

China and North Korea Relationship in a New Era

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Abstract

The relationship between China and North Korea at the time of Mao Zedong and Kim Il Song, despite some ups and downs, had been mostly a special comrades relationship.

The relationship between the two countries, deteriorated since China's diplomatic relations with South Korea, was restored by official visit of North Korea by Jiang Zemin. Present relationship, however, is no longer a special one but a normal in military, diplomatic and economic arena. North Korean economy is in dire need of either a massive foreign assistance or a bold reform and open door policy. Yet, Chinese aid to North Korea is no longer a huge amount but limited to a small-scale aid in food and subsistence products.

Kim "dynasty" hardly changes and North Korea is reluctant to implement any major policy of "reform and open door" although there are a few attempts to change its economic fortune. There is a sign that the "post cold war" is about visit Northeast Asia as was observed by the summit meeting of two Koreas. China, with diplomatic relations with both Koreas, can play a major role for a peace of Korean peninsula and thus for the stability of Northeast Asia. However, for a real and lasting peace and stability of Korean peninsula it is necessary to have a framework for international observation and assistance.

1. Meanings of Kim Jong Il's visit to China and Jiang Zemin's visit to North Korea.

a. Official visit of Jiang Zemin

Kim Jong Il visited China in May 2000, just prior to North and South Korean summit meeting and again in January 2001. Then in September 2001, Jiang Zemin made an official visit to North Korea. Since neither of Kim's two visits to China was supposed to be official, we would like to consider the official Jiang's visit to North Korea first.

Jiang's visit to North Korea was the first official visit by the head of state since China and South Korea established diplomatic relation. Primary purpose of this official visit by Jiang may be completely restore the relationship of two countries and two parties that had been once deteriorated ever since diplomatic relation was established between China and South Korea. However, compared to time of Mao Zedong and Kim Il Sung when the relationship was special as "brothers", "comrades" or "fought side by side", with exception of Cultural Revolution period, the relationship

restored by Jiang's trip this time was no more than a normal relationship devoid of any special meaning.

Some subtle difference in viewpoints between the two parties can be noticed. For example, concerning Jiang's proposal of "three representatives" (Statement on July 1 2001), which considers admitting owners of private enterprises into the Party representative, the editorial of Chinese Renmin Ribao, stated that North Korea "praised" this idea, while North Korean Rodong shinmun simply stated that the idea has been discussed between the two leaders but no reference to word "praise."¹ It appears to be a kind of relationship that places some distance between the two parties on each other's particular position and ideology. It has been said that the original scheduled visit by Jiang was to be on September 9, North Korea's Independent Day, but was changed to an earlier date, a subtle suggestion that the relationship is no longer a very special one.

It has been reported that China was prodding North Korea to "reform and open up." But, North Korea often stated that they will not carry out "Chinese style" reform and open door policy, but will undergo some "changes", again indicating some disharmony between the two countries.

Second purpose of Jiang's visit was to provide economic assistance to North Korea. China's economic aids to North Korea had been terminated since China set up diplomatic relation with South Korea. Immediately following the relationship became official, North Korea refused to even recognize the Chinese delegates to negotiate aid program with North Korea. The negotiation between the two countries finally reopened since 1994. Compared to one million tons of Chinese grain aid, for example, to North Korea before the termination of aid, scales of assistance became much smaller since 1994 as shown in Table 1. (See Table1 for Chinese aid to North Korea) During Jiang's recent visit China promised to give 200 thousand tons of grain and 30 thousand tons of diesel fuel to North Korea. The Renmin Ribao did not report the aid package and only Rodong Shinmun reported it. Judging from different ways of reporting the same fact by two different official party organs, one can assume that the relationship between the two countries may not be as good as in the earlier days.

(Table 1) Chinese Aid to North Korea

1990	Jiang Zemin promised that give 500thousand ton of grain, 1.3million ton of oil and 2.5million ton of coal
1995	30million yuan(100thouandton of maize)
1996	120thousand ton of grain
1997	150thousand ton of grain without condition
1998	100 thousand ton of grain, 20 thousand ton of chemical fertilizer, 80 thousand ton of oil without condition
1999	150 thousand ton of grain and 400 thousand ton of cokes
2000	grain and oil without condition
2001	Mar. 15 thousand tons of diesel fuel Sept. 200 thousand tons of grain and 30 thousand tons of diesel fuel

Source) Chinese official report

The third objective of Jiang's trip can be his expression of support for two Korea's autonomous unification. For China it is necessary to maintain stability in Northeast Asia. Therefore, it is extremely important for China to assure stability in Korean peninsula, which hold a key to the problem of Northeast Asian stability. Of course, unified Korean peninsula does not necessarily mean that it brings only unqualified blessings to China.

The fact that, as a result of Jiang's visit, North Korea obtained a big support of China in the international community has an important meaning. This is related to meanings of Kim's two recent visits to China as well as those of Putin's visit to North Korea in July 2000 and Kim's return visit to Russia in July of 2001. In so-called "diplomatic space" North Korea had been upstaged by South Korea in the past. Former US Secretary of State Kissinger once advocated an idea of cross recognition of two Koreas, i.e., recognition of North Korea by the US and Japan while China and Soviet Union recognize South Korea. Present status, however, is that only South Korea has diplomatic relations with China and Russia.

b. Kim's visit to China and North Korea's diplomatic arena

What is the meaning of Kim Jong Il's visit to China? Kim's trip in May 2000 may be to reconstruct diplomatic coordination of North Korea, China and Russia to confront the alliance of South Korea, US and Japan prior to inter Korean summit meeting. Russian President Putin's visit to North Korea was announced in haste in May just prior to the summit meeting. In order to shed a further light on the background of Kim's visit North Korea's diplomatic efforts will be briefly reviewed.

In diplomatic arena, North Korea regarded contact with US as the first priority in the 1990s. In 1994, however, when negotiation for antinuclear proliferation with North Korea was broken down the US prepared to bomb Yongbyon nuclear facilities and withdrew families of US Embassy members from South Korea.² The relationship of two countries, which was at a dangerous brink, has shifted after the North-South Korean summit meeting of June 2000. The US loosened some of economic sanctions and even started food aid to North Korea. Improvement of two countries' relation proceeded as Cho Myong Rok, The First Deputy Chairman of National Defense Committee, visited US in October 2000, and followed by Secretary of State Albright's visit of North Korea. Nevertheless, the US never withdrew designation of North Korea as a "rogue country", nor an expected visit of North Korea by President Clinton ever materialized. On the other hand, starting with establishment of diplomatic relation with Italy, North Korea steadily improved relationship with members of EU and other countries in the West, thus achieving a measurable success in strengthening her position in international community.

Even with the birth of Bush administration in US in January 2001, it was expected that the new administration would follow essentially the same policy based on 1999 Perry Report, although the tempo of improvement of relations between the two countries may slow down to some extent. The

new administration, however, never displayed any concrete move on North Korea because it was undergoing a reevaluation of US policy toward North Korea. Finally, in June 2001 Bush administration decided to pursue a “comprehensive approach” toward North Korea. Unlike Clinton period, the new administration decided to include a decrease of conventional weapons as one of main items in agenda for negotiation.³ In view of strained relations with the US, it became necessary for North Korea to improve its own position in international community by obtaining the support of China and Russia. Moreover, because of terrorists’ attack on World Trade Center in September of 2001, any concrete moves for an improved US-North Korea relation is likely to be delayed further and dissatisfaction of North Korea will be continue to remain. It became inevitable for North Korea to change the idea of improved relationship with US at least for the time being.

It is highly probable that topic of economic assistance was also on the agenda of meeting while Kim’s China visit, as one can observe from the fact that China’s food assistance in year 2000 was also announced at this time (See Table 1). Concerning Kim’s visit of China in January 2001, it was also mentioned that North Korea might be serious about implementing its “reform and open door policy” in view of Kim’s visit to high-tech firms and stock exchange in Shanghai. This paper will discuss these subjects in the following Section 2, Economic Condition of North Korea.

Domestic economic condition and therefore need for aid will be discussed first in part a., and then subject of possible “reform and open door policy” will be evaluated in part b, in comparison with experiences of China.

2. Economic Condition of North Korea

a. Domestic Economy

North Korea encountered four major shocks in 1990s. These were first, the breakdown of Soviet and East European society; second, China’s diplomatic relation with South Korea; third, death of Kim Il Sung and fourth, natural disasters in mid-1990s.

It was estimated that the rate of factory operation was approximately 70 percent of normal rate in North Korea due to shortage of energy supply in the 1980s. North Korea had been depending exclusively on supply of crude oil and petroleum products by former Soviet Union and China. In 1990s, the rate of factory operation in North Korea fell down to 30 percent of normal rate. The decrease is caused by a severe shortage of energy supply caused by a decrease in aids from Russian and China. The decrease is also due to an increased obsolescence in productive equipments caused by termination of supply of machinery, equipments and their spare parts by Russia.

The North Korean rates of growth in GNP in early 1990s were all negative as the following: in 1990 negative 3.7 percent; negative 5.2 percent in 1991; negative 7.6 percent in 1992; and negative

4.3 percent in 1993. The Labor Party at its 3rd meeting in 21st session, held in December of 1993, the last year of the third seven-year-plan period (1987-1993), decided to make three years from 1994 to 1996 a “period of adjustment” and to make “agriculture, light industry and foreign trade” top priority in their economic strategy. Moreover, North Korea had to endure “March of Suffering” in 1997 and “Forced March” in 1998. ⁴

On top of all these, North Korea had to suffer a major setback in food production, due to flood of 1995 and 1996 and then draught in 1997. Considering the population size and quantity of ration North Korea needs 7.2 million tons of grain. Although North Korea claimed that grain production reached 10 million tons in 1984, South Korean estimate of food production in 1984, the best year of food production in the North, was 6.26 million tons. ⁵ Even during the years when weather was favorable, North Korea did not have enough food to meet the necessary quantity to feed the people and had to implement “two meals a day movement” and managed to get by with food aids from China. In addition to a decrease in aids from Russia and China, domestic food production sharply declined to 2.5 to 2.8 million tons a year due to flood and draught, and therefore North Korea reached a point where it had to ask for aids from other countries international community.

According to a statement made by Cha Lin Sok, the chief of Agricultural Production Bureau, Agricultural Commission of State Council, to New China News Agency in early 1998, the minimum quantity of grain needed in North Korea was 4.022 million tons. Compared to the need, actual gross output of food product was 2.685 million tons in 1997 and after the processing it became 2.148 million tons. By end of September 1997, after subtracting a fixed demand such as seeds and feed grains, only 1.422 million tons of grain was retained in the warehouses of the entire country, which meant that per capita grain allocation was no more than 180 grams a day. Cha also stated that North Korea plans to import 500 thousand tons of grain and is hoping to receive 700 thousand tons of international grain aid. ⁶ New China News Agency indicated that it was the first time that North Korean government officials announced food situation in North Korea to foreign press. The fact the statement was made to New China News Agency, perhaps meant to appeal the North Korean food shortage to the world knowing the news reports will be made to many countries outside of China.

Due to international aid and graced by good weather since 1998, the production somewhat restored and North Korea announced its economic growth rate of 6.2% in 1999. However, it was only a small recovery from the lower depth and was still did not reach the level of 1980s. Because of the draught in spring of 2001, it is conceivable that North Korea will face another negative growth. Under these circumstances, the North Korea began to carry out some reform policies called “Changes”

In agricultural area, starting in 1997, what used to be 20 to 25 members in a work team was changed to 7 to 8 members per team. As a result, amount of crop production, especially on private plot of lands, has somewhat increased. ⁷ It is unlikely that such reform will bring a dramatic

restoration of agricultural production under the situation where chemical fertilizers and agricultural machinery are in dire shortage. On the other hand, as recognized phenomena in former Soviet Union and China, where existence of the private plot encouraged incentives for agricultural output, North Korean agricultural production has been gradually restored. Because of severe draught again in 2001, it may take a long time for North Korea to reach the level of food self-sufficiency.

Chinese reform, without doubt, started from agriculture community. As 80 percent of China's population was in rural area at that time, the agricultural reform was most urgent task from the beginning. Due to an introduction of the agricultural production responsibility system and an increase in government purchase prices, food production continued to increase and problem of food shortage in China had been solved. Starting in 1984, food grains can be sold at free markets and the success in agricultural sector became the key to the overall success of Chinese economic reform. In North Korea, agricultural population is no more than 32 percent of total, and it is hard to imagine that reform only in agricultural sector would extend to growth in the economy as a whole. For this reason, it is necessary to carry out agricultural reform simultaneously with that of industrial sector.

In industrial sector, it can be stated that the present stage is not quite ready for reform or there is some tendency to go to an opposite direction of reforms. Since 1985, large integrated enterprise, each consist of about ten enterprises, had been formed and independent accounting system had been recognized to some extent. Since 1998, industrial policy had been reversed back to the central control system. In reality, due to lack of electric power and of raw materials supplies, the rate of operation in industry was down to 30 percent of normal level. On top of that, because of termination of food supply since 1995, there were cases where enterprises often had to acquire food by selling the their own equipments. 8

Shortage of electric power is one of major bottlenecks of North Korean economy. After the summit meeting of two Koreas in 2000, there were some negotiations between the two sides concerning South Korea sending electric power to North. The negotiation had been terminated because of difference in delivery systems of two sides, and the unsettled question of expenses for establishing electric power transporting wires in North Korea. The power generating stations at Tandong and Suifeng on Yalu River are used jointly by China and North Korea. Because of severe deterioration of power lines in North Korean side, rate of loss in electric power has reached to nearly 60 percent. Because of delay in payment of North Korea's share of electric power expenses, China requested South Korea to pay the bill instead. Of course, this is still an unsettled matter. Including the expenses for updating power grid, lack of financial ability aggravates the shortage of electric power supply.

b. The Differences between China and North Korea

With regards to open door policy, North Korea published "joint venture law (law designed to attract foreign capital) in 1984." Nonetheless, those who are actually participating either in joint

venture or contracted-out processing are limited to a very small number of Korean residents in Japan or South Korean firms. Although there are some investment of Western capitals into Free Trade Economic Zone in Rajin and Sonbong, they are not enough to influence on North Korean economy to a large extent. The type of open door policy as practiced at Rajin and Sonbong Zone and Kumkangsan Tour Projects, which brings a substantial amount of foreign exchange, are carefully implemented to isolate ordinary North Korean people from foreigners (the South Koreans) by keeping distance between them. The Kumkangsan Tour Project is one of joint projects by both Koreas and is undertaken by Hyon Dai Asan of South Korea. In earlier days of reform in China, there was a saying “if you open windows, fresh air as well as fly may come in” and was willing to accept inflow of capital as well as Western thought. In present North Korea, it appears that they are afraid of danger brought by a single fly.

Despite a large difference between North Korean “change” and China’s reform and open door policy in their scale and in their pace of the change, there are some similarities in actual North Korea’s “change” with reform and open door policy as undertaken in China. However, the major difference is in their backgrounds. While China started the reform and open door policy from the denial of the Cultural Revolution, North Korea is attempting to undertake reform and open door policy in a successive system under Kim Il Sung and Kim Jong Il “dynasty”. Unlike China, North Korea is in a difficult position to carry out a bold reform policy. Moreover, there is a substantial difference in open door policy as well. At an initial period of China’s open door policy, overseas Chinese and capital from Hong Kong provided a great opportunity for Chinese to be familiar with Western business practices. At the same time, China was able to demonstrate to world that joint venture projects with overseas Chinese capital achieved some degree of success and thus was able to attract capital from other Western countries. In this respect, North Korea can expect the businesses of Korean residents in Japan and South Korean capital to play the similar role, but they did not reach the level of influence by Hong Kong and overseas Chinese capital on main land China.

With regard to a nature of Kim Jong Il’s visit to Shanghai Stock Exchange in January 2001, North Korean made a comment in an article in Chosen Shinbo. The article states that South Korea or Western countries interpret the Kim’s trip to China as if it is a beginning of Chinese style “reform and open door” by North Korea, and also interpret the “New Way of Thinking” that North Korea currently advocates as though it is a mechanical imitation of other country’s practices by North Korea. However, the article points out, these interpretations are all wrong. The article also states that the Kaesong Industrial Zone or Rajin Sonbong Free Trade Economic Zone does not mean that North Korea is adopting policy of “reform and open door” nor means a major change in domestic economic system. The article further comments that “even if North Korea carry out cooperation with capitalist countries, it will never mean that we are choosing Chinese style policy of “socialist market system” which will make some people rich first, thus the article emphasizes the fact that North Korea is not taking the Chinese style reform system.⁹ Clearly, North Korea never underwent Cultural Revolution as an anti-thesis as in China, and is unlikely to implement a comprehensive

reform of economic system all at once. For this reason, there is an insufficient liberalization of ideas and thought in North Korea and is unlikely to achieve a rapid improvement in its economy even if North Korea carry out its version of "change."

There is another matter of concern. It is the fact that North Korea is still retaining the idea of "military priority ". In early 1970s, North Korea set up "Second Economic Commission" which was responsible for military industry and was given top priority in distribution of manpower, materials and finance to the military. In Kim Jong Il era, military officer's class was reorganized, and Kim frequently visited military for inspections, and thus the policy of military priority has been strengthened than period of Kim Il Sung. ¹⁰ As was stated above, in 1993, while Kim Il Sung was still alive, the top priority was given to three areas of agriculture, light industry and foreign trade, but there is an apparent change in this policy in Kim Jong Il period.

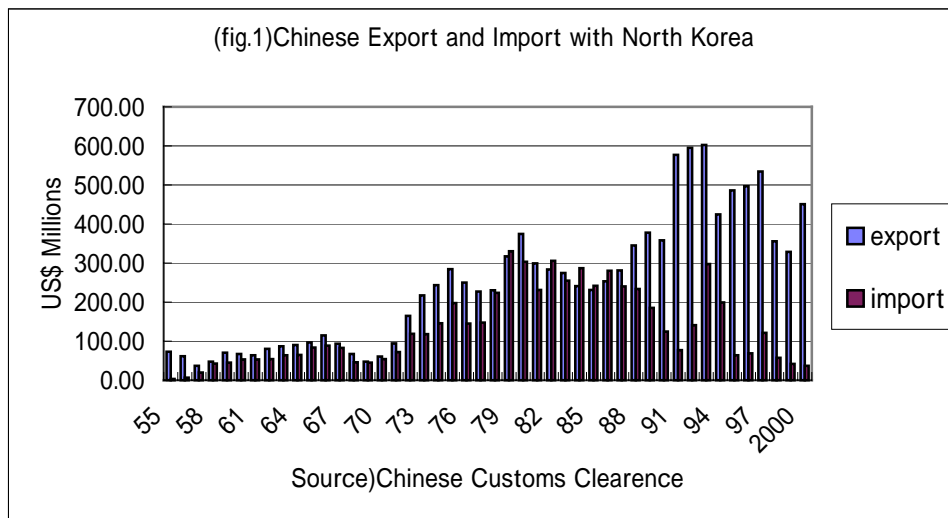
One of the questions on future process of North Korean change or reform is how fast the change or reform will take place. The pace of reform and open door policy, and thus pace of economic improvement, must be faster than the speed of economic deterioration. Yet, if the pace of reform is too fast it is quite possible that the idea or desire to change the system itself may come in as well. Specialists in China seem to think that North Korea (Kim Jong Il) has not yet decided as to the pace of North Korea's future reform.

In reviewing domestic economy it became apparent that the desperate situation in North Korean economy requires either a massive economic and food aid from abroad or an implementation of a bold reform and open door policy. Yet, there are neither massive foreign aid nor a desire on the part of North Korean leadership to carry out any reform resembling the Chinese style. The following Section 3 will discuss the China and North Korea trade relations and China's aid to North Korea.

3. Recent China and North Korea Economic Relations

a. Trade Relation.

The Figure1 shows China-North Korea Trade and Table2 lists major items traded in recent three years period. For China, which occupies a proud eighth position in the total trade volume in the world, North Korean trade is only 0.2 percent of her trade. On the other hand, for North Korea, China is number one trade partner occupying 30 percent of its total trade volume.



(Table2) China's Trade with DPRK (1,000US\$)

Export to DPRK	1998	1999	2000	'00/'99 (%)
Meat	2,811	1,265	1,474	16.5
Cereals	51,433	43,706	34,039	-22.1
Cereals Flour	24,863	10,096	6,886	-31.8
Feeding Stuff	17,502	10,588	10,803	2.0
Edible Oil	9,249	5,841	1,625	-72.2
Sugar	1,473	1,087	731	-32.8
Beverage & Liquor	3,268	1,891	3,572	88.9
Mineral Fuels	84,790	79,496	117,875	48.3
Chemicals	34,561	29,173	30,743	5.4
Plastics	22,605	19,490	24,357	25.0
Textile Materials and Products	24,447	22,288	49,274	121.1
Iron and Steel	12,302	14,557	22,743	56.2
Iron and Steel Products	3,447	4,000	7,242	81.1
Machinery	6,637	11,119	14,447	29.9
Electric Equipment	9,696	13,443	9,696	-27.9
Transportation Equipment	11,825	11,998	36,286	202.4
Total Export	355,707	328,660	450,824	37.2
Import from DPRK				
Fish & Shellfish	2,748	5,755	4,047	-29.7
Slag & Mortar	5,946	2,415	2,607	8.0
Mineral Fuels	7,889	2,339	3,416	46.0
Wood & Wooden Products	15,691	13,837	9,925	-28.3
Textile Materials and Products	1,190	968	2,586	167.1
Iron and Steel	10,511	9,750	8,663	-11.1
Machinery	4,050	361	221	-38.8
Total Import	57,313	41,709	37,214	-10.8

Source) China Monthly Exports & Imports

To sum up the characteristic of trade between China and North Korea there exists an overwhelming trade surplus on the part of China. Because of economic stagnation in North Korea, the light industrial products, which used to be exported in the past, are no longer exported. The rice, which once was an important export item to China, is no longer easy to export in view of recent food situation in North Korea. Since latter half of 1997 North Korea banned export of scrap metal, timber and medicinal herbs, which used to be important export items of North Korea in the past, and thus further decreasing the list of exportable items. 11

The major impediments to trade between China and North Korea are North Korea's lack of export capacity, and delay of payment for imports caused by a lack of foreign exchange. According to agreements since 1991, trade balance between the two countries is to be settled by hard currency. In the past when trade was carried on barter basis, balance was often achieved by overvalue of North Korean export items. At times, North Korea's trade deficit was cleared at the year's end by annually settling trade balance between the two countries. Such methods are no longer possible to implement since adoption of hard currency settlement. Moreover, as market system of economy developed in China, a large volume of trade with North Korea was carried out by private organizations and, therefore, demand for payments by hard currency became increasingly strong. At present, the trade that Chinese government is involved are a very few items as China's export of petroleum and iron and steel. In private trade, Chinese exporters are said to refuse to export unless paid by cash for their exports. Chinese try to promote trade by encouraging contract-out processing trade, or by earning foreign exchange by exporting North Korean fishery products to Japan. Nonetheless, there appears to be no help because of severe shortage of energy in North Korea.

In Chinese exports, food and energy occupy 40 percent of total, thus revealing the fact that North Korea is primarily acquiring materials for subsistence from China. Until 1980s, China used to export machinery and equipments but export of these items have decreased and thus suggesting that North Korea is no longer in a position to spend foreign exchange for these items. It has been said that border trade between the two countries occupies about 5 to 6 percent of the their total trade, but because of lack of proper customs operations at border, it is hard to confirm the figures. 12

On the questions of North Korean foreign debt, by the end of 1997 the amount was \$7.35 billion to former East European countries, \$4.55 billion to countries in the West, together the sum of \$11.9 billion.¹³ Although China demanded debt payment by North Korea in 1992, North Korea rejected the request.¹⁴ North Korea is supposedly requested Russia to decrease the amount of its debt when Kim Jong Il visited there in July 2001. In other words, North Korean debt during old Soviet period amounted to \$3.8 billion but, as the value of ruble substantially depreciated since Soviet breakdown, North Korea requested a comparable decrease in its old debt amount. The request, however, was rejected by Russia.

b. China's aid to North Korea

China's aid to North Korea since 1994 is as shown in Table 1. As is in trade, top priority in China's assistance is given to items for subsistence. Until 1970s, China's aid to North Korea consisted of big scale assistance like construction of Pyongyang subway system and export of petroleum and petroleum products at a friendship price. For example, China provided North Korea with one million to one and a half million tons of oil every year at a price of \$4 per barrel. During the same period, Chinese export of oil to Japan was at \$14 to \$24 per barrel.¹⁵ At present, however, the aid is limited to assistance in food and energy of comparatively small scale.

In food aid, it is conceivable that, other than government aid, a substantial quantity of food is brought into the country mostly by the visiting relatives from China. But there is no way to accurately estimate the quantity because no statistics on this subject exists. According to one theory, the food brought in by the relatives far exceeds the Chinese government food aid to North Korea. In order for China to maintain its influence on North Korea, it may be necessary for China to consider some method of food aid by the government.

Considering China's grain production, an increased food aid is highly possible and, from a viewpoint of maintaining its influence on North Korea, it is probable that China will increase quantity of food aid to North Korea. In reality, however, the scale of China's aid became smaller compared to 1980s and aids in other projects are not undertaken. Various Chinese researchers have all different viewpoints on this subject. Some of these views are quoted as follows. "China became an important member of international community now, and we cannot provide specially generous aid only to North Korea." "Since earlier debt has not been paid, form of aid became small scale free assistance." "China can afford to give a much larger aid to North Korea. (In fact, in Jilin Province, there is insufficient grain storage space because of bumper crop and a portion of corn has been spoiled), but, we are not giving a big scale aid in order for North Korea to promote its ability to be self-sufficient." "Chinese foreign aid policy has been not very successful until now. In case of aid to Rumania, Rumania attempted to spend aid money for nonproductive area. Aid to Vietnam also was a failure. Therefore, we did review the aid policy as a whole." "It is because the relationship between China and North Korea, with an exception of immediate post-Korean War period, has not been very good one since the time of the Cultural Revolution."

On the other hand, there are some views that wonder whether China, at the time when South Korea, US and Japan are giving food aid, should not increase assistances to North Korea in order to maintain China's influence there, despite the new foreign aid principle in post 1980s has been either no aid or small scale free assistance.¹⁶ Regardless of reasons, without a major change in circumstance, it is unlikely that China will shift its policy of assistance. In the future, therefore, a relatively limited scale of aid to North Korea, centered on food and energy, is likely to continue.

4. North and South Summit Meeting and After

At long last, “post cold war” period visited Korean peninsula as well, culminating to the historical summit meeting of North and South Korea in June 2000. Subsequent to the summit meeting, the following positive results have emerged between the two Koreas. To begin with, meetings of North and South Red Cross representatives were held, followed by two exchange visits of families separated by war. In August, Hyundai Asan Company received South Korean government permission to build industrial zone in Kaesong, North Korea. In September, construction began to reconnect railway line between Seoul and Shinuiju and to build a highway between Munsan and Kaesong. A treaty was agreed upon to deal with four such economic related matters as prevention of double taxation and investment guarantee. At working parties meetings in September, an “Accord for Food Loan” was signed and in October, based on the Accord, Export and Import Bank of South Korea and North Korea Trade Bank agreed on a treaty that will give loans to North Korea with 10 years delayed, 30 years payment period and at annual interest rate of 1 percent, thus providing with 300 thousand tons of Thailand rice and Chinese corns to North Korea. 17

In year 2000, the improvement of two Korea’s relation continued as can be noticed from three meetings of Defense Ministers held in that year. However, due to aforementioned deterioration of relationship with US, a number of North Korean plans were forestalled. These plans included an improvement of relations with Japan, an improved relation with US as a starting point, and to push for a greater economic cooperation with South Korea after Kim Jong Il’s visit to South Korea.

As South Korean economy, which showed a sign of recovery after Asian economic crisis, once again began to deteriorate since autumn of 2000 and the fever of South Korean business toward North rapidly cooled off. Because of management problems at Hyundai, which most strongly pushed for economic cooperation with North, business interest of aforementioned Kaesong industrial zone was transferred to Korea Land Corporation. Hyundai Asan has been in charge of Kumkangsan tour project and is responsible to pay a fixed sum of money to North Korea regardless of number of tourists. As the number of tourists did not increase as expected, the payments by Hyundai Asan began to be delayed. South Korean government decided to provide assistance to Hyundai Asan to mitigate the problem. With regards to the anticipated reconnection of railroad line between Seoul and Shiuiju, there has been no progress in construction on North Korean side. If the railroad between Seoul and Shinuiju and the highway between Munsan and Kaesong open up their economic impacts will be quite substantial. At present, the two Koreas use ocean transportation, which will be economical only when transporting a large quantity of materials. When the quantity transported is small, as is the case now, the use of seaway will increase transportation cost higher than the use of trains or trucks.

South Koreans were very excited with receipt of Nobel Peace Prize by President Kim Dae Jung, but there are some who began to criticize Kim Dae Jung for excessively yielding to North Korea. In

reality, observing the amount of aid to North Korea since June 1995, one points out that during two years period of Kim Yong Sam the amount was \$280 million while Kim Dae Jung's three years period the sum was no more than \$190 million. ¹⁸ From perspective of North Korea, it is necessary to reevaluate its policy toward South Korea with eyes into post-Kim Dae Jung period as well.

North Korea was successful in establishing diplomatic relations with some European and Oceanic countries that have relatively little interest with North Korea. The most important task for North Korea, however, was to improve relations with US. The North Korean scenario would have been to negotiate with South Korea from an advantageous position of having a good relation with US. The terrorists attack on US in September 2001, however, have decreased any possibility of a greater US diplomatic activities toward North Korea and it must search for some other scenario. Since US interference in Korea is expected to decrease, it is perhaps conceivable that North may attempt an improved relation directly with South Korea. Whether South Korea and Kim Dae Jung administration will indeed be able to provide "presents", i.e., economic assistance and cooperation, to North is a question remains to be seen.

In the following Section 5, as brief concluding remarks and prospects for unification of Korean peninsula as well as China's unique role in the context of peace and stability in the Northeast Asia will be made.

5. China and North Korea Relations In Northeast Asia Framework.

The relationship between China and North Korea, as has been stated earlier, ended the period of "special relationship" and began the period of "normal relationship." From China's point of view, it is a relationship that no longer a special either in military, diplomatic or economic arena. However, North Korea, as yet without an improvement in her relation with the US, still attempts to prevent an end of the "special relationship" with China. In order for North Korea to guarantee her presence in international arena a special relation with China is necessary.

In economic area, there are Chinese economic aids to North Korea both by the government and civilian relatives. Even if US-North Korea relations improve, it is unlikely to change the fact that China is the major trade partner and the aid donor for North Korea for the time being. Mutual direct investments between China and North Korea, although small in scale, are likely to proceed, followed by South Korea and Japan.

China also can play a diplomatic role for the stability of Northeast Asia. As China has diplomatic relations with both Koreas, she will be able to play a role of mediator as well as providing a place for negotiations for two Koreas.

Since September 11 terrorists attacks, the US adopted a “multi-directional diplomacy” with exception of “present enemy.” Such new US policy ended, at least on surface, a very bumpy China-US relation that had been the case since the Bush administration. For this reason, China now can play a role of mediator between and the US and North Korea as well. Because of very strict attitude of the US toward countries aiding terrorists, and because of Afghanistan question still remain unresolved, any new US diplomatic initiative with North Korea is not likely to develop in a large scale. Even before any new diplomatic initiative, unofficial contacts between the US-North Korea are likely to be carried out beneath the surface.

In considering the future of Northeast Asia, the unification of Korean will be perhaps the most important question. At the summit meeting of two Koreas “ autonomous unification”, i.e., unification without relying on foreign countries, had been advocated. Would it be possible to achieve a peaceful unification by the two Koreas themselves alone and what would unification of Korean peninsula ultimately mean to China?

In regards to unification of two Koreas, once advocated “ unification by marching into North” or “unification by winning over communism” is out of realm of present international relations. “Unification by absorption” may also mean an apparently a heavy economic burden to South in view of German experiences. Compared to past East Germany present North Korean economy is much inferior, and economic standard of South Korea is not higher than that of West Germany. Besides, there had been cultural, and a greater degree of economic, exchanges between East and West Germany even before the unification, whereas, there has been almost no such exchanges between the two Koreas thus far, and lacks any basic foundation for unification. (Perhaps, a more significant fact is that there was no bitter war between two Germany as had been the case between the two Koreas) In Germany, where conditions were supposedly better than Korean peninsula, have encountered a great economic burden to West Germany after unification and even ten years after the unification discord between the East and West Germany has not disappeared. Pre-unification economic difference, as measured by per capita GDP, between East and West Germany was 2:1 ratio, where as North and South Korean economic difference has reached ratio of 43:1 if we believe North Korean official report. In addition, South Korea even present day has a strong regionalism as represented by regional confrontation between Kyongsang and Chulra provinces. It is hard to guess the extent of possible discord and conflict between North and South Koreans in case the peninsula was actually unified and becomes a single country.

When one considers the example of Germany, unification by absorption by South Korea becomes problematic. Therefore, a format of actual “one country two system”, a kind of federalization regardless of either South Korean or North Korean version, will perhaps become a more pragmatic form of so-called “unification” for existing reality. In other words, even if the title of “unification” is retained, the movements of people between two parts will be strictly controlled

and just wait until restoration of North Korean economy takes place before any major steps toward a real unification are taken.

As North Korean economy turned a little better at present, number of those who proposed the hypothesis of North Korean breakdown somewhat has decreased. Would it still be possible to for North Korea to breakdown if its economy once again turn for worse, or continue to retain present low level of standard? In addition to a worsening economy there is another matter of a great concern. It is problem of severe corruption within North Korea. One can observe phenomena of corruption in the Party, military, administrative organizations and at every stages of society. The further economy deteriorates, the more severe become the phenomena of corruption. As corruption becomes more rampant, control mechanism of system becomes loose and it is possible to conceive a case where the system may not be viable anymore.

For present North Korea, the question is not so much as “The People’s Republic of Korea” can be maintained or not. It is, instead, whether or not the system of “Kim dynasty”, with Kim Jong Il at the center will be maintained. In order to retain the status quo, the elite guards (special military group) protecting Kim Jong Il have been treated with special privileges. Because of their efficiency in protecting Kim thus far, any attempt for an organized revolt had been nipped at the bud and, therefore, it became very difficult to carry out any organized revolt against Kim dynasty. Unless the corruption reaches the Kim’s elite guards due to a further worsening of economy or the “wind of democracy” blow into North Korea the possibility of North Korea breakdown seems to be extremely small.

What a unified Korean peninsula would mean to China? From a perspective of maintaining stability, it will be desirable to China if the Korean unification results in stability in a neighboring country. Furthermore, a political stability in Korea would mean an economic stability and, therefore, additional bigger mutual markets for both China and Korea. Perhaps, greater mutual benefits can be expected in attraction of foreign capital as well.

On the other hand, from a China’s traditional perspective, to have a strong neighboring country often becomes a national threat. There is a remote possibility of Korean minority in China may raise its independent question, but it is not a serious problem compared to minority problems in Tibet or Xinjiang. Moreover, if US troops withdraw from Korea, it would be a desirable situation. The concerns of US troops stationed in South Korea may not be the question of North Korea alone. Even after Korea was unified, a numerous negotiations between US and Korea may be needed prior to actual withdraw of US troops from Korea. On question of US troops in Korea, South Korea, immediately after the summit meeting, reported that Kim Jong Il did not make withdraw of US troops from Korea as a condition for independence. Judging from North Korean perspective, it is difficult to suddenly believe that Kim Jong Il made such statement. North Korea denied having

made such statement at Kim's subsequent meeting with Russian President, and perhaps the denial could be true.

There had been remnant structures of cold war period even during the "post cold war" period. Finally, "post cold war" is about to visit Northeast Asia as well. It is necessary for neighboring countries to promote economic restoration and create a system of promoting incentive for self-help in North Korean. It is also necessary to strengthen the framework for "autonomous" reunification of Korea. The words "autonomous" or self-reliant are easy to say but in practice it may involve confrontation at its stages of implementation. Therefore, it may be necessary to have a framework for international observation and assistance to prevent an expansion of such confrontation and contradiction.

Footnotes and Bibliography

Footnotes

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