table, but it is unlikely that China will go so far as to fully implement UN sanctions.

2006 vs. 2009 and China's new dilemma

The Chinese response to the 2009 test does not appear significantly different from 2006, when China also "firmly opposed" the test. Beijing has consistently put forward the three principles it followed for dealing with the North Korean nuclear crisis in 2006: denuclearization of the Korean Peninsula; peace and stability of the Korean Peninsula and Northeast Asia; and early resumption of Six-Party Talks. As in 2006, China sent a message to the DPRK "strongly" seeking its return to negotiations, asked the international community to "exercise calmness and restraint," and called for peaceful resolution of the DPRK nuclear issue through "consultation and dialogue."

But in response to the UNSC President's Statement, Pyongyang vowed it would "never participate in such Six-Party Talks nor will it be bound any longer to any agreement of the talks." With the passing of Resolution 1874, North Korea asserted that giving up nuclear weapons "has become an absolutely impossible option." These statements directly challenge Beijing's long-term bilateral and multilateral efforts toward the North.

Despite North Korea's clear dismissal of China's position, China remains silent on how North Korean behavior will influence China-DPRK relations and whether it will take action through sanctions. One difference in Chinese reactions is that in 2006 the Foreign Ministry explicitly stated that "the DPRK's nuclear test exerted a negative impact on China-DPRK relations" while maintaining that it will continue to pursue its friendly policy toward the DPRK of promoting stability and serving Chinese and North Korean "shared interests." Since North Korea's current provocations, China has not yet provided any direct comment on the impact of the tests on its North Korea policy.

A second difference between China's approach this time around is that in 2006 Hu Jintao sent a high-level special envoy, State Councillor Tang Jiaxuan, to Washington, Moscow, and Pyongyang. This time, despite speculation, no high-level Chinese envoy has yet been publicly reported to have visited Pyongyang. However, Beijing reportedly continues to have an active

dialogue with Pyongyang via party channels led by the Chinese Communist Party's International Liaison Department head, Wang Jiarui.

In denouncing North Korean actions in 2009, China has repeatedly emphasized its support for "safeguarding the international nonproliferation regime." Its ratification of UNSC Resolution 1874 reflected an effort to meet international expectations rather than a desire to punish the North at a time when China is also responsibly addressing the global financial crisis. In June, China responded to the Iranian nuclear threat in similar terms to those used in response to North Korea's nuclear test, calling for peaceful resolution through dialogue, early resumption of talks, and strengthened Iranian cooperation with the IAEA.

North Korean provocations in the past have induced China to support limited sanctions in light of its exposure to international concerns. In 2005, China responded to a U.S. Treasury advisory about possible money laundering activities of the Macao-based Banco Delta Asia (BDA) involving North Korea. China took these actions out of concern that its access to the U.S. market and global financial reputation were at stake. In response to the U.S. advisory, Chinese banks in Dandong reportedly began restricting banking transactions with North Korea as early as March 2006 out of their own concerns rather than as directed by the Chinese government. China is alleged to have cut off oil to North Korea for short periods in 2003 and 2006 to pressure the North. The 2006 nuclear test appears to have marked a shift in Chinese views regarding economic sanctions as an effective tool for dealing with North Korea. However, recent studies show that UN sanctions have had little impact on deterring North Korean actions given gaps in enforcement and limited implementation by China and Russia.

China's response to North Korea will depend on how it reconciles its international obligations and national interests as tougher UN sanctions and the withdrawal of Chinese aid could seriously undermine North Korean and regional stability. Implementation of UNSC Resolution 1874 in many respects carries with it the same need for China to weigh its international responsibilities against its traditional emphasis on noninterference and regional stability that existed in the context of the BDA sanctions in 2006. Japanese media began reporting in mid-June that China has taken steps to cut back oil supplies and tighten monitoring of cross-border trade since the May 25 nuclear test. The closure of Sino-DPRK trade centers like Dandong would mean an immediate shortage of food and fuel for the North while implementation of a UN ban on luxury imports, which largely pass through Dandong, would also mean a shortage of luxury goods to Kim's circle of supporters. But Chinese officials have reportedly indicated to Seoul that it will not go as far as cutting off aid, suggesting that China will continue to rely on diplomatic tools of influence rather than economic pressure.

Wider sanctions confront growing Sino-DPRK economic ties

As Pyongyang's closest ally and trading partner, China appears to have greater economic leverage than any other country with North Korea. A Korea Trade-Investment Promotion Agency (KOTRA) report in May indicated that in 2008 China accounted for 73 percent of North Korea's record-high foreign trade of \$3.8 billion, compared to a third in 2003. (KOTRA's report does not include inter-Korean economic assistance as part of North Korea's overall profile.) The 41 percent annual increase in bilateral trade to \$2.79 billion was driven mostly by Chinese

exports to North Korea. North Korea's economic dependence on China is rapidly increasing as indicated by a significant trade imbalance: Chinese imports, consisting mainly of crude oil, petroleum, and synthetic textiles, amounted to \$2.03 billion, while exports to China including coal and iron ore totaled \$750 million. Some experts see the \$1.25 billion trade deficit as an indirect Chinese subsidy given that North Korea cannot finance its trade deficit through borrowing. According to Samsung Economic Research Institute (SERI), China supplies 90 percent of North Korea's oil, 80 percent of consumer goods, and 45 percent of its food. KOTRA projects that in 2009 North Korea's overall external trade will decline but Chinese economic influence will expand further.

On the other hand, South Korean government data in June revealed that over the 10 years of the Kim Dae-jung and Roh Moo-hyun administrations, total cash and material aid from the South to the North reached \$6.96 billion, 3.7 times greater than Chinese aid of \$1.9 billion during the same period and accounting for 90 percent of North Korea's exports during the period. But the \$2.92 billion in cash aid included fees and wages for the now suspended Mt. Keumgang and Kaesong projects. The current deadlock in inter-Korean relations suggests that Chinese aid will likely become more important.

Chinese and DPRK trade officials pledged to further deepen trade cooperation in a range of sectors including processing trade, compensation trade, and resources development at the 12th annual Pyongyang International Trade Fair in May, where 140 out of the 220 participating companies were Chinese. China-DPRK Friendship Year activities during the weeks preceding North Korea's nuclear test focused primarily on economic exchanges. Top DPRK legislator Kim Yong Nam expressed expectations for expanded Sino-DPRK ties during a week-long visit by China's National Committee of the Chinese People's Political Consultative Conference (CPPCC) delegation in April in the context of the 60th anniversary year of diplomatic ties and the first Friendship Year. In May, members of the China-DPRK Friendship Association and local officials in China made a week-long visit to the North focused on promoting local-local cooperation, during which the first China-DPRK "sister cities" meeting was launched in Pyongyang between six Chinese provinces and cities and their North Korean counterparts. Jilin's Tumen City government and the DPRK Hamgyong Provincial Tourism Bureau have reportedly agreed to open a China-DPRK railway tourism line linking Tumen to Namyang, Chongjin, and Chilbosan cities in the North.

China's economic stimulus and South Korea's export promotion

South Korean exports to China suffered a 24 percent year-on-year drop and imports a 36 percent drop in January-May 2009. Nevertheless, China remains the South's biggest trading partner, accounting for 23 percent of exports in this period, more than twice that of the United States. South Korean exports overall have been rapidly declining since late 2008, posting the first double-digit decline since 2001 and the sharpest ever drop in exports, according to a recent Korea Development Institute report. In contrast, surveys showed a moderate expansion of China's manufacturing sector in May with an improvement in new export orders. Foreign businesses have noted the favorable impact of Beijing's 4 trillion RMB (\$585 billion) stimulus package, which has made the Chinese economy more stable than other Asian economies and helped generate China's first quarter growth of 6.1 percent (year-on-year). Meeting Chinese

Communist Party Propaganda Chief Li Changchun in Seoul, Federation of Korean Industries Chairman Cho Suck-rai recognized China's recovery as a key to global recovery.

Seoul is actively engaged in efforts to expand South Korea's share of the Chinese market. KOTRA in April hosted a trade fair in Seoul aimed at helping Korean companies boost sales in China, facilitating exchanges between 300 local firms and major Chinese distributors and multinationals. In June, the South Korean government held a three-day "Korean Products Show" in Beijing with hopes of securing as much as \$200 million worth of export deals as over 100 Korean firms in IT, automobiles, energy, and consumer goods exhibited their products to thousands of potential buyers. The Ministry of Knowledge and Economy has announced a new export support plan for Korean companies targeting China's high-end market, consisting of export project financing and expanded insurance coverage in addition to "premium product fairs" in major Chinese cities to promote consumer goods, which have represented a relatively small share of South Korean exports. At a time when the global crisis is hurting overall trade, the ministry has stressed the importance of Beijing's stimulus programs for bringing more opportunities for partnerships in building industrial plants and other construction projects.

Recent reports by major international business papers that Beijing's stimulus package includes a "Buy China" have renewed South Korean concerns about Chinese trade protectionism. Requiring government procurement to only use local products or services unless they are unavailable in China, this plan addresses serious domestic problems of unemployment but threatens the economic interests of South Korea, which remains far from recovery and relies on China for both exports and foreign investment. Furthermore, South Koreans see the move as especially threatening given that Seoul lacks any bilateral government procurement pact with Beijing like the one that protected Korea from a similar U.S. policy in the steel industry.

South Korean perceptions of China's rise: export competition and energy security

South Korea's export promotion strategy toward China has been accompanied by changing perceptions of China's rise as a global economic power. The Ministry of Strategy and Finance warned against the impact of China's rise on South Korea's own economic growth in an eight-page "reference material" issued in April, marking a sharp departure from references to China's growth as an opportunity for South Korea's export-led growth. In particular, the ministry pointed to a likely intensification of Sino-South Korean competition in export sectors and energy diplomacy, calling for a "pre-emptive external economic policy" to counter "the spreading Beijing Consensus." South Korean analysts have also called for better targeting of South Korea's diplomatic and economic strengths given Chinese competition in global markets. China's recent currency swap arrangements that will allow RMB to be used in trade settlements have led to expectations of intensified competition with China in key export markets in Latin America and Asia, as reflected in a SERI report in May speculating that the Chinese RMB may emerge as a global reserve currency.

Both China and South Korea rely heavily on exports for growth, competing in such sectors as shipbuilding, home electronic appliances, steel, and construction. They also both depend heavily on foreign oil reserves for energy. For example, South Korea is China's biggest export market for steel but is seeking to expand its own production capacity as China, the world's biggest steel

producer and consumer, restructures its steel sector to create global rivals to South Korean counterparts like POSCO and Hyundai Steel. South Korean and Chinese leaders have actively engaged in state visits to resource-rich countries, while state-run Korean and Chinese firms have competed to acquire energy companies abroad. Energy sector representatives in South Korea express growing concerns about China's undermining of South Korean efforts to secure overseas deals. The Korea National Oil Corp (KNOC) and Sinopec Group are currently competing to take over the Swiss-based oil and gas exporter Addax Petroleum which has resource development projects in Africa and the Middle East.

How seriously does China view its North Korea dilemma?

China continues to openly reiterate its opposition to the North Korean nuclear test while remaining unclear on what specific actions it will take next. Any meaningful action on North Korea from China appears unlikely given current Chinese preoccupations with the global crisis and problems at home. At the Shangri-La Security Dialogue in Singapore on May 30, the financial crisis and China's domestic development were the two main points of Lt. Gen. Ma Xiaotian's speech on Asian security cooperation.

If effective U.S.-China strategic cooperation to shape the future of North Korea is to be realized, a prerequisite will be the realization by that Chinese leaders that there is no viable trade-off between stability and denuclearization and that a nuclear North Korea is inherently destabilizing to its neighbors and to China's own national interests. The U.S. should continue to highlight the fundamental contradiction in China's policies, framing the issues in ways that require China to make choices between support for North Korea and efforts to safeguard China's broader regional and global interests. Through this process, Chinese leaders should realize that North Korean instability is as big a problem for China as for the U.S., especially to the extent that North Korea's actions precipitate regional responses that are unfavorable to China's longer-term regional interests.

Chronology of China-Korea Relations April-June 2009

April 3, 2009: Presidents Lee Myung-bak and Hu Jintao meet on the sidelines of the G20 Summit in London and express concern over North Korea's planned missile/satellite launch.

April 5, 2009: North Korea launches a long-range ballistic missile.

April 6, 2009: President Lee meets a Chinese Communist Party (CCP) delegation led by Li Changchun, chief of the CCP Propaganda and Cultural Affairs Bureau, in Seoul and calls for Chinese support in dealing with North Korea's April 5 missile launch.

April 7, 2009: ROK quarantine authorities discover a banned substance in Chinese beef stock.

April 8, 2009: ROK Foreign Minister Yu Myung-hwan discusses North Korea's launch with Chinese and Japanese counterparts in Seoul.

April 8, 2009: South Korean officials say China-based hackers attacked the ROK Finance Ministry intranet in February.

April 11, 2009: President Hu sends a message to Chairman Kim Jong-il congratulating him on his re-election as chairman of the DPRK National Defense Commission.

April 11, 2009: President Lee meets Premier Wen and Japanese Prime Minister Aso on the sidelines of the canceled ASEAN summit in Thailand to discuss North Korea's missile launch.

April 12, 2009: Seoul Mayor Oh Se-hoon and Tianjin Mayor Huang Xingguo meet in Tianjin and agree to expand Seoul-Tianjin cultural, tourism, and economic exchanges.

April 13, 2009: Chinese UN envoy Zhang Yesui calls for a "cautious and proportionate" UN Security Council (UNSC) response to North Korea's April 5 launch.

April 13-17, 2009: Vice Chairman of the National Committee of the Chinese People's Political Consultative Conference Li Jinhua leads a delegation to Pyongyang and meets DPRK top legislator Kim Yong Nam.

April 14, 2009: The UNSC issues a President's Statement condemning North Korea's April 5 missile test. Chinese Foreign Ministry spokesperson says China opposes the UN adopting any new resolution and sanction against the DPRK.

April 14, 2009: Chinese affiliates of South Korea's STX Group secure 2.85 billion RMB (\$417 million) in loans to fund construction of its shipbuilding complex in Dalian.

April 17, 2009: The ROK Ministry for Food, Agriculture, Forestry and Fisheries says it will destroy 161 tons of contaminated Chinese beef stock.

April 20, 2009: Head of China's Atomic Energy Authority Wang Yiren denies any cooperation with North Korea on nuclear energy development.

April 20-23, 2009: South Korean Navy participates in the multilateral fleet review and 60th anniversary celebrations of the founding of the Chinese PLA Navy in Qingdao.

April 27, 2009: A Chinese criminal ring that swindled 360 million won (\$270,000) out of 15 South Koreans through phone-based financial scams is arrested in Gangneung.

May 3, 2009: Jilin's Tumen City government and the DPRK Hamgyong Provincial Tourism Bureau in Chongjin City agree to open a railway tourism line.

May 3, 2009: Chinese, South Korean, and Japanese finance ministers agree to provide 80 percent of the \$120 billion Chiang Mai Initiative liquidity fund.

May 4-9, 2009: Former ROK President Kim Dae-jung makes a 5-day trip to China to discuss Korean Peninsula and regional issues.

May 4, 2009: The DPRK Education Ministry and Chinese embassy in Pyongyang hold China Youth Day celebrations at Kim Il Sung University.

May 7, 2009: The 43rd Joint Committee Meeting for China-DPRK Scientific and Technological Cooperation is held in Pyongyang.

May 8-13, 2009: A Chinese delegation led by Wu Donghe, chairman of China-DPRK Friendship Association meets senior officials in Pyongyang.

May 11-14, 2009: Chinese and DPRK trade officials pledge to strengthen trade cooperation at the 12th Pyongyang International Trade Fair.

May 12, 2009: The first China-DPRK sister cities' meeting is held in Pyongyang.

May 13, 2009: An annual ROK Air Force publication reports that the Chinese military attempted to hack into the South Korean embassy computer system in the U.S. in 2008.

May 21, 2009: The ROK Ministry of Knowledge and Economy announces a government support plan to help Korea firms expand Chinese market share in high-end goods.

May 25, 2009: ROK Foreign Minister Yu Myung-hwan and Chinese counterpart Yang Jiechi meet on the sidelines of the ASEM foreign ministers meeting in Hanoi.

May 26-27, 2009: ROK Defense Minister Lee Sang Hee meets counterpart Liang Guanglie and Vice President Xi Jinping in Beijing to discuss North Korea's May 25 nuclear test.

June 8, 2009: The five subsidiaries of Korea Electric Power Corp. (KEPCO) agree to jointly buy coal from China in a bid to cut costs.

June 9-10, 2009: ROK nuclear envoy Wi Sung-lac meets Chinese counterpart Wu Dawei and Foreign Minister Yang Jiechi in Beijing.

June 9-11, 2009: Korea attends the first non-traditional security forum of the armed forces of ASEAN Plus 3 at the Shijiazhuang PLA Army Command College hosted by the PRC Ministry of National Defense.

June 10, 2009: Chinese Ambassador Cheng Yonghua at a business forum in Seoul calls for an early conclusion of the China-ROK free trade agreement.

June 12, 2009: The UN Security Council unanimously passes Resolution 1874 which calls on UN members to inspect cargo vessels and airplanes suspected of carrying military materials in or out of North Korea.

June 14, 2009: The China-South Korea-Japan 11th Tripartite Environment Ministers Meeting is held in Beijing.

June 18, 2009: The Chinese Foreign Ministry denies unconfirmed Japanese media reports that Kim Jong-il's son Kim Jong-un met President Hu and other leaders in Beijing on June 10.

June 19, 2009: The 14th DPRK-China talks on oceanic science and technology cooperation is held in Pyongyang and produces a two-year plan for monitoring Yellow Sea weather.

June 23-25, 2009: Over 100 Korean firms in IT, automobiles, energy, and consumer goods showcase their products at "Korean Products Show 2009, Beijing."

June 25, 2009: The Korea Trade Commission penalizes NSC Korea Co. for mislabeling China-made ball bearing exports to Turkey as made in South Korea.

June 25, 2009: The Ministry for Food, Agriculture, Forestry and Fisheries announce plans to launch an annual inspection of fish farms and seafood factories in China.

June 26, 2009: ROK Knowledge Economy Minister Lee Youn-ho holds talks with Chinese Commerce Minister Chen Deming in Seoul.