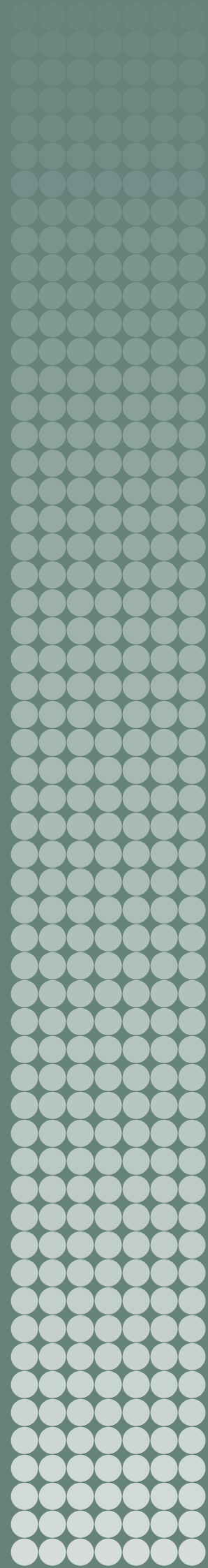


CHINA'S ENGAGEMENT OF NORTH KOREA

Challenges and Opportunities for Europe

BY FEI SU AND LORA SAALMAN



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February 2017



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Preface

Based on two years of statistical research, interviews and workshops, this report filters through a vast trove of Chinese-, Korean- and English-language research to better understand Chinese decision-making on North Korea. The report uses a methodology that integrates quantitative and qualitative analysis. It provides insights into how China seeks to mitigate the tension between two potentially contradictory strands of policy towards North Korea: on the one hand, economic engagement and, on the other, support for sanctions. The report builds on this analysis to evaluate how European countries might best cooperate with China on North Korea regarding economic, non-proliferation and security issues, while honouring their own United Nations commitments.

This report is unique. Most analyses of North Korea focus on the nuclear issue, but this report seeks to understand the calculus and changing motivations behind China's policies and negotiation patterns. It places an emphasis on North Korea's 2013 nuclear test as a turning point in China's attitudes towards North Korea's nuclear programme. Rather than simply using official statements and media reports to make this claim, the report probes the political, economic and social factors behind this shift. In doing so, it unveils how Chinese experts are often conflicted on denuclearization and the instability that it may bring. The report further throws into question the long-held assumption that North Korean economic development will lead it to relinquish its nuclear weapons. While Chinese emphasis continues to be on North Korea using its own concept of 'reform and opening up', the report notes that this does not necessarily translate into the latter's 'Byongjin line', which advocates parallel nuclear and economic development.

While some of the report's recommended areas for Chinese and European cooperation on North Korea already exist, it provides a persuasive argument that these avenues could be better integrated, regularized and expanded. European countries stand outside the current deadlock on North Korea. Therefore, the report suggests that they could be integral to achieving headway on dialogue, crisis management, export controls and humanitarian assistance. The assessment that Chinese and European engagement on North Korea could be conducted in a less ad hoc and more systematic manner is of great salience in the current international context, in which European powers find that they have to redefine their national security objectives and priorities. Likely shifts in US economic and defence policies in Asia and Europe may well provide an opportunity for China and European powers to chart their own course and aims on North Korea. This report is intended to serve as one of the first steps enabling them to do so.

Dan Smith
Director, SIPRI
Stockholm, February 2017

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Special thanks go to Dr Zhang Huizhi, vice dean of Jilin University's North East Asian Studies College, whose tireless efforts ensured the success of this project throughout its various stages. Gratitude also goes to Dr Mathieu Duchâtel, senior policy fellow and deputy director of the Asia and China Programme at the European Council of Foreign Relations, who began this project; and Phillip Schell, associate political affairs officer, United Nations Department of Political Affairs, who also participated in the interview and workshop process.

The authors also wish to express their sincere appreciation to SIPRI's Editorial Department for its significant contributions to realizing this final publication.

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Beijing and Stockholm, February 2017

Executive summary

China's approach to North Korea's advances in nuclear weapons and ballistic missile technologies is frequently discussed, but its economic engagement with North Korea and implementation of sanctions receive less detailed attention. This report assesses the evolution of China's engagement of North Korea and how this has translated into its commitments to United Nations Security Council resolutions. It further offers an overview of pre-existing European engagement with China on North Korea and how this can be enhanced in the future. Its findings suggest that expanded dialogue channels, crisis management, export-control training and non-proliferation, humanitarian engagement through civil society and integrated-aid systems can provide a foundation for converting Europe's cooperation with China on North Korea from ad hoc initiatives to a coherent and sustainable strategy.

This report is based on two years of empirical data and findings from statistical research, interviews and workshops. Among these, SIPRI experts conducted a series of interviews in April 2015, June 2015 and September 2016 in Beijing, Changchun, Yanji, Dandong and Shenyang. In addition to providing a wider geographic scope, this coverage elicited perspectives and analyses of Chinese experts positioned close to the border with North Korea, including academics, military officers and officials from the Jilin Academy of Social Sciences at Jilin University, the Liaoning Academy of Social Sciences at Eastern Liaoning University, Yanbian University, Peking University, Renmin University, Tsinghua University, the Office of Food and Agriculture Organization of the United Nations in Beijing, the Office of the World Food Programme in Pyongyang, the China Institute of International Studies, the China Institutes of Contemporary International Relations, traders in Dandong Province in China, as well as a range of other European diplomats and representatives of international and non-governmental organizations based in China and South Korea.

Section one provides an overview of responses by the United Nations to North Korean nuclear tests and missile launches. In discussing the range of sanctions levied since North Korea's first nuclear test in 2006, the report focuses on the shift in China's negotiating stance at the UN following North Korea's 2013 nuclear test. It suggests that this test marked a turning point, after which China took a stronger position on North Korea's actions. It also notes, however, that some Chinese attitudes are slower to change. The majority of Chinese experts continue to maintain that the Chinese model of special economic zones (SEZs) will lead to gradual reforms in North Korea. Nonetheless, this section concedes that, under its 'Byongjin line', North Korea's determination to accelerate nuclear development in tandem with economic growth indicates that China's model may have limits to its application in North Korea.

Section two assesses Chinese perceptions of the relation between denuclearization and sanctions enforcement. While China has begun to advocate North Korea relinquishing its nuclear weapons at the official level, its expert community questions the extent to which this can be achieved. Both official and non-official voices emphasize that sanctions are not a means to achieve denuclearization, but rather a way to draw North Korea back to the negotiation table. This section also notes that Chinese analysts tend to agree that the North Korean regime has stabilized, even under the imposition of increasingly harsh sanctions. Following its fourth nuclear test and the Seventh Party Congress in 2016, North Korea officially entered what some Chinese experts call the 'Kim Jong-un era', in which Kim has consolidated his power inside the regime. While this ratcheting down of regime insecurity might be beneficial to future nuclear talks, the section notes that obstacles to future multilateral talks are cropping up outside of North Korea's borders. They cite South Korea's intention to

deploy US Terminal High Altitude Area Defence (THAAD) systems and the growth of a triangular South Korea–Japan–USA alliance among the factors reducing China's willingness to engage in US-led frameworks or talks.

Section three reviews the current trends in the North Korean economy and examines the implications of China's economic engagement as a means of achieving denuclearization of the Korean Peninsula. Marked by low-market penetration of foreign businesses and the placement of SEZs away from major centres in North Korea, this section argues that North Korea has not fully internalized lessons from China's own 'reform and opening up'. Further, it provides more granularity on the issue of Chinese nationals and companies engaged in cross-border trade with North Korea, at times raising questions over potential United Nations Security Council sanction violations. In doing so, this section notes the difficulty imposed by UN resolution wording that reflects China's basic policy line that sanctions on North Korea should not influence normal trade and people's livelihoods. It emphasizes that the lack of a definition for what constitutes 'livelihood purposes' within the resolutions' exemptions means that North Korea still has a variety of options for generating revenue for its nuclear or ballistic missile programmes.

Section four explores the possible avenues for cooperation between China and European countries on North Korean engagement. It argues that the historical presence of European non-governmental organizations (NGOs) and embassy offices in North Korea has expanded the options for communication and dialogue on intractable issues. Further, as non-parties to the Six-Party Talks and nuclear issues in the region, it argues that European countries may serve as impartial moderators and negotiators through which expanded crisis management measures could be realized. Given the strength of European export control training, this section also makes suggestions as to how this could be provided in the context of China's own development of standards. Finally, it argues that humanitarian engagement through civil society and integrated aid systems is one of the arenas in which European and Chinese aims align most closely and should be expanded.

Section five provides an overview of how European countries can play a constructive role in 'breaking the deadlock' that currently exists among the original members of the Six-Party Talks. In terms of humanitarian assistance, it advocates European NGOs serving on the front line of improving livelihoods and maintaining a sustained presence within North Korea. This section argues that while China's focus is on stability and economic development in North Korea, European countries tend to emphasize sanctions and human rights. Nonetheless, it cites the intersection of their aims on denuclearization, non-proliferation, dialogue and crisis management, as well as on the improvement of living standards through humanitarian engagement. By integrating these common interests into a framework, the section concludes by suggesting that China and Europe can play a more constructive role, which is less hampered by the geopolitical power struggles that have occurred among the six countries that have been party to previous negotiations on the North Korean nuclear issue.

Abbreviations

| | |
|--------|---|
| CEE | Central and Eastern European |
| EU | European Union |
| FAO | Food and Agriculture Organization (of the United Nations) |
| GSOMIA | General Security of Military Information Agreement |
| HRCB | Hunchun Rural Commercial Bank |
| ICBM | Intercontinental ballistic missile |
| ICC | International Criminal Court |
| KIC | Kaesong Industrial Complex |
| KOTRA | Korea Trade-Investment Promotion Agency |
| NGO | Non-governmental organization |
| NKIDP | North Korea International Development Project |
| SDN | Special designated nationals |
| SEZ | Special economic zone |
| SLBM | Submarine-launched ballistic missile |
| THAAD | Terminal High Altitude Area Defence |
| UNHRC | United Nations Human Rights Council |
| WFP | World Food Programme |
| WPK | Workers' Party of Korea |

1. Introduction

The Democratic People's Republic of Korea (DPRK, North Korea) conducted its third nuclear test on 12 February 2013. The test occurred during a transition of power in the Chinese Government and it seemed to mark a turning point in bilateral political relations, after which China took a stronger official position on North Korea's actions. Other events appeared to confirm the shift as well, such as the dramatic decline in the number of visits between the two countries since 2013, North Korea seizing and fining Chinese fishing boats in 2014, as well as the fact that the respective leaders have yet to meet.¹ All of these signs have led to speculation regarding a deterioration in bilateral Chinese–North Korean relations and have spurred debates on whether there has been a policy change towards North Korea under the Xi Jinping administration.² Despite these adverse trends, there have been indications since 2015 that a slow, but steady thaw may be under way.

In October 2015, Liu Yunshan, a member of the Standing Committee of the Chinese Communist Party, visited North Korea to celebrate the 70th anniversary of the Workers' Party of Korea (WPK). He represented the most senior member of the Chinese Government to visit North Korea since 2012.³ During Liu's visit, a message from Chinese President Xi Jinping expressed hope for enhanced high-level exchange, increased bilateral cultural interactions and continued economic cooperation between the two countries. The message also highlighted China's consistent stance on the denuclearization of the Korean peninsula and its wish to reopen the Six-Party Talks process. Despite these references to denuclearization and a resumption of the Six-Party Talks, Kim Jong-un responded positively to the suggestion of expanded economic ties.

Two months later, North Korea sent its Mudanbong (무단봉, 牡丹峰) band to Beijing to perform at the National Centre for the Performing Arts. However, the event was cancelled on the day of the first performance.⁴ The lack of clarity on the reason for the sudden cancellation again led to speculation about the stability of Chinese–North Korean relations.⁵ These events, combined with North Korea's parallel efforts to strengthen its bilateral relations with Russia, have led some external observers to question whether North Korea's pursuit of economic and political support from Russia could undermine China's influence on North Korea.⁶

North Korean nuclear tests in 2016 and related sanctions

In spite of the fluctuations in North Korea's relations with China, North Korea has continued its trajectory towards improving its nuclear capabilities. On 6 January 2016 North Korea conducted its fourth nuclear test, which it claimed was a hydrogen bomb

¹ Pilger, M. and Campbell, C., 'Diminishing China–North Korea exchanges: An assessment', Staff Research Report, US–China Economic and Security Review Commission, 23 Mar. 2015, <http://origin.www.uscc.gov/sites/default/files/Research/Staff%20Research%20Report_Diminishing%20China-North%20Korea%20Exchanges%20-%20An%20Assessment.pdf>; and Reuters, 'North Korea seizes Chinese fishing boat, demands fine: media', 23 Sep. 2014, <<http://www.reuters.com/article/us-china-northkorea-idUSKCN0H1OQQ20140923>>.

² Duchâtel, M. and Schell, P., *China's Policy on North Korea: Economic Engagement and Nuclear Disarmament*, SIPRI Policy Paper no. 40 (SIPRI: Stockholm, Dec. 2013), <http://books.sipri.org/product_info?c_product_id=470>.

³ '刘云山会见金正恩转交习近平总书记亲署函' [Liu Yunshan met with Kim Jong-un, delivered Xi Jinping's letter], Xinhuanet, 10 Oct. 2015, <http://news.xinhuanet.com/world/2015-10/10/c_1116773429.htm>.

⁴ '国家大剧院:朝鲜牡丹峰乐团演出因故取消功勋国家合唱团目前在京' [National Centre for the Performing Arts: performance by North Korea Mudanbong band cancelled], China Daily, 12 Dec. 2015, <http://www.chinadaily.com.cn/interface/zaker/1142841/2015-12-12/cd_22699888.html>.

⁵ 'Spice Girl diplomacy: North Korean girl band's Beijing shows abruptly cancelled', 12 Dec. 2015, *Wall Street Journal*, blog, <<http://blogs.wsj.com/chinarealtime/2015/12/12/spice-girl-diplomacy-north-koreas-moranbong-girl-band-plays-in-beijing>>.

⁶ Duchâtel, M., 'China's North Korea policy: in the footsteps of Russia?', *China Brief*, Jamestown, vol. 15, no. 11, 29 May 2015, <<https://jamestown.org/program/chinas-north-korea-policy-in-the-footsteps-of-russia/>>.

test. This technological claim met with considerable scepticism from international experts.⁷ Nonetheless, the official statement by North Korea worried the international community, especially when accompanied by its advances in missile technology, reports of a satellite launch in February, as well as a submarine-launched ballistic missile test in April. In response to the January test, the United Nations Security Council adopted Resolution 2270 in March 2016, with the backing of the Chinese Government.

Just six months later, while the effects of the resolution were still being monitored and discussed, North Korea carried out its fifth nuclear test on 9 September 2016. The September test led North Korea to declare that it was now able to load miniaturized nuclear warheads onto missiles. While previous nuclear tests had an average interval of three years, this was the first time that two nuclear tests had been conducted in the same year. The quick succession of nuclear tests, bracketing an estimated 20 missile tests, underlined the insistence of North Korea's leader, Kim Jong-un, on development of a nuclear deterrent through practical action.⁸ However, this series of events also led to questions over the level to which sanctions had the capacity to shape North Korean activities.

In the context of North Korea's firm stance on becoming a nuclear state, China has supported UN Security Council resolutions on North Korea's nuclear programme, but at the same time has maintained its economic engagement with the isolated country. Faced with the inherent contradictions and challenges of these two North Korean goals, Beijing has played and continues to play a major role in supporting the UN sanctions on North Korea. The determination of North Korea to improve its nuclear capacity, however, has put China in an awkward position. At the official level, China has emphasized the denuclearization of the Korean peninsula and the enforcement of UN Security Council resolutions. At the same time, however, it continues its economic engagement to maintain regime stability in North Korea and to promote Chinese-style reform and opening.

This two-track diplomacy has attracted criticism that economic cooperation risks undermining the effects of the sanctions. Even though political relations between the two countries have been unstable for the past three years, bilateral economic exchange has not significantly diminished. Furthermore, South Korea's intended deployment of Terminal High Altitude Area Defense (THAAD), a US anti-ballistic missile system, and the reinforcement of US–Japanese–South Korean cooperation complicates China's commitment to take a harder line with North Korea. Furthermore, it reduces China's will to further cooperate with the United States on increasing political pressure.

Despite these ongoing challenges for international diplomatic engagement on North Korea, there are suggestions that China's support for Resolution 2321 on 30 November 2016 marked a significant shift. For the first time, China agreed to specified restrictions on the value and volume of coal exports from North Korea. This reflects the Chinese Government's official disapproval of current developments on the Korean peninsula. At the unofficial level, Chinese experts based in the north-east of the country continue to argue that promoting North Korean economic reform as a means of achieving denuclearization will have a positive effect in the long term.⁹ This optimism, however, must be weighed against the wider caution emerging in Chinese academic circles. Some experts worry about whether China's economic exchange with North

⁷ Rauf, T., 'Another nuclear test announced by North Korea: searching for a plan of action?', SIPRI Commentary, 11 Jan. 2016, <<https://www.sipri.org/commentary/expert-comment/2016/another-nuclear-test-announced-north-korea-searching-plan-action>>.

⁸ 'Monitoring the threat: a timeline of North Korean missile tests 2013–2016', 38 North, 24 Aug. 2016, <<http://38north.org/2016/08/missiletimeline082416/>>.

⁹ Interviews with the author, Jilin and Liaoning, Apr. 2015; and Workshops, Jilin, Sep. 2015 and Sep. 2016.

Korea simply reinforces Kim Jong-un's 'Byongjin line' (병진노선, 并进路线), which urges the parallel pursuit of a nuclear arsenal and economic growth.

Throughout these geopolitical shifts, European governments and non-governmental organizations (NGOs) have maintained relatively solid relations with North Korea through humanitarian assistance and capacity-building programmes. Overall, the influence of the European Union (EU) is limited in comparison with the other five parties to the Six-Party Talks: China, the USA, Russia, South Korea and Japan. Despite this fact, since Chinese and US-led negotiations and sanctions against North Korea's nuclear programme are yet to produce results, the EU's softer channels have an opportunity to undertake a more prominent position in future engagement with North Korea. The EU is poised to lead the way on a shift in the balance between China's sanctions enforcement and its economic assistance.

2. Denuclearization and the role of Chinese engagement

2.1 North Korea's increasing nuclear capabilities

Three of North Korea's nuclear tests—more than half the total number—have been conducted since Kim Jong-un came to power in December 2011. This clear acceleration in the development of nuclear weapons and missile capabilities has mounted a direct challenge to the international non-proliferation regime. After five nuclear tests, North Korea has stated that it is now able to miniaturize its nuclear warheads for missile deployment. The bodies making such official statements have changed multiple times in recent years. The Korean Central News Agency issued all statements on nuclear developments in North Korea. By 2016, such announcements came directly from the North Korean Government, with the most recent announcement released by North Korea's Nuclear Weapons Institute (see table 2.1).

These trends suggest that North Korea is becoming increasingly confident in its political status as a nuclear power. Since Kim Jong-un came to power, the content of official statements shifted from describing the nuclear programme as a tool of self-defence against 'US-led hostile forces' to emphasizing the right of North Korea to possess nuclear weapons. North Korea has also proclaimed itself to be a 'nuclear-weapon state', declaring in the two most recent statements: '...we will not use nuclear weapons first unless aggressive hostile forces use nuclear weapons to invade our sovereignty and we will not proliferate related technologies and items under no circumstances', as a 'responsible nuclear-weapon state' (책임있는 핵 보유국, 負責任的拥核国).¹

At the technological level, North Korea has conducted an estimated 20 missile launches between the fourth and fifth nuclear tests in 2016 (see table 2.2). It is clear from these launches that North Korea is concentrating on, and speeding up, its ballistic missile development, as a platform for its nuclear weapons. Li Bin, professor and head of arms control studies at Tsinghua University, stated during the 2016 World Peace Forum that the probable next step by North Korea will be to improve its inter-continental ballistic missile (ICBM) and submarine-launched ballistic missile (SLBM) capabilities.² If successful, these advances will provide North Korea with much greater leverage against the USA, as well as a more survivable nuclear deterrent. Facing these trends, international sanctions against North Korea continue to mount.

Confronted with North Korea's growing capabilities, the UN Security Council has issued multiple press statements condemning North Korea's nuclear tests and ballistic missile launches.³ On occasion, the Security Council failed to issue a response to the latter, which might have been largely caused by differing opinions on how to address the issue influenced by THAAD and US–South Korean military exercises. In response to North Korea's nuclear tests, the Security Council response has been much clearer. It passed two resolutions in six months, namely Resolution 2270 of 2 March 2016 and Resolution 2321 of 30 November 2016.⁴ UN Secretary-General Ban Ki-moon noted

¹ 'DPRK proves successful in H-bomb test', Korea Central News Agency, 6 Jan. 2016; and 'DPRK succeeds in nuclear warhead explosion test', Korea Central News Agency, 9 Sep. 2016.

² 李彬 [Li, B.], '对朝鲜第五次核试验的技术评估' [Technical evaluation of North Korea's fifth nuclear test], World Peace Forum, 11 Sep. 2016, <http://pit.ifeng.com/a/20160911/49953405_0.shtml>.

³ United Nations, Security Council, 'Press statement on Democratic People's Republic of Korea's failed ballistic missile launch', Press release, 17 Oct. 2016, <<https://www.un.org/press/en/2016/sc12557.doc.htm>>.

⁴ United Nations Security Council Resolution 2270, 2 Mar. 2016, <http://www.un.org/en/ga/search/view_doc.asp?symbol=S/RES/2270%282016%29>; and United Nations Security Council Resolution 2321, 30 Nov. 2016, <http://www.un.org/en/ga/search/view_doc.asp?symbol=S/RES/2321%282016%29>.

Table 2.1. North Korea's statements on nuclear tests, 2006–16

| Date | Publishing body | Test result (as claimed) | Purpose of the test (as claimed) |
|--------------|---------------------------------------|--|---|
| 9 Oct. 2006 | KCNA | The DPRK has successfully conducted an underground nuclear test. | The test is to improve self-defence by possessing a nuclear capability. This will contribute to the peace and security of the Korean peninsula and the surrounding region. |
| 25 May 2009 | KCNA | The DPRK has successfully conducted its second underground nuclear test, further increasing its power. | The test is a measure to reinforce North Korea's nuclear deterrent for self-defence. It will contribute to the protection of its sovereignty, and the peace and security of the Korean peninsula and the surrounding region. |
| 12 Feb. 2013 | KCNA | The DPRK has successfully conducted its third nuclear test with the use of a smaller and lighter atomic bomb. | The test is a measure to defend the country's security and sovereignty, and in response to a hostile act by the United States which questioned the DPRK's legitimate right to launch a satellite for peaceful purposes. |
| 6 Jan. 2016 | North Korean Government | The DPRK has conducted its first successful hydrogen-bomb test. | The test is a measure for self-defence from the nuclear threat from and blackmail by US-led hostile forces, and to safeguard peace on the Korean peninsula and regional security. The DPRK is a responsible nuclear-weapon state that will neither be the first to use nuclear weapons nor transfer relevant means and technology under any circumstances, as long as its sovereignty is not infringed. |
| 9 Sep. 2016 | Nuclear Weapons Institute of the DPRK | The DPRK has successfully mastered technologies for miniaturizing nuclear warheads for loading on to missiles, as well as producing and using various fissile materials. | The test is a demonstration to US-led hostile forces, which dispute the right of the DPRK to possess nuclear weapons for self-defence, and deny that the DPRK is a nuclear weapon state. |

DPRK = Democratic People's Republic of Korea; KCNA = Korean Central News Agency

Sources: Summarized by the author based on official statements. Korean Central News Agency (KCNA), 'DPRK successfully conducts underground nuclear test', 10 Oct. 2006, archived from the original 26 Oct. 2006, retrieved 10 Oct. 2006, <<https://web.archive.org/web/20061026061534/http://www.kcna.co.jp/item/2006/200610/news10/10.htm>>; National Committee on North Korea (NCNK), 'KCNA: DPRK announces successful nuclear test May 25, 2009', 25 May 2009, <http://www.ncnk.org/resources/publications/KCNA_Nuclear_Test_May_25_2009.doc>; NCNK, 'KCNA report on successful 3rd underground nuclear test, Korean Central News Agency', 12 Feb. 2013, <http://www.ncnk.org/resources/publications/KCNA_3rd_Nuke_Test.pdf>; KCNA, 'DPRK proves successful in H-bomb test', 6 Jan. 2016; and KCNA, 'DPRK succeeds in nuclear warhead explosion test', 9 Sep. 2016, <www.kcna.co.jp/item/2016/201609/news09/20160909-33ee.html>.

that Resolution 2321 is the toughest and most comprehensive sanctions regime ever imposed.⁵ Nonetheless, after its adoption, observers have been sceptical about whether these statements and resolutions will bring about any significant change.⁶ Instead, the consensus suggests that Security Council resolutions are a standard response to North Korean nuclear tests, serving as a political signal, rather than designed to make an impact.

⁵ United Nations, Security Council, 'Security Council strengthens sanctions on Democratic Republic of Korea, Unanimously Adopting Resolution 2321 (2016)', Meetings coverage, 30 Nov. 2016, <<https://www.un.org/press/en/2016/sc12603.doc.htm>>.

⁶ Vaswani, K., 'Will the new sanctions on North Korea work?', BBC News, 1 Dec. 2016, <<http://www.bbc.com/news/business-38167129>>; Toloraya, G., 'View from Pyongyang: will new sanctions on North Korea work?', NK News, 3 Oct. 2016, <<https://www.nknews.org/2016/10/view-from-pyongyang-will-new-sanctions-on-north-korea-work/>>; and Power, J., 'Will new UN sanctions change North Korea's path?', The Diplomat, 1 Dec. 2016, <<http://thediplomat.com/2016/12/will-new-un-sanctions-change-north-koreas-path/>>.

Table 2.2. North Korea's missile tests in 2016

| No. | Date of test | Type of test |
|-----|--------------|---|
| 1 | 7 Feb. | Unha-type rocket |
| 2 | 3 Mar. | Short-range ballistic missiles |
| 3 | 10 Mar. | Short-range ballistic missiles |
| 4 | 16 Mar. | Submarine-launched ballistic missiles |
| 5 | 18 Mar. | Middle-range ballistic missiles |
| 6 | 21 Mar. | Short-range ballistic missiles |
| 7 | 24 Mar. | Solid-fuel rocket engine test |
| 8 | 29 Mar. | Short-range ballistic missiles |
| 9 | 1 Apr. | Short-range ballistic missiles |
| 10 | 9 Apr. | Liquid-fuel engine test |
| 11 | 15 Apr. | Intermediate-range ballistic missiles |
| 12 | 23 Apr. | Submarine-launched ballistic missiles |
| 13 | 28 Apr. | Intermediate-range ballistic missiles |
| 14 | 31 May | Intermediate-range ballistic missiles |
| 15 | 22 June | Intermediate-range ballistic missiles |
| 16 | 9 July | Submarine-launched ballistic missiles |
| 17 | 19 July | Two short-range ballistic missiles and one middle-range ballistic missile |
| 18 | 3 Aug. | Middle-range ballistic missiles |
| 19 | 24 Aug. | Submarine-launched ballistic missiles |
| 20 | 5 Sep. | Middle-range ballistic missiles |
| 21 | 15 Oct. | Intermediate-range ballistic missile (presumed) |
| 22 | 20 Oct. | Intermediate-range ballistic missile |

Sources: 'Monitoring the threat: a timeline of North Korean missile tests 2013–2016', 38 North, 24 Aug. 2016, <<http://38north.org/2016/08/missiletimeline082416/>>; 'North Korea fires test missiles, Defying UN ban', *New York Times*, 9 Mar. 2016, <<https://www.nytimes.com/2016/03/10/world/asia/north-korea-fires-test-missiles-defying-un-ban.html>>; 'N. Korea fires missile, vows to boost "nuclear deterrence"', CBS News, 1 Apr. 2016, <<http://www.cbsnews.com/news/north-korea-fires-short-range-missile-into-sea/>>; "'Mr Kim has missile lust, and he's not giving up": a timeline of North Korea's brazen missile tests so far in 2016', Business Insider, 29 Oct. 2016, <<http://www.businessinsider.com/timeline-of-north-korea-tests-2016-10/#january-6-north-korea-conducts-its-fourth-ever-nuclear-weapons-test-1>>; and 'Another North Korea missile fails after launch: US, South Korea', Reuters, 20 Oct. 2016, <<http://www.reuters.com/article/us-northkorea-missiles-idUSKCN12K052>>.

2.2 Chinese views on North Korea's denuclearization

Perceptions on regime stability in North Korea

Five years after North Korea's transition of power, a majority of Chinese analysts agree that the regime has stabilized. In the wake of the fourth nuclear test and Seventh Party Congress of the WPK in May 2016, North Korea officially entered what some Chinese experts are calling the 'Kim Jong-un era'.⁷ Kim has consolidated his power inside the regime through frequent personnel changes and purges. According to media reports, around 70 North Korean officials have been executed since Kim came to power in 2011.⁸ And even outside of the government, those with potential claims on Kim's position, such as his elder brother Kim Jong-nam have reportedly been eliminated.⁹

On the economy, Kim has made the 'Byongjin line' his basic state policy, shifting the policy focus from putting military development first to also emphasizing the importance of North Korea's economic development. Most Chinese experts, especially those in north-eastern China, value Kim's economic initiatives, believing that North Korea has learned them from China's own experiences.¹⁰ This frequent refrain is often accompanied by Chinese arguments that China's similar historical experiences provide it with a unique window into North Korea's challenges and likely development path.

⁷ Workshop, Jilin, Sep. 2016.

⁸ 'NK leader had vice premier executed with gun: sources', Yonhap News Agency, 12 Aug. 2015, <<http://english.yonhapnews.co.kr/news/2015/08/12/0200000000AEN20150812014000315.html>>.

⁹ Choe, S. and Paddock, R. 'Kim Jong-nam, the hunted heir to a dictator who met death in exile', *New York Times*, 15 Feb. 2017.

¹⁰ Interviews with the author, Jilin and Yanbian, Apr. 2015; and Workshop, Jilin, Sep. 2016.

Table 2.3. South Korea's defence budget, 2017

Figures are in ₩100 million.

| Classification | 2016 budget | 2017 budget | | Difference | | Modified by the National Assembly |
|----------------------------------|-------------|----------------------------|---------|-------------------------------|-----|-----------------------------------|
| | | Proposed by the Government | Final | Comparison with previous year | (%) | |
| Defence budget | 387 995 | 403 347 | 403 347 | 15 352 | 4.0 | 0 |
| Operating and personnel expenses | 271 597 | 281 757 | 281 377 | 9 780 | 3.6 | -380 |
| Defence modernizations | 116 398 | 121 590 | 121 970 | 5 572 | 4.8 | 380 |

Source: South Korean Ministry of National Defence, '2017년도 국방예산 보도자료' [2017 defence budget report], 5 Dec. 2016, <http://www.mnd.go.kr/user/newsInFileDown.action?siteId=mnd&newsSeq=L_9832&num=1>, (Author translation).

With this background, China's core policy on North Korea has been largely based on three principles: 'no war, no instability and no nuclear weapons' (不战, 不乱, 无核), with an emphasis on stability. However, following the third nuclear test in 2013, these principles were changed to 'denuclearization, peace and stability and an early resumption of the Six-Party Talks' (坚持半岛无核化, 坚持维护半岛和平, 坚持对话解决问题).¹¹ Zhang Liangui, a professor at the Central Party School, notes that the different phrasing of these three principles reflects China's changing agenda, which has now made denuclearization its primary interest.¹² He also argues that North Korea's nuclear programme is the root cause of instability on the Korean peninsula and not vice versa.¹³ Still, some Chinese experts see the prioritization of denuclearization as 'unwise',¹⁴ while others question the feasibility of North Korea relinquishing its nuclear weapons.¹⁵

Despite these misgivings, at the official level, China supported the adoption of Resolution 2321. In doing so, it underlined a national willingness to curb the North Korean nuclear programme and to achieve denuclearization on the Korean peninsula. Many Chinese analysts, however, believe that the priority of the Chinese Government remains North Korea's stability.¹⁶ As recently as 2016, Wang Yi, China's Minister of Foreign Affairs, stated, 'sanctions are just a necessary means. Maintaining stability is the pressing priority and only negotiation can lead to a fundamental solution'.¹⁷ Moreover, some Chinese analysts argue that China would prefer a nuclear-armed, but friendly and controlled North Korea to a collapsed regime.¹⁸

The focus of Chinese experts on North Korea has shifted, in line with recent events on the Korean peninsula, back and forth between stability and denuclearization. Some Chinese experts argue that it will be difficult for China to achieve both at the same

¹¹ Government of the People's Republic of China, '王毅强调中方在朝鲜半岛问题上三个“坚持”立场' [Wang Yi emphasizes three positions on Korean peninsula affairs], 13 Apr. 2013, <http://www.gov.cn/gzdt/2013-04/13/content_2377184.htm>.

¹² 张琏瑰 [Zhang, L.], '中国对朝政策岂能“一贯”' [China needs to change its policy on North Korea], *The Paper*, 6 Aug. 2014, <http://www.thepaper.cn/www/v3/jsp/newsDetail_forward_1259914>.

¹³ 张琏瑰 [Zhang, L.], '对朝韩问题积极主动的战略研判' [Strategic estimate of a proactive policy on inter-Korean affairs], 凤凰国际智库 [Phoenix International Database], 12 Oct. 2016, <http://pit.ifeng.com/a/20161012/50088943_0.shtml>.

¹⁴ Interviews with the author, Beijing, June 2016.

¹⁵ Workshop, Jilin, Sep. 2016.

¹⁶ Interviews with the author, Beijing, Sep. and Oct. 2016.

¹⁷ Chinese Ministry of Foreign Affairs, 'Foreign Minister Wang Yi meets the press', 9 Mar. 2016, <http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1346238.shtml>.

¹⁸ Perlez, J., '朝鲜频繁核试验, 为何中国仍未改变对朝政策?' [Few expect China to punish North Korea for latest nuclear test], *New York Times*, 12 Sep. 2016, <<http://cn.nytimes.com/asia-pacific/20160912/north-korea-china-nuclear-sanctions-thaad-america/>>.

time and that it is important to make a clear choice as soon as possible.¹⁹ Wang Junsheng, an associate researcher at the Chinese Academy of Social Sciences, has argued that North Korea's continued provocations and escalating behaviour completely disregard China's demands for a stable region.²⁰ And he is not alone. But in casting blame, Chinese experts are also looking inward. Some have argued in interviews that the uncertainty of China's policies enables North Korea to further its nuclear weapon development.²¹

The interplay of potential THAAD deployment in South Korea

Beyond the interaction of China and North Korea, the latter's breakthroughs in nuclear weapons and delivery systems have begun a debate inside South Korea on whether it should develop nuclear weapons.²² While it is unlikely that South Korea will do so in the near future, this sentiment demonstrates a potentially significant change of opinion. When combined with the July 2016 announcement by South Korea's Ministry of National Defense that it would accelerate deployment of THAAD and the anticipated delivery of THAAD system components in 2017, it is evident that South Korea's security calculus is rapidly hardening.²³ Beyond cooperation with the USA on THAAD, South Korea signed the general security of military information agreement (GSOMIA) with Japan on 23 November 2016, which touches on intelligence related to North Korea.²⁴

When it comes to its unilateral efforts, South Korea has also increased its 2017 defence budget by 2 trillion won (1.71 billion US dollars), an increase of 4 per cent from the previous year. This constitutes a sizeable annual defence budget increase in South Korea, when compared with figures from the preceding year (see table 2.3).²⁵ As part of the defence budget, the National Assembly shifted 38 billion won (32.5 million US dollars) from 'operating and personnel expenses' (전력 운영비, 战力运营费) to 'defence modernization' (방위력 개선비, 防卫力改善费). According to official statement, this reallocation was motivated by 'the rising threats from North Korea's nuclear and missile tests'.²⁶ Overall, Seoul's increased military expenditure appears to reflect dissatisfaction in South Korea with China's failing efforts to denuclearize North Korea.²⁷

While South Korea's focus on THAAD deployment and the GSOMIA are logical reactions to an increasing security threat from North Korea, neither is welcomed by China. The Chinese Government interprets these two moves as attempts to counter China's power in North East Asia.²⁸ According to He Yafei, the former vice minister

¹⁹ Workshop, Jilin, Sep. 2016; and interviews with the author, Beijing, Sep. 2016.

²⁰ 王俊生 [Wang, J.], '中国对朝鲜政策错了吗?' [Was China's policy on North Korea wrong?], Haiwainet, 14 Sep. 2016, <<http://opinion.haiwainet.cn/n/2016/0914/c353596-30322513.html>>.

²¹ Interviews with the author, Beijing, Sep. 2016.

²² Einhorn, R. and Duyeon, K., 'Will South Korea go nuclear?', *Bulletin of the Atomic Scientists*, 15 Aug. 2016, <<http://thebulletin.org/will-south-korea-go-nuclear9778>>; Byong-Chul, L., 'Preventing a nuclear South Korea', 38 North, 16 Sep. 2016, <http://38north.org/2016/09/bclee091516/#_ftn11>; Lewis, J., 'Did the Donald suggest South Korea build the bomb? No, but that might be the outcome anyway', 38 North, 8 Dec. 2016, <http://38north.org/2016/12/jlewis120816/?utm_source=38+North+Bulletin+120816c&utm_campaign=38+North&utm_medium=email>; and Dalton, T., Byun, S. and Lee, S., 'South Korea debates nuclear options', Carnegie Endowment for International Peace, 27 Apr. 2016, <<http://carnegieendowment.org/2016/04/27/south-korea-debates-nuclear-options-pub-63455>>.

²³ 'US and South Korea agree THAAD missile defence deployment', BBC News, 8 July 2016, <<http://www.bbc.com/news/world-asia-36742751>>.

²⁴ Kyong-ae, C., 'S. Korea, Japan set aside historic animosities to jointly cope with N.K. threat', Yonhap News Agency, 23 Nov. 2016, <<http://english.yonhapnews.co.kr/search1/2603000000.html?cid=AEN20161123011300315>>.

²⁵ South Korean Ministry of National Defence, '2017년도 국방예산 40조 3,347억 원으로 확정' [2017 defence budget: KRW 40. 3347 trillion won], 5 Dec. 2016, <http://www.mnd.go.kr/user/newsInUserRecord.action?command=view&newsId=L_669&siteId=mnd&page=1&id=mnd_020400000000&newsSeq=L_9832>.

²⁶ South Korean Ministry of National Defence, '2017년도 국방예산 보도자료' [2017 defence budget data report], 5 Dec. 2016, <http://www.mnd.go.kr/user/newsInFileDown.action?siteId=mnd&newsSeq=L_9832&num=1>.

²⁷ '新华社评:是谁在“萨德”问题上误导舆论' [Xinhua commentary: who is trying to mislead public opinion on THAAD issues], Xinhuanet, 2 Dec. 2016, <http://news.xinhuanet.com/world/2016-12/02/c_129388499.htm>.

²⁸ Chinese Ministry of National Defence, 'Defence ministry's regular press conference on November 30', 1 Dec. 2016, <http://eng.mod.gov.cn/DefenseNews/2016-12/01/content_4765258.htm>.

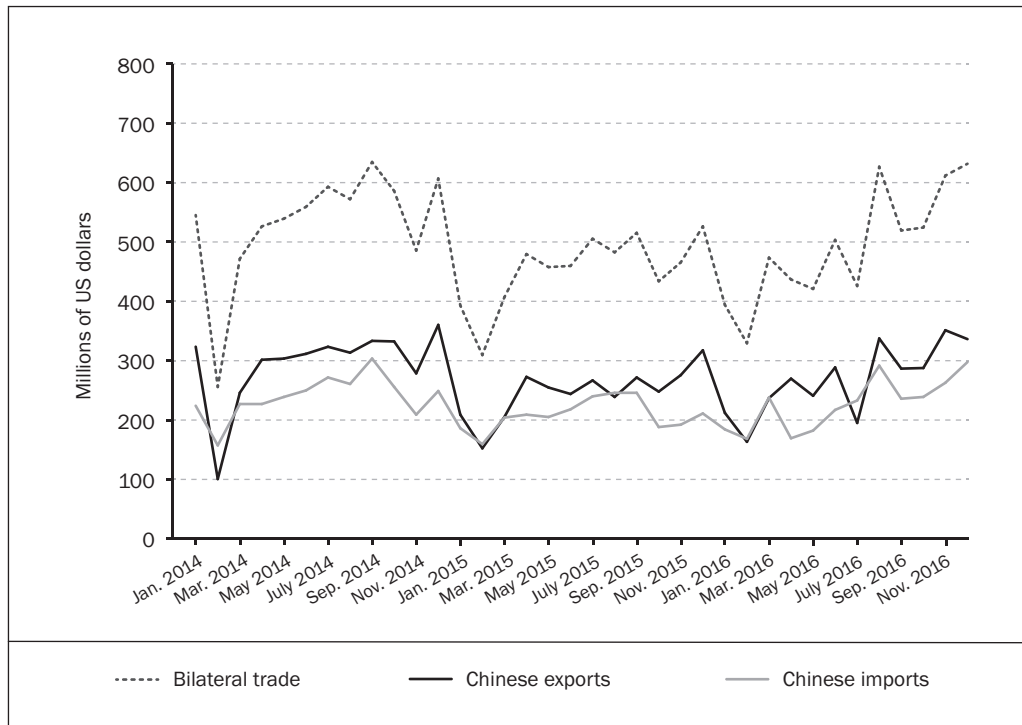


Figure 2.1. Bilateral trade volumes between China and North Korea, January 2014 to December 2016

Source: General Administration of China Customs, <<http://www.customs.gov.cn/>>.

of the State Council Office of Overseas Chinese Affairs, wrote in June 2016 that the planned THAAD is part of a rebalancing strategy created by the USA and that the real target behind its deployment is China. He has further argued that South Korea's deployment of THAAD will undermine the regional strategic balance and increase tensions in the region.²⁹

Under these circumstances, observers have begun to question China's core intentions and interests when it comes to sanctions implementation. A centrepiece in this debate is an editorial in *Global Times*—a government-owned newspaper—that was published the same day as the South Korean Government announced its plan to deploy THAAD. While the newspaper tends towards hard-line pronouncements, it is frequently an indicator of domestic reaction that the Chinese Government would have difficulty voicing through normal diplomatic channels. The editorial discusses 'five countermeasures against deployment', which link THAAD and sanctions in a discussion of regional balance.³⁰ The paper also advocates that China re-evaluate how sanctions enforcement might affect the long-term security situation in North East Asia.

Further balancing Chinese concerns over THAAD with sanctions obligations, the director of the Centre for American Studies at Renmin University, Shi Yinhong, wrote in October 2016 that China should implement UN sanctions on North Korea in the short term. However, he stressed that China should gradually alter its approach on sanctions to focus on the interests of China.³¹ As US–Chinese competition intensifies

²⁹ He Yafei, 'THAAD in South Korea undermines regional strategic balance', *China-US Focus*, 22 July 2016, <<http://www.chinausfocus.com/peace-security/thaad-in-south-korea-undermines-regional-strategic-balance/>>.

³⁰ '社评:反制萨德,建议国家采取五项行动' [Editorial: Counter THAAD: five suggestions to the Chinese Government], *Huanqiu shibao*, 8 July 2016, <<http://opinion.huanqiu.com/editorial/2016-07/9145199.html>>; and 'China can counter THAAD deployment', *Global Times*, 9 July 2016, <<http://www.globaltimes.cn/content/993131.shtml>>.

³¹ 时殷弘 [Shi, Y.], '关于中国的亚洲西太平洋战略中的朝鲜问题' [China's West Pacific of Asia Strategy and North Korea Issue], 27 Oct. 2016, <<http://www.zaobao.com/forum/expert/others/story20161027-682872>>.

in the wake of the expected THAAD deployment, Shi Yinhong emphasized that China should improve its bilateral relations with North Korea.

The deputy director of the Institute of World Political Studies at the China Institutes of Contemporary International Relations, Sun Ru, further advocates a double containment strategy that would curb the development of North Korea's nuclear power, while also preventing the USA from using North Korea as a justification to damage China's interests.³² She argues that the goal of denuclearization on the Korean peninsula should remain in place, but that China's implementation of sanctions should become more flexible. Beyond the threat perceptions and analyses mentioned above, a more quantifiable Chinese reaction to the June 2016 announcement of South Korea's plan to deploy THAAD in the near future could be the sharply increased volume of trade between China and North Korea in that month (see figure 2.1).³³

In spite of these strong reactions, Chinese experts do not universally favour the linking of China's condemnation of THAAD deployment in South Korea with its willingness to implement sanctions on North Korea. A number of Chinese analysts have discouraged using support of sanctions enforcement as a bargaining chip in THAAD discussions, arguing that this would send the wrong signal to North Korea on China's stance on denuclearization.³⁴ Cheng Xiaohe, associate professor at Renmin University, has argued that deploying THAAD should not lead to tolerance towards North Korea's provocative actions, emphasizing that relaxation of sanctions enforcement would represent a short-sighted solution.³⁵

Similarly, Han Xiandong, a professor at the China University of Political Science and Law, maintains that the deployment of THAAD reflects changing policy priorities on North Korea by South Korea and the USA. He argues that the US and South Korean shift represents an opportunity for China to re-evaluate and reconsider its own policies.³⁶ Other Chinese analysts further support the view that THAAD deployment and sanctions enforcement should be discussed as two separate issues. They maintain that THAAD deployment is a national security issue, while sanctions enforcement is an obligation on China as a member of the UN.³⁷

Overall, a July 2016 opinion piece by Liang Lichang, a professor at Huaibei Normal University, could be deemed representative of a prevailing view among Chinese experts.³⁸ He stresses three main points. First, China's implementation of sanctions on North Korea is based on China's own national interest and its obligation as a UN member state. It is not a trade-off with the US Government. Second, regardless of the changing circumstances in East Asia, it is important for China to maintain a degree of independence on the North Korea issue to achieve effective sanctions enforcement. Third, THAAD deployment should not be linked with China's North Korea policy. Nonetheless, Liang stresses that China should take a clear stance in opposition to

³² Sina, '天下周刊圆桌会:萨德到家门 中国对朝立场该不该变?' [THAAD at the front door: should China change its positions on North Korea?], 13 July 2016, <<http://news.sina.com.cn/w/zg/2016-07-13/doc-ifxtwihq0176885.shtml>>.

³³ Ryall, J., 'Is China letting sanctions slide on North Korean trade?', Deutsche Welle, 17 Aug. 2016, <<http://www.dw.com/en/is-china-letting-sanctions-slide-on-north-korean-trade/a-19479840>>; 'N. Korea-China trade showing signs of revival: sources', Yonhap News Agency, 14 Aug. 2016, <<http://english.yonhapnews.co.kr/search1/2603000000.html?cid=AEN20160814003000315>>; Zhou, L. and Huang, K., 'Sanctions, what sanctions? Inside the Chinese border town doing business with North Korea', *South China Morning Post*, 3 Sep. 2016, <<http://www.scmp.com/week-asia/article/2013134/sanctions-what-sanctions-china-north-korea-and-dandong-deals>>; and 'US and South Korea agree THAAD missile defence deployment', BBC News, 8 July 2016, <<http://www.bbc.com/news/world-asia-36742751>>.

³⁴ '“萨德入韩与中国的应对策略”研讨会在延边大学举行' [Workshop on 'THAAD deployment and the mitigation strategies of China' hosted by Yanbian University], Co-innovation Centre for Korean Peninsula Studies, Yanbian University, 20 July 2016, <<http://cickps.ybu.edu.cn/info/1046/3991.htm>>.

³⁵ Sina (note 32).

³⁶ Sina (note 32).

³⁷ Interviews with the author, Beijing, Sep. 2016.

³⁸ 梁立昌 [Liang, L], '反制萨德,中国应对朝鲜“网开一面”?' [Counter THAAD: should China loosen the pressure on North Korea?], China.org.cn, 21 July 2016, <http://opinion.china.com.cn/opinion_68_151468.html>.

THAAD deployment, including substantive measures in response to South Korea's decision.

Likelihood of success in denuclearizing North Korea

Chinese analysts provide three main alternatives to break the current deadlock among parties working to solve North Korea nuclear crisis: military options, sanctions and negotiations.³⁹ A military response to North Korea is rarely discussed in China, but following the two nuclear tests by North Korea in 2016, the international debate on whether the USA might conduct a pre-emptive strike on North Korea has increased.⁴⁰ US and Chinese analysts argue that this perspective would likely be amplified following the transition to a new, more direct US administration,⁴¹ while South Korean media explores the likelihood of a surgical strike to eliminate North Korea's nuclear facilities after the fifth test.⁴²

At the official level, the Chinese Government remains opposed to a kinetic response to North Korea's nuclear tests. China's foreign minister, Wang Yi, made a clear statement during an interview in February 2016 that one of the principles adhered to by China in addressing issues on the Korean peninsula is that a military option would be unacceptable.⁴³ Nonetheless, Chinese experts such as Jia Qingguo, dean of the School of International Studies at Peking University, warn that China cannot afford to be complacent, particularly since it would be directly affected by a surgical strike against North Korea by the USA.⁴⁴

When it comes to sanctions, Chinese experts can be broadly separated into two camps. One camp argues that the intensity of sanctions should be measured to avoid an extreme reaction from North Korea.⁴⁵ The other camp suggests that North Korea has used these concerns to undermine the effectiveness of sanctions.⁴⁶ The majority of Chinese experts agree that the sanctions are necessary. Many, however, argue that sanctions alone will not achieve denuclearization. They contend that engagement with North Korea will ultimately be more important.⁴⁷ Even the often-hawkish *Global Times* published an article in 2016 that argued:

sanctions can only be a part of the international effort to talk Pyongyang out of its nuclear programme. Time has shown that no matter how tough sanctions are, denuclearization cannot be achieved by sanctions alone. The USA and South Korea need to take the initiative to improve North Korea's security environment and to ease Pyongyang's anxiety about the possible threats facing it. They should try to seek breakthroughs with Pyongyang on security and create mutual trust. Otherwise, no sanctions will force Pyongyang to acquiesce.⁴⁸

³⁹ 曹世功 [Cao, S.], '朝鲜半岛无核化的危境、困局及前景' [The predicament, dilemma and perspective of Korean peninsula denuclearization], *Guojiwang*, 19 Sep. 2016, <<http://comment.cfnisnet.com/2016/0919/1306046.html>>.

⁴⁰ Delury, J., 'The "China Factor"', 38 *North*, Oct. 31. 2016, <<http://38north.org/2016/10/jdelury103116/>>.

⁴¹ Delury (note 40); interviews with the author, Beijing, Oct. 2016; and Interviews with the author, Beijing, Sep. 2016.

⁴² 'Calls grow for surgical strike on N.K. nuke facilities', *Yonhap News Agency*, 6 Oct. 2016, <<http://english.yonhapnews.co.kr/national/2016/10/06/1/0301000000AEN20161006007700315F.html>>.

⁴³ Chinese Ministry of Foreign Affairs, 'Wang Yi gives exclusive interview to Reuters on Syrian Issue and Korean peninsula nuclear issue', 13 Feb. 2016, <http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1340523.shtml>.

⁴⁴ '北京大学国际关系学院院长贾庆国谈朝核问题解决方案' [Director of Peking University International Relations Department talks about the solutions to the North Korea nuclear problem], *JoongAng Ilbo*, 10 Oct. 2016, <http://chinese.joins.com/gb/article.do?method=detail&art_id=158244&category=002003>.

⁴⁵ Interviews with the author, Yanbian, Apr. 2015.

⁴⁶ Zhang (note 13).

⁴⁷ 郭锐 [Guo, R.], '专家:朝核问题走出怪圈 需制裁与接触双管齐下' [Expert: Break the strange cycle of the North Korea nuclear problem—Sanctions and engagement needed at the same time], *Haiwaiwang*, 5 Dec. 2016, <<http://www.chinanews.com/gj/2016/12-05/8083749.shtml>>.

⁴⁸ '社评:新制裁压向朝鲜,突破僵局不取决中国' [Editorial: New sanctions against North Korea, breaking the stalemate is not dependent on China], *Global Times*, 30 Nov. 2016, <<http://opinion.huanqiu.com/editorial/2016-11/9753906.html?weqreqreqr>>.

In terms of negotiations, an overwhelming majority of Chinese experts emphasize that multilateral talks are the best means of achieving denuclearization. Despite this fact, many of the Chinese experts interviewed admitted that the chances of convincing North Korea to surrender its nuclear weapons are minute.⁴⁹ Further, they argued that even if North Korea were to return to the negotiation table and agree to denuclearization, it would take decades to achieve this goal. Instead, many Chinese analysts have returned to discussing the potential for a nuclear freeze or interim steps, rather than analysing the potential for complete denuclearization.⁵⁰

In February 2016, Wang Yi advocated a new approach to get the relevant parties back to the negotiating table. The essence of this proposal involves denuclearizing North Korea, while holding talks on a peace agreement between the US and North Korea. Wang Yi suggested setting minor goals at different stages of the negotiation, with this point receiving a positive response in China.⁵¹ Su Ge, director of the China Institute of International Relations, among other Chinese experts, has argued that this approach should be conducted under the framework of the Six-Party Talks, which he still considers the best solution to the North Korean nuclear issue.⁵²

In contrast, the international community continues to discuss the unlikelihood of resuming the Six-Party Talks and implications of regime change or collapse in North Korea. In response to these debates, Chinese experts tend to argue that since the current regime has stabilized under Kim's rule, collapse is unlikely. Moreover, they maintain that North Korea's stability remains a high priority for China. Since a shock to the regime could substantially increase the instability of the whole region, most Chinese analysts do not consider it to be a practical or desirable option.⁵³

Despite this, many Chinese experts recognize the urgency of resolving North Korea's problems. During one workshop in Jilin in September 2016, a Chinese expert stressed that North Korea has created a new Chinese-US strategic game, which it exploits while focusing on enhancing its power and decreasing international cooperation to counter its nuclear programme.⁵⁴ According to this view, the longer the North Korean nuclear issue goes unresolved, the more dangerous and complicated it becomes.

2.3 China's approach to Resolution 2321

Only six months after Resolution 2270 was passed, the UN Security Council adopted Resolution 2321, in response to North Korea's fifth nuclear test. That the drafting of the new resolution took more than two months—longer than the discussion surrounding previous drafts—demonstrates the highly divergent interests of the participating members, particularly those of China and the United States. Despite the apparent conflict over tactics, Resolution 2321 very much reflects China's basic policy line on North Korea's nuclear programme, namely that sanctions should not influence normal trade and people's livelihoods.

China has its own concerns about how to effectively balance the use of UN sanctions to encourage North Korea to return to talks, while at the same time working

⁴⁹ Interviews with the author, Beijing, Sep. 2016; and Workshop, Jilin, Sep. 2016.

⁵⁰ Based on interactions with and talks by Chinese experts at the 15th PIIC Beijing Seminar on International Security: Nuclear Non-proliferation and Cooperation, Suzhou, China, 1–5 Nov. 2016.

⁵¹ 赵通 [Zhao, T.], '与朝鲜对话是解决朝核危机的唯一选项' [Dialogue with North Korea is the only option for solving North Korea nuclear crisis], DuoweiCN, 7 Apr. 2016, <http://pit.ifeng.com/a/20160513/48764417_0.shtml>.

⁵² '苏格、杨希雨谈朝核:双轨并进思路可实现“标本兼治”' [Su Ge and Yang Xiyu talk about North Korea nuclear problem: Dual track approach can tackle both cause and effect of this problem], CIIS, 22 Apr. 2016, <http://www.ciis.org.cn/chinese/2016-04/22/content_8723526.htm>; and 王林昌 [Wang, L.], '停和机制转换是朝鲜弃核的唯一出路' [Wang Yi's dual track approach is the only solution for denuclearization], Huanqiuwang, 18 Apr. 2016, <http://opinion.huanqiu.com/opinion_world/2016-04/8813706.html>.

⁵³ Interviews with the author, Jilin and Yanbian, Apr. 2015.

⁵⁴ Workshop, Jilin, Sep. 2016.

to maintain the stability of the North Korean regime. As a result, Resolution 2321 included exemptions for trade and transactions for the 'livelihood purposes of DPRK nationals and unrelated to generating revenue for the DPRK's nuclear or ballistic missile programmes'.⁵⁵ Since there is no explicit definition of a transaction for 'livelihood purposes', it is difficult to distinguish between legitimate trade and that which violates the Security Council resolution. Thus, self-reporting has become extremely important. Even with transactions involving normal trade with the North Korean people, however, it is impossible to ensure that the income does not benefit nuclear or ballistic missile development.

It has been argued that the livelihood exemption in Resolution 2270, which includes minerals such as coal, iron and iron ore, could be undermining the effectiveness of sanctions enforcement.⁵⁶ The tougher and more specific steps on controlling North Korea's coal exports in Resolution 2321 are, therefore, notable innovations. Resolution 2321 states that the total annual value of North Korean coal exports for livelihood purposes cannot exceed 400.87 million US dollars and the amount cannot exceed 7.5 million tonnes per year. This cuts North Korea's total national export revenue by approximately 60 per cent, based on its export volume in 2015.⁵⁷ Due to these figures, it could be argued that this is one of the most concrete and targeted actions that China has taken so far on sanctioning North Korea. And with the publicity surrounding China's announcement in February 2017 that it would halt all coal imports from North Korea for the remainder of the year, China's position has taken on a more overt and muscular tone.⁵⁸

The upcoming monthly reports to the 1718 Sanctions Committee and their publication on its website will provide more accurate figures, improving monitoring of the flow of foreign currency to North Korea from coal exports. These increased controls on North Korean coal exports demonstrate the clear stance of China on North Korean denuclearization. While a firm Chinese stance is important, implementation is even more critical. Following Resolution 2321, some media reports have expressed doubts as to whether the coal export controls can be fully and strictly implemented.⁵⁹ In addition, while trade in copper, nickel, silver and zinc is completely prohibited, iron and iron ore remain exempt as goods that fall under the category of 'livelihood purposes'.⁶⁰ The exclusion of certain goods from sanctions demonstrates the complexities of both effective enforcement and comprehensive impact.

The diplomatic and labour factor in enforcing sanctions

Beyond trade in goods, Resolution 2321 also contains tighter restrictions on North Korean diplomats, who have been repeatedly accused of smuggling. These restrictions limit the number of bank accounts allotted to North Korean diplomatic missions and consular posts to one account each. Accredited diplomats and consular officers are also limited to one account. Additionally, there are prohibitions on using property that

⁵⁵ United Nations (note 5).

⁵⁶ Terry, S., 'North Korea's perpetual provocations: Another dangerous, escalatory nuclear test', US House of Representatives, <<http://docs.house.gov/meetings/FA/FA05/20160914/105328/HHRG-114-FA05-Wstate-TerryS-20160914.pdf>>; Cheng Xiaohu, 'Implementing sanctions against North Korea: A Chinese perspective', Asan Forum, 3 Aug. 2016, <<http://www.theasanforum.org/implementing-sanctions-against-north-korea-a-chinese-perspective/>>; and Rajagopalan, M., 'The coal loophole: doubts on China's will to enforce North Korea sanctions', Reuters, 18 Mar. 2016, <<http://www.reuters.com/article/us-northkorea-nuclear-china-idUSKCNOWJ33R>>.

⁵⁷ 朱锋 [Zhu, F.], '朝鲜会被联合国新制裁决议压垮吗?' [Will new UNSC resolution crush North Korea?], Korean Peninsula Forum, 5 Dec. 2016, <<http://mp.weixin.qq.com/s/6vri1VW1DDofMVZl2fzb7A>>.

⁵⁸ Jiang, S., 'China bans all coal imports from North Korea amid growing tensions', CNN.com, 20 Feb. 2017, <<http://edition.cnn.com/2017/02/19/asia/china-coal-north-korea-ban/index.html>>.

⁵⁹ Kirk, D., 'Will China enforce UN sanctions on North Korea this time?', *South China Morning Post*, 2 Dec. 2016, <<http://www.scmp.com/comment/insight-opinion/article/2050784/will-china-enforce-un-sanctions-north-korea-time>>.

⁶⁰ United Nations Security Council Resolution 2321 (note 4).

is owned or leased by North Korea for any purpose other than diplomatic or consular activities.⁶¹

However, while the resolution ‘calls upon’, it does not ‘decide that’ member states should reduce the staff numbers permitted to serve in North Korean diplomatic missions and consular posts. As North Korea becomes more and more isolated under tightening international sanctions, its diplomatic missions are important for maintaining its connections with the outside world. China has always emphasized the centrality of diplomatic negotiations in resolving North Korean problems. A reduction or even shutdown of North Korea’s embassies is, therefore, not consistent with its interests and approach.

Beyond raw material exports, labour exports are increasingly a source of national revenue for the North Korean Government. These have been expanding to different countries and regions. As a result, they are mentioned in a UN Security Council resolution for the first time. The concern is whether the wages earned by North Korean workers may contribute to national nuclear or ballistic missile programmes. Instead of attacking this issue, however, the resolution only ‘calls for’ better control. So while Resolution 2321 does issue a prohibition on procuring crew services from North Korea, North Korean workers remain very popular among Chinese employers.⁶² This market demand has the potential to outweigh sanctions.

Lü Chao, a researcher at the Liaoning Academy of Social Sciences, has argued that the number of North Korean workers may have already decreased due to the resolution. However, the resolution mentions no specific requirements on labour exports.⁶³ Thus, while Resolution 2321 provides the Chinese Government with a legal basis for tightening its work-visa policies, its overall lack of specifics gives the Chinese Government some flexibility when dealing with North Korean labour exports.

While China and the USA came to final agreement on Resolution 2321, the expanded unilateral sanctions imposed by the US administration following passage of the resolution are likely to reflect the clauses that China did not accept during the discussions on drafting. Among these, the USA added seven individuals and 16 entities to its list of Special Designated Nationals (SDN) for blocking their assets and prohibiting US people from dealing with them. These measures covered North Korean finance, energy, transportation and labour exports.⁶⁴

With its SDN list, in contrast to its limited treatment of overseas labour issues in the UN Security Council resolution, the USA pays more attention to restricting North Korea’s growing foreign currency reserves. It designates the companies that are responsible for organizing labour exports as being subject to sanctions, since part of the income will flow to the North Korean Government and the WPK. For example, the Korea Oil Exploration Corporation was added to the US SDN list due to its attempts to access crude oil through Iranian entities, even though crude oil is not prohibited under the resolution. In fact, many of the Chinese analysts surveyed argued that energy sanctions against North Korea, such as a prohibition on the supply of crude oil, might be necessary to force North Korea back to talks.⁶⁵ Despite this fact, energy sanctions are nowhere to be seen in the new UN Security Council resolution.

⁶¹ United Nations Security Council Resolution 2321 (note 4).

⁶² Workshop, Jilin, Sep. 2015.

⁶³ ‘Chinese border town feels full brunt of sanctions on North Korea’, *Global Times*, 4 Dec. 2016, <<http://www.globaltimes.cn/content/1021903.shtml>>.

⁶⁴ US Department of the Treasury, Resource Centre, ‘North Korea designations’, 2 Dec. 2016, <<https://www.treasury.gov/resource-center/sanctions/OFAC-Enforcement/Pages/20170111.aspx>>.

⁶⁵ Workshop, Jilin, Sep. 2015 and Sep. 2016.

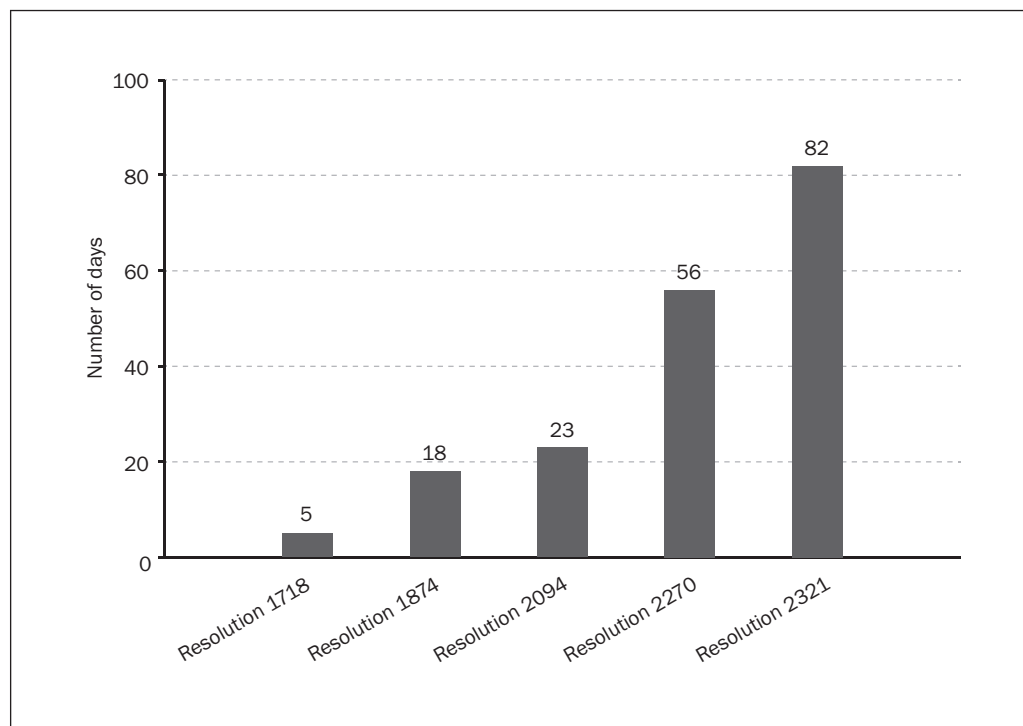


Figure 2.2. Number of days between nuclear test in North Korea and adoption of related United Nations Security Council resolution

Sources: Calculated by author based on the date of each nuclear test and resolution adoption, <<https://www.un.org/sc/suborg/en/sanctions/1718/resolutions>>.

The impact of UN Security Council resolutions on China's North Korea policy

As the frequency of North Korea's nuclear tests increases, so does the duration of the negotiations on UN Security Council resolutions. It took 82 days to pass Resolution 2321, which has been the lengthiest time required, thus far, for the Security Council to agree on sanctions against North Korea (see figure 2.2). This may indicate greater caution from the Chinese Government regarding the implications of these resolutions and the planned THAAD deployment by South Korea. China and the USA have worked closely on drafting UN Security Council resolutions related to North Korea since Resolution 2094 in March 2013. As sanctions become more expansive, however, there are unavoidable disagreements on their intensity and nature. Compared to the aggressive stance of the USA in imposing harsher sanctions, China continues to weigh sanctions against its two major goals on North Korea—denuclearization and regime stability.

Nonetheless, 2013 marked a turning point in Chinese attitudes to the North Korean nuclear issue. North Korea's third nuclear test occurred just after China's Xi Jinping came to power. China's new leader was immediately met with a crisis that challenged the national non-proliferation policy before both administrations had an opportunity to normalize their ties. Thus, although there has been no substantial change in China's official policy, bilateral relations have been shifting. Chinese experts argue that China's relations with North Korea have begun to transition to 'normal' state relations. While China remains a supportive ally of North Korea, it does not take sides.⁶⁶

Prior to this, statements by the Chinese Ambassador to the United Nations following the adoption of Resolution 1718 in 2006 and Resolution 1874 in 2009 emphasized that UN sanctions should be suspended or lifted once North Korea had complied with

⁶⁶ Interviews with the author, Beijing, July 2015.

the relevant provisions of the respective resolution.⁶⁷ Moreover, China was reluctant to examine cargo coming from or in transit to North Korea. These two postures have not been mentioned since the adoption of Resolution 2094 in March 2013. Instead, six months after Resolution 2094 came into force, China's Ministry of Commerce published a 238-page list of dual-use items and technologies banned from export to North Korea. This marked the first time that the Chinese Government had published a concrete prohibition list for North Korea.⁶⁸

The export ban demonstrated notable progress by the Chinese Government in imposing UN sanctions and has been interpreted by some Chinese analysts as a warning from the Chinese Government aimed at North Korea.⁶⁹ After the adoption of Resolution 2270, China's Ministry of Foreign Affairs published two additional prohibited items lists.⁷⁰ Just nine days after the adoption of Resolution 2321, China announced a suspension of coal imports from North Korea for the three weeks from 11 December to the end of the year.⁷¹

Local government interaction and cross-border trade

On North Korea, Xi Jinping follows the dictum of 'seeking common ground, while reserving and managing differences' (求同存异, 管控分歧). Thus, despite their disagreement on denuclearization, China and North Korea continue their economic interaction. China's local governments are working to further economic cooperation with North Korea, even after the fourth and fifth nuclear tests. For example, an August 2016 report by the Yanbian Development and Reform Committee highlighted three areas for economic cooperation with North Korea: electricity, logistics at the Rajin port and cross-border tourism.⁷²

In a report published in December 2016, the city of Tumen in Jilin province noted its future plans to expand logistics, business and tourism in North Korea, while accelerating construction of the China (Tumen)–North Korea Industrial Park and the China (Tumen)–North Korea (Namyang) Border Economic Cooperation Zone.⁷³ It is clear that the adoption of the two most recent UN Security Council resolutions has not

⁶⁷ '王光亚大使在安理会对朝鲜核试验问题决议草案采取行动之后的解释性发言' [Explanatory remarks by Ambassador Wang Guangya at the Security Council after taking vote on draft Resolution on DPRK nuclear test], Permanent Mission of the People's Republic of China to the UN, 14 Oct. 2006, <<http://www.china-un.org/chn/lhghywj/fyywj/wn/2006/t276123.htm>>; '张业遂大使在安理会朝鲜核试验问题决议通过后的解释性发言' [Explanatory remarks by Ambassador Zhang Yesui at the Security Council after taking vote on Resolution on DPRK nuclear test], Permanent Mission of the People's Republic of China to the UN, 12 June 2009, <<http://www.china-un.org/chn/lhghywj/fyywj/fayan2009/t567538.htm>>.

⁶⁸ Chinese Ministry of Commerce, 'Announcement No. 59, 2013 of the Ministry of Commerce, the Ministry of Industry and Information Technology, the General Administration of Customs, China Atomic Energy Authority of the People's Republic of China', 23 Sep. 2013, <<http://www.mofcom.gov.cn/article/b/g/201312/20131200409928.shtml>>.

⁶⁹ 王生 [Wang, S.], '联合国涉朝《2321号决议》应该让朝鲜明白的一些事' [North Korea should understand something from the adoption of UNSC resolution 2321 (2016)], Co-Innovation Centre for Korean Peninsular Studies, <<http://cickps.ybu.edu.cn/info/1050/4321.htm>>.

⁷⁰ Chinese Ministry of Commerce, '商务部 海关总署公告2016年第11号 关于对朝鲜禁运部分矿产品清单公告' [MOFCOM Announcement No. 11 of 2016 Announcement on List of Mineral Products Embargo against the DPRK], 5 Apr. 2016, <<http://www.mofcom.gov.cn/article/b/e/201604/20160401289770.shtml>>; and Chinese Ministry of Commerce, '商务部 工业和信息化部 国家原子能机构 海关总署公告2016年第22号 关于增列禁止向朝鲜出口的两用物项和技术清单公告' [Announcement No. 22 [2016] of the Ministry of Commerce, Ministry of Industry and Information Technology, China Atomic Energy Authority and General Administration of Customs Concerning the Additional List of Dual-use Items and Technologies Banned from Export to North Korea], 14 June 2016, <<http://www.mofcom.gov.cn/article/b/c/201606/20160601338628.shtml>>.

⁷¹ Chinese Ministry of Commerce, '商务部 海关总署公告2016年第75号 关于2016年12月31日前暂停自朝鲜进口煤炭的公告' [MOFCOM and GAC Announcement No. 75 of 2016 on Suspending the Import of Coals from Democratic People's Republic of Korea prior to Dec. 31, 2016], 9 Dec. 2016, <<http://wms.mofcom.gov.cn/article/zcfb/g/201612/20161202162180.shtml>>.

⁷² Yanbian Development and Reform Committee, '关于延边州服务业发展的调研报告' [Exploratory report on the development of service industries in Yanbian Korean autonomous prefecture], 16 Aug. 2016, <http://www.jldrc.gov.cn/sxzx/201608/t20160817_13565.html>. Yanbian is an autonomous prefecture in north-eastern Jilin Province of China.

⁷³ Government of Tumen City, '图们市“四个坚持”促经济社会持续发展' ['Four insistence' on promoting sustainable development of the economy and society in Tumen city], 26 Dec. 2016, <<http://www.tumen.gov.cn/news.asp?id=4626&classtype=2>>.

significantly influenced the economic interactions between North Korea and the local governments in China.

While local-level trade continues largely unabated, as it is not a violation of UN Security Council resolutions due to the livelihood exemption, the resolutions have strengthened the financial measures that restrict North Korea from accessing the international banking system. After the adoption of Resolution 2094 in 2013, the Bank of China shut down the account of North Korea's Foreign Trade Bank in May 2013.⁷⁴ Some Chinese experts believe, however, that the major banks shut down their business with North Korea because of the risk of secondary sanctions that the USA might place on them.⁷⁵ This appears to have less of an impact on local banks in north-eastern China, which have continued their transactions with North Korea, even after the adoption Resolution 2094.⁷⁶

According to a report in the local newspaper *Jilin Daily*, the local Hunchun Rural Commercial Bank (HRCB) (珲春农村商业银行, 훈춘농촌상업은행) established an international division at the end of 2013 as its featured business (特色业务, 특색업무), with a focus on Russia and North Korea. Between its establishment and June 2015, the bank conducted 2964 transfers with a value of around 1 billion Chinese yuan (145 million US dollars), as well as 114 cross-border cash transactions with North Korea amounting to 0.7 billion Chinese yuan (102 million US dollars). The HRCB has also expanded its international settlement business as an intermediary between Russia and North Korea. Thus, although these activities with the border city of Dandong (丹东, 단동) purportedly ceased following the adoption of Resolution 2270, it has an active history of engagement with North Korea.

During interviews, local traders who deal with North Korea said that Resolution 2094 had no significant influence on their businesses. They also noted that following Resolution 2270—and prior to the fifth nuclear test—investment and business continued between China and North Korea, albeit at a slightly slower pace.⁷⁷ The new UN Security Council resolutions are likely to continue to pose limited constraints on individual border-trade activity. In fact, the resolutions are likely to expand these localized networks in the face of a system that lacks major alternatives. The closure in February 2016 of the Kaesong Industrial Complex (KIC)—special administrative industrial zone in North Korea that fosters collaborative economic development with South Korea—might even offer the opportunity for Chinese enterprises to establish an equivalent.⁷⁸

China's growing international image as a responsible great power puts its commitments and actions in response to North Korea in the spotlight. There is a recent clear line that China is tightening its policy on North Korea. However, for north-eastern China, the current priority remains economic development. These provinces have their own economic interests and they depend on the openness of North Korea. Still, analysts in the region are quick to point out that this isolated neighbour also bears an even greater dependence on China.⁷⁹ As many of the Chinese experts and workers who

⁷⁴ '中国银行宣布关闭朝鲜外贸银行账户' [Bank of China claims to have shut down bank accounts of North Korea's Foreign Trade Bank], IFENG, 7 May 2013, <<http://finance.ifeng.com/bank/zyyh/20130507/8003548.shtml>>.

⁷⁵ Interviews with the author, Beijing, July 2015.

⁷⁶ Chosun, "北 송금은 말도 꺼내지 말라" 중은행들 위안화 거래도 거절' [Don't even mention transferring money to North Korea: China's banks stop the relevant business], 3 Mar. 2016, <<http://cnnews.chosun.com/client/news/viw.asp?cate=C01&mcate=M1001&nNewsNum=20160343829&nidx=43830>>.

⁷⁷ '立足长吉图 打造东北亚金融外汇结算中心' [North East Asia international financial settlement centre created in Changchun-Jilin-Tumen], *Jilin Daily*, 17 Nov. 2015, <http://jlrbszb.chinajilin.com.cn/html/2015-11/17/content_178299.htm?div=0>.

⁷⁸ STCN, '吉林珲春探营: 投资商危中寻机 罗津港通关正常' [Walk into Jilin Hunchun: investors seek opportunities in crisis, export declaration in Rajin port in order], 25 Mar. 2016, <<http://www.stcn.com/2016/0325/12641158.shtml>>.

⁷⁹ Zhou and Huang (note 33); Silberstein, B. K., 'Summer trailings along the Sino-North Korean border, in search of sanctions: photo essay', North Korean Economy Watch, 20 Dec. 2016, <<http://www.nkeconwatch.com/2016/12/20/summer-trailings-along-the-sino-north-korean-border-in-search-of-sanctions-photo-essay/>>;

live in border areas argue, people matter more than regulations.⁸⁰ The enforcement of UN sanctions at a local government level will need great attention from central government to ensure effective implementation.

and Radio Free Asia, 'UN sanctions fail to cool Chinese ardour to invest in North Korean businesses', 18 Aug. 2016, <<http://www.rfa.org/english/news/korea/un-sanctions-fail-to-cool-chinese-ardor08182016110957.html?searchterm:utf8:ustring=North+Korea+china+border+trade>>.

⁸⁰ Workshop, Jilin, September 2015.

3. China's economic engagement with North Korea

Since North Korea's third nuclear test in 2013, China has actively been working with the USA on the three most recent UN Security Council resolutions on North Korea: 2094, 2270 and 2321. As the resolution-based sanctions have become increasingly comprehensive, the space for economic exchange has continued to shrink. After the fourth nuclear test in January 2016, South Korea indefinitely closed the KIC, a major post for trade flows with North Korea. As a result, North Korea's survival has become increasingly dependent on its economic relations with China.

As the largest trading country with North Korea, China is taking substantial risks. The economies of the Chinese border cities in the north-eastern region are greatly affected by the changing situation in North Korea. These local governments are expecting more active economic cooperation with North Korea, with the support of the central government. While China's state-led investment is easily affected by the political situation, its small-scale trade is less affected by sanctions enforcement. Small-scale trade is built upon private networks and is more profit-oriented and sustainable. This is meaningful given that bilateral trade between China and North Korea is dominated by frontier trade.

Many Chinese experts maintain that economic engagement will replace the vicious cycle of North Korean provocation and international reaction exacerbated with 'trade for aid and temporary calm'.¹ They maintain that agricultural reform and the emerging trend for marketization within North Korea are positive signals that will lead to more change. However, for countries that take a more hard-line stance on the North Korea nuclear issue, China's ongoing economic engagement continues to be seen as undermining international sanctions.

3.1 Current trends in North Korea's economic development

The balance between marketization and stability

Marketization in North Korea has long been a turbulent process, consisting of periods of brief growth followed by government suppression. Over the years, the Kim family has tried to control the uncertainties that marketization could bring to a nation under a planned economy. The most recent suppression of the market was in 2009, during the failed currency reform of the administration of Kim Jong-il. Nonetheless, a number of Chinese experts argue that marketization has been increasing ever since Kim Jong-un came to power.² He has pursued an economic guideline characterized as 'our own style economic management method' (우리식 경제관리법, 我们式经济管理体系), based in part on the '6.28 Measure' (6.28 방침/조치, 6.28 方针/措施) announced on 28 June 2012 and the '5.30 Measure' (5.30 담화, 5.30 谈话) announced on 30 May 2014.

Professor Yang Moon-soo, from the University of North Korean Studies and a consultant for the Policy Advisory Committee for the Ministry of Unification, argues that these economic guidelines have created a market-friendly environment in North Korea.³ Each measure has its own respective focus. The 6.28 Measure addresses agricultural reform while the 5.30 Measure is focused more on expanding reform in factories and enterprises.⁴ As part of the 5.30 Measure, factories and enterprises now

¹ Workshop, Jilin, Sep. 2016.

² Interviews with the author, Jilin and Yanbian, Apr. 2015.

³ Yang Moon-soo, '김정은 체제 출범 이후 '우리식 경제 관리방법'의 모색: 현황과 평가', KDI Review of the North Korean Economy, Mar. 2014, <<http://www.dbpia.co.kr/SKnowledge/ArticleDetail/NODE06584121>>, p. 21.

⁴ 林今淑, 金美花 [Lin, J. and Jin, M.], '金正恩执政后朝鲜经济好转原因及其走势' [Causes of the turnaround in the DPRK since Kim Jong-un's rule, and future trends], *Journal of Yanbian University (Social Science)*, vol. 49, no.2

Table 3.1. Food production in North Korea

Figures are in millions of tonnes.

| Year | 2010/2011 | 2011/2012 | 2012/2013 | 2013/2014 | 2014/2015 |
|--------|-----------|-----------|-----------|-----------|-----------|
| Volume | 4.48 | 4.66 | 4.9 | 5.03 | 5.94 |

Sources: For data on 2014 and 2015, see Global Information and Early Warning System (GIEWS) Updates, Food and Agriculture Organization of the United Nations (FAO), <<http://www.fao.org/giews/reports/giews-updates/en/>>; and for data on 2010–13, see FAO/World Food Programme (WFP) Crop and Food Security Assessment, Mission to the Democratic People's Republic of Korea, WFP, <https://www.wfp.org/food-security/assessment-bank?type%5B%5D=1655&tid_1=222&tid_6=All>.

enjoy greater autonomy, including an 'independent accounting system' (独立核算制, 독립채산제).⁵ The factories and enterprises are now also able to create their own production plan and set prices. However, government authorities are still the primary arbiters of the wages of factory workers across different levels.

Agricultural reform and food production

The measure on agriculture reform, known as the 'Pojon Responsibility System' (포천담당제, 圃田担当制), was first tested in pilot programmes before nationwide implementation in 2015. According to Chinese scholars, the farm-unit size has been reduced from seven to eight families with 15 to 25 workers to two families with 3 to 5 workers.⁶ Seventy per cent of their production quota goes to the state, while the remainder is reserved for the workers to determine its allocation. By giving workers a means for profit, the reform aims to increase production by increasing motivation. Permitting choice among farmers about which crops to trade is also used to build 'market economy thinking' into the system.

Some Chinese experts are pessimistic, however, about North Korea's agriculture reform.⁷ North Korea's geography gives it only a limited amount of arable land and makes it vulnerable to natural disasters. They argue that while a short-term increase in food production will be possible, long-term growth is not. Increasing domestic expectations mean that the pressure of the new agricultural system hits the bottom tier of the population the hardest. A report by the UN's Food and Agriculture Organization (FAO) published in April 2016 indicated that total food production in North Korea was an estimated 5.42 million tonnes in 2015, which is a decline of 9 per cent compared to the previous year and a first-time drop since 2010 (see table 3.1).⁸ However, from one Chinese expert's interactions with a North Korean colleague, North Korea purportedly had a harvest of 6 million tonnes in 2015.⁹ This illustrates the potential fallibility of statistics and the difficulty in tracking change in a largely closed system.

Signs of emerging market forces in North Korea

Overall, figures on North Korea lack accuracy and are hard to obtain. As a result, it is difficult to get a genuine picture of the domestic situation. Much of the analysis on improvements in marketization is based on changes visible to North Korea observers. According to one Chinese expert, who frequently visits and closely tracks developments

(Mar. 2016), p. 12.

⁵ Workshop, Jilin, Sep. 2016.

⁶ Interviews with the author, Jilin and Yanbian, Apr. 2015.

⁷ Interviews with the author, Beijing, July 2015.

⁸ Food and Agriculture Organization of the United Nations, 'The Democratic People's Republic of Korea: Outlook for food supply and demand in 2015/16 (Nov./Oct.)', Global Information and Early Warning System on Food and Agriculture (GIEWS) Update, 27 Apr. 2016, <<http://www.fao.org/3/a-i5572e.pdf>>.

⁹ Workshop, Jilin, Sep. 2016.

in North Korea, the improvement in people's lives, particularly in Pyongyang, has been dramatic.¹⁰ The increasing use of smart phones, the reality of traffic jams in Pyongyang and the growing number of shopping malls selling foreign products all reflect increased consumer demand and the effect on North Korean living standards.

Moreover, the growth of both a sanctioned market economy and a black market economy show that despite North Korea's official planned economy, market forces are on the rise. Chinese experts have described this trend as a phenomenon in which everyone in North Korea is doing business (全民皆商).¹¹ They argue that this growth model could create an irreversible marketization of North Korea, in which an emerging middle class will eventually promote bottom-up reform and an opening up of North Korea.¹²

Despite these changes, however, many Chinese analysts agree that while the increase in marketization is significant, it remains limited. In their view, the economic sanctions that North Korea faces could shrink the space needed for the development of a market economy. Chinese experts are further concerned that these emerging market forces might be crippled by sanctions before they have a chance to fundamentally alter domestic economic, much less political, dynamics.¹³

The Seventh Party Congress and economic development

The Seventh Party Congress of the WPK took place in Pyongyang on 6–10 May 2016, 36 years after its previous iteration. During the meeting, Kim Jong-un was appointed as chairman of the WPK. This has been interpreted by some Chinese experts as a further sign marking the end of the transition of power in North Korea and a consolidation of Kim Jong-un's one-person leadership (唯一领导体制).¹⁴ They tend to argue that compared to his father, Kim Jong-un pays more attention to improving the economic conditions and the livelihoods of the populace in North Korea.¹⁵ Experts on North Korea were, therefore, closely watching whether Kim Jong-un would mention economic reform during his speech. The second part of his statement announced a 'Five-Year Strategy (2016–2020) for Economic Development' (국가경제발전 5개년전략, 国家经济发展5年战略).

Although anticipated, the announcement did not use the term 'Five-Year Plan' but 'Five-Year Strategy'. On the one hand, the shift from 'plan' (계획, 计划) to 'strategy' (전략, 战略) could be seen as reinforcing the desire within North Korea to distinguish itself from China, which has its own series of five-year plans.¹⁶ On the other hand, according to one Chinese expert, it could reflect how the North Korean Government avoids mention of concrete action. It shows governmental uncertainty regarding the future of North Korea's economy and its desire not to disappoint the populace and suffer the consequences of doing so.¹⁷

Thus, it was not entirely surprising that the new strategy covered various aspects of North Korea's economy, but did not mention an innovative plan for economic reform. In fact, the only time Kim used the words 'reform' and 'opening up' was when criticizing 'the wind of bourgeois liberation in our neighbourhood' that 'will not stop us from

¹⁰ Interviews with the author, Jilin, Apr. 2015.

¹¹ Interviews with the author, Jilin and Yanbian, Apr. 2015.

¹² Interviews with the author, Yanbian, Apr. 2015.

¹³ Interviews with the author, Jilin and Yanbian, Apr. 2015.

¹⁴ Workshop, Jilin, Sep. 2016.

¹⁵ Interviews with the author, Jilin and Beijing, Apr. and July 2015, Sep. 2016.

¹⁶ <北당대회> 北김정은 “경제발전 5개년전략” 제시 [North Korea Party Congress: Kim Jong-un presents 'five-year economic strategy'], Yonhap News Agency, 8 May 2016, <<http://www.yonhapnews.co.kr/bulletin/2016/05/08/020000000AKR20160508015300014.HTML>>.

¹⁷ Interviews with the author, Beijing, Sep. 2016.

adhering to the road of socialism'.¹⁸ Aversion to the term 'reform' is not new. North Korean statements usually describe such shifts as 'economic management improvement measures' (경제관리개선조치, 经济管理改善措施).

This omission is more than simply rhetorical. The North Korean leadership is not willing to admit that there has been, or ever will be 'reform'. North Korea seeks to distinguish itself from China's 'reform and opening' policies of the 1980s.¹⁹ Despite suggestions to the contrary, some Chinese scholars argue that the goal of becoming an 'economic power', mentioned in the five-year strategy, along with the promotion of officials working in the field of economic development during the Party Congress, reflect the increasing importance of economic development among North Korea's national priorities.²⁰

While some in China might point to the focus on economic development first as distinctly Chinese, North Korea's emphasis of its 'own style of economic management methodology' in the five-year strategy further reflects a conscious desire to set itself apart from China. And the course North Korea sets for itself may not always be predictable. While improvements in agriculture following the 6.28 Measure and 5.30 Measure bolstered hopes that further plans would be presented in North Korea's new five-year strategy, no new measures were introduced. The only exception was an emphasis on the importance of mechanized farming. This could suggest that the current agriculture measures have met Kim's demands, such that improvements in agricultural tools will serve as the next step in increasing labour efficiency.

Beyond agriculture, solving the energy shortage remains a precondition for developing the North Korean economy. This is not surprising, as energy shortages have always been a factor stunting North Korea's economic growth. Several suggestions for alleviating the shortage are mentioned in the five-year strategy, such as speeding up electricity power plant construction, the countrywide building of small and medium-sized power plants to harvest local resources, reducing transmission losses, the increased use of renewable energy sources, and—perhaps most noteworthy from a nuclear proliferation standpoint—the establishment of nuclear power plants.

Since 2011, the Chinese Government has been discussing power transmission with North Korea from Hunchun (琿春, 훈춘), a Chinese county in Jilin Province near to Rason (라선, 罗先).²¹ According to the Japanese media agency Nikkei, the installation of cables on the power transmission towers in Hunchun has not yet been completed.²² One explanation for this delay, as suggested by Chinese experts, is that instead of getting electricity from Hunchun, North Korea would prefer to have the Chinese Government help to build domestic power plants or to fund a similar project.²³

Expanding the discussion, Chinese analysts further note that technical questions—such as responsibility for management and maintenance—are partly hindering the project. Despite the lack of progress at Hunchun, however, China is working closely with North Korea on energy issues in other areas. For example, a delegation of North Korean experts on small and medium-sized hydroelectric power technology visited

¹⁸ Kim Jong-un, '조선노동당 제7차대회에서 한 당중앙위원회 사업총화보고' [General report at the Seventh Congress of the Workers Party of Korea], Rodongshinmoon, 8 May 2016, <http://www.rodong.rep.kp/ko/index.php?strPageID=SF01_02_01&newsID=2016-05-08-0001>.

¹⁹ Interviews with the author, Jilin and Yanbian, Apr. 2015.

²⁰ 李敦球 [Li, D.], "'七大'之后朝鲜将有何变化' [What has changed since North Korea's Seventh Party Congress], Zhongguoqingnianbao, 14 May 2016, <<http://news.sina.com.cn/o/2016-05-14/doc-ifxsephn2382816.shtml>>.

²¹ Huanqiu Shibao, '中朝罗先特区开建 中方称“一个新的时代在迎接我们”' [China-North Korea Rason special economic zone begins construction: China says 'a new era is waiting for us'], 10 June 2011, <<http://world.huanqiu.com/roll/2011-06/1747481.html>>.

²² Ijuin, A., 'Deciphering North Korea's tangled economic ties with China', *Nikkei Asian Review*, 30 Aug. 2016, <<http://asia.nikkei.com/Politics-Economy/International-Relations/Deciphering-North-Korea-s-tangled-economic-ties-with-China>>.

²³ Interviews with the author, Jilin and Yanbian, Apr. 2015.

China one month after the fifth nuclear test for technical exchanges and to discuss future cooperation.²⁴

The final part of North Korea's five-year strategy mentions the demands of expanding foreign trade. In an effort to attract foreign capital, Kim Jong-un emphasized the importance of keeping promises when doing business and creating a favourable environment for investment. He also suggested adjustments to North Korea's trade structure by increasing the ratios of processing industries, technology trade and services.

To a degree this is reflected in a Korea Trade-Investment Promotion Agency (KOTRA) report on North Korea's foreign trade in 2015. The export of textile products has been increasing steadily since 2011, while mineral exports have been in continuous decline since 2013.²⁵ The change in exports to processed goods is partly a result of UN sanctions enforcement, which prohibits North Korea's mineral business, but is in greater part driven by changing Chinese trade needs. Under increasingly tough sanctions, the development of foreign trade is likely to become more difficult. This means that despite some of the improvements discussed above, the effects may be limited.

Obstacles to economic development in North Korea

North Korea's economy is characterized as a shortage economy in three primary fields: food security, energy and raw materials, as well as foreign currency.²⁶ Despite this fact, North Korea's official state ideology, known as *Juche* (주체사상, 主体思想), emphasizes the self-reliance of its economy, which is hardly possible in its current situation.²⁷

In essence, North Korea remains unable to meet its food demands. It relies on food aid provided by international NGOs and other countries. According to the FAO, the annual gap between food production and food demand in North Korea averaged 466 000 tonnes from November 2010 to October 2015.²⁸ During this period, there was one annual increase of 69 per cent, from 410 000 tonnes in 2014–15 to 694 000 tonnes in 2015–16. While Kim Jong-un's agriculture reforms have been heralded as a success by North Korea, food insecurity will not be eliminated in the near future. Among the various factors contributing to this trend, the FAO asserts that poor machinery and a lack of fuel are the two main constraints on its food production.²⁹

To improve in these areas, North Korea will need support to develop the technologies and energy resources they lack—most notably oil. Currently, it primarily relies on crude oil supplied by China, Russia and countries in the Middle East.³⁰ The raw materials on which North Korean industries depend are also imported.³¹ Some argue that the development of private trade could increase the level of inequality in the distribution of resources between the army and the people.³² Under the *Songun*, or 'military first' (선군, 先军) policy, the military has monopolized a variety of fields within North Korean industry. While Kim Jong-un has emphasized the importance of simultaneous

²⁴ Chinese Embassy in the DPRK, '朝鲜水力发电技术考察团访华' [North Korean delegation on hydro-power techniques visits China], 27 Oct. 2016, <<http://kp.china-embassy.org/chn/zcgx/zckjll/t1411817.htm>>.

²⁵ KOTRA, '2015 북한 대외무역 동향' [2015: North Korea foreign trade trends], 22 July 2016, <<https://news.kotra.or.kr/user/globalBbs/kotranews/11/globalBbsDataView.do?setIdx=249&dataIdx=151201>>, p. 6.

²⁶ Interviews with the author, Liaoning, Apr. 2015.

²⁷ North Korean Government webpage, 'Juche Ideology', <http://www.korea-dpr.com/juche_ideology.html>.

²⁸ Food and Agriculture Organization of the United Nations, 'GIEWS Country Brief: Democratic People's Republic of Korea', Global Information and Early Warning System on Food and Agriculture, 16 Dec. 2016, <<http://www.fao.org/giews/countrybrief/country/PRK/pdf/PRK.pdf>>. The marketing year in the FAO's report runs from Nov. to Oct.

²⁹ Food and Agriculture Organization of the United Nations, 'FAO/WFP crop and food security assessment mission to the Democratic People's Republic of Korea', 28 Nov. 2013, <<http://www.fao.org/3/a-aq118e.pdf>>, p.19.

³⁰ Interviews with the author, Liaoning, Apr. 2015.

³¹ Interviews with the author, Liaoning, Apr. 2015.

³² Nanfangzhoumo, '改革动了朝鲜“先军的奶酪”?' [Does the reform move 'the cheese of Songun'?], 31 May 2013, <<http://www.infzm.com/content/90906>>.

Table 3.2. Bilateral trade between China and North Korea, 2013–15

| Year | Bilateral trade (US \$ b.) | Chinese exports (US \$ b.) | Chinese imports (US \$ b.) | Total (%) | Total (%) (excluding inter- Korean trade) |
|------|-------------------------------|-------------------------------|-------------------------------|-----------|---|
| 2013 | 6.55 | 3.63 | 2.91 | 77.24 | 89.24 |
| 2014 | 6.39 | 3.52 | 2.87 | 64.20 | 83.97 |
| 2015 | 5.51 | 2.95 | 2.57 | 61.50 | 88.16 |

Sources: General Administration of China Customs, <<http://www.customs.gov.cn/>>. The data in the 'Total (%)' column is calculated by the author based on the data from Korea Trade-Investment Promotion Agency (KOTRA), '2015 북한 대외무역 동향' [2015 North Korea foreign trade trend], 22 July 2016, <<https://news.kotra.or.kr/user/globalBbs/kotranews/11/globalBbsDataView.do?setIdx=249&dataIdx=151201>>; and Korea National Statistical Office, '남북간 교역추이' [Inter-Korean trade], <http://www.index.go.kr/potal/main/EachDtlPageDetail.do?idx_cd=1698>.

development of the military and the economy, however, the dominance of military expenditure and its impact on other areas of development cannot easily be dismissed.

Foreign currency reserves are critical to purchasing much-needed materials from the international market. North Korea's shortage of foreign currency has also limited the people's capacity to increase consumer demand. As such, barter remains a common form of trade. The economic sanctions enforced by the international community, particularly those on the banking system, have severely affected both normal trade transactions and illicit economic activities related to North Korea's nuclear programme.³³ As noted above, there is a disconnect between the central government and local government policy enforcement in China that can feed these illicit networks.

The North Korean Government has announced several policies to attract foreign investment. According to professor Lee Myung-sook from Kim Il-sung University, the North Korean Government levies seven types of taxation on foreign enterprises—both a smaller number and a lower amount than the taxes imposed by other countries.³⁴ Chinese experts, however, are sceptical about whether any benefits can be fully realized in practice and be ensured under the current North Korean legal system.³⁵ This relates to one of the biggest obstacles to foreign investment, namely bolstering foreign investor confidence in North Korea's ability to protect their assets. In one recent case, the Egyptian telecom company Orascom was unable to withdraw profits from North Korea, due to government foreign currency controls.³⁶ Such incidents erode confidence in North Korea's viability as a market and target for investment.

Beyond the concerns of industry, the Chinese academic community questions whether Kim Jong-un will ever fully promote economic development. Regime stability is the top priority of the North Korean Government and high-speed economic development could jeopardize this, resulting in the government seeking to roll back some of the gains.³⁷ Moreover, Chinese analysts are concerned by North Korea's re-emphasis of the importance of the policy of *Songun* at the Seventh Party Congress, since it stresses the importance of North Korea not relinquishing its nuclear weapon development.³⁸ They argue that the development of the defence industry will continue

³³ Interviews with the author, Jilin, Liaoning and Yanbian, Apr. 2015.

³⁴ Lee Myung-sook, '朝鲜对外商投资企业及外籍人员征收的税收种类及税率' [The types and rates of tax collection from foreigners and foreign investment enterprises in North Korea], *Northeast Asia Forum*, no. 1 (2016), p. 42.

³⁵ '朝鲜学者来华讨论经贸合作 称应对"一带一路"深入思考', *Huanqiu*, 22 Sep. 2015, <<http://world.huanqiu.com/exclusive/2015-09/7541091.html>>.

³⁶ Gale, J., 'Orascom suffers static in North Korean venture', *Wall Street Journal*, 1 Jan. 2016, <<http://www.wsj.com/articles/orascom-suffers-static-in-north-korean-venture-1451628004>>.

³⁷ Interviews with the author, Beijing, July 2015 and Sep. 2016.

³⁸ Interviews with the author, Jilin, Apr. 2015.

to be North Korea's top priority. As a result, the promotion of further economic development will lose ground.³⁹

3.2 Economic exchange between China and North Korea

Scope of current Chinese–North Korean economic exchange

According to data from the General Administration of China Customs, the total volume of trade between China and North Korea fell for two years running after 2014 (see table 3.2). Meanwhile, the Chinese share in North Korea's total trade fell from 77.24 per cent in 2013 to 61.5 per cent in 2015. However, it is difficult to interpret this decline as being a result of successful sanctions implementation by China, rather than an overall gradual shrinking of bilateral trade. Despite these recent shifts, the percentage of North Korea's trade carried out with China remains very high.

Excluding inter-Korean trade, China's share in North Korean trade with the outside world has remained at around 90 per cent, as shown in table 3.2. This data shows the overwhelming economic leverage China has over North Korea. According to the South Korea Ministry of Unification, the volume of trade through the KIC accounted for 99.6 per cent of total inter-Korean trade.⁴⁰ As noted above, South Korea shut down the KIC within a month of the fourth nuclear test in January 2016.⁴¹ This led to a sharp drop in inter-Korean trade in 2016, meaning that China's share in North Korea's total trade with the world is likely to experience a marked increase, closer to the value that excludes inter-Korean trade (see table 3.2).

While the annual volume of trade between China and North Korea might be declining, the volume fluctuates month-on-month (see figure 2.1). After the adoption of Resolution 2270 in early March 2016, the volume of trade decreased in April and May but increased again in June. Analyses by the international media and researchers suggest that some of this could be attributable to announcement of the planned THAAD deployment.⁴² There was another jump of 16.8 per cent in October to November, just prior to the adoption of new UN sanctions. During this period, according to data from the Korea International Trade Association, North Korea's coal exports to China surged by 112 per cent.⁴³ This could be interpreted as a reaction to and in anticipation of Resolution 2321 that was being drafted at the time, since channels for such trade would soon narrow.

Despite these interpretations, it is difficult to explain fluctuations within a year, especially when there are discrepancies between national statistics and external figures.⁴⁴ One explanation might be that in contrast to China's concerns with national policy, some individuals are more concerned about securing their own businesses than abiding by the law. Such human factors can affect trade figures more than institutional factors. For example, unless China completely closes its border with North

³⁹ Pengpai, '朝鲜要去哪儿: 后“七大”时代的内政外交走向' [Where will North Korea go? Domestic and foreign policy trends after the Seventh Party Congress], 7 May 2016, <http://www.thepaper.cn/newsDetail_forward_1469847>.

⁴⁰ South Korean Ministry of Unification, '2016 통일백서' [2016 White Paper on Korean Unification], <http://www.unikorea.go.kr/download.do?filename=45174_201605191007191162.pdf>, p. 67.

⁴¹ South Korean Ministry of Unification, '개성공단 전면 중단 관련 정부 성명' [Official statement on shutting down the Kaesong Industrial Complex], 10 Feb. 2016, <<http://www.unikorea.go.kr/content.do?cmsid=1557&mode=view&cid=44418>>.

⁴² 'N. Korea-China trade showing signs of revival: sources', Yonhap News Agency, 14 Aug. 2016, <<http://english.yonhapnews.co.kr/search1/2603000000.html?cid=AEN20160814003000315>>; and Ryall, J., 'Is China letting sanctions slide on North Korean trade?', Deutsche Welle, 17 Aug. 2016, <<http://www.dw.com/en/is-china-letting-sanctions-slide-on-north-korean-trade/a-19479840>>.

⁴³ 'N. Korea doubled coal exports ahead of UNSC resolution: KITA', Yonhap News Agency, 25 Dec. 2016, <<http://english.yonhapnews.co.kr/search1/2603000000.html?cid=AEN20161225000700320>>.

⁴⁴ Interviews with the author, Liaoning, Apr. 2015.

Korea, even under strict border control, many traders will still find ways to smuggle goods into North Korea.⁴⁵

Thus, while national statistics might not accurately record all bilateral trade, they do reflect the real-time attitudes within China towards North Korea. A more generic explanation of the fluctuations in monthly trade volume is that it reflects a short-term form of economic leverage and in some cases punishment exerted by the Chinese Government on North Korea. For China, it is important that North Korea understands that it will pay a price for its nuclear programme. That said, China does not want to strangle the regime.⁴⁶

Economic shifts and outsourcing to North Korea

Irrespective of China's aims, the structure of its economic exchange with North Korea is gradually shifting. Despite the irregular pattern in November 2016, the volume of North Korea's major export items—minerals, iron ore and coal—has been in continual decline since 2013. Resolution 2321 will further suppress North Korea's coal exports. Meanwhile, exports of textile products have been steadily increasing, comprising 32.7 per cent of total bilateral trade with China in 2015.⁴⁷

In general, it seems that trade is shifting from simple raw materials into processed goods. This is an emerging trend between the two countries, in which Chinese factories outsource their processing business to North Korean factories, taking advantage of low labour costs.⁴⁸ In overtaking North Korea's traditional raw material exports, labour-intensive industries are becoming a major income source for North Korea. Moreover, the labour shortage caused by low wages in north-eastern China means that North Korean workers are in demand among Chinese companies.⁴⁹

Several cross-border tourism projects are also in development. Liaoning province in China is working to increase cross-border tourism to North Korea, making it a main product of their local economy. A high-speed train from Shenyang to Dandong, a border city in Liaoning province and the main crossing port to North Korea, opened in September 2015 and is already bringing in large flows of tourists. The half-day tour from Dandong to Shinuiju (신의주, 新义州), which opened in June 2016, attracted 20 000 visitors in just five months.⁵⁰ The local government of Liaoning province is also promoting the establishment of a cross-border tourism experimental zone and an economic cooperation zone to attract visitors and investors.

Notably, while seemingly a product of private enterprise, much of this economic cooperation with North Korea is created through government channels. As such, North Korea is also working to improve its domestic tourism industry. It announced a new tourism regulation for travelling through Economic Development Zones in December 2015, which includes the protection of personal safety, human rights and property, as well as opportunities for investment.⁵¹ North Korea has also stated its

⁴⁵ Interviews with the author, Liaoning, Apr. 2015.

⁴⁶ Interviews with the author, Yanbian and Liaoning, Apr. 2015.

⁴⁷ KOTRA (note 25).

⁴⁸ Interviews with the author, Jilin, Apr. 2015.

⁴⁹ JoongAng Ilbo, '面对对朝制裁,中国企业要求朝鲜再多派劳工' [Chinese enterprises ask for more North Korean labour in the context of UN sanctions], 26 Jan. 2016, <http://chinese.joins.com/gb/article.do?method=detail&art_id=146891&category=002002>.

⁵⁰ '丹东:建设赴朝旅游集聚区' [Dandong: establish cross border tourism zone], China Tourism News, 11 Nov. 2016, <http://www.ctnews.com.cn/zglyb/html/2016-11/11/content_135501.htm?div=-1>.

⁵¹ Kim Hyon Uk, 'Tourism regulations in EDZ instituted', *Pyongyang Times*, 12 Feb. 2016, <<http://175.45.176.67/en/order/pytimes/?page=Tourism&no=21539>>.

ambition to have ten times the number of tourist visitors in 2017, compared to that of 2015. The target is one million in 2017 and two million by 2020.⁵²

3.3 Chinese views on future economic cooperation with North Korea

Bilateral relations between China and North Korea have been deteriorating since 2013, following North Korea's third nuclear test and the execution of Jang Song-taek (장성택, 张成泽), Kim Jong-un's uncle and a strong advocate of China–North Korea economic relations. Throughout this period, however, economic exchanges have not ceased. As long as stability of the Korean peninsula remains China's top priority, political relations will not interrupt economic transactions. Instead, they will only create barriers and risks for merchants.⁵³ Even after the fourth and fifth nuclear tests, the bulk of Chinese analysts maintain this opinion.⁵⁴

Even at the official level, a statement by the Chinese Ministry of Foreign Affairs after the adoption of Resolution 2321 highlighted the importance of maintaining normal trade and steady bilateral relations with North Korea (see table 3.3). Some even argued that future economic cooperation should be expanded. In an interview with *China Review News*, Li Chunfu, a professor at the Zhou Enlai School of Government, highlighted another mainstream view among the Chinese expert community, which maintains that the development of economic cooperation and assistance can be used as 'strategic leverage' (战略杠杆).⁵⁵ Interestingly, this view echoes external observers' exhortations for China to use its leverage to assume a greater role on North Korea. Yet, as frequently argued by Chinese analysts, the question remains as to whether this leverage will be enough to persuade Kim Jong-un to relinquish North Korea's nuclear weapons programme.

Among those directly impacted, Chinese traders are also quite cautious about direct economic cooperation with North Korean entities, due to the latter's poor record on breaching contracts with foreign investors.⁵⁶ While infrastructure is one of the major areas in which North Korea hopes to cooperate with China, Chinese traders label the mining industry a 'dangerous business'.⁵⁷ The construction of the Juan River–Wonjong Bridge Highway—which began in 2014 and was completed in October 2016, replacing a two-lane road with a four-lane road—aims to increase traffic volumes between Hun-chun and Rason.⁵⁸ Some experts, however, are sceptical about cooperation with North

⁵² Morris, H., 'North Korea hopes to welcome two million tourists', *Daily Telegraph*, 1 June 2015, <<http://www.telegraph.co.uk/travel/destinations/asia/north-korea/articles/North-Korea-hopes-to-welcome-2-million-tourists/>>.

⁵³ Interviews with the author, Liaoning and Beijing, Apr. and June 2016.

⁵⁴ Workshop, Jilin, Sep. 2016; and Interviews with the author, Beijing, Sep. 2016.

⁵⁵ 李春福 [Li, C.], '李春福谈朝核与萨德' [Li Chunfu interview: North Korea nuclear issues and THAAD], *China Review News*, 22 Oct. 2016, <<http://hk.crntt.com/crn-webapp/doc/docDetailCNML.jsp?coluid=93&kindid=15470&docid=104436286>>.

⁵⁶ There are several well-known cases of investments in North Korea by Chinese enterprises that did not go well. 1. Wanxiang Group invested in the Hyesan Youth copper mine in 2007. Two years after the cooperation, the North Korean Government called off the project and expropriated the production equipment. After the visit of the then Prime Minister Win Jiabao to North Korea in 2009, the cooperation was resumed. '中企在朝鲜投资犹如“过山车”的背后' [Behind the fluctuating investments of Chinese enterprises in North Korea], *China Business Journal*, 26 Dec. 2013, <<http://www.cb.com.cn/index.php?m=content&c=index&a=show&catid=20&id=1030206&all>>. 2. Xiyang Group, the largest private enterprise in Liaoning province at the time, invested 240 million Yuan in iron ore powder in 2007–11. It was forced out of the country after North Korean workers acquired refining know-how due to a unilateral contract termination by North Korea. '西洋集团在朝鲜投资的噩梦' [Xi Yang Group's nightmare investment in North Korea], <<http://money.163.com/12/0816/18/8923DE37002525C6.html>>. 3. Tonghua Iron and Steel invested in North Korea's largest iron mine, Musan, in 2005. Price increases on the North Korean side and a reduction in the international iron price meant that production was intermittent. The project ceased completely at the end of 2014. '무산광산 가동 중단으로 노동자 1만명 감원' [10 000 redundancies because of ceased mining activities in Musan], *Daily NK*, 9 Jan. 2015, <<http://www.dailynk.com/korean/read.php?cataId=nk04504&num=105399>>.

⁵⁷ Interviews with the author, Liaoning, Apr. 2015.

⁵⁸ Tumenjiangbao, '中朝圈河至元汀界河公路大桥全桥贯通' [Juan River: Wonjong Bridge highway completed], 11 Nov. 2016, <http://www.jl.xinhuanet.com/2016-11-16/c_1119923671.htm>.

Table 3.3. Chinese Ministry of Foreign Affairs: statements on North Korean issues, December 2016

| Date | Spokesperson's remarks |
|--------------|---|
| 1 Dec. 2016 | Three points highlighted on the adoption of Resolution 2321. First, the resolution is not intended to have adverse humanitarian consequences for the civilian population of North Korea, or a negative impact on its normal economic activities and trade. Second, all relevant parties should come back to the negotiation table, reduce tensions on the peninsula and restart the Six-Party Talks as soon as possible. Third, all relevant parties should avoid doing or saying anything that might escalate tensions. As such, China opposes the deployment of THAAD and urges concerned parties to halt its progress. |
| 8 Dec. 2016 | There are differences between the list of prohibited items in UN resolutions and the unilateral sanctions imposed beyond the UN framework. China will fully implement UN resolutions but will never accept or recognize unilateral sanctions. |
| 19 Dec. 2016 | The Chinese Ambassador to North Korea attended the fifth anniversary of the passing of Kim Jong-il. China hopes to maintain the sound and steady improvement in bilateral relations with North Korea. |

Source: Chinese Ministry of Foreign Affairs, Foreign Ministry Spokesperson's Regular Press Conferences, Dec. 2016, <<http://www.fmprc.gov.cn/>>.

Korea on future such infrastructure projects.⁵⁹ They argue that while North Korea might request certain projects, the construction is not put to use. One such example, the Yalu Bridge completed by China in 2014, cost more than 2 billion Chinese yuan (292 million US dollars), but has not yet been opened for use. Some Chinese experts suggest joint cooperation with other countries to spread the level of risk and to mitigate North Korea's sense that it is overly dependent on China.⁶⁰ Sanctions have the further potential to make tourism and services more attractive for China as alternative fields of trade cooperation.⁶¹

3.4 China's humanitarian assistance to North Korea

Crude oil supply, food aid and training programmes

With the exception of South Korea, China is the major source of energy and food aid to North Korea. The exact magnitude of China's foreign aid operation in these two fields is a mystery due to its lack of transparency. China's Information Office at the State Council published the first white paper on China's Foreign Aid in 2011 and an updated version in 2014.⁶² While this showed progress in improving openness, the paper did not provide project-level detail or country-to-country figures. At a press meeting in July 2016, Zhang Danyang, spokesman for China's Ministry of Commerce, answered questions on North Korean assistance and stated that he had 'no specific statistics to offer at the moment'.⁶³ It is clear that China considers its foreign aid figures to be confidential information.

Among other areas, China has been criticized for continuing to send crude oil to North Korea. However, its official statistics provide no figures on crude oil transportation for 2014 and 2015. According to the South Korean newspaper *JoongAng Ilbo*, the oil pipelines in Dandong that are linked to North Korea were still being used in May

⁵⁹ Interviews with the author, Liaoning, Apr. 2015.

⁶⁰ Interviews with the author, Jilin, Apr. 2015.

⁶¹ Interviews with the author, Jilin and Liaoning, Apr. 2015.

⁶² Information Office of the State Council, The People's Republic of China, 'Full Text: China's Foreign Aid', Xinhuanet, Beijing, 21 Apr. 2011, <http://news.xinhuanet.com/english2010/china/2011-04/21/c_13839683.htm>.

⁶³ Chinese Ministry of Commerce, '商务部召开例行新闻发布会' [Regular press conference of the Ministry of Commerce], 19 July 2016, <<http://www.mofcom.gov.cn/article/ae/ah/diaocd/201607/20160701361571.shtml>>.

2016.⁶⁴ Chinese analysts tend to agree that although there are no official records on oil supply, transportation is ongoing but intermittent.⁶⁵ They interpret the 'zero amount' of oil exportation as China taking a stand and exerting psychological pressure as a warning to North Korea.

Another argument in support of continued pipeline use is that a minimal amount of flow is needed to prevent the oil solidifying and destroying the pipeline. The Korea Trade-Investment Promotion Agency estimated annual oil supply at 500 000 tonnes in 2015, a figure that remained constant from the previous year.⁶⁶ According to estimates from the US Central Intelligence Agency, North Korea's crude oil imports amount to 70 000 oil barrels per day, which is more than 3 million tonnes per year.⁶⁷

The reduction in overall oil flow from China has pushed North Korea to find other sources. This has led to speculation that Iran and Russia are fulfilling this need. However, given that Russia is suffering economic duress under EU and US sanctions, it is more likely that North Korea is paying for the oil from Russia, rather than receiving it as humanitarian aid. A report by the US Congressional Research Service suggests that after the lifting of international sanctions on Iran's oil exports, its oil could also be re-exported to North Korea through China or directly purchased by North Korea.⁶⁸ However, North Korea's limited foreign currency reserves make it doubtful that it would be able to purchase much oil from these two countries.

As a means to possibly alleviating this dependency, an article a former exploration director for the oil and gas exploration company Aminex PLC argues that North Korea has good on- and offshore hydrocarbon potential that could also be tapped.⁶⁹ To this end, North Korea has been actively exploring for oil and has so far identified nine potential oil and gas basins of uncertain size and economic value.⁷⁰ Some Chinese experts are sceptical about the impact of these basins, arguing that no actual project has been started yet simply because no large oil fields have been discovered.⁷¹ Further, in the wake of the enforcement of the 2016 Security Council resolutions, as well as with the unstable political environment on the Korean peninsula, foreign enterprises will be cautious about cooperating with North Korea in the energy field. Thus, for the time being, China will continue to be its major oil supplier. Since the UN Security Council resolutions do not prohibit the export of crude oil, but only aviation and rocket fuel, the crude oil supply would not be regarded as a violation of UN sanctions.

Beyond energy, China has been working with the UN's World Food Programme (WFP) to supply North Korea with food aid and nutrition support. The directed multilateral contributions in these fields had remained at 1 million US dollars annually since 2011, but fell to 0.5 million US dollars in 2016.⁷² This does not mean that China has reduced its foreign aid to North Korea. In November 2016, China released 20 million Chinese yuan (around 2.9 million US dollars) to provide North Korea with material for humanitarian aid following the flood in September 2016, an amount almost six

⁶⁴ JoongAng Ilbo, '中国对朝原油援助首次被确认' [China's crude oil assistance to the DPRK confirmed for the first time], 16 May 2016, <http://chinese.joins.com/gb/article.do?method=detail&art_id=151827&category=002003>.

⁶⁵ Interviews with the author, Liaoning, Apr. 2015.

⁶⁶ KOTRA (note 25), p. 17.

⁶⁷ US Central Intelligence Agency, 'World Factbook, 2016', <<https://www.cia.gov/library/publications/the-world-factbook/geos/kn.html>>.

⁶⁸ Katzman, K., 'Iran's foreign and defence policies', US Congressional Research Service R44017, 21 Dec. 2016, <<https://fas.org/sgp/crs/mideast/R44017.pdf>>, p. 51.

⁶⁹ Mike Rego worked for Aminex, a British oil company that undertook an oil exploration project in North Korea but left in 2012 with nothing to show. 'North Korea: Hydrocarbon exploration and potential', *GEOExPro*, vol. 12, no.4 (2015), <<http://www.geoexpro.com/articles/2015/09/north-korea-hydrocarbon-exploration-and-potential>>, pp. 22–27.

⁷⁰ Bermudez, J. S. Jr, 'North Korea's exploration for oil and gas', 38 North, 14 Dec. 2015, <<http://38north.org/2015/12/jbermudez121415/>>.

⁷¹ Interviews with the author, Liaoning, Apr. 2015.

⁷² World Food Programme, Donor profile, <<http://www.wfp.org/about/funding/governments/china>>.

times larger than China's donation to the WFP.⁷³ Direct bilateral assistance to North Korea will remain the major channel for China.

Alongside its material assistance, China has also created a training programme for North Koreans. The topics for the training courses include agriculture, health care, information and communications technology, as well as economic management.⁷⁴ Universities and scientific research institutes in north-east China are the main organizers of the training courses and the students are usually North Korean officials and engineers.⁷⁵ This combination of material and non-material assistance indicates an effort by Chinese entities to develop a longer-term sustainability to their projects and investments in North Korea.

Challenges to aid and uncertainties in supply

North Korea has been accepting foreign aid from China since 1950. This long-term support has made North Korea cautious about overreliance on China. In his speech to the Seventh Party Congress and his 2017 New Year address, Kim Jong-un emphasized the importance of self-reliance for the North Korean economy.⁷⁶ North Korea is trying to ease China's presence and influence, calling it 'our own method of economic management'.⁷⁷ The dilemma is that while North Korea does not wish to have a major power influence its domestic issues, it has no choice but to depend on China's assistance.

The aid from China is plagued by its own uncertainties, as it is usually mixed with political and economic pressure from the Chinese Government.⁷⁸ China's priorities include the stability of Korean peninsula, and the security and economic development of north-eastern China. Training programmes are one measure of foreign assistance that are favoured by Chinese experts, especially when it comes to economic training.⁷⁹ They argue that training courses on economic theory foster greater open-mindedness among North Korean trainees. After the trainees return to North Korea, Chinese experts anticipate that they will help to promote reform and domestic development. However, since most of the training programmes are initiated by North Korea, Chinese organizers have little autonomy on deciding topics or selecting attendees.⁸⁰

In light of North Korea's increasing nuclear capacity, some Chinese analysts have suggested that China should end foreign aid or reduce it to a minimal level.⁸¹ On crude oil supply, more voices are starting to support this argument.⁸² They believe that foreign aid should be a reward for North Korea freezing its nuclear tests and facilities, and that current developments are running in the opposite direction. The stability of the Korean peninsula, however, is a North Korean bargaining chip that ensures continued aid from China. This contention often deflates the counter-argument that

⁷³ Chinese Ministry of Commerce, '中国政府向朝鲜水灾提供紧急人道主义援助' [Chinese Government provides emergency humanitarian assistance to the flood disaster in North Korea], 2 Nov. 2016, <<http://www.mofcom.gov.cn/article/ae/ai/201611/20161101565203.shtml>>.

⁷⁴ '中国的对外援助(2014)' [China's foreign aid, 2014], Xinhua, 10 July 2014, <http://news.xinhuanet.com/politics/2014-07/10/c_1111546676.htm>.

⁷⁵ Interviews with the author, Jilin, Yanji, Liaoning and Beijing, Apr. and July 2015.

⁷⁶ Kim Jong-un (note 18); Kim Jong-un, '김정은동지께서 하신 신년사' [Kim Jong-un's New Year address], KCNA, 1 Jan. 2017, <<http://www.kcna.kp/kcna.user.special.getArticlePage.kcmsf>>.

⁷⁷ Interviews with the author, Jilin, Apr. 2015; and Workshop, Jilin, Sep. 2016.

⁷⁸ 雷兴长 [Lei, X.], '中国对外援助的战略调整问题探讨' [Discussion on strategic adjustments to China's foreign aid], *Gansu Social Science*, vol. 3 (2015), pp. 202–205

⁷⁹ Interviews with the author, Jilin and Yanbian, Apr. 2015.

⁸⁰ Interviews with the author, Beijing, July 2015.

⁸¹ 曹辛 [C, X.], '中国对朝核也可搞“并进路线”' [China can also put a "Byongjin line" on North Korea nuclear problems], *Financial Times China*, 6 June 2016, <<http://www.ftchinese.com/story/001067873>>; and Sina, 李家成 [Li, J.], '核试验搅动东亚' [Nuclear test stirs the situation in East Asia], 11 Feb. 2016, <<http://news.sina.com.cn/pc/2016-02-11/326/3312.html>>.

⁸² Workshop, Jilin, Sep. 2016.

China's assistance to North Korea offers it greater strategic leverage. As one high-level Chinese expert has argued, until this trend is reversed, North Korea will continue with its nuclear weapons development, while receiving humanitarian aid.

3.5 Chinese views on the correlation between denuclearization and engagement

Engaging with North Korea while implementing sanctions

Following the two nuclear tests in 2016, nuclear weapons development is now regarded as North Korea's core national interest. Chinese experts agree that persuading North Korea to give up its nuclear weapons is not a realistic first step of engagement. Zhao Tong, a fellow within the Carnegie Endowment's Nuclear Policy Programme, has recently written that acquiescence to North Korean nuclear deterrence might be helpful to break the deadlock on returning to nuclear talks and to alleviate tensions in the region.⁸³ Moreover, even US officials like Director of US National Intelligence, James Clapper, have begun to make statements accepting that denuclearization of North Korea is 'a lost cause'.⁸⁴

The majority of observers, however, argue that any recognition of North Korea's nuclear status will pose a threat to the international non-proliferation regime. In contrast to the intricacies and shifts of academic analyses, China has officially declared three bottom lines on North Korean and South Korean (Republic of Korea, ROK) issues:

Firstly, in any case the Korean peninsula cannot be nuclearized, no matter the nuclear weapons are self-made or imported and deployed. This applies to both the DPRK and the ROK. Secondly, there is no military solution to this issue. Otherwise, there will be war and turbulence in the Peninsula, which will not be acceptable for China. Thirdly, China's legitimate national security interests must be guarded and guaranteed effectively. We will continue our cooperation with the international community and unwaveringly promote the process of denuclearization of the Korean peninsula.⁸⁵

In spite of this official stance, China's continued economic activities in North Korea are often criticized in the international media as one of the main factors undermining the sanctions.⁸⁶ Chinese experts respond to this by arguing that North Korea is a self-reliant national economy that has never been integrated into the international market. As a result, the impact of economic sanctions may be lower than expected.⁸⁷ This stance reflects the contrast between the effects of sanctions anticipated by China and those anticipated by the other states involved. China emphasizes that economic engagement rather than sanctions enforcement is the ultimate solution. The strength of this approach is predicated on the notion that economic interactions reduce North Korea's hostility perceptions and, thus, expands its ability to constructively address its security concerns.⁸⁸ According to this view, only if North Korea realizes that nuclear

⁸³ 赵通 [Zhao, T.], '与朝鲜对话是解决朝核危机的唯一选项' [Dialogue with North Korea is the only option for solving North Korea nuclear crisis], DuoweiCN, 7 Apr. 2016, <http://pit.ifeng.com/a/20160513/48764417_0.shtml>.

⁸⁴ Gladstone, R., 'North Korea giving up nuclear arms "a lost cause", official says', *New York Times*, 25 Oct. 2016, <http://www.nytimes.com/2016/10/26/world/asia/north-korea-james-clapper.html?_r=0>.

⁸⁵ Chinese Ministry of Foreign Affairs, 'Wang Yi gives exclusive interview to Reuters on Syrian Issue and Korean peninsula nuclear issue', 13 Feb. 2016, <http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1340523.shtml>.

⁸⁶ Henley, P. and Sherman, A., 'The real answer to China's THAAD dilemma', *The Diplomat*, 12 Sep. 2016, <<http://thediplomat.com/2016/09/the-real-answer-to-chinas-thaad-dilemma/>>; and Hoff, R., 'Primer: North Korea's nuclear weapons program and international economic sanctions', *American Action Forum*, 27 Sep. 2016, <<https://www.americanactionforum.org/research/primer-north-koreas-nuclear-weapons-program-international-economic-sanctions/>>.

⁸⁷ Interviews with the author, Jilin, Sep. 2016.

⁸⁸ 张云 [Zhang, Y.], '中国朝鲜政策失败了吗?' [Did China's policy on North Korea fail?], *Zaobao*, 12 Feb. 2016, <<http://www.zaobao.com/special/report/politic/korea/story20160212-580719>>; and Li, C. (note 55)

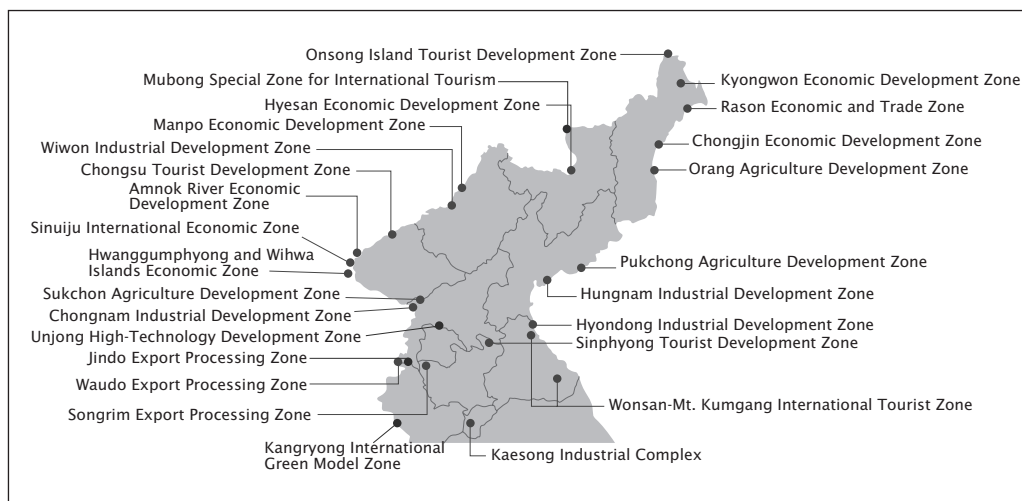


Figure 3.1. Map of special economic zones in North Korea

Source: Map from a report released by Institute of Unification Education of South Korea's Unification Ministry (통일부 통일교육원), '2017 북한이해' [Understanding North Korea 2017], 14 Feb. 2017, <https://www.unikorea.go.kr/cwsboard/board.do?mode=download&bid=1030&cid=47447&filename=47447_201702141051491050.pdf>, p. 175 (Author translation).

weapons are unnecessary and decides to voluntarily relinquish them can real denuclearization be achieved.

Recently, however, some Chinese experts have begun to question whether this approach of economic engagement instead benefits Kim Jong-un's 'Byongjin line', which promotes the receipt of economic assistance while developing nuclear weapons.⁸⁹ Moreover, some Chinese experts are sceptical about whether China has enough economic or political leverage to force North Korea to halt its nuclear programme and return to talks.⁹⁰ China is faced with the dilemma that it is seeking stability and denuclearization at the same time, but one may ultimately undermine the other.⁹¹

Both sides of this discussion have arguments on whether China should continue to provide assistance.⁹² Some state that economic aid should be provided only after North Korea commits to denuclearization or more realistically after it agrees to freeze its nuclear activities. If China continues to provide assistance prior to a North Korean commitment, China's leverage will be undermined. The aid might even encourage further North Korean nuclear development. As such, Chinese experts argue that it is important that UN Security Council resolutions targeting military and prohibited financial activities are implemented strictly and that economic assistance and humanitarian aid should be staged as incentives in North Korea's denuclearization process.⁹³

Wang Sheng, a professor within Jilin University, and Ling Shengli, a lecturer at the China Foreign Affairs University, divide this denuclearization process into four stages.⁹⁴ First, focus on freezing North Korea's nuclear programme and restarting talks. Meanwhile, both vertical and horizontal non-proliferation should be ensured. If North Korea does not compromise, targeted sanctions should be tightened to maintain and increase pressure. Second, security assurances should be provided for a specified length of time by the other five member states in the Six-Party Talks. During this period, the international community should work together to promote irreversible

⁸⁹ Workshop, Jilin, Sep. 2016; and Interviews with the author, Beijing, Sep. 2016.

⁹⁰ Interviews with the author, Beijing, Sep. 2016.

⁹¹ Workshop, Jilin, Sep. 2016.

⁹² Interviews with the author, Beijing, Sep. 2016.

⁹³ Interviews with the author, Yanbian, Apr. 2015.

⁹⁴ 王生, 凌胜利 [Wang, S. and Ling, S.], '朝核问题解决的“双轨制”新思路探讨' [Discussions on new ideas on "double track" to resolve DPRK nuclear issue], 东北亚论坛 [Northeast Asia Forum], no. 3 (2016), pp. 15–28.

change in North Korea by improving its economy. Third, the duration of the security assurances should be extended and assistance with North Korean integration into international society should be provided. Fourth, a permanent peace mechanism on the Korean peninsula should be established. This would help North Korea to focus more on economic development, rather than military development.

There remains a contingent of experts in China who argue that, between the third and fourth nuclear tests, there was a window of opportunity to freeze the North Korean nuclear programme by supporting the economy.⁹⁵ During that period China was one of the few countries to attempt to shift North Korea's focus from nuclear to economic development by continuing to trade. However, by most accounts within and outside of China, the window was closed in the wake of the fourth and fifth nuclear tests. Given North Korea's recent rapid nuclear weapon and ballistic missile development, it will be difficult to find such an opportunity again.

The reform and opening up of North Korea

Since China and North Korea enhanced their economic cooperation in 2009, Beijing has encouraged North Korea to promote economic reform and opening, based on its own successful experience in the early 1980s. The progress with North Korea's agricultural reform and the active establishment of special economic zones (SEZs) are the two specific results that observers argue are based on China's experience.⁹⁶ According to Jin Qiangyi, director of Yanbian University's Centre for North and South Korea Studies, North Korea is currently undergoing the early stages of reform and opening seen in China in the 1980s.⁹⁷

In making these strides, North Korea's 'Pojon Responsibility System' is usually compared with China's 'Household Responsibility System'. However, Cao Peizhong of Shandong Agriculture University has argued that while these two systems have their similarities, there are also many differences between them.⁹⁸ He has pointed out that the current isolation of North Korea does not reflect what China faced at the start of its reform process. China's domestic reforms were aimed at liberating productive forces for further economic development, while North Korea is mostly aiming to salvage its food situation. In addition, patterns of migration have not shifted and new laws and regulations have not evolved in North Korea as they did in China at the beginning of its agriculture reform.

Chinese experts have consistently argued that the North Korean Government should apply the successful experiences from such cities as Shenzhen (深圳) to North Korea's SEZs.⁹⁹ North Korea has been actively expanding its economic zones since 2013, creating 20 new ones (13 in 2013, 6 in 2014 and 1 in 2015).¹⁰⁰ This is a positive signal that Kim Jong-un is finally committing greater efforts to economic development. Han

⁹⁵ Interviews with the author, Beijing, Sep. 2016.

⁹⁶ Lankov, A., 'North Korean land reforms soften impact of floods', Radio Free Asia, 21 Oct. 2016, <<http://www.rfa.org/english/commentaries/parallel-thoughts/north-korean-land-reform-softens-impacts-of-floods-10212016134806.html>>; and Phillips, T., 'How the China model could help North Korea—and save Kim Jong-un', *The Guardian*, 8 Oct. 2015, <<https://www.theguardian.com/world/2015/oct/08/china-north-korea-kim-jong-un>>.

⁹⁷ “诱人的改变迹象”朝鲜经济正在高速增长? [“Tempting changing signs”, is North Korea's economy fast growing?], *Huanqiu*, 3 July 2015, <<http://world.huanqiu.com/exclusive/2015-07/6837035.html>>.

⁹⁸ Cao Peizhong, 'A comparative study of Chinese agriculture contract system with DPRK's Putian system', *Journal of Yanbian University (Social Science)*, vol. 49, no.3 (May 2016).

⁹⁹ Shenzhen is the earliest special economic zone established by the Chinese Government. It was established in 1980s. With less constrained investment regulations and support from Deng Xiaoping's reform and opening policy, Shenzhen has grown rapidly from a fishing village to one of the most vibrant trading centres in China. The success of Shenzhen has, therefore, become the pioneer model for reforms.

¹⁰⁰ According to *The Pyongyang Times*, a foreign language press of the North Korean Government, the SEZ is an area in which preferential treatment is given to economic activities, pursuant to the DPRK law on economic development zones, <<http://www.naenara.com.kp/en/order/pytimes/?page=Economy&no=19678>>.

Xiandong, deputy director of the Institute of International Studies at China University of Political Science and Law, has identified the location of these SEZs, mostly along North Korea's western and eastern coastline and in the south. Some SEZs are located near Pyongyang, the political centre of the country, which could be interpreted as a breakthrough by North Korea (see figure 3.1).¹⁰¹

Another Chinese expert has pointed out that the placement of the SEZs reflects just how much North Korea relies on trade with China and its eagerness to improve relations with South Korea.¹⁰² While the new SEZs are opportunities for China and South Korea to increase their economic engagement with North Korea, no significant progress has been made on this front since they were established. This could indicate the gap between propaganda on such developments and their actual implementation on the ground.

For example, a number of agriculture-oriented SEZs are located in small North Korean villages. These villages lack electricity, water and roads.¹⁰³ This has elicited scepticism among Chinese experts towards North Korea's planning and implementation of SEZ development.¹⁰⁴ They argue that there are too many new SEZs being established at one time, for a regime with such limited experience. The SEZs lack the privileges they need to achieve economic development and there are no start-up funds from the central government. This shortage of capital has been exacerbated by tightened international economic sanctions.

Ironically, the sanctions also constitute a reason why North Korea is expanding the SEZs so rapidly.¹⁰⁵ North Korea realizes that it is too isolated to satisfy its need for foreign capital. China's interest in investment in the SEZs is extremely important to North Korea. A successful demonstration project will attract further foreign investment from private Chinese companies and other countries.¹⁰⁶ Although China has been actively working to promote and assist North Korea's economic development, this does not mean that it will invest without considering its own economic interests. Thus far, Chinese interest remains primarily concentrated in Rason.

The local government in Jilin Province has paid particular attention to Rajin port, the ice-free harbour in Rason. Using this port would greatly shorten the route from Hunchun to Shanghai and other cities in southern China. This would save time and greatly reduce costs, thereby facilitating trade from Jilin Province. The route was developed by the Chinese firm Hunchun Chuangli Logistics Company (珲春创力航物流有限公司) and first used from January 2011 to May 2012, transporting 105 000 tonnes of coal and bulk cargo.¹⁰⁷ The route was restarted in June 2015. During the downtime, Chuangli invested more than 100 billion Chinese yuan in wharf renovation. It signed a 40-year lease with the North Korea Government for pier one in April 2015.¹⁰⁸

According to the Ministry of Commerce, the route was paused again between March 2016 and August 2016 due to the 'special international situation' (特殊的国际形势).¹⁰⁹ Wang Qi, the chief executive officer of Chuangli, stated during an interview

¹⁰¹ 韩献栋 [Han, X.], '劳动党“七大”后朝鲜的政治经济走向' [Political and economic trends of North Korea after the Seventh Party Congress], 美国国际政治学人微信公众平台, 28 Dec. 2016, <http://mp.weixin.qq.com/s/iCB3xssIktc4LAXK_DELTg>.

¹⁰² Workshop, Jilin, Sep. 2015.

¹⁰³ Workshop, Jilin, Sep. 2015.

¹⁰⁴ Interviews with the author, Jilina, Yanbian and Beijing, Apr. and July 2015; and Workshops, Jilin, Sep. 2015 and 2016.

¹⁰⁵ Workshop, Jilin, Sep. 2015.

¹⁰⁶ Interviews with the author, Jilin, Apr. 2015.

¹⁰⁷ '珲春至上海内贸货物跨境运输集装箱航线首航' [From Hunchun to Shanghai: start-up of internal Chinese trade of goods that crosses the Chinese-Korean border and then re-enters China], Xinhuanet, 12 June 2015, <http://www.jl.xinhuanet.com/2015-06-12/c_1115597323.htm>.

¹⁰⁸ '关于内贸跨境运输的项目介绍' [Programme introduction: internal Chinese trade of goods that crosses the Chinese-Korean border and then re-enters China], Hunchun Chuangli Logistics Company, <<http://hcchuangli.com>>.

¹⁰⁹ Chinese Ministry of Commerce, "珲春—罗津—上海" 内贸货物跨境运输航线8月6日再次起航' [Hunchun-Rajin-Shanghai: restart on August 6th of internal Chinese trade of goods that crosses the Chinese-Korean border and then

with *Tumenjiang News* that he hopes to include the route from Hunchun via Rajin in the 'One Belt, One Road' (一带一路) initiative, which will connect north-eastern China with East Asia.¹¹⁰ Moreover, compared to other SEZs which need infrastructure and networks to be built from the ground up, Rason has great potential as the logistics industry in the area is of huge economic interest to China.¹¹¹

In the light of all the recent development in Rason, Chinese experts argue that the zone could become a successful demonstration SEZ that might lead the way for others.¹¹² However, they also note that to ensure sustainable development in Rason, it will not be enough to depend on China. A trade system that includes China, Russia, South Korea and Japan will be essential to thoroughly exploring the economic value of Rason. In addition, they advocate the international community strengthening its communications with North Korea on economic cooperation and cultural exchange and also assist with the construction of Rason.¹¹³

In terms of SEZ development, Chinese influence on North Korea's economic policy is unmistakable. The courses on agricultural reform and SEZs taken by North Korean officials come from China. Moreover, frontier trade, communications and exchanges connect individuals from both countries. As such, China continues to steer the direction of North Korea's economic development at official and local levels. Despite this interconnectedness, there are obvious differences between the North Korean and Chinese external and internal environments during their respective periods of reform.

In the case of China, it began to improve its bilateral relations with the USA in the 1970s. This was conducive to China's reform plan, which began in 1978, providing a favourable international environment. North Korea, on the other hand, is facing tightening sanctions and suffering deepening isolation, which constrain its prospects for long-term development. Internally, following China's Cultural Revolution (文化大革命), there were both top-down and bottom-up driving forces.

This level of motivation across all levels of society is lacking in North Korea. Many interest groups inside the country are more willing to maintain the status quo, rather than face the risks and challenges of reform.¹¹⁴ This is also why the SEZs are in such isolated areas, separated from major centres in North Korea. The regime is seeking to contain risk. While it is important for the regime to obtain foreign currency from the SEZs, the government is concerned about potential threats from cultural infiltration.¹¹⁵

The success of the Shenzhen model has also been due to the Chinese Government's support and greater authorized freedoms. While Kim Jong-un may be aware of this, his own concerns over regime stability make progress with North Korean reforms intermittent. For this reason, Chinese experts have pinned their hopes on the emerging middle class in North Korea.¹¹⁶ These are the individuals who will earn more from positive change linked to economic development and will strive not to lose what they have gained. Parts of the emerging middle class might even seek to influence national policies to protect themselves and make more gains.¹¹⁷ In the long term, a growing middle class in North Korea is likely to promote bolder change and reform. However, this is a long-term and often turbulent process.

re-enter China], Jilin, 10 Aug. 2016, <<http://jilin3.mofcom.gov.cn/article/qttd/201608/20160801376268.shtml>>.

¹¹⁰ 图们江新闻 [Tmjnews], '争当海运领航人——访珲春创力海运物流有限公司总经理王琦' [Interview with Hunchun CEO, Wang Qi], 23 June 2015, <<http://www.tmjnews.cn/List.asp?ID=16326>>.

¹¹¹ Interviews with the author, Beijing, Jan. 2017.

¹¹² Interviews with the author, Yanbian, Apr. 2015.

¹¹³ Workshop, Jilin, Sep. 2015.

¹¹⁴ Workshop, Jilin, Sep. 2016.

¹¹⁵ Interviews with the author, Liaoning, Apr. 2015.

¹¹⁶ Interviews with author, Yanbian, Apr. 2015; and Workshops, Jilin, Sep. 2015 and Sep. 2016.

¹¹⁷ Workshop, Jilin, Sep. 2016.

4. Opportunities for Chinese–European cooperation on engaging with North Korea

Relations between Europe and North Korea can be traced back to the 1950–53 Korean War. During this period, North Korea's relationships with the countries of Central and Eastern Europe (CEE) were the most pronounced. After the Korean War, the German Democratic Republic (GDR, East Germany), Poland, Czechoslovakia, Romania, Hungary and other CEE countries supported North Korea's post-war reconstruction by building factories and shops, by delivering materials for this reconstruction and by providing technical support.¹ East Germany was also in charge of rebuilding chemical plants and the reconstruction of Hamhung city between 1952 and 1964.²

However, these exclusive relationships between North Korea and the Eastern bloc countries ended in 1989. This year marked the end of communist rule in the CEE countries. It also heralded *Nordpolitik* (Northern Policy), under which South Korean president Roh Tae-woo expanded South Korean trade and diplomatic relations with communist countries.³ With this new opening of political space, the EU established diplomatic relations with North Korea. At the time, the majority of its member states were in Western Europe. During the EU enlargements of 2004 and 2007, most of the CEE countries joined the European Union. Among the CEE countries, eight have diplomatic missions inside North Korea. Seven current EU member states have embassies in Pyongyang. Switzerland has a Pyongyang Representative Office.⁴ The EU and its member states maintain relatively good and stable overall connections with North Korea.

With the exception of diplomatic relations, however, EU engagement with North Korea remains limited. Interactions are mostly limited to humanitarian aid and development assistance projects. Economic transactions between the EU and North Korea are rare. The total volume of bilateral trade in goods was 30 million euros in 2015, which accounts for only 0.5 per cent of total trade with North Korea.⁵ The EU is not seeking to enhance its trade and investment with North Korea under the current circumstances, since there are many better options in the region, in China, South Korea and Japan.⁶

While North Korea's development of nuclear weapons may not have a direct impact on European countries, the indirect effects will be unavoidable. On the political front, the Joint Comprehensive Plan of Action (JCPOA) on Iran's nuclear program and the international non-proliferation regime are both under assault. In terms of economics, the assets of European countries in the North East Asia region remain vulnerable to any hint of conflict or turbulence. Moreover, China and South Korea, the two main parties in the North Korean issue, are the second and eighth most important EU

¹ History and Public Policy Programme Digital Archive, Polish Foreign Ministry Archive, 'Political report no. 8 of the Embassy of the People's Republic of Poland in the Democratic People's Republic of Korea for the Period 1 December to 31 December 1953', Obtained for the North Korea International Development Project (NKIDP), Wilson Center, by Jakub Poprocki and translated for NKIDP by Maya Latynski, History and Public Policy Program Digital Archive, Polish Foreign Ministry Archive, <<http://digitalarchive.wilsoncenter.org/document/114962>>.

² History and Public Policy Programme Digital Archive, Archive of the Romanian Ministry of Foreign Affairs, 'Report from the Romanian Embassy to Pyongyang to the Ministry of Foreign Affairs on the Political, Economic, and Social Situation in North Korea and on the Activity of the Embassy, undated [1955]', Obtained and translated for the NKIDP by Eliza Gheorghie, <<http://digitalarchive.wilsoncenter.org/document/115540>>.

³ *Nordpolitik* was the signature foreign policy of South Korea's President Roh Tae-woo in the 1980s. The aim of this policy was to normalize South Korea's relations and economic situation by reaching out to China and the countries of the former Soviet Union.

⁴ The seven current EU member states with embassies inside the DPRK are Bulgaria, the Czech Republic, Germany, Poland, Romania, Sweden and the United Kingdom.

⁵ 'European Union, trade in goods with North Korea, 2015', European Commission, <http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113428.pdf>.

⁶ Interviews with the author, Beijing, July 2016.

trading partners, respectively.⁷ These close economic relations connect the economies of European countries to changes in the region, and especially to the unpredictable actions of North Korea.

The current framework for coping with North Korea was primarily designed by the USA and China. While their efforts over decades may have slowed down North Korea's nuclear development, denuclearization remains a distant aspiration. The strategic rivalry on the Korean peninsula between China and the USA has left both less motivated to fundamentally resolve the issue.⁸ This presents an opportunity for European countries to play a more active and constructive role in North Korean affairs and to increase their influence as mediators capable of building mutual trust and de-escalating the tension in the region.

Among its previous engagements, the EU joined the Korean Peninsula Energy Development Organization project under the Agreed Framework, after its inception in 1994. The EU has provided financial contributions, political support and expertise through training on nuclear safety.⁹ Following the failure of this initiative, the EU was not included as a party in the Six-Party Talks, which have been led by the Chinese Government since 2006. Wang Yizhou, a professor at Peking University, notes that the North Korea nuclear crisis is a regional security problem and not a global crisis.¹⁰ According to this argument, the Six-Party Talks were initiated by China, placing the North Korea nuclear issue at the regional level. This partly explains why the EU was not included in the talks, however, even as an observer.

Moreover, most of the EU's initiatives follow in the footsteps of the USA. The EU supports the current UN Security Council resolutions on North Korea and has adopted a number of additional restrictive measures. These include its own list of designated entities and individuals believed to be involved in the North Korean nuclear and ballistic missile programmes. All EU member states are required to implement measures against these entities and individuals. Non-EU countries within Europe, however, do not share this obligation. One of these countries is Switzerland, which has a diplomatic presence in North Korea. It is also where Kim Jong-un studied. As of three months after the adoption of Resolution 2321, the Swiss State Secretariat for Economic Affairs webpage on sanctions on North Korea still carries no reference to the resolution.¹¹ The impact of the United Kingdom leaving the EU creates further questions as to how its current North Korea-related commitments will evolve.

China and the EU share common goals for the Korean peninsula. Both are pursuing a nuclear free and peaceful region, as well as a robust international non-proliferation regime. Furthermore, both sides agree that humanitarian operations should not be affected by international sanctions. Complementary cooperation between China and the EU would be an opportunity to create a new means of engaging with North Korea.

⁷ 'Trade statistics, 2016', European Commission, <http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_122530.pdf>.

⁸ 金强一 [Jin, Q.], '朝鲜半岛状态:中美战略博弈之聚焦点' [Korean Peninsula: Spotlight on the China-US strategic game], 东疆学刊 [Dongjiang Journal], no.3 (2016), pp. 39-46.

⁹ 'The EC-Democratic People's Republic of Korea (DPRK): Country Strategy Paper 2001-2004', European Commission, 19 Feb. 2002, <http://eeas.europa.eu/archives/docs/korea_north/docs/01_04_en.pdf>; and Schmidt, H.-J., 'Peace on the Korean peninsula: What can the EU contribute to the Six-party process?', Peace Research Institute Frankfurt, Report no. 75, 2006, <https://www.hsfk.de/fileadmin/HSFK/hsfk_downloads/prif75.pdf>.

¹⁰ '专家称朝核问题是区域安全问题 需各方耐心解决' [Experts claim that North Korean crisis is a regional security problem: all parties need patience to solve the problem], China News Service, 28 Mar. 2012, <<http://www.chinanews.com/gj/2012/03-28/3779258.shtml>>.

¹¹ Swiss State Secretariat for Economic Affairs, 'Measures against the Democratic People's Republic of Korea (North Korea)', <https://www.seco.admin.ch/seco/de/home/Aussenwirtschaftspolitik_Wirtschaftliche_Zusammenarbeit/Wirtschaftsbeziehungen/exportkontrollen-und-sanktionen/sanktionen-embargos/sanktionsmassnahmen/massnahmen-gegenueber-der-demokratischen-volksrepublik-korea--no.html>.

4.1 Political engagement

Establishing new channels for dialogue

The EU, under its European External Action Service, has an established political dialogue with North Korea that has been in use since 1998. The 14th dialogue was held in Pyongyang in 2015.¹² The EU has also had difficulties keeping this communication channel open. Nonetheless, unlike the parties to the Six-Party Talks (i.e. China, Japan, North Korea, South Korea, Russia and the USA), the EU is an external actor that does not have strongly conflicting interests with North Korea. Nor does the EU have a substantial military presence in Asia, much less North East Asia. While this limits EU influence over North Korean affairs, it presents an opportunity for the EU to put forward a proposal that is less subject to bias or national interest. It also speaks to an interest among Chinese academics in restarting a dialogue between China and the USA on the North Korea nuclear issue, with the assistance of Europe.¹³

Faced with a similar situation in the Middle East, the EU played an important role as mediator by connecting Iran and the international community to reach the JCPOA on Iran. This model could be applied in the North Korea context, which is further afield and even less subject to conflicting interests for EU member states. The currently tense situation means that a ‘track 2’ dialogue among NGOs, think tanks and academics, rather than a ‘track 1.5’ dialogue, could be a starting point for rebuilding channels of communication between North Korea and the outside world.

Moreover, the EU could benefit from the experience of European NGOs that have built up their own networks with North Korea by working to improve humanitarian conditions and on capacity building. By establishing new dialogue channels, the EU will be able to increase its influence on international affairs more generally. Resolution on the North Korean nuclear issue will have implications not only for the future of North East Asia, but also more broadly for the international non-proliferation regime. Here, active participation by the EU, particularly on hotspot issues and in the wake of US political shifts and commitments in the region, could play a pivotal role in shaping this future.

Mediation and facilitating crisis management

North Korea’s nuclear crisis has seemingly reached a tenuous equilibrium. Since the fourth nuclear test, North Korea has stated that it will not pre-emptively use nuclear weapons.¹⁴ If this promise is kept, and most Chinese analysts believe it will be, the most probable cause of a major nuclear crisis in the Korean peninsula would not be war, but an unintentional nuclear incident. As a result, a prominent Chinese expert has emphasized the importance of improving the safety of North Korea’s nuclear power facilities and improving crisis management.¹⁵

Others in China have also expressed concerns over the poor condition of North Korean nuclear facilities and the insufficient funds for maintenance.¹⁶ Many experts also worry about misfire and how this might escalate tensions in the Korean peninsula. A majority of Chinese analysts have criticized the joint US–South Korean

¹² The 14th dialogue between the EU and the DPRK covered the topics of non-proliferation, regional stability and security, human rights and the economy. European External Action Service, ‘EU-DPRK Political Dialogue: 14th Session’, Brussels, 25 June 2015, <https://eeas.europa.eu/headquarters/headquarters-homepage/6336_en>.

¹³ Interviews with the author, Beijing, Oct. 2016.

¹⁴ Kim Jong-un, ‘조선노동당 제7차대회에서 한 당중앙위원회 사업총화보고’ [General report at the Seventh Congress of the Workers Party of Korea], Rodongshinmoon, 8 May 2016, <http://www.rodong.rep.kp/ko/index.php?strPageID=SF01_02_01&newsID=2016-05-08-0001>.

¹⁵ Interviews with the author, Beijing, Sep. 2016.

¹⁶ Interviews with the author, Yanbian, Apr. 2015.

military exercises and North Korean missile tests as the two major risks of misfire and miscalculation.

After decades of failed attempts to remedy the situation, the North Korean nuclear crisis is no longer simply a denuclearization issue. China has argued that the North Korean nuclear issue is between the USA and North Korea, stating that it can only mediate to prevent an escalation of tension on the Korean peninsula.¹⁷ Nonetheless, the Six-Party Talks included more states in the discussion. These negotiations arose from the need for a diplomatic solution and as a measure to improve crisis management.¹⁸ However, the different interpretations of and interests in North Korean affairs meant that the parties involved in the talks quickly divided into two camps, namely the US–Japanese–South Korean alliance and the China–Russia strategic partnership.

As a result, cooperation that should have strived for the denuclearization of North Korea instead became a game of power balance in North East Asia. The increased mistrust only exacerbated the crisis. Recent developments in the region—such as the South China Sea arbitration, modification of Japan's Security Law and the intended deployment of THAAD—have furthered deepened this mistrust. As just one example, many observers believe that miscommunication between China and South Korea on THAAD contributed to the accelerated deployment ordered by the Park Geun-hye administration.¹⁹

By contrast, the EU has fewer vested interests in North East Asia, it has not historically been listed among the parties to the Six-Party Talks or other major multilateral forums on the North Korean nuclear issue. Thus, the EU could be a suitable candidate for serving as a relatively neutral mediator or facilitator. Despite the traditional partnership between the EU and the USA, the EU is seeking greater independence from US foreign policy, particularly in the light of the concerns about the new US administration voiced by Donald Tusk, the president of the European Council.²⁰ This, combined with gradual deepening EU–China relations as part of the 'One Belt, One Road' initiative, has strengthened the EU's position as a potential broker among the other powers in the region.

Moreover, the EU has the most connected diplomatic presence in the world, rooted in its offices and the embassies of its member states. This has provided the EU with strong political ties and communication channels with all the critical players in the region, including North Korea. After decades of effort and cooperation with North Korea through its humanitarian engagement, the EU has established reliable connections with North Korea. These connections are vitally important when coordinating the parties involved, creating platforms for conversation, as well as ensuring open communication channels should a crisis occur.

North Korea's nuclear problem is a long-term issue. The absence of a sustained European military presence in the region limits the potential cooperation with China on military-crisis management. To remedy this, Chinese experts have noted that a long-term cooperation mechanism that focuses on economic recovery should be

¹⁷ Chinese Ministry of Foreign Affairs, 'Wang Yi gives exclusive interview to Reuters on Syrian Issue and Korean peninsula nuclear issue', 13 Feb. 2016, <http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1340523.shtml>.

¹⁸ 朱锋 [Zhu, F.], '朝核危机将会撕裂东亚吗?' [Will the North Korea nuclear crisis tear East Asia apart?], Collaborative Innovation Centre on South China Sea Studies, 18 Sep. 2016, <<http://nanhai.nju.edu.cn/66/0f/c5320a157199/page.htm>>.

¹⁹ Seong-hyon, L., 'Why Xi Jinping didn't answer Park's call?', Korea Times, 5 Feb. 2016, <http://www.koreatimes.co.kr/www/news/opinion/2016/02/197_197434.html>; Fifield, A., 'After nuclear test, Park has epiphanies on North Korea—and China', *Washington Post*, 20 Feb. 2016, <https://www.washingtonpost.com/world/after-nuclear-test-park-has-epiphanies-on-north-korea---and-china/2016/02/19/0cb7b61e-d5a0-11e5-a65b-587e721fb231_story.html?utm_term=.dbbccc36bdd>; and Erlanger, S., 'For Europe, there's a new threat in town: the US', *New York Times*, 2 Feb. 2017, <https://www.nytimes.com/2017/02/02/world/europe/trump-european-union.html?ref=world&_r=0>.

²⁰ 'EU needs strong independent policy—Austrian Foreign Minister', Sputniknews, 18 Jan. 2016, <<https://sputniknews.com/europe/201701181049731501-austria-eu-us-policy/>>

established between China and the EU.²¹ By transferring know-how to North Korea's neighbours on how to enhance crisis management, the EU can better prepare these countries to cope with a potential crisis and to limit its scale.

Enhancing export controls and non-proliferation efforts

North Korea has an extensive record of illicitly procuring foreign-sourced components to assist its nuclear and ballistic missile programmes. Such activities are using increasingly sophisticated evasion techniques, despite the increasingly comprehensive sanctions regime. A recent trend appears to be North Korea's focus on acquiring dual-use items or technologies at quality levels slightly below the parameters outlined in the relevant export control lists. This situation poses serious challenges to national export control systems.

At the Seventh Party Congress in 2016, Kim Jong-un emphasized the importance of developing science and technology and acquiring cutting-edge technologies from foreign countries, especially technologies related to energy generation to alleviate North Korea's power shortage.²² In his speech, Kim stated that great efforts will be made to develop renewable energy sources, such as solar power, tidal power and wind power. The plans to establish nuclear power plants remain, and these will be developed in parallel with other energy sources.²³ These initiatives will likely contribute to North Korean outreach through both legal and illegal channels to access the required technologies.

European countries are world leaders in renewable energy technologies. In the 1990s, North Korea showed a willingness to cooperate with European countries in this field.²⁴ The latter's strict export control regulations have made some of the materials and equipment related to renewable energy technology unavailable for transfer to countries such as North Korea. China—as a country close to North Korea in many respects—is subject to strict export controls on technology transfer of dual-use technologies that have military applications or may contribute to proliferation. Because China and countries in Europe are cooperating on research and innovation, there is a risk that the technologies that North Korea cannot access directly from Europe could be obtained via China. The EU and China should consider expanding their exchange of export control expertise and experience to ensure a more balanced system.

The EU and China have been working together on non-proliferation issues since 2004. Part of this cooperation has been work on translating the *Joint EU–China Handbook on Export Control of Dual-Use Items*, which began in 2011. The handbook was published in December 2013.²⁵ Rapid developments in science and technology mean that the EU and China should continue this translation and strengthen their cooperation on export control regulations. This will improve mutual understanding, reference values and guidance for the future.

The promotion of updated export control regulations and lists also needs to be enhanced. As a side activity of the joint handbook launch, an EU–China Non-proliferation Cooperation Workshop took place in Harbin in November 2014, with participants

²¹ Workshop, Jilin, Sep. 2016.

²² Kim Jong-un (note 14).

²³ Kim Jong-un (note 14).

²⁴ ‘朝鲜向欧洲派出“科技尖兵”’ [North Korea sent out technology talents to Europe], *International Herald Leader*, 25 Apr. 2006, <http://news.xinhuanet.com/world/2006-04/25/content_4471604.htm>.

²⁵ Federal Office for Economic Affairs and Export Control, *Joint EU–China Handbook on Export Control of Dual Use Items*, <http://www.bafa.de/bafa/en/export_control/eu-outreach/publications/eu_china_handbook/index.html>; and ‘Joint EU–China Handbook on Export Control book launch’ [中欧举办出口管制双语手册发行仪式], *Huanqiu*, 19 Dec. 2013, <<http://china.huanqiu.com/News/fmprc/2013-12/4679482.html>>.

from the private sector including transport, manufacturing and trade.²⁶ Instead of holding this workshop as a side activity, it should become a regularized exchange project to promote better understanding of the regulations. This understanding is particularly important for the private sector and among NGOs. Transparency and accountability need to be enhanced and emphasized in joint efforts with governments. The EU can contribute to export control regulations in a supporting role and bring together European companies and NGOs in China to exchange experience with Chinese enterprises.

4.2 Humanitarian engagement

The role of international NGOs in humanitarian engagement

Since North Korea opened up to international humanitarian assistance in 1995, international NGOs and organizations have worked primarily on food security, sanitation and clean water. Their charitable work did not go entirely smoothly, since North Korea was often sceptical about their true aims. As a result, the North Korean Government began to impose increasingly harsh restrictions, limiting access for the organizations. Many of the NGOs left the country or terminated their projects in the 2000s due to excessive interference from the government.²⁷ Today, European NGOs are the only ones still present in the country, as the establishment of local offices is a condition for North Korea to receive funds.²⁸ Non-European organizations mostly operate at a distance and travel to North Korea only during project periods. This makes European NGOs unique in that only they, along with local UN agencies, have local offices on ground.

According to a report by ReliefWeb in the UN Office for the Coordination of Humanitarian Affairs, five UN agencies—the FAO, the Fund for Population Activities, the International Children's Fund (UNICEF), the World Food Programme (WFP) and the World Health Organization—as well as the International Federation of Red Cross and Red Crescent Societies, Urgence Internationale (France), Save the Children (United Kingdom), Concern Worldwide (Ireland), Deutsche Welthungerhilfe (Germany), FIDA International (Finland) and the Agency for Development and Cooperation (Switzerland) all have programmes in North Korea.²⁹

Additionally, Chosen Exchange from Singapore is known to provide business training programmes and the Hanns Seidel Foundation from Germany implements projects on reforestation.³⁰ The focus of these international NGOs has shifted from providing basic humanitarian assistance to capacity building. This shows the growing demand in North Korea beyond simple material aid for the acquisition of know-how and for self-improvement. The dissemination of knowledge will help to reduce misinterpretation and the development gap between North Korea and the outside world.

In contrast with other international NGOs, the training programmes China provides for North Koreans are mostly conducted from outside the North Korea at locations designated by the Chinese Government. These programmes are mostly

²⁶ 'EU-China non-proliferation cooperation workshop: weapons of mass destruction need to be controlled' [中欧防扩散出口管制研讨: 大规模杀伤性武器需要管控], China News Service, 24 Nov. 2014, <<http://www.chinanews.com/gn/2014/11-24/6809894.shtml>>.

²⁷ 'DPR Korea 2015: Humanitarian needs and priorities', ReliefWeb, 1 Apr. 2015, <<http://reliefweb.int/report/democratic-peoples-republic-korea/dpr-korea-2015-humanitarian-needs-and-priorities>>.

²⁸ Taylor, M. A. and Manyin, M. E., 'Non-governmental organizations' activities in North Korea', Congressional Research Service R41749, 25 Mar. 2011, <<https://fas.org/sgp/crs/row/R41749.pdf>>.

²⁹ '2016 DPR Korea: needs and priorities', ReliefWeb, 19 Apr. 2016, <<http://reliefweb.int/report/democratic-peoples-republic-korea/2016-dpr-korea-needs-and-priorities>>.

³⁰ Choson Exchange, <<http://www.chosonexchange.org>>; and Hanns Seidel Foundation, 'Improvement of rural living conditions through healthy forests: establishment of a Training Centre for Sustainable Forestry', <<http://www2.hss.de/korea/en/eu-project.html>>.

profit-oriented, aimed at increasing bilateral trade between China and North Korea, meaning that they aim to benefit from the development of North Korea and have different purposes than those of the international NGOs.³¹ Since many Chinese experts are unaware of the contributions of international NGOs inside North Korea, there is a clear lack of exchange. This should be seen as an opportunity for information sharing and cooperation.

From 2011 to 2014, Agape International conducted a project on energy efficient construction in North Korea, which was funded by the Swiss Government.³² During the project, the Swiss NGO cooperated with Chinese individuals, institutes and companies to arrange field visits and discussions with local experts.³³ The reason for the collaboration with China is probably the existence of China's cost-effective and innovative energy technologies.³⁴ This example should serve as a model for European collaboration with China on field studies and trials. It could also serve as a first step towards establishing future Chinese-EU collaboration on energy assistance.

Apart from their humanitarian appeal, continued exchanges between international NGOs and their counterparts in North Korea will facilitate the latter's understanding of working with the rest of the world. Moreover, these humanitarian aid networks and NGOs could become an alternative channel for communication during future potential crises.

Experienced exchange and integrated aid systems

There are three channels through which the EU and its member states carry out humanitarian aid operations in North Korea: (a) through supporting UN agencies; (b) through the projects of the European Commission, which are usually carried out by resident partners inside North Korea; and (c) through the projects of the EU member states. Between January 1995 and June 2016, the EU provided 135.3 million euros to North Korea in aid.³⁵

Similarly, China is a partner that provides assistance aimed at improving livelihoods inside North Korea. Despite this similarity with the EU member states, Western countries continue to highlight transparency issues related to China's aid to North Korea. China's State Council Information Office published the first white paper on China's Foreign Aid in 2011, which was updated in 2014.³⁶ This was a big step by the Chinese Government, but there is still room for improvement. For example, the white paper does not provide project-level or country-to-country figures.

³¹ Workshop, Jilin, Sep. 2015.

³² This project is supported by the Renewable Energy and Resource Efficiency Promotion in International Cooperation (REPIC) platform through the Swiss State Secretariat for Economic Affairs, the Swiss Agency for Development and Cooperation and the Swiss Federal Energy Office, <http://www.repic.ch/repic-en/projects/completed_projects/energyefficiency/agape-north-korea/>. Information on other projects can be found on Agape International's North Korea blog. The most recent post was on 20 Aug. 2016, <<https://agapenorthkorea.wordpress.com/>>.

³³ The two German companies in China are Gesellschaft für internationale Zusammenarbeit and Shanghai Sto Ltd. The eight Chinese individuals, institutes or companies are: the Centre for Science and Technology of Construction; the Centre for Energy Efficiency in Buildings in the Ministry of Housing and Urban-Rural Development; the Technological Development Centre in Beijing; Uni-Construction Group Ltd; Sunlay Design Group Ltd; Professor Liang Qiangwei of the Building Energy Research Centre in Tsinghua University; the Chinese Academy of Building Research; Heilongjiang Chenneng Shengyuan Real Estate Co.; and the Harbin Institute of Technology, Harbin Hongsheng Group. See Agape International, 'Final Report: Energy efficient construction in rural areas and cities—Renewable Energy Training Center (RETC) Pyongyang', 8 Aug. 2014, <http://www.repic.ch/files/4614/1335/8692/SB_Agape_Nordkorea_online.pdf>, pp. 43–44.

³⁴ '스위스 NGO, 북 대체에너지연수원 건설' [Swiss NGO, North Korea Renewable Energy Training Centre construction], Radio Free Asia, 5 May 2010, <http://www.rfa.org/korean/in_focus/swiss_ngo-05052010165236.html?searchterm:utf8:ustring=Agape+International>.

³⁵ 'North Korea (DPRK)', European civil protection and humanitarian aid operations, European Commission, June 2016, <http://ec.europa.eu/echo/files/aid/countries/factsheets/dprk_en.pdf>.

³⁶ 'Full text: China's foreign aid', Xinhuanet, 21 Apr. 2011, <http://news.xinhuanet.com/english2010/china/2011-04/21/c_13839683.htm>.

While UN Security Council resolutions do not directly prevent the provision of humanitarian aid and development assistance, it has been shown that complex sanctions can indirectly obstruct such projects. The total funds for the five UN agencies working in North Korea fell from 72 million US dollars in 2013 to 48 million US dollars in 2014. They had requested 150 million US dollars in 2013 and 115 million US dollars in 2014.³⁷ In 2015, these projects raised around 36 per cent of their requested funds, which amounted to 40 million of 110.9 million US dollars.³⁸ The economic sanctions on the banking system have made it difficult for UN agencies to transfer funds to North Korea and have heightened caution on the part of international donors.³⁹

To combat some of these inefficiencies, Europe and China are the two main donors that help to improve the humanitarian situation in North Korea. Here, a transparent and integrated aid and development system would make assistance distribution more efficient and compensate for difficulties in implementation. Such a system would give a chance to derive a better understanding of the living conditions in North Korea. The well-connected diplomatic presences the EU and its member states have in the world are vitally important when facilitating a long-term engagement of external players in humanitarian assistance.

Improvement of the human rights situation

The UN Human Rights Council (UNHRC) established a Commission of Inquiry on North Korea's human rights situation in March 2013.⁴⁰ The EU and Japan first proposed to refer Kim Jong-un and the situation in North Korea to the International Criminal Court (ICC) in March 2014.⁴¹ However, since North Korea is not a state party of the ICC, the referral must pass through the UN Security Council for approval, meaning it must pass unanimously without rejections by China and Russia, the two permanent UN Security Council member states.⁴² Chinese experts argue that it is too early to press North Korea on human rights issues since they are still suffering from food insecurity and such measures could stimulate retaliatory actions from the Kim Jong-un regime.⁴³ At the same time, a delay might further hinder future improvements of the North Korean human rights situation, and there is no reason why this situation cannot be improved along with food security.

Due to limited access, it is difficult to assist in the human rights situation, except for the selected parts of North Korea that are favoured by the North Korean Government. During the second cycle of the Universal Periodic Review on human rights in North Korea in 2014, 268 recommendations were handed to the UNHRC and 113 were accepted by North Korea.⁴⁴ Among the accepted recommendations—most of which are related to economic, social and cultural rights—is the protection of women's and children's rights. Despite limited North Korean response to other recommendations, some fields are of interest and European countries have already begun to cooperate with North Korea in these areas. This can give the EU, which is setting the pace on North

³⁷ Reliefweb (note 27).

³⁸ Reliefweb (note 29).

³⁹ Interviews with the author, Beijing, June 2015.

⁴⁰ Commission of Inquiry on Human Rights in the Democratic People's Republic of Korea, The Office of the United Nations High Commissioner for Human Rights, 21 Mar. 2013, <<http://www.ohchr.org/EN/HRBodies/HRC/CoIDPRK/Pages/AboutCoI.aspx>>.

⁴¹ 'U.N. panel calls for North Korea referral to international court', Reuters, 18 Nov. 2014, <<http://www.reuters.com/article/us-northkorea-un-rights-idUSKCN0J22EG20141118>>.

⁴² International Criminal Court, Jurisdiction of the Court, <<https://www.icc-cpi.int/about/how-the-court-works/Pages/default.aspx#legalProcess>>.

⁴³ Interviews with author, Jilin, Apr. 2015.

⁴⁴ 'DPRK / Human rights: Key report must be sent to UN Security Council, says UN Special Rapporteur', The Office of the United Nations High Commissioner for Human Rights, 28 Oct. 2014, <<http://www.ohchr.org/EN/NewsEvents/Pages/DisplayNews.aspx?NewsID=15226>>.

Korea's human rights situation, valuable sources of information on North Korea's progress, as well as discursive power when pressing the issues.

In the field of education, since 2000, the British Embassy has conducted an English language and teacher-training programme in North Korea.⁴⁵ This programme has improved the English capacity of North Korean teachers and taught the teachers British pedagogy. It is currently operating under an extension that lasts throughout 2017. Moreover, the Pyongyang University of Science and Technology currently has openings for foreign language teachers and science teachers. A number of Korean-Americans and other English speakers have held well-received teaching posts.⁴⁶ North Korea is traditionally a country that highlights political and ideological education.⁴⁷ An increased exchange in different fields of education could possibly break this narrow curriculum and stimulate more creativity in teaching content and material.

There is room for improving human rights apart from the areas in which the North Korea demonstrates a willingness to cooperate, such as in labour exports. With North Korea reportedly sending workers overseas to around 40 foreign countries in North Asia, the Middle East, Africa, Southeast Asia and Europe, the potential for labour and human rights violations remains high. Despite the risk that the wages for North Korean workers may fund North Korea's nuclear programme, working conditions and labour rights need to be ensured based on international standards. China and Russia are the two major countries that hire North Korean workers, meaning sustained international pressure that ensures the rights of North Korean workers should be put on these two countries. This is a role that the EU can take.

Finally, the focus on the human rights situation is one of the main pillars of the EU's critical engagement with North Korea.⁴⁸ In Resolution 2321 from 2016, the section on human rights issues emphasizes and requests North Korea to respect and ensure the welfare and inherent dignity of its people.⁴⁹ North Korea's human rights problem has since expanded to include the mandate of the UN Security Council, and not just the UNHRC. In part, this may be attributed to the EU's continuous effort to gain the attention of UN member states. Such efforts are likely to move the EU into a more active and authoritative position on other matters relating to North Korea.

⁴⁵ 'Promoting English language teaching in the DPRK', British Embassy in Pyongyang, 2 July 2016, <<https://www.gov.uk/government/world-location-news/promoting-english-language-teaching-in-the-dprk>>.

⁴⁶ Interview with author, Beijing, Mar. 2016.

⁴⁷ '朝鲜教育概况' [Education situation in North Korea], Chinese Embassy in DPRK, 1 July 2014, <<http://kp.china-embassy.org/chn/cxgk/cxwhjy/t287814.htm>>.

⁴⁸ 'DPRK and the EU', European Union External Action, 26 June 2016, <https://eeas.europa.eu/headquarters/headquarters-homepage/4186/dprk-and-eu_en>.

⁴⁹ 'Deputy Secretary-General's remarks to the Security Council on the Situation in the Democratic People's Republic of Korea', UN Secretary-General, 9 Dec. 2016, <<https://www.un.org/sg/en/content/dsg/statement/2016-12-09/deputy-secretary-generals-remarks-security-council-situation>>.

5. Conclusions

North Korea's fourth and fifth nuclear tests were noteworthy for their rapidity and the political climate in which they were conducted. Their occurrence within the span of one year has escalated tensions in Asia and worldwide. South Korea has moved from ambivalence to agreement on the need for THAAD deployment, which China has interpreted as a US-effort to constrain China's power and threaten its nuclear deterrent. As a result, THAAD deployment is likely to make China less willing to cooperate with the USA on North Korea-related issues.

Meanwhile, Japan is also considering THAAD deployment to build on its already deployed X-band radars, Aegis-equipped, ship-based Standard Missile-3 and Patriot Advanced Capability-3 interceptors. These capabilities, combined with the GSOMIA between Japan and South Korea, reflect the development of a closer US-Japanese-South Korean alliance. Thus, instead of focusing on the North Korean nuclear crisis, these four countries are being increasingly caught up in a new strategic game in the region.

Since Xi Jinping came to power, China has worked to normalize its bilateral relations with North Korea, being supportive, but not indulgent. Since 2013, China has worked with the USA on drafting UN Security Council resolutions. While these resolutions have become increasingly strict, the existence of a 'livelihood exemption' with the support of China serves as a loophole in the sanctions for non-compliance. Furthermore, this exemption has increased complexity for UN member states interpreting UN Security Council resolutions and transposing them onto national legislation. Enforcement will be affected by both interpretation of the scope of such exemptions and the diligence of self-reporting among the member countries.

Faced with North Korea's ongoing nuclear development, an increasing number of Chinese experts are proposing sanctions on the supply of crude oil to force North Korea back to the negotiation table. Their emphasis demonstrates that while Chinese analysts may support sanctions, they are aimed at garnering North Korean participation in future iterations of negotiations or Six-Party Talks and not seen as a final solution to achieving denuclearization.

Outside of sanctions enforcement, China has been expanding economic engagement with North Korea since 2009. The deteriorating bilateral political relations of the early years of Xi Jinping's presidency and the escalating North Korea nuclear crisis did not affect normal trade between the two countries. Chinese experts argue that the continuation of economic transactions has to some extent promoted the development of marketization and stimulated the emergence of a middle class in North Korea.

Chinese experts have also addressed how continued and enhanced Chinese engagement with North Korea could promote a Chinese style reform and opening up. Kim Jong-un's emphasis on economic development by adopting improvement measures is highly rated by Chinese experts. However, the differences between China's and North Korea's domestic and external environments will constrain the substance and modalities of reform implementation. A slowdown of or push back on economic reform will probably occur if the new reforms threaten the stability of the regime. Therefore, Chinese experts are pinning their hopes on the rising middle class in North Korea becoming the backbone of an irreversible force for future economic reform. While some might see South Korea's shutdown of the KIC as a blow to these trends, it may have actually given more economic weight and impetus to bilateral relations between China and North Korea.

Overall, economic engagement and sanctions enforcement are the two main approaches that the Chinese Government has taken in order to achieve its two major

objectives in North Korean affairs—stabilization and denuclearization. China has emphasized the importance of achieving both these objectives on the Korean peninsula. Kim Jong-un came to power five years ago, and regime stability is no longer as much of a Chinese concern, in no small part due to the support China has given him during the transition of power.

However, North Korea's continued provocative behaviour and disregard for China's concerns about regional stability remain. While China attempts to pursue its objectives in parallel, the recent changes on the Korean peninsula have swayed its focus between stabilization and denuclearization. This uncertainty in China's policy enables North Korea to further develop its nuclear capacity. Although it is unlikely that the international community will recognize North Korea as an official nuclear weapon state, denuclearization will be difficult to achieve in the near future. A freezing of North Korea's nuclear facilities has become the most practical first step.

North Korean problems have become long-term issues. China and the USA are the two major parties currently leading efforts to resolve them. Geostrategic wrangling between these two countries, however, has led to a lack of mutual trust and common interest in problem-solving. Since the US presidential transition, Chinese analysts are closely observing Washington's policies on North Korea, and wondering whether it will end its 'strategic patience' towards North Korea. In the interim, some Chinese analysts have argued for China to undertake its own form of 'strategic patience' and wait and see how the USA proceeds. For now, however, China will continue its economic engagement with North Korea while at the same time looking out for any active engagement or new moves that the USA might make.

The reluctant moves undertaken by China and the USA, combined with the absence of a clear and united strategic solution to be adhered to by the international community, has led to a lack of progress on resolving the North Korean nuclear crisis. This deadlock on returning to talks, however, has presented the EU with an opportunity to play a more active role on North Korea. European NGOs are in the majority among the agencies that have been providing humanitarian assistance, helping to improve livelihoods and maintaining a sustained presence inside North Korea. This has provided European countries with direct insights into and reliable connections with North Korea.

European countries, as external players, do not have the level of conflicting interests found among the participants in the Six-Party Talks. As a result, the EU has the potential to propose a more workable approach at the track 1.5 and track 2 levels, while other relevant parties pursue their own agendas and priorities. European states also have diverse connections with both major and minor players on non-proliferation issues. This, combined with their well-connected diplomatic relations within North Korea, offers the EU a potentially unique role in establishing channels for dialogue. In sum, the EU can substantively contribute to confidence building in the region.

The ability to play a greater role, however, does not mean that the EU and China are aligned on all issues pertaining to North Korea. In contrast to China's focus on stability and economic development, European countries tend to emphasize sanctions and human rights. However, both China and the EU share the same goals of stability on the Korean peninsula and support for the international non-proliferation regime. This confluence of aims will serve as a foundation for future opportunities for complementary cooperation between Europe and China on North Korea issues.

A resolution to the North Korea nuclear crisis is of crucial importance to the regional order in Asia and more broadly to global non-proliferation goals. Greater active engagement on North Korea will increase the influence of the EU not only in Asia, but also on the formation and structure of the future global non-proliferation order.

Enhanced European interactions with China on expanded dialogue channels, crisis management, export and border control training, humanitarian engagement through civil society and integrated aid systems will provide a foundation for converting the European cooperation with China on North Korea from an ad hoc series of initiatives to a coherent and sustainable strategy.

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