

U.S.-China Economic and Security Review Commission
Hearing on “China’s Proliferation and its Role in the North Korea Nuclear Crisis”
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Thank you. It is a great honor for me to be asked to speak before your Commission this afternoon, and to share with you my views on China’s role in the resolution of the North Korean nuclear crisis. Let me state that these will be my personal views and may not necessarily reflect the views of The Heritage Foundation.

I was given a number of substantive questions and since I only have 7 minutes, I will not be able to address them all in my initial statement. But I hope to be able to tackle them during the Q&A session. As such, let me begin by briefly touching on the issues that establish the parameters for our discussion here today: China’s role in the North Korean nuclear crisis.

China’s Interests on the Korean Peninsula

For centuries, China, the great Middle Kingdom, has enjoyed a special relationship with the Korean peninsula. More recently, China is proud of the rather dubious accomplishment of being one of the only countries that has managed to maintain good relations with both North and South Korea; today it is the largest official trading partner to both Koreas.

Unfortunately, China is uncertain about what to do with this strategic asset and its stance towards Korean reunification remains deeply ambivalent, at best. The overarching questions for China are: is Korean unification inevitable? And if so, will a unified Korea be more or less stable than a divided one? In economic terms, these questions are not just an academic exercise. Any unification scenario, even a gradual one, means that South Korean investments in China, which last year alone exceeded \$1 billion, will be diverted towards the North for reconstruction. In strategic terms, these questions are even more troubling for China. Strategically, given the current U.S.-ROK intention to maintain an alliance even after unification (let me return to this point later, because it is an important one), China has no reason to support unification.

China still regards the North Korean buffer between itself and the United States as a prize won by tremendous sacrifices made in blood, and China will be loathe to see it disappear. Indeed, the only benefit China might garner from unification or a collapse of North Korea is to try to use such an event as a distraction to make a move on Taiwan. Therefore, unless China can be guaranteed that its strategic position will at a minimum not deteriorate after reunification, it will continue to support the status quo of a divided peninsula. Moreover, North Korea’s nuclear programs do not necessarily detract from China’s strategic advantage; indeed, it may be enhanced, as long as North Korea remains an ally and “friend.”

While China may deem the tensions across the 38th parallel as potentially dangerous, particularly given the increasing economic repercussions to its own economy should instability arise, a divided Korea is less threatening to China than a unified Korea with U.S. troops. Moreover, uncertainty about a reunified Korea’s ideological, but even more importantly strategic orientation, unnerves Chinese policy makers far more than the status quo. While most of us in

the West and Japan cannot imagine a unified Korea that is revisionist, I believe that in both Koreas and in China, such possibilities indeed exist.

Thus, China's immediate goals are to maintain a strong influence in both Pyongyang and Seoul while playing North Korea against the United States and Japan, and supporting the North Korean regime to maintain it as a buffer state. Understanding China's strategic goals are critical to understanding its behavior in the Six-Party process and any resolution of the North Korean nuclear issue.

Significance of North Korea's February 10 Announcement

On February 10, North Korea declared that it has "manufactured nuclear weapons," and would temporarily pull out of the Six-Party process until certain conditions were met. But ultimately, this announcement proved to be far less significant than first assumed. Pyongyang's admission to manufacturing weapons did little to clarify the number or nature of its nuclear weapons programs.

To date, one of the areas of greatest contention among the six parties has been the unsettled debate regarding North Korea's Enriched Uranium (EU) program. While the United States has presented incontrovertible evidence to each of the other five parties including Pyongyang, skepticism about U.S. evidence has been expressed publicly by the other parties, most notably Beijing.

While Beijing issued some unusually strong language critical of Pyongyang in the aftermath of the February 10 statement, this was shortlived. As recently as March 6, Foreign Minister Li Zhaoxing questioned the existence of a EU program, which was a direct rebuke of concerted U.S. efforts in recent months, led by Michael Green of the National Security Council, to convince the Chinese that North Korea has indeed been attempting to develop uranium enriched nuclear weapons.¹ This statement reflect a consistent position that Beijing has maintained since the Six-Party process began in 2003.

The problem of course, is that without a unified and firm stance on *all* of North Korea's nuclear programs, any dialogue will be produce incomplete and unsatisfactory results, rendering them essentially meaningless.

Progress of the Six-Party Talks and China's Support for the U.S. Position

What has been the progress, if any of the Six-Party talks after three sessions? While many critics of the process argue that no concrete results on dismantling North Korea's nuclear weapons has occurred, all the while allowing Pyongyang to produce ever more weapons, the talks have produced several less tangible, but nevertheless significant developments. These include: institutionalizing a security issue within a multilateral framework – the first time ever in Northeast Asia; obtaining consensus that this issue must be resolved multilaterally and not bilaterally; allowing Japan and South Korea to have prominent positions in the process rather than being marginalized as in the past.

However, it is also true that the Six-Party process has produced some negative outcomes, aside from the obvious one of not yet being able to address the nuclear weapons programs. The real danger I believe has been to let China dominate the process, and in so doing, inadvertently raise its diplomatic prestige, as well allow it to manipulate the crisis for its own strategic purposes.

¹ "China doubts U.S. Data on North Korean Nuclear Work," *The New York Times*, March 7, 2005.

It seems that the universal operating premise of the Six-Party process has been that “we are dependent on China for a resolution.” This mantra is heard from Seoul to Tokyo, to Washington, to Moscow. Yet, China continues to keep North Korea afloat with its shipments of energy and other subsistence aid.

Just as harmful, Beijing has continued to support and perpetuate North Korea’s propagandistic stance that the United States holds the two most important keys to resolving the North Korean problem: ending a state of hostility that dates from the Korean war and providing tangible assurances to North Korea that Washington does not seek the overthrow of Pyongyang.

Beijing has consistently stated that it supports a denuclearized Korean peninsula, and has called for North Korea to halt its nuclear weapons program. Yet, just as consistently, Beijing has publicly urged Tokyo and Seoul to convince the United States to soften its stance with Pyongyang and adopt a more “flexible” attitude. Beijing has gone so far as to blame the “mutual lack of trust” between the United States and North Korea for the impasse in the Six-Party Talks. As recently as two days ago on March 8, Foreign Minister Li Zhaoxing supported North Korean demands for direct bilateral talks with the United States and called for Washington to adopt a more “sincere” posture.²

Thus, it is clear that China has been deftly playing a dual game of remaining cautious about North Korea, while at least keeping up the appearance of being a responsible power and attentive to regional problems. Meanwhile, it has done little to actually use the limited leverage it has on Pyongyang to engage in meaningful dialogue.

Most argue that the reason the Six-Party talks have stalled since June 2004 is that Pyongyang was waiting for a softening of the U.S. stance: first with the possibility of a change of regime in Washington in November, then the inauguration of a new Bush team, followed by signals to be accrued from the Inaugural speech and the 2005 State of the Union address.

However, I disagree with this assessment. It is highly unlikely that Pyongyang, which has considered Washington an entrenched hostile enemy since the Korean War, would gamble on the mere possibility of a softening stance by the United States. Rather, I believe that Pyongyang has prudently waited since the issuance of a solid proposal by the United States at the third-round of the Talks in June, for the reaction from the other five parties. As the months went by with no public endorsements and strong words of support from any of the four parties, much less Washington itself, Pyongyang was content to sit quietly without having to respond.

If anything, unhelpful comments emanating from the leaderships in Beijing, Moscow, Seoul and even Tokyo about the “inflexible” U.S. stance, and strong denouncements ruling out the possibility of the use of force played right into Pyongyang’s hands, and effectively hampered the group’s negotiating position vis-à-vis North Korea. In light of clear misgivings among the five parties, and no penalties meted out by those with leverage over North Korea, Pyongyang had everything to gain and nothing to lose by indefinitely delaying its return to the negotiation table.

Assessment of the China- North Korea Dynamic

This then begs the question: why is China playing a dual game? I believe that North Korea presents China with a profound conundrum. On the one hand, brokering an end to the nuclear threat on the Korean peninsula presents China with a unique and rather tantalizing opportunity to score its first big coup in global diplomacy. Doing so would complement China’s enormous economic growth and its increasing presence particularly in Southeast Asia.

² East-Asia Intel, “Li’s Diplomatic Nuke: Don’t Count on Beijing to Rein in North Korea,” March 8, 2005.

On the other hand, China has very much to gain by maintaining the status quo on the peninsula, and much to lose by shattering it. Yet, I believe China's strategic considerations on the peninsula may be far more ambitious than just maintaining the status quo, or minimizing the damage from any changes.

Satellite surveillance photos taken in November 2004 indicate that a 10,000-man Chinese army division made preparations for a prolonged deployment along the Chinese-North Korean border. More recently, reports in early March 2005 confirm further that China appears to be building up logistics for military operations along its border with North Korea. This may be an indication that Chinese troops are in position in case of an abrupt political change that could include the downfall of the North Korean regime.³

Many suspect that China's motives for becoming involved in the Six-Party process were to mitigate the possibility of war on the peninsula, and to maintain relative economic stability in the region. An argument often proffered by Beijing is that too much pressure on Pyongyang would risk the possibility of collapse, thereby causing a flood of refugees across the border. I do not believe, however, that Beijing's worst nightmare involves the onslaught of refugees; it would certainly be an irksome problem but not one that would devastate China.

Rather, it is the possibility that if the two Koreas were to be unified under South Korea's leadership, then a unified Korea that shares America's democratic values would exert a strong socio-cultural influence in large parts of Manchuria, which is home to two million ethnic Koreans, causing a threat to Chinese political control.

But China's real reluctance to actively broker a deal may be its deep-seeded skepticism about the United States' strategic designs in the region, and to a lesser degree, that of Japan and the two Koreas. An argument heard in China is: "If we were to cut off aid to Pyongyang and the Koreans unified on South Korean terms, it would be a big disaster for China. The United States would insist on basing its troops in the northern part of the peninsula, and China would have to consider that all of its efforts going back to the Korean War have been a waste."⁴ After all, as other Chinese often point out, having a friendly country – North Korea -- tying up American troops on its southern border, frees Beijing to focus its military forces on other contingencies, notably, Taiwan.

All of this does not mean that China is not deeply troubled by North Korean behavior. There is profound distrust and disdain, if not outright hatred between the Chinese and North Koreans, despite their long history of shared bloodshed.

NGO workers in the region have reported to me that they have witnessed overt Chinese racism against North Koreans. Such Chinese "arrogant, condescending and supercilious behavior" has ingrained in many North Koreans a deep-seeded mistrust of Chinese actions and motives. North Korea may grudgingly acknowledge China as a necessary life-line, but it is also considered a source of all that is foreign, impure and dangerous to the "pristine and pure" North Korean society. The SARS epidemic in 2003 and the growing onslaught of AIDS are just one tangible and horrifying evidence of China's dangerous influence.

At the same time, North Korea is ultimately a pragmatic regime above all else, and in a world with few friends, Pyongyang has perfected to an art the ability to extract goods from benefactors. In 2004, North Korea reportedly gave exclusive rights to a Beijing-based Chinese company, Chaohua Youlian Cultural Exchange Co. Ltd. (CHYL), to facilitate PRC investment in

³ *Joongang Ilbo*, "Chinese Troops Set Up Camp on North's Border," November 24, 2004

⁴ Howard French, *The New York Times*, "China Is Uneasy in Korean Role, Wary of U.S. Motives," February 19, 2005.

North Korea. Although the company website and Chinese media have called CHYL a “private” enterprise without mention of ties to the PRC government, South Korean media have reported it as a PRC “state-run” company that appears to be “national policy” oriented.⁵ Investments by CHYL in North Korea include an oil refinery at Najin-Sonbong Free Trade Zone for \$12.1 million, with a capacity to process 2 million tons of oil; construction of apartments for foreigners at for \$12.1 million; 156-mile road construction from Sinuiju to Anju for \$31.2 million; a power plant renovation in Najin for \$600 million for four generating units with China and North Korea operating two units each (each unit produces 25,000 kilowatts and unused electricity will be exported to China).⁶

Increasingly, evidence indicates that a real competition for dominance in the North Korean economy is emerging, and the other competitor is South Korea. Chinese businessmen have been investing heavily in the last year in Pyongyang, opening restaurants and small factories, expecting it to be a market in 10 years. Chinese businessmen with investment experience in North Korea, however, express deep concerns citing serious risks. Given the nature of the investments -- for industrial rather than commercial uses -- this seems to indicate that Chinese investments are being pursued for strategic as much as economic gains.

Admittedly, Chinese economic engagement of North Korea does produce economic gains for China. Chinese access to North Korea’s minerals such as coal – North Korea has the second largest coal reserves in North Asia – other minerals, and labor, would help to fuel China’s endless appetite for accelerated economic growth.

Officially, China has been North Korea’s largest trading partner for some time, recording a historic high in bilateral trade in 2004 of \$1.2 billion -- a 35 percent increase from the previous year. More notably, bilateral trade is becoming more balanced. Until recently, China had tolerated a “one-way” trade street, tolerating a large deficit, but in 2004, North Korea’s exports rose by 7 percent from the previous year to \$535 million while its imports grew by 18 percent to \$649 million.⁷ The growth in North Korean exports to China mainly reflected the latter’s voracious appetite for industrial raw materials to fuel its booming economy.

In contrast, North Korea’s trade with South Korea and Japan both declined by 3.8 percent to \$697 million, and 4.8 percent to \$251 million respectively.⁸ Yet, these numbers are misleading in that the South Korean figures do not include aid assistance and loans; in 2004, they amounted to \$416 million, making the total volume of economic exchanges between the two Koreas nearly \$1.1 billion.⁹ In November 2004, China began to permit border trade with North Korea to be conducted in renminbi; hitherto such trade was carried out using either U.S. dollars or letters of credit from banks in third countries. Renminbi usage allows for far greater transactions as well as overcoming North Korea’s foreign exchange scarcities.

One may thus consider that China’s active support of North Korea’s economy is not just an effort to prevent collapse but to actually dominate the economy. China has stated its desire to strengthen economic cooperation with North Korea for development of China’s Dandong Port and the Tumen River regions, as well as remodeling of industrial facilities in its three east and north provinces.

⁵ Yonhap, July 7, 2004.

⁶ FBIS Report, “PRC Firm Said to Attract Chinese Investors to North Korea,” December 4, 2004

⁷ The Economist Intelligence Unit, Country Report: North Korea, February 2005

⁸ http://global.kita.net/kita/kitanews_viw.jsp?back=true&no=438&page=1&searchKey=&searchField=title

⁹ Export Import Bank of Korea

Some have even gone so far as to argue that if Pyongyang remains recalcitrant, or crosses a “red line” such as testing a nuclear device, China may take the initiative to trigger an internal coup that would overthrow the Kim Jong Il regime and maneuver the installation of a Beijing-friendly military dictatorship, allowing China to establish hegemony over North Asia.¹⁰ Such ambitions to dominate Asia are evident in state-sponsored “academic” projects that purposefully distort histories around its borders in order to justify any future possible Chinese territorial takeover, as in the so-called Koguryo incident with Korea.

The Chinese-North Korean relationship is complex and murky. The two countries may be like lips and teeth, but we are reminded that lips without teeth cannot eat, and teeth without lips will freeze.

Conclusion

While I remain cautiously optimistic about the Six-Party process – because I unequivocally believe that the any solution must be multilateral in nature – and should be carried out through its conclusion, one negative outcome of this process has been the elevation of China’s status and role. I believe putting China in the leadership position in the nuclear talks produces negative consequences that are counter to the regional interests of the United States and its allies, the ROK and Japan.

With all due respect to my colleagues who dedicate their work on non-proliferation issues, I submit that far more is at stake here than the specter of North Korean nuclear weapons: it is the very future of the balance of power in Northeast Asia and whether or not the United States will be a Pacific power in the 21st century.

Recommendations

Given that the process has not yet been concluded, I would like to make the following recommendations for the United States to mitigate some of the negative effects that I have discussed.

- In order to end the internal debate amongst the five parties over North Korea’s pursuit of an enriched uranium program, the United States should respond to skepticism by publicly releasing evidence instead of pursuing private, closed-door efforts, which have essentially proved futile. Otherwise, Washington will have to abandon the uranium program as part of a multilateral solution, which is in North Korea and China’s interest, but is an unacceptable outcome for the United States.¹¹
- Convene the next round of the Six-Party talks as soon as possible. If North Korea does not attend, the remaining five parties should issue a statement declaring that North Korea is responsible for the impasse and proposing concrete next-step actions. These actions should include expanding the focus of diplomatic efforts from regional to international. The U.S. should also urge countries that currently have diplomatic ties with North Korea—including some European Union countries, Australia, and Canada—to sign a resolution condemning North Korea’s nuclear weapons program as a dangerous and destabilizing activity and to suspend their diplomatic ties with Pyongyang until it agrees to return to

¹⁰ Jason Lim, *The Washington Times*, December 18, 2004.

¹¹ For further elaboration of this argument, see Larry Niksch, “Does North Korea Have a Uranium Enrichment Program?” (Draft article)

the negotiation table. The U.S. should also push for a U.N. Security Council resolution condemning North Korea's nuclear activities.

- Initiate immediate and concerted efforts on strengthening the bilateral U.S. alliances with the ROK and Japan. With the ROK, the United States must develop a common vision for the future of the alliance as well as the role of the U.S. Forces Korea beyond any unification scenario. Both Pyongyang and Beijing benefit from, and have employed strategies to drive wedges between the United States and its allies and the best panacea to such tactics is to reduce if not eliminate their ability to do so. As such, the trilateral coordination among Washington, Seoul and Tokyo are imperative.
- Given Beijing's most recent statements on March 8 that essentially ignored the role of South Korea in the negotiations, the United States should consider proposing Three-Party talks with Pyongyang, which would be comprised of Washington, Seoul and Pyongyang. Nothing will get Beijing's attention faster and spur it to action faster than the possibility that it might be left out of strategic decisions in Northeast Asia.

Thank you again for your time and consideration of my views.