



China-North Korea Relations

Dick K. Nanto

Specialist in Industry and Trade

Mark E. Manyin

Specialist in Asian Affairs

December 28, 2010

Congressional Research Service

7-5700

www.crs.gov

R41043

CRS Report for Congress

Prepared for Members and Committees of Congress

Summary

The People's Republic of China (PRC) plays a key role in U.S. policy toward the Democratic People's Republic of Korea (DPRK or North Korea). The PRC is North Korea's closest ally, largest provider of food, fuel, and industrial machinery, and arguably the country most able to wield influence in Pyongyang. China also is the host of the Six-Party Talks (involving the United States, China, North Korea, South Korea, Japan, and Russia) over North Korea's nuclear program. The close PRC-DPRK relationship is of interest to U.S. policymakers because China plays a pivotal role in the success of U.S. efforts to halt the DPRK's nuclear weapons and ballistic missile programs, to prevent nuclear proliferation, to enforce economic sanctions, and to ensure that North Korean refugees that cross into China receive humane treatment. Since late 2008, China has been not just the largest, but also the dominant, provider of aid and partner in trade with North Korea.

This report provides a brief survey of China-North Korea relations, assesses PRC objectives and actions, and raises policy issues for the United States. While Beijing still maintains its military alliance and continues its substantial economic assistance to Pyongyang, in recent years many PRC and North Korean interests and goals appear to have grown increasingly incompatible. Increasingly, many Chinese officials and scholars appear to regard North Korea as more of a burden than a benefit. However, Beijing's shared interest with Pyongyang in preserving North Korean stability generally has trumped these other considerations.

The Obama Administration's public statements have emphasized common interests rather than differences in its policy toward China regarding North Korea. The United States also has been encouraging China to use its influence in Pyongyang to rein in the more provocative actions by North Korea. China's interests both overlap and coincide with those of the United States, but China's primary interest of stability on the Korean peninsula is often at odds with U.S. interest in denuclearization and the provision of basic human rights for the North Korean people. Moreover, North Korean leaders appear to have used this interest to neutralize their country's growing economic dependence on China; the greater North Korea's dependency, the more fearful Chinese leaders may be that a sharp withdrawal of PRC economic support could destabilize North Korea. Since the late 1990s, as long as North Korea has been able to convince Beijing's senior leadership that regime stability is synonymous with North Korea's overall stability, the Kim government has been able to count on a minimum level of China's economic and diplomatic support, as well as some cooperation along their border region to ensure that the number and activities of North Korean border-crossers do not spiral out of control.

Beijing and Pyongyang are currently going through a period of amicable but strained diplomatic and economic relations following the negative response by Beijing to the DPRK's nuclear and missile tests in 2009 and China's support of new United Nations Security Council sanctions directed at North Korea. China also has been concerned that military provocations by the DPRK could trigger a shooting war on the Korean Peninsula. Beijing's proposed solution to DPRK provocations has been more diplomacy and talks. China's enforcement of U.N. sanctions against North Korea is unclear. China has implemented some aspects of the sanctions that relate directly to North Korea's ballistic missile and nuclear programs, but Beijing has been less strict on controlling exports of dual use products. Chinese shipments of banned luxury goods to the DPRK continue to increase.

Contents

The Issue and Interests	1
China’s North Korea Policy.....	3
Development of China’s North Korea Policy	5
PRC Policy Objectives	6
Assuring Stability and the “Status Quo” on the Korean Peninsula.....	7
Maximizing PRC Influence	7
Reconvening the Six Party Talks	8
Assuring China’s Regional Security Interests/Territorial Integrity.....	8
North Korean Policy Objectives	9
Sino-DPRK Interaction	10
Diplomatic Relations.....	11
Economic Relations	13
China and Economic Sanctions	18

Figures

Figure 1. China’s Exports of Luxury Goods to North Korea.....	21
---	----

Tables

Table 1. China’s Merchandise Trade with the DPRK, 1995-2009	15
Table 2. Estimated North Korean Trade by Selected Trading Partner	16
Table 3. Reported Exports of Small Arms to the DPRK by Country.....	19

Contacts

Author Contact Information	22
Acknowledgments	22

The Issue and Interests¹

The People's Republic of China (PRC) plays a key role in U.S. policy toward North Korea. The PRC is North Korea's closest ally, largest provider of food, fuel, and industrial machinery, and arguably the country most able to wield influence in Pyongyang. This close bilateral relationship is of interest to U.S. policymakers because China plays a pivotal role in the success of U.S. efforts to halt the DPRK's nuclear weapons and ballistic missile programs, to prevent nuclear proliferation, to enforce economic sanctions, to keep the peace on the Korean Peninsula, and to ensure that North Korean refugees that cross into China receive humane treatment. As North Korea's main trading partner and benefactor, China can play the role as an intermediary or may even exercise leverage with Pyongyang in times of crisis, particularly following a military provocation by North Korea when the United States or South Korea have little direct communication with DPRK leaders. China's actions also are key in reforming the DPRK's dysfunctional economy and meeting the basic human needs of the North Korean people. China hosts the Six Party Talks (6PT) on denuclearization, is able to provide credible advice to Pyongyang on issues such as economic reform, and plays an important role on the United Nations Security Council and other international organizations that deal with the DPRK. In general, the Obama Administration—as was true of the Bush Administration—has emphasized common interests rather than differences in its policy toward China regarding North Korea.

Although China is prominent in U.S. policy toward North Korea, North Korea is only one of numerous items on the Sino-U.S. agenda. In deciding whether to criticize China when its actions toward North Korea are at odds with U.S. interests, Obama Administration officials must weigh the possible spillover into these other areas, some of which appear to have a higher priority to the White House than North Korea. China has become a major player on the world stage, and cooperation with China increasingly is becoming essential in tackling a variety of global issues. China is now the second largest economy in the world after the United States and in 2010 surpassed Japan. (It is number three if the European Union is counted as one economy.) Together, the United States and China account for more than half of global energy imports and emit over 30% of global greenhouse gases. The U.S. trade deficit and reliance on capital inflows are unlikely to be resolved without cooperation from China, since it has a \$227 billion surplus in merchandise trade with the United States and holds \$880 billion in U.S. Treasury securities. This intersection of interests on the world stage influences how the United States and China deal with the DPRK. In other respects, conflicts of interests between the United States and China also drive relations between the two countries and spill over into each country's relations with North Korea. U.S. relations with China are increasingly becoming strained over issues such as U.S.-South Korean naval exercises near China's exclusive economic zone, the undervaluation of the Chinese currency, Chinese territorial claims, U.S. sales of weapons to Taiwan, China's indigenous innovation policy, Chinese cyberattacks on American computer systems, tighter regulation of foreign businesses in China, and competition for influence in Asia.

China's primary interest of stability on the Korean peninsula is often at odds with U.S. interest in denuclearization and the provision of basic human rights for the North Korean people. In 2010, Beijing and Pyongyang were going through a period of fairly amicable diplomatic and economic relations following the negative response by Beijing to the DPRK's nuclear and missile tests in

¹ Kerry Dumbaugh, a long-time China analyst at CRS who retired in December 2009, was a principal author of this report.

2009 and China's support of new United Nations Security Council sanctions directed at North Korea. China's enforcement of the U.N. sanctions, however, is still unclear. China has implemented some aspects of the sanctions that relate directly to North Korea's ballistic missile and nuclear programs, but Beijing has been less strict on controlling exports of dual use products. Some observers also have charged that Beijing has not made a concerted effort to stop suspicious air traffic between North Korea and Iran.² Chinese shipments of banned luxury goods to the DPRK continue to increase.

North Korea has entered a phase in its strategic planning that poses particular challenges to both China and the United States. While Pyongyang's goals and tactics remain somewhat murky, the DPRK has entered into a particularly delicate time with a confluence of forces pulling the Pyongyang government in different directions. The measures by Kim Jong-il to ensure a smooth succession by his son Kim Jong-un requires a purity of ideology and credibility with the leaders of the Korean People's Army. Yet a smooth succession requires that sufficient food be available for the non-elite in society and that members of the Kim regime support the dynastic succession. This support was being engendered partly with luxury and other goods distributed to their families. However, U.N. and U.S. sanctions arising from the North Korean nuclear and ballistic missile programs have banned shipments of luxury goods to North Korea, and trade with South Korea, Japan, and the United States has virtually stopped.

The world view of the Kim regime also seems highly distorted. Pyongyang sees the world, particularly the United States, as increasingly hostile. Its belligerent rhetoric often leads to military provocations. As part of its national goals, the DPRK is seeking to become recognized as a nuclear power and is trying to convince the world to "learn to live in peace" with such a nuclear-armed North Korea." The country also has embarked on a program to become a strong and prosperous nation by 2012, the 100th anniversary of the birth of the country's founder, even though such a goal is almost impossible to achieve without more trade and investment from other countries.

North Korea follows what appears to be a carefully choreographed cycle of provocations and bluster, followed by a charm offensive and requests for aid, and then a return to provocations. In 2010, it entered into the provocation phase by precipitating three events that are directly counter to Chinese national interests. In March 2010, North Korea allegedly torpedoed the South Korean naval ship, the *Choenan*, killing nearly 50 crew members. In November 2010, Pyongyang revealed the existence of a sophisticated complex of centrifuges to enrich uranium, a program that was long denied, then followed that with the shelling of South Korea's Yeonpyeong Island, killing at least four South Koreans.

The provocations phase usually is followed by a diplomatic offensive in which the DPRK engages in negotiations that give the appearance of progress but in reality buy time for Pyongyang to further refine its offensive nuclear capabilities while ostensibly seeking cooperation and a warming of relations. The diplomatic offensive often results in deliveries of economic and humanitarian assistance.³ In late 2009, under such an offensive," North Korea released two American journalists and a South Korean captive; restarted high-level diplomatic

² U.S. Department of State, Bureau of Public Affairs, "Background Briefing on North Korea," July 15, 2009.

³ Kim Myong Chol, "North Korea begins 'Plan C,'" *Asia Times*, October 14, 2009, Online edition. Zhang Liangui, "There is a Dangerous Component in the 'Warm Winter' of the DPRK Nuclear Issue," *Huanqiu Shibao (in Chinese)*, December 9, 2009, p. 14, translated by Open Source Center as "PRC's Zang Liangui Views DPRK's 'Plan C' for Nuclear Status, Document Number CPP20091230710002.

exchanges with the United States, South Korea, and China; hinted that it may return to the Six Party Talks; and proposed to conclude a peace treaty to replace the armistice that ended the Korean War.

China's North Korea Policy

U.S. government officials generally praise the PRC for its role as an active member in multilateral efforts to address and halt North Korea's nuclear weapons program. But the exact nature of China's security concerns, its political objectives, and the extent of its influence on North Korean actions has remained elusive to many observers of PRC-North Korean relations. Much of the reportage on PRC-North Korea interaction has appeared contradictory. On the one hand, PRC officials often put the lion's share of the responsibility on the United States to be "flexible" and "patient" with North Korea. On the other hand, China has declared North Korea to be in breach of U.N. nuclear safeguards and has been willing to be critical of North Korean pronouncements and actions that it finds unacceptable.⁴ China voted for U.N. Security Council Resolutions 1718 (2006) and 1874 (2009) imposing sanctions on the DPRK following its missile and nuclear tests.

Anecdotal evidence, however, suggests that some PRC officials have grown increasingly perturbed at North Korean intransigence on the nuclear issue. Beijing has permitted harsh criticisms of North Korea in authoritative journals and newspapers that would not have been permitted in the past. Chinese pundits have been allowed to write contemptuously of the DPRK and how its actions have threatened Chinese interests.⁵ In 2010, some newspapers reported that a view has been gaining traction in Beijing that China could accept Korean unification under Seoul's control. Such a view seems to be coming from the younger generation of Chinese Communist party leaders, in particular those not associated with the military.⁶

However, senior PRC officials continue to visit Pyongyang and receive warm welcomes, even though in 2010, Kim Jong-il returned from China with no additional promises of economic assistance. Beijing has stressed that a nuclear-free Korean peninsula is one of its priorities, but it also has supported North Korea as it has built, started, stopped, and restarted its nuclear plant.⁷ In the international effort to pressure North Korea to abandon its nuclear weapons program, PRC officials are presumed to have substantial leverage with North Korea; yet Beijing was unable to prevent Pyongyang from conducting its first test of a nuclear weapon on October 9, 2006,⁸ nor its

⁴ Attributed to PRC U.N. Ambassador Wang Guangya, "Annan Says Six Party Talks In North Korea's Interest," *Voice of America*, Press Release, February 15, 2005.

⁵ Jonathan D. Pollack, "North Korea's Nuclear Adventurism Tests China's Patience," *Yale Global Online*. October 23, 2009.

⁶ Christian Oliver and Geoff Dyer, "China Could Accept Korean Unification," *Financial Times*, November 30, 2010. Internet edition (FT.com).

⁷ See CRS Report RL31555, *China and Proliferation of Weapons of Mass Destruction and Missiles: Policy Issues*, by Shirley A. Kan.

⁸ Faiola, Anthony and Linzer, Dafna, "N. Korea Pledges Nuclear Test; Need Cited To Deter Threat From U.S., But No Date Is Set," *The Washington Post*, October 4, 2006, p. A1. Kahn, Joseph, "North's Test Seen As Failure For Korea Policy China Followed," *New York Times*, October 9, 2006, p. 6.

second test on May 25, 2009.⁹ China also has been unable or unwilling to curtail North Korea's uranium enrichment program.

As for concerns over proliferation of weapons of mass destruction, Beijing generally discounts the threat of nuclear proliferation by the DPRK to non-state terrorist groups. China also seems less concerned about nuclear cooperation between the DPRK and countries friendly to China such as Iran and Myanmar/Burma.

For years, the U.S. policy debate has been dogged by diametrically opposed opinions about exactly what China's real security concerns and political objectives are on the North Korean nuclear issue. These continuing internal U.S. disagreements helped to paralyze much of the U.S. policy process with respect to the DPRK during most of the George W. Bush Administration. According to one view, espoused by many in the U.S. government, China was doing a credible job with North Korea and had been a helpful host and interlocutor for the United States in the whole process of the Six Party Talks involving the United States, the PRC, Japan, Russia, and North and South Korea. These proponents held that Americans can count on the sincerity of PRC leaders when they say that Beijing's principal priority is a non-nuclear Korean peninsula.¹⁰ In spite of the military alliance and political roots that the PRC shares with North Korea, these proponents maintain that PRC officials have grown weary and frustrated with the unpredictability and intransigence of their erratic neighbor. Furthermore, some say, China may have less leverage with Pyongyang than many suggest and risks losing what little leverage it does have if it reduces or terminates its substantial food and energy assistance to North Korea.

The chief rival to this viewpoint holds that China is being duplicitous on the North Korea question and insincere in its statements supporting a freeze or dismantlement of North Korea's nuclear weapons program.¹¹ According to this view, Beijing actually has substantial leverage with Pyongyang but elects not to use it in order to ensure that the North Korean issue continues to complicate U.S. regional strategy and undermine the U.S. position in Asia. This is the reason that China appears casually tolerant of North Korea's erratic and unpredictable behavior, why Beijing rarely criticizes North Korea for its provocations, and why Beijing has sided so often with the North Korean position in the Six Party Talks. Furthermore, these proponents suggest that Beijing and Pyongyang actually may be coordinating their policies on North Korea's nuclear weapons program, including the timing of North Korea's more provocative pronouncements and actions, in an effort to keep the United States off balance.

In addition, Beijing's first priority on the Korean peninsula appears to be stability both in the Kim Jong-il regime and in the country as a whole. For Beijing, diplomacy, or the prospect thereof, is the preferred solution to every provocation by the DPRK. As long as the United States, South Korea, and others are talking to the DPRK, they are unlikely to take harsher actions against

⁹ Evan Ramstad, Jay Solomon, and Peter Spiegel, "Korean Blast Draws Outrage," *The Wall Street Journal*, May 26, 2009, Internet edition.

¹⁰ China has repeatedly held to its general view on the importance of denuclearization, although some find meaningful the varying apparent strengths of its assertions. In one press conference, Foreign Ministry spokesperson Kong Quan stressed that "the Chinese side's persistence on the denuclearization of the Korean Peninsula and on maintaining peace and stability on the Korean Peninsula is resolute and unwavering." Translated in *FBIS*, CPP20050217000174, February 17, 2005. At another press conference four days later, the same spokesperson described China's position "that we stick to the goal of a nuclear free Peninsula." Translated in *FBIS*, CPP20050223000101.

¹¹ Tkacik, John, "Does Beijing approve of North Korea's nuclear ambitions?" *Backgrounder No. 1832*, the Heritage Foundation, March 15, 2005.

Pyongyang. In addition, any deliveries of economic and humanitarian aid to North Korea that result from the talks can only help to ensure stability. For example, after the shelling of Yeonpyeong Island, China did not condemn the action but called for the countries participating in the suspended Six Party Talks to convene what it described as emergency consultations in Beijing.¹²

A significant issue for U.S. policy has been the plight of tens of thousands of North Koreans who have been crossing back and forth over the North Korea-China border since the North Korean famine of the 1990s. Estimates of North Koreans living in China range from 30,000 to more than 100,000. Despite being a party to relevant United Nations refugee conventions, China has not allowed U.N. agencies, in particular UNHCR, the U.N. Refugee Agency, or non-governmental organizations to have access to North Koreans who are residing in China. Beijing views these individuals as economic migrants (rather than political refugees) who cross the border illegally, primarily in search of food.¹³ The Chinese government also has periodically deported North Korean border crossers or allowed North Korean authorities to seize North Koreans in China. Those who are repatriated may face punishment ranging from a few months of “labor correction” to execution. A number of reports also document the difficult conditions faced by North Koreans who remain in China.

Development of China’s North Korea Policy

North Korea exists because of the division of the Korean peninsula into south and north occupation zones (the former administered by the United States and the latter by the Soviet Union) in August 1945 at the end of World War II. Initially meant to be temporary, Cold War politics resulted in the division being solidified in 1948 with the establishment of the Republic of Korea (South Korea) and the Democratic People’s Republic of Korea. Each country remained under the influence of its original occupying power. When North Korea invaded the South in June 1950, the United Nations and the United States came to South Korea’s defense. The intervention of PRC military forces late in 1950 on behalf of North Korea marked the beginning of what later became, in July 1961, the formal PRC-DPRK military alliance—the Treaty of Friendship, Cooperation, and Mutual Assistance—which committed either party to come to the aid of the other if attacked.¹⁴

In addition to their mutual defense alliance, the PRC and DPRK in these early years were bonded by their shared Leninist-socialist ideologies, by their wartime military cooperation, and by years of PRC reconstruction efforts and assistance to Pyongyang after the Korean War. PRC leaders saw North Korea as a crucial buffer state between the PRC border and American military forces stationed in South Korea. In addition, both Pyongyang and Beijing shared what one analyst has

¹² Ian Johnson and Helene Cooper, “China Seeks Talks to Ease Korean Tension,” *The New York Times*, November 28, 2010. Internet edition.

¹³ The international instruments that provide protection to refugees include the 1951 United Nations Convention Relating to the Status of Refugees (Refugee Convention) and the 1967 Protocol to that Convention. Parties to the Refugee Convention have an obligation to abide by the principle of “non-refoulement,” which means that “No contracting State shall expel or return (“refouler”) a refugee in any manner whatsoever to the frontiers of territories where his life or freedom would be threatened on account of his race, religion, nationality, membership of a particular social group or political opinion.”

¹⁴ The Korean War effectively came to an end when an armistice agreement was signed on July 27, 1953. The South Korean government refused to sign the armistice, which has not been replaced with a formal peace treaty or comprehensive peace agreement.

called the frustration of “divided nation ideologies”—the separation of North Korea from South Korea on the Korean Peninsula, and what Chinese leaders viewed as the separation of the PRC on the mainland from the Republic of China on Taiwan.¹⁵ The shared interests and identities between the two governments were enough to assure cordial relations for decades. But these mutual affinities began to diverge in the early 1980s when the PRC initiated economic reforms and market mechanisms under Deng Xiaoping’s leadership, and in 1992 when Beijing established full diplomatic ties with South Korea. Despite these differences and ebbs and flows in the relationship, official ties (measured, for instance, by the number of high-level bilateral meetings) improved and economic flows increased in the 2000s, to the point where by 2009 China had re-emerged as North Korea’s dominant economic partner, if not its lifeline.¹⁶

While Beijing still maintains its military alliance and continues its substantial economic assistance to Pyongyang, in recent years many PRC and North Korean interests and goals appear to have grown increasingly incompatible. North Korea has remained insular, highly ideological, and committed to what many find to be a virtually suicidal economic policy direction. China, on the other hand, has rejected its past excesses of ideological zeal to become a pragmatic, competitive, market-driven economy that increasingly is a major economic and political player in the international system. However, from Beijing’s perspective, its shared interest with Pyongyang in preserving North Korean stability generally has trumped these other considerations. The growing tensions between Beijing’s shared interests with Pyongyang and its increasing differences with that government have created a complex and murky picture for U.S. policymakers who have sought to convince Beijing to be more coercive with Pyongyang and more cooperative with Washington in attempting to shut down North Korea’s nuclear weapons program.

PRC Policy Objectives

PRC leaders have conflicting political and strategic motivations governing their North Korea policy. On the side of the ledger supporting China’s continued close relations with Pyongyang are: shared socialist political ideologies; the human and capital investment China has made in North Korea; Beijing’s credibility as a patron and ally; increased economic ties (particularly between China’s northeast provinces and North Korea’s northern region); Beijing’s desire for a “buffer” against South Korea; and the potentially catastrophic consequences for China’s economy and social structure if something goes terribly wrong in North Korea, with which China shares an 850 mile border. On the opposite side of the ledger are: Beijing’s presumed frustration at dealing with North Korean brinkmanship and unpredictability; the financial drain China incurs by continuing to prop up its bankrupt ally’s economy; the prospect that North Korea’s nuclear status will provoke a nuclear arms race in Asia; and the potential for Beijing’s military involvement in any conflict provoked by Pyongyang. Chinese leaders appear to have to continually re-calibrate and re-balance these competing goals as events unfold on the Korean Peninsula. At its very core, though, Beijing appears to have a number of fundamental policy objectives that do not change.

¹⁵ Scobell, Andrew, “China and North Korea: From Comrades-in-arms to Allies at Arm’s Length,” Strategic Studies Institute, U.S. Army War College, March 2004, p. 2.

¹⁶ For a review of Sino-North Korea relations in the 1990s and 2000s, see Scott Snyder, *China’s Rise and the Two Koreas* (Boulder, CO: Lynne Rienner, 2009), chapter 5.

Assuring Stability and the “Status Quo” on the Korean Peninsula

The political, economic, and security consequences for China of a destabilized North Korea are serious enough for China to justify maintaining stability on the Korean peninsula as a primary policy goal. However unpredictable and annoying the North Korean government may be to Beijing, any conceivable scenario other than maintaining the status quo could seriously damage PRC interests. Another collapse of North Korea’s economy (such as occurred in the 1990s) would severely tax the economic resources of the Chinese central government and, depending on how it dealt with the flood of refugees across its border with the DPRK, could shine a world spotlight on how China treats the refugees and open Beijing to increased criticism from the world community. Armed conflict between North and South Korea likewise would be disruptive to PRC economic and social interests, in addition to risking conflict between the U.S. and PRC militaries on behalf of their allies. Beijing would face a different set of challenges should North Korean political upheaval mirror the demise of East Germany, in which North and South Korea would unite under the latter’s terms. The PRC could then have a nuclear armed and democratic U.S. ally, and possibly U.S. troops and military facilities, directly on its border without the benefit of an intervening buffer state.

Within this context, Beijing’s continuing economic assistance to North Korea can be easier to explain. Rather than a deliberate attempt to sustain North Korea’s nuclear weapons program or undermine an ultimate resolution to the Six Party Talks, as some have suggested, China’s food and energy assistance can be seen as an insurance premium that Beijing remits regularly to avoid paying the higher economic, political, and national security costs of a North Korean collapse, a war on the peninsula, or the subsuming of the North into the South.

Maximizing PRC Influence

Beijing’s second overarching policy goal appears to be a concerted effort to maximize its influence on the Korean Peninsula as well as its leverage in Asia and with all the relevant parties in the Six Party Talks. In the case of North Korea, however, no one knows what kind of leverage Beijing actually has with Pyongyang. It may be that PRC leaders are uncertain as well, given North Korea’s penchant for the unexpected and its demonstrated willingness at times to reject Chinese overtures, carrot and stick alike. If Chinese leaders are, in fact, unsure of the extent of their own leverage, they appear unwilling to be more assertive in testing what those limits might be.

In the calculation of PRC leaders, then, Beijing’s food and energy aid to Pyongyang achieves several objectives. It not only helps to stabilize the erratic regime, but furthers China’s economic influence over North Korea and potentially helps to encourage North Korea to reform its own economy. Such aid also maximizes PRC leverage by raising the costs of misbehavior while suggesting that rewards are possible for good behavior. In other bilateral relationships, Chinese leaders have learned the value of economic interdependence. Beijing appears to have grown more confident that its own giant economy has the power not only to confer economic benefits but to narrow the range of options available to its smaller economic partners. In addition to food and energy assistance, Beijing may calculate that its willingness to provide investment and economic benefits across the Sino-DPRK border will bring North Korean interests more in line with those of China.

Reconvening the Six Party Talks

The PRC also is generally thought to see collateral benefit in its continued involvement with the other players in the Six Party Talks, especially with the United States. For this, Beijing's interests appear to be served by having the Six Party Talks reconvene and continue—one of the hopes expressed by China and the United States in the U.S.-China Joint Statement issued during President Obama's visit to China in November 2009.¹⁷ Continuation of the Six Party Talks process allows Beijing to expand on its mediating role and offers it the potential, however slight the prospect of a successful conclusion to the talks, of being an original crafter of a key international agreement. Continuation of the process provides a more neutral forum for regular conversations with Japan than might otherwise not be possible given lingering Sino-Japanese tensions and the 2010 clash over the Senkaku (Daioyu) Islands.

Finally, continuation of the process burnishes Beijing's credentials with South Korea and gives Beijing leverage with the U.S. Government as well as a wealth of opportunities for bilateral discussions and senior-level meetings with U.S. policymakers. China also insisted on language in U.N. Resolution 1874 that allowed for sanctions to be lifted if the DPRK returned to the negotiating table.¹⁸ In late 2009, however, some observers believe that China, recognizing that the DPRK was unlikely to abandon its nuclear weapons, began to place a greater emphasis on U.S.-North Korea bilateral talks to address denuclearization rather than the Six Party process.

Assuring China's Regional Security Interests/Territorial Integrity

Another logical policy goal for Beijing is the assurance of regional stability and China's own territorial integrity. Leaders in Beijing are aware that a nuclear armed North Korea could lead to decisions by Japan, South Korea, and possibly Taiwan and other Asian neighbors to develop their own nuclear deterrents and ballistic missile capabilities.¹⁹ China may also fear that the North Korean nuclear program could spur a significant Japanese conventional rearmament.²⁰ In keeping with Beijing's own domestic policy priorities, its emphasis on social stability, and its ambition to regional dominance, it can be argued that nothing is more to be avoided than the proliferation around China's periphery of nuclear-armed governments more capable of defending their own national interests when those conflict with China's.

Beijing probably anticipates that the U.S. response to more robust security programs in the region would include an accelerated missile defense program for U.S. friends and allies. Such an enhanced missile defense capability would undermine the effectiveness of Beijing's missile deployment threat opposite the Taiwan coast, aimed at keeping Taiwan from acting on its independence aspirations. North Korea is thus linked to China's primary core interest of assuring its "territorial integrity," which in Beijing's definition includes Taiwan. Beijing also realizes that

¹⁷ President Obama made his first visit to China from November 15 – 18, 2009. The U.S.-China Joint Statement was issued on November 17, 2009. <http://www.whitehouse.gov/the-press-office/us-china-joint-statement>

¹⁸ China also has insisted on ambiguity in parts of U.N. sanction resolutions and have used that ambiguity to escape criticism for not implementing the resolutions.

¹⁹ Danielle Demetriou, "Japan Should Develop Nuclear Weapons' To Counter North Korea Threat," *The Telegraph*, April 20, 2009. Internet edition.

²⁰ For more on the prospects for and debate over Japan developing nuclear weapons, see CRS Report RL34487, *Japan's Nuclear Future: Policy Debate, Prospects, and U.S. Interests*, by Emma Chanlett-Avery and Mary Beth Nikitin.

the U.S. focus on the North Korean military threat generates a hook that keeps U.S. forces tied down on the Korean peninsula and looking north toward the DPRK rather than looking south and showing more concern over possible hostilities across the Taiwan Strait.

North Korean Policy Objectives

The Kim Jong-il government's over-riding policy concerns appear to be security and regime preservation, with a current focus on generational leadership succession. To achieve these ends, the government devotes considerable energy toward acquiring the resources necessary to provide a reasonably high quality of life for the country's elite even at the cost of providing for the country's other citizens. The government's short-term goals include a smooth succession for Kim Jong-un and preparations for the 100th anniversary of the birth of Kim Il-sung, the founder of the DPRK, in 2012. By then the country intends to become a recognized military and economic power and a "great, prosperous, and powerful country."

Pyongyang feels it has already attained the status of a politically, ideologically, and militarily powerful state, but it seeks to be recognized by the world as a nuclear weapon state. Although the DPRK has tested two nuclear weapons, its ballistic missile delivery system is still under development. For Pyongyang, nuclear weapons and missiles along with artillery aimed at South Korea are the keys to its security. Its conventional military forces lack modern equipment, technology, fuel, and experience, although they still are capable of inflicting a huge amount of damage on South Korea. Without nuclear weapons, however, the country would be considered a "basket case" hold-over country from the Cold War, surrounded by nuclear powers, and able to garner about as much world attention as Burma/Myanmar or Laos. DPRK leaders also recognize that putting the military first and transferring resources from the civilian to military side of the economy can only last so long, unless there is robust growth in civilian production. Hence the goal of becoming an "economically powerful state" is crucial both to supply the army and to fulfill a lifelong "cherished desire" of Kim Il-sung, the founder of the country.

On the first day of January each year, DPRK leaders publish their annual goals in a joint editorial carried in several media outlets. In the 2010 editorial, Pyongyang stated that the year was to be one "... of general offensive when ... all efforts should be concentrated on improving the people's standard of living...." The strategy outlined was to focus on light industry and agriculture including state investment and access to more foreign markets. The editorial recognized that heavy industry was critical to the success of light industry and agriculture, and it cited steel, electric power, coal, rail transport, and machine building sectors as important. Other stated goals were to strengthen the Korean People's Army, the workers, and the Party and to achieve national unification by improving north-south relations. The editorial ended by stating that the fundamental task for ensuring peace and stability on the Korean Peninsula and in the rest of Asia was "to put an end to the hostile relationship between the DPRK and the USA" and that it is the "stand of the DPRK to establish a lasting peace system on the Korean Peninsula and make it nuclear-free through dialogue and negotiations."²¹

Such editorials are often useful guides to the official thinking of North Korean leaders, even if they are often rhetorical flourishes not matched by actual policy. The year 2010 turned out to be

²¹ "Joint New Year Editorial of Leading Newspapers in DPRK Released," *Korea Central News Agency*, January 1, 2010.

almost the opposite from what was stated in the editorial. North Korean authorities continued to attempt to impose increasingly rigid restrictions on private sector activity, although this caused such shortages of food and inflation that curbs on markets had to be eased. This crackdown on market activity was followed by military provocations that resulted in a cut-off of trade with South Korea (except for the Kaesong Industrial Complex) and invited stronger economic sanctions by the United Nations and financial sanctions by the United States.

Sino-DPRK Interaction

As geopolitical realities generally dictate, China is more important to the DPRK than the DPRK is to China. Chinese leader Mao Zedong once described the Sino-DPRK relationship to be as close as “lips and teeth,” but in many ways North Korea has become more of a thorn in the side of China than a reliable ally. In recent years, China also has had to respond to the same DPRK policy cycle of provocations, diplomacy, aid deliveries, and back to provocations as have other countries of the world. China, however, is usually not the direct target of the DPRK’s provocative actions (such as testing ballistic missiles or nuclear bombs) and threats. Such actions generally are aimed at the United States, South Korea, or Japan. Beijing, though, has to face the fact that Pyongyang regularly has ignored its advice not to proceed with provocative actions, which, once taken, leave China to fend off hostile reactions by other countries in order to maintain stability on the peninsula.

North Korea’s core interest of regime preservation overlaps with China’s interest in preserving stability on the peninsula. Since the late 1990s, as long as North Korea has been able to convince Beijing’s senior leadership that regime stability is synonymous with North Korea’s overall stability, the Kim government has been able to count on a minimum level of China’s economic and diplomatic support. Indeed, North Korean leaders appear to have used this shared interest to neutralize its growing economic dependence on China, as the greater North Korea’s dependency, the more fearful Chinese leaders may be that a sharp withdrawal of PRC economic support could destabilize North Korea.

China also often has cooperated with North Korea along their border region to ensure that the number and activities of North Korean border-crossers do not spiral out of control. In November 2003, China reportedly transferred responsibility for securing its border with North Korea from the police to its army.²² Many of China’s two million ethnic Koreans live along this border, and it is a favorite crossing point for refugees from North Korea. In 2006, China built a 20-kilometer long fence along its border with North Korea. It is located primarily along areas where the Yalu River dividing the two countries is narrow and the river banks low.²³ Much of China’s trade with the DPRK goes through the port of Dandong on the Yalu River.²⁴

²² Foley, James. “China Steps Up Security on North Korean Border,” *Jane’s Intelligence Review*, November 1, 2003.

²³ “China Erects Massive Fence on N. Korean Border After Test,” *World Tribune.com*, October 25, 2006. Schafer, Sarah. “Threatening the Whole World, on China’s Border with North Korea, Local Villagers Fear the Fallout from Pyongyang’s Nuclear Aspirations,” *Newsweek*, October 12, 2006 (Internet edition).

²⁴ Lee, Chang-hak. “China’s Trade with N.K. Via Dandong Exceeds US \$200 million.” KOTRA, February 21, 2003.

Diplomatic Relations

From North Korea's perspective, its relationship with China has long been fraught with ambivalence. While for nearly two decades China has been Pyongyang's most reliable source of economic and diplomatic backing, China's periodic willingness to go along with sanctions efforts in the U.N. Security Council and the fluctuations in Chinese assistance undoubtedly have made North Korea wary of becoming overly dependent on Beijing, or on any other outside power. During the Cold War, for instance, then-leader Kim Il-sung adeptly used the Soviet-Chinese rivalry to extract considerable economic assistance from Moscow (the DPRK's primary Cold War patron) and Beijing. When Chinese support waned in the mid-1990s, North Korea opportunistically turned to other outsiders, including Taiwan, for aid, particularly as it was wracked by a devastating famine.

For the decade prior to 2008, left-of-center governments in Seoul under what was called the "Sunshine Policy," provided considerable economic assistance and diplomatic support for Pyongyang. Since the mid-1990s, North Korea has episodically reached out to the United States as an important source of food aid and energy assistance. Japan also was moving toward normalizing relations with the DPRK and providing North Korea with a large cash settlement until the issue of Japanese citizens abducted by the North Korean intelligence service derailed the talks in late 2004 and halted bilateral aid and trade. Indeed, since late 2008 the degree to which China has emerged as North Korea's dominant trade and aid partner is unusual.

For China, the DPRK's nuclear program has added a new dimension to bilateral relations and to the strategic situation in the region. When the DPRK tested a ballistic missile and its second nuclear weapon in April-May 2009, many believe it crossed a threshold with China. Until that time, Pyongyang apparently had convinced Beijing that it was pursuing its nuclear activity primarily as a bargaining chip in negotiations with the United States and other countries. Following the May nuclear test and subsequent statements by North Korean leaders, it became apparent that not only had Pyongyang been deceitful in its assurances to Beijing but that the DPRK never intended to relinquish its nuclear weapon programs and its goal was to become a recognized nuclear weapon state. Suddenly, China's attitude toward the DPRK shifted and two of Beijing's goals with respect to the DPRK came into sharper focus—denuclearization and stability on the Korean peninsula. Denuclearization likely would not occur, and sanctions resulting from the nuclear activity potentially could destabilize the North Korean economy.

China's role in hosting the Six Party Talks creates a delicate balancing act for Beijing with respect to its relations with the DPRK. Although denuclearization of the Korean peninsula would be desirable for China, Beijing fully recognizes Pyongyang's security situation and perception that it is completely surrounded by nuclear powers or countries under the U.S. nuclear umbrella and that South Korea, Japan, and the United States are "hostile" powers. Aside from the 6PT, however, Beijing appears to be focusing on its primary interests of stability and regime preservation in Pyongyang and preferring that the United States and other parties in the talks take the lead on denuclearization. Beijing has been encouraging the United States to negotiate the nuclear issue on a bilateral basis, although China also has encouraged the DPRK to return to the 6PT in 2010.

As an example of the mixture of interests and actions by Beijing, when China supported U.N. Resolution 1874 condemning the DPRK's nuclear test, Beijing insisted on certain provisions to protect its fundamental interests of peace and stability on the Korean peninsula and preventing the creation of a unified North and South Korea that might destroy its buffer zone with South Korea or bring a less friendly, U.S. ally up to its border. In voting in favor of Resolution 1874, the

Chinese representative Zhang Yesui stressed that the sovereignty, territorial integrity and legitimate security concerns and development interests of the DPRK should be respected and that after its return to the Nuclear Non-Proliferation Treaty, the DPRK would enjoy the right to the peaceful use of nuclear energy as a State party. The Chinese representative also said that the Security Council's actions should not adversely impact the country's development or humanitarian assistance to it, and that as indicated in the text of the resolution, if the DPRK complied with the relevant provisions, the Council would review the appropriateness of suspending or lifting the measures. He also emphasized that under no circumstances should there be use of force or threat of use of force.²⁵ China may ease enforcement of the U.N. sanctions if the DPRK returns to the 6PT.

As the resolution led to a tightening of sanctions and to some high-profile interdictions or attempts to interdict shipments of suspected cargo bound to or from the DPRK, Pyongyang went on a diplomatic offensive not only with countries of the West but with China. On October 4, 2009, the sixtieth anniversary of diplomatic relations between China and the DPRK, Chinese Premier Wen Jiabao made a "goodwill trip" to Pyongyang, the first by a Chinese Premier in eighteen years. He was accompanied by a large delegation of high ranking officials. Both countries vowed to support each other and signed several documents including an agreement on economic and technological cooperation.²⁶ Wen also offered to expand and strengthen economic cooperation and exchange, and the two sides reached a consensus to proceed with construction of a new bridge over the Yalu (Amnok) River between their two countries (funded by China and estimated to cost over \$150 million).²⁷ In addition, Wen reportedly offered an economic cooperation package worth another \$50 million.²⁸

In November 2009, a Chinese-language website reported that China is planning a major new development zone called the Tonghua-Dandong Economic Zone, along the North Korean border aimed at boosting trade. This zone is to include the rebuilt bridge, a new port, a duty-free zone, warehouses, and international transit facilities. It is to cover about 350 km or most of the Western half of the Sino-DPRK border.²⁹

On November 23, 2009, Chinese Defense Minister Liang Guanglie visited Pyongyang, the first defense chief to visit since 2006. This was the initial stop on a three-nation Asian tour that included Japan and Thailand.³⁰ The main objective of Minister Liang's DPRK visit reportedly was to bring "closer friendly exchanges between the Chinese and DPRK armed forces and

²⁵ U.N. Security Council Statement, SC/9679, June 12, 2009.

²⁶ Signed at the ceremony were the "Protocol on the Adjustment of Treaties Between the Governments of the DPRK and China" and the "Agreement on Economic and Technological Cooperation Between the Governments of the DPRK and China," exchange documents on economic assistance and other agreed documents in the field of economy, an accord on exchange and cooperation between educational organs of the two countries, a memorandum of understanding (MOU) on exchange and cooperation in the field of software industry and a protocol on common inspection of export and import goods between the state quality control organs of the two countries, a MOU on tour of the DPRK sponsored by the tourist organizations of China and an accord on strengthening the cooperation in protecting wild animals. *Agreement and Agreed Documents Signed between DPRK, Chinese Government*, October 4, 2009, Korea Central News Agency of the DPRK.

²⁷ Korea Central News Agency of DPRK, "Talks Held between DPRK and Chinese Premiers," October 4, 2009.

²⁸ "China Brings Lavish Gifts to N. Korea," *The Chosun Ilbo*, October 7, 2009, The English Chosun, Internet edition.

²⁹ Michael Rank, "China Approves Tumen Border Development Zone," *North Korean Economy Watch*, November 23, 2009, Archive for the 'Tonghua-Dandong Economic Zone' Category.

³⁰ Associated Press, "China's Defense Minister Travels to North Korea," *The China Post*, November 23, 2009.

promote exchanges and cooperation between the people and armies of the two countries.” Denuclearization was not an announced goal of the visit.³¹ On November 17, North Korean General Kim Jong-gak, the first vice director of the General Political Bureau and an influential leader in the North Korean Army, visited Beijing. These military exchanges reversed the split between the armies of the two countries after military-to-military ties were virtually severed in the late 1950s when Kim Il-sung conducted a mass purge of the so-called pro-Chinese “Yanan faction” in the North Korean military. After the May 2009 nuclear test, it became apparent that the influence of the military on DPRK policy had grown, and China apparently felt the need to re-establish communication channels with the Korean People’s Army.³² It also must be apparent to Pyongyang that its alliance relationship with China is not nearly as operational as the U.S. alliance with South Korea and that strengthened military ties with China are crucial as it seeks to increase its security.

In 2010, Kim Jong-il visited China for the fifth and sixth times. Kim had gone to China in 2000, 2001, 2004, and 2006,³³ so more than three years had passed since his last visit. When Chinese Premier Wen Jiabao met with Kim Jong-il in October 2009, he had invited Kim to visit China again.

The March 2010 sinking of the South Korean naval ship, the *Choenan*, allegedly by North Korea (that killed 46 sailors) and the subsequent North Korean shelling of Yeonpyeong Island on November 23, 2010 (that killed at least four South Koreans) placed Beijing in a delicate position. Anxious not to disturb the planned January 2011 Hu-Obama summit in Washington, DC, China reportedly got North Korea to back off its threats of nuclear war if South Korea went ahead with live-fire exercises on December 6, 2010, on the disputed island.³⁴

Economic Relations

China, with its huge economy and rapid rate of growth, is the lifeline that keeps the DPRK economy alive. China not only provides needed food, equipment, and consumer goods, but it stands as a model of how a backwards, command-type economy can develop without compromising its socialist ideals. For several years, Beijing has been trying to induce the DPRK to undertake economic reforms similar to those pursued by China over the past quarter century. The rise of markets and other “reforms” that have occurred in North Korea, however, have resulted primarily from a “bottom up” process and from necessity as the central government faltered on its ability to deliver food and living essentials through its distribution system. Still, inflows of consumer goods from China and an increasing number of cooperative industrial projects, primarily in the Northern Korean provinces, have created a market-based means of generating income and distributing goods to families.

North Korea’s leaders have displayed mixed reactions to this Chinese penetration into their economy and the concomitant spread of private markets. These market activities not only carry

³¹ Liu Yantang, Yuan Yuan, and Sun Xiali, “Military Diplomacy Creates a Peaceful Periphery” (carried in Open Source as “PRC Experts Examine China’s Military Diplomacy With DPRK, Japan, Thailand,” *Liaowang*, November 30, 2009, In Chinese, translated by Open Source, Document CPP20091209710009.

³² “Chinese Defense Minister Pledges Loyalty in N.Korea,” November 24, 2009, *English Chosun Ilbo*.

³³ “Unification Minister Seeks Central Role in Ties with N.Korea,” *English Chosun Ilbo*, January 9, 2010, Internet edition.

³⁴ “China-US Row Over North Korea As Tensions Rise,” *BBC News Asia-Pacific*, December 9, 2010, Internet edition.

negative strategic ramifications (challenges to North Korea's philosophy of self reliance and to North Korean socialism), but, more importantly, such Chinese-style capitalism and influx of consumer goods could have a potentially corrosive effect upon the level of control the Kim regime has over the lives of individuals.

In late 2009, the DPRK government carried out a currency reform that actually amounted to a confiscation of wealth by the central government and an attack on Chinese-style markets. Much of the wealth that became worthless had been accumulated by "illegal" merchants and traders through their activity on private markets. Under the currency reform, the government issued new currency denominated in amounts one-hundredth of those on the old currency. An old 1,000 won note could be exchanged for 10 won in new notes. Introduced ostensibly to control inflation, the catch was that the amount that households could exchange was limited initially to about \$40 (later raised to about \$200). Holdings of foreign exchange also were prohibited, so the currency reform effectively became a device to confiscate wealth, much of it earned by buying goods in China and selling them in North Korean markets.³⁵ This reform amounted to a rebuke, not only of the North Koreans who had accumulated wealth through private markets but of China who had been encouraging market-oriented reforms similar to those undertaken by Beijing. The currency reform, however, was such a disaster that the government official in charge reportedly was shot.

China has become the key to North Korea's economic relations with the outside world. Not only is the PRC the main trading partner of the DPRK, but China has become a critical player in the implementation of economic sanctions on the DPRK. In 2009, China provided about half of all North Korean imports and received a quarter of its exports. North Korea's trade with South Korea also had been significant until almost all intra-Korean trade was blocked following the sinking of the Choenan naval ship. Prior to this cessation of trade (except for that with the Kaesong Industrial Complex), much of the intra-Korean trade could be attributed to South Korean firms that sent items to be sewn or assembled on consignment or shipped raw materials and components to their subsidiaries in the Kaesong Industrial Complex and then sent the final products to South Korea.³⁶

Although China is the DPRK's largest trading partner, the DPRK plays a relatively minor role in China's trade. In 2009, North Korea ranked 82nd among China's export markets—smaller than Kenya, Sri Lanka, or Peru. As a source of imports, North Korea ranked 77th—below Gabon, Yemen, or Ukraine.

As shown in **Table 1**, Sino-DPRK trade has been rising steadily. While such trade is dwarfed by China's trade with countries such as South Korea (total bilateral trade of \$156 billion in 2009), both imports from and exports to the DPRK have increased significantly over the past decade. In 2009, despite the depressing effect of the global financial crisis, DPRK exports to China increased to \$793 million, although Chinese exports to the DPRK slowed slightly to \$1,888 million. The bilateral trade is highly imbalanced with China's surplus exceeding \$1 billion in 2009.

³⁵ For details, see Stephan Haggard and Marcus Noland, *The Winter of Their Discontent: Pyongyang Attacks the Market*, Peterson Institute for International Economics, Policy Brief Number PB10-1, Washington, DC, January 2010.

³⁶ This trade essentially consists of shipments of raw materials and components from South Korea to an industrial zone in North Korea and the return of finished products from the zone to South Korea. For details, see CRS Report RL34093, *The Kaesong North-South Korean Industrial Complex*, by Dick K. Nanto and Mark E. Manyin.

Table I. China's Merchandise Trade with the DPRK, 1995-2009
(\$ in millions)

Year	China's Imports	China's Exports	Total Trade	China's Balance
1995	63.609	486.037	549.646	422.428
1996	68.638	497.014	565.652	428.376
1997	121.610	534.411	656.021	412.801
1998	51.089	356.661	407.750	305.572
1999	41.722	328.634	370.356	286.912
2000	37.214	450.839	488.053	413.625
2001	166.797	570.660	737.457	403.863
2002	270.863	467.309	738.172	196.446
2003	395.546	627.995	1,023.541	232.449
2004	582.193	794.525	1,376.718	212.332
2005	496.511	1,084.723	1,581.234	588.212
2006	467.718	1,231.886	1,699.604	764.168
2007	581.521	1,392.453	1,973.974	810.932
2008	754.045	2,033.233	2,787.278	1,279.188
2009	793.026	1,887.741	2,680.767	1,094.715

Source: China, Ministry of Commerce (excludes Hong Kong and Macau).

As shown in Table 2, in 2009 North Korea exported an estimated total of \$2,235 million in merchandise (down from \$3,052 million in 2008) while importing \$3,488 million (down from \$5,197 million in 2008). This created an apparent merchandise trade deficit of \$1,253 million (down from \$2,144 million in 2008) with \$1,095 million of that with China.³⁷ China provides more than half of North Korea's imports. On the export side, South Korea was the largest buyer of North Korean products, and China was second. However, if exports to and imports from South Korea of raw materials, components, and products assembled in the Kaesong Industrial Complex, just across the border in North Korea, are not counted, the vast majority of North Korean trade is with China. Economic sanctions imposed by Japan and the United States have reduced their respective trade with the DPRK to almost nothing except for intermittent humanitarian aid.

³⁷ The South Korea Trade-Investment Promotion Agency (KOTRA) has estimated that in 2008, North Korea exported \$1,130 million while importing \$2,685 million for a trade deficit of \$1,555 million. The KOTRA data, however, exclude data for about 60 developing countries and do not include South Korean trade with the DPRK.

Table 2. Estimated North Korean Trade by Selected Trading Partner
(\$ in millions)

North Korean Exports			North Korean Imports		
Destination Country	2008	2009	Source Country	2008	2009
World	3,052.3	2,235.0	World	5,196.6	3,488.2
South Korea	932.3	934.3	China	2,033.2	1,887.7
China	754.0	793.0	South Korea	888.0	744.80
Brazil	176.4	96.0	India	1,048.1	315.4
Venezuela	213.6	60.4	Brazil	204.7	118.6
Germany	20.2	39.7	South Africa	152.1	103.8
Hong Kong	31.7	30.0	Singapore	120.0	55.4
Netherlands	26.7	26.9	Germany	31.4	43.2
Paraguay	33.1	20.8	Russia	97.0	41.1
Russia	13.5	20.6	Italy	37.0	39.4
Peru	14.6	20.1	Thailand	47.8	30.3
Thailand	29.0	14.0	Costa Rica	31.4	29.4
Taiwan	15.6	13.3	Hong Kong	8.6	26.3
Mexico	20.9	12.5	Canada	21.2	22.8

Source: S. Korean data from S. Korea, Unification Ministry. Other country data from Global Trade Atlas and U.N. COMTRADE Database. World trade data from U.N. COMTRADE Database, accessed via U.S. Department of Commerce, Trade Policy Information System. World trade totals are mirror data derived from U.N. reporter country trade with North Korea plus inter-Korean trade reported by South Korea and Taiwan's trade with North Korea.

Note: Figures are nominal and not adjusted for inflation.

In 2009, China's major imports from North Korea included mineral fuels (coal), ores, woven apparel, iron and steel, fish and seafood, and salt/sulfur/earths/stone. China's major exports to North Korea included mineral fuels and oil, machinery, electrical machinery, vehicles, knit apparel, plastic, and iron and steel.

A recent development has been North Korea's increase in exports of primary products (such as fish, shellfish and agro-forest products) as well as mineral products (such as base metallic minerals). Pyongyang reportedly has imported aquaculture technology (mainly from China) to increase production of cultivated fish and agricultural equipment to increase output of grains and livestock. It also has imported equipment for its coal and mineral mines. Much of the coal and mineral exports have resulted from partnering with Chinese firms through which the Chinese side provides modern equipment in exchange for a supply of the product being mined or manufactured.

China is a major source for North Korean imports of petroleum. According to Chinese data, in 2009, exports to the DPRK of mineral fuel oil totaled \$327 million and accounted for 17% of all Chinese exports to the DPRK. China, however, does not appear to be selling this oil to North

Korea at concessionary prices. In 2008, the average price for Chinese exports of crude oil to North Korea was \$0.78 per kilogram, while it was \$0.71 for such exports to the United States, \$0.66 for South Korea, \$0.81 for Japan, and \$0.50 for Thailand.³⁸

China's economic assistance to North Korea accounts for about half of all Chinese foreign aid. Beijing provides the aid directly to Pyongyang, thereby enabling it to bypass the United Nations. China is, therefore, able to use its assistance to pursue its own political goals independently of the goals of other countries. It is widely believed that some Chinese food aid is taken by the DPRK military. This allows the World Food Program's food aid to be targeted at the general population without risk that the military-first policy or regime stability would be undermined by foreign aid policies of other countries.³⁹

China is the largest foreign direct investor in North Korea (not counting South Korean investment in the Kaesong Industrial Complex). In 2007, the total foreign direct investment (FDI) into the DPRK reported to the United Nations amounted to \$67 million (excludes investment from South Korea). Of this, China supplied \$18.4 million. In 2008, of a total of \$44 million, China supplied \$41.2 million.

Chinese companies have made major investments aimed at developing mineral resources located in the northern region of the DPRK. This is part of a Chinese strategy of stabilizing the border region with the DPRK, lessening the pressure on North Koreans to migrate to China, and raising the general standard of living in the DPRK. Some of the Chinese investment include:⁴⁰

- China Tonghua Iron and Steel Group (a state owned but partially privatized enterprise) has invested 7 billion yuan (approximately \$875 million) in developing the DPRK's Musan Iron Mine, the largest open-cut iron mine in Asia with verified iron-rich ore reserves reaching seven billion tons.
- China's Tangshan Iron and Steel Company (Hong Kong capital) is building a steel smelting plant in the DPRK with an annual steel output of 1.5 million tons. It is to be jointly funded by the DPRK side and is to involve joint development and utilization of nearby iron ore.
- The China Iron and Steel Group (joint stock enterprise) reportedly is developing a molybdenum mine in the DPRK with a goal of producing more than 10,000 tons of molybdenum concentrate per year.
- China's Jilin Province also has cooperated with the Hyesan Youth Copper Mine, Manp'o Zinc and Lead Mine, and the Hoeryo'ng Gold Mine in the DPRK. One project is to transmit electricity from Jilin's Changbai County to the DPRK in exchange for the gold, copper, and other ores. In 2007, the Luanhe Industrial

³⁸ Average price calculated by World Trade Atlas using Chinese trade statistics.

³⁹ Babson, Bradley O. *Towards a Peaceful Resolution with North Korea: Crafting a New International Engagement Framework* Paper presented at a conference sponsored by the American Enterprise Institute, Korea Economic Institute, and Korea Institute for International Economic Policy, Washington, DC, February 12-13, 2004.

⁴⁰ Shanghai Northeast Asia Investment & Consultancy Company. *A Study Report on the DPRK Mineral Resources*. Shanghai Northeast Asian Forum website, in Chinese, December 7, 2007. Reported by Open Source Center, document #KPP20080123032002.

- Group and another unnamed Chinese privately owned company took a 51% controlling interest in Hyesan Youth Copper Mine.⁴¹
- China's Heshi Industry and Trade Company (a private company) along with the International Mining Company have set up a joint venture with the DPRK's So'gyo'ng 4 Trade Company called the "DPRK-China International Mining Company."
 - China Minmetals (State controlled enterprise) established a joint venture for mining coal with the DPRK at the Ryongdu'ng Coal Mine.
 - China's Zhaoyuan Shandong Guoda Gold Stockholding Company and the DPRK Committee for the Promotion of External Economic Cooperation have established a joint venture mining company to mine the gold in the DPRK's Mt. Sangnong and to ship all the mined gold concentrate to Zhaoyuan for smelting.

China and Economic Sanctions

In 2006, Pyongyang's missile and nuclear tests severely strained relations between China and the DPRK. Beijing had warned the DPRK not to conduct either of the tests and "lost face" when Pyongyang went ahead with them anyway. As a result, for the first time China agreed to U.N. Security Council Resolution 1718 (2006) imposing sanctions on the DPRK⁴² and also took measures to halt banking transactions with certain North Korean entities and temporarily curtail shipments of petroleum. China, however, did not agree to conduct inspections of shipments along its borders with North Korea. After North Korea's long-range missile test in April 2009, China agreed to stronger U.N. sanctions on three North Korean companies. Following North Korea's second nuclear test in May 2009, China issued a strong statement of condemnation and in June 2009 backed U.N. Security Council Resolution 1874 that provided for additional sanctions on the DPRK. This included:

- an arms embargo (which also encompasses a ban on related financial transactions, technical training or services), with the exception of the provision by States to the DPRK of small arms and light weapons and their related materiel, on which States are required to notify the Committee⁴³ in advance;
- an embargo on items related to nuclear, ballistic missiles and other weapons of mass destruction programs;⁴⁴
- a ban on the export of luxury goods to the DPRK; and individual targeted sanctions—namely, a travel ban and/or an assets freeze on designated persons and entities.

The PRC, however, constitutes a large gap in the circle of countries that have approved U.N.S.C. Resolutions 1718 and 1874 and are expected to implement them. China takes a minimalist approach to implementing sanctions on North Korea. North Korea continues to use air and land

⁴¹ John C. Wu, *The Mineral Industry of North Korea*, in U.S. Department of the Interior, U.S. Geological Survey, 2007 Minerals Yearbook, North Korea [advance Release], Washington, DC, September 2008.

⁴² See U.N. Security Council Resolution 1718, October 14, 2006.

⁴³ The U.N. Security Council Committee established pursuant to resolution 1718 (2006).

⁴⁴ A list of items under embargo can be found at http://www.un.org/sc/committees/1718/xportimport_list.shtml.

routes through China with little risk of inspection, and luxury goods from China and from other countries through China continue to flow almost unabated to Pyongyang. In addition, North Korea uses front companies in China to procure items under sanction.⁴⁵ Clearly, China holds the key to implementing sanctions on the DPRK, and it arguably could devote more resources to detecting and stopping North Korean violations of U.N. Security Council Resolutions.

China recognizes the leverage it wields through its exports of petroleum to the DPRK. According to a news report from Japan, following the DPRK's second nuclear test, China imposed its own "sanctions" on the DPRK by temporarily reducing crude oil shipments through its pipeline with North Korea. Previously, following the DPRK's missile test on April 5, 2009, China had tightened inspections of weapons-related exports to North Korea.⁴⁶ China also cancelled a joint venture with North Korea to produce vanadium (used to toughen steel alloys used in missile casings) and has intercepted a shipment of 70 kg of vanadium hidden in a truckload of fruit crossing the border into North Korea.⁴⁷ China reportedly also has called a halt to the work by a Chinese investment company to build facilities for a copper mine in Hyesan, North Korea. An estimated 400,000 tons of copper are deposited there. In November 2006, the Chinese firm had signed an agreement with (North) Korea Mining Development Trading Corporation to develop the mine. This trading corporation was included in the designations in UNSC Resolution 1874.⁴⁸

As for arms shipments, data on China's exports of arms to North Korea are generally not available. However, countries do report their trade in small arms and ammunition with the DPRK. China's exports of small arms and ammunition to North Korea reached \$3.5 million in 1996 and \$2.85 million in 1999, but they were fairly insignificant until 2009 when such sales jumped to \$4.32 million. In 2009, China was the only reported exporter of small arms to North Korea.

Table 3. Reported Exports of Small Arms to the DPRK by Country
(in U.S. Dollars)

Source Country	2005	2006	2007	2008	2009
Total Reported	61,055	60,632	31,000	781,032	4,316,741
Canada	3,400	0	0	10,888	0
China	0	26,100	20,000	27,800	4,316,741
France	51,014	0	0	188,815	0
Germany	2,000	10,000	11,000	0	0
Italy	0	24,532	0	0	0
Spain	4,641	0	0	0	0
Switzerland	0	0	0	553,529	0

Source: Data downloaded through Global Trade Atlas.

⁴⁵ David Albright and Paul Brannan, "Taking Stock: North Korea's Uranium Enrichment Program," The Institute for Science and International Security, October 8, 2010.

⁴⁶ "China Imposes Own 'Sanctions' on DPRK by Reducing Crude Oil Shipment, Stepping Up Customs Inspection on Exports to the DPRK," *Asahi Shimbun* (in Japanese), June 13, 2009, Translation in U.S. Forces Korea J2, Korea, *Open Source Digest*, Volume II, Issue 114, June 16, 2009.

⁴⁷ "China foils smuggling of missile-use material to North Korea," *The Chosun Ilbo*, July 25, 2009, Internet edition.

⁴⁸ "N. Korea Mining Project Buckles Under UN Sanctions," *The Chosun Ilbo*, July 30, 2009, Internet edition.

Notes: Harmonized Tariff System Codes 93 (Total) and 9301, 9302, 9303, 9304 + 9305, and 9306, respectively.

In exports of luxury goods, for example, in July 2010, Radio Free Asia reported that Kim Jong-il had provided 160 luxury cars (made in China) to directors of provincial committees of the Korean Workers Party and to municipal committee secretaries (higher level officials already had vehicles).⁴⁹ Such cars would be included on a list of luxury goods by most any country.

Kim Jong-il's penchant for luxury goods is well known and reportedly includes caviar, Mercedes Benz automobiles, suits made from Scabal fabric, Moreschi shoes, Perrier water, and Martell cognac.⁵⁰ UNSCR 1874 banned exports of luxury goods to North Korea, but it did not specify which goods were included in the ban. China, therefore, claims that without specifically defining a luxury good, the ban is not enforceable. The definition of a luxury goods does vary by country, but certain items would seem obvious for inclusion.

Using the U.S. and U.K. definitions of luxury goods, in 2009, countries that report trade to the United Nations exported \$212.2 million in luxury goods to North Korea. China led the way, with exports of luxury goods of \$136.1 million in 2009 (mostly tobacco, computers, and cars). Brazil exported \$36 million (mostly tobacco and precious stones), Singapore \$29 million (mostly tobacco), and Russia \$4 million (mostly cars, some beef and computers but no alcoholic beverages). Western visitors to Pyongyang in September 2010 reported that there seemed to be no scarcity of luxury goods in markets there. Most of the luxury goods seemed to be from China, but those from Japan also were plentiful. In July 2010, Radio Free Asia reported that Kim Jong-il had provided 160 luxury cars (made in China) to directors of provincial committees of the Korean Workers Party and to municipal committee secretaries (higher level officials already had vehicles).⁵¹

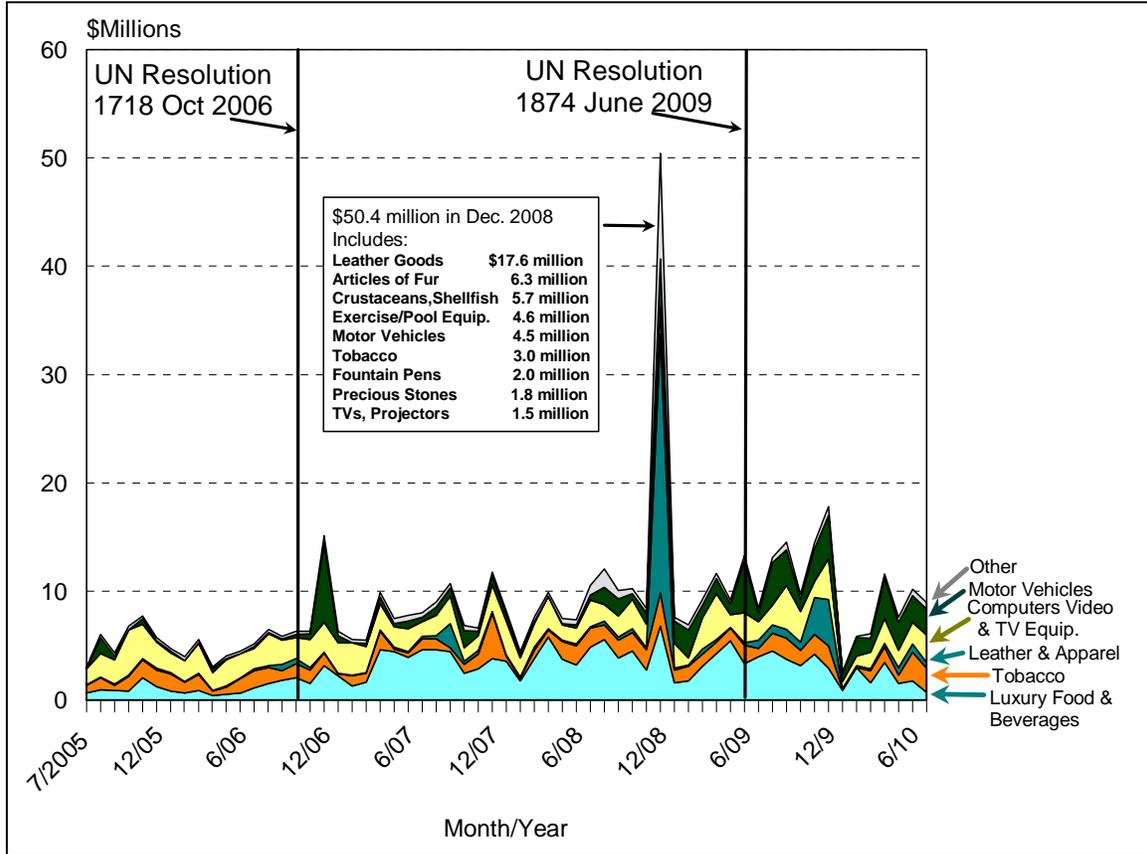
China's exports of luxury goods to North Korea have fluctuated each month but generally continued to rise after each UNSC resolution before falling somewhat more recently. There were spikes in exports during December of each year prior to the New Year's gift giving season. The \$136.1 million total for 2009 was down somewhat from \$146.8 million in 2008. In early 2010, however, there was a decided drop in such exports, although by mid-year, they had recovered to \$8.6 million per month—about the same level as in 2008. The big three categories, at about \$2 million each per month, have been tobacco, portable computers, and passenger motor vehicles. It is notable that by July 2010, Chinese exports of luxury food and alcoholic beverages had tapered off to \$0.7 million per month from as high as \$6 million in December 2008. (See **Figure 1**.) Clearly, China has not been enforcing the sanctions on luxury goods.

⁴⁹ Tae Hong Kim, "Kim Jong Il Showers Loyals with Cars," *The Daily NK*, July 30, 2010.

⁵⁰ "Kim Jong-il's Label Addiction Revealed," *Choson Ilbo*, August 18, 2010.

⁵¹ Tae Hong Kim, "Kim Jong Il Showers Loyals with Cars," *The Daily NK*, July 30, 2010.

Figure I. China's Exports of Luxury Goods to North Korea
In Million U.S. Dollars



Source: Underlying data accessed through Global Trade Atlas.

Notes: The list of luxury items are from the U.S. Department of Commerce. Computers include only those less than 10 kg (laptops).

It is possible that China views sanctions on exports of luxury goods as “unenforceable,” since such goods can be bought on the open market by North Korean traders (and their representatives) who are engaged in buying a variety of other consumer goods from wholesale and retail outlets. China also may be focusing its efforts on large, security related items rather than luxury goods. However, China’s approval of U.N. Resolution 1874 implies that as a country it is committed to enforcing all aspects of the resolution, including the ban on exports of luxury goods.

Author Contact Information

Dick K. Nanto
Specialist in Industry and Trade
dnanto@crs.loc.gov, 7-7754

Mark E. Manyin
Specialist in Asian Affairs
mmanyin@crs.loc.gov, 7-7653

Acknowledgments

A principal author of this report was Kerry Dumbaugh, who is no longer with CRS.