

Policy Forum 10-025: Rajin-Sonbong: A Strategic Choice for China in Its Relations with Pyongyang



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Rajin-Sonbong: A Strategic Choice for China in Its Relations with Pyongyang

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By Scott Snyder

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I. Introduction

Scott Snyder, Director of the Center for U.S.-Korea Policy at the Asia Foundation, writes, "How the PRC central government handles Rajin-Sonbong may provide additional needed leverage to drive a financially hurting regime back to the negotiating table, or it may provide the North Koreans with a lifeline that sustains the leadership and provides it with the capacity to avoid necessary reforms. Given that many Chinese private firms recognize the risks of investing in North Korea under the current regime, a central government decision to invest in the Rajin-Sonbong is likely to be aimed more at perpetuating the status quo than at achieving the regime transformation necessary to promote North Korea's economic integration into the region."

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II. Article by Scott Snyder

- "Rajin-Sonbong: A Strategic Choice for China in Its Relations with Pyongyang"
By Scott Snyder

The Rajin-Sonbong region in North Korea (also known as Rason following a 2004 administrative reorganization by central authorities) is an underdeveloped backwater near the far northeastern tip of the Korean peninsula bordering Jilin province of China and Primorsky Krai of Russia. Although the area is far from the nerve center of the North Korean regime, Pyongyang, Rajin-Sonbong has strategic significance as the northern-most year-round ice free port in Northeast Asia and therefore is an attractive geostrategic transit point for the shipment of goods to landlocked Northeastern China and the Russian Far East. For this reason, recent reports of new Russian and Chinese investment deals following a rare personal visit by North Korea's supreme leader, Kim Jong Il, to Rajin-Sonbong in December of last year merit closer scrutiny.

Rajin-Sonbong has been the focal point of periodic efforts by Pyongyang to experiment with economic reforms since it named the area a free economic trade zone in late 1991. At that time, the Rajin port was an essential piece of a UN-sponsored regional development effort known as the Tumen River Area Development Project (TRADP)-which encompasses areas within China, Mongolia, Russia and South Korea-but the project never attracted sufficient international investment to take off. The spotlight returned to Rajin-Sonbong briefly in 1996 when North Korea sponsored an investor forum there in an attempt to stir up interest in a revamped set of investment laws for the region, but few investors came and North Korea's famine later that year diverted attention away from the effort.

Aside from the Hong Kong investor-backed Emperor Group's investment in a casino near Rajin that operated between 2000 and 2005, the designation of a large energy plant at Sonbong as a recipient of heavy fuel oil under the 1994 Geneva Agreed Framework, and a variety of other small-scale efforts designed to respond to North Korea's food crisis, the effort to establish the Rajin-Sonbong zone as a draw for international investors languished in the 1990s.

For its part, Chinese local and regional officials from Jilin province, which includes the Yanbian Korean Autonomous Prefecture, have coveted Rajin's port facilities since the 1990s, but progress in achieving that strategic objective has been halting. Rajin port was the delivery point for Japanese

automobiles brought into North Korea and resold in Northeastern China in the 1990s, while a limited number of logging and container trucks delivered logs, wood chips, and other natural resources from China to Japan via Rajin Port. Rows of empty buildings constructed as part of a real estate boom in Hunchun—a county-level city in the Yanbian Korean Autonomous Prefecture—in the mid-1990s served as testimony to the failure of the UN-led TRADP to draw in international investment. At the time of Hu Jintao's visit to Pyongyang in late 2005, there were reports that the Hunchun district had made a deal to pave the 50-kilometer dirt road that connects the Quanhe-Wonjong border crossing to Rajin, but nothing came of it. The Chinese designation of Changchun, Jilin, and the Tumen River Area as a border development region in November of last year shows continued Chinese interest in developing external links to China's northeastern provinces (People's Daily, March 4).

Kim Jong Il's December 2009 visit to Rajin suggests renewed interest by the central government in attracting investment to the region, apparently driven by the North Korean leadership's hunger for new sources of cash flow to finance the faltering regime. South Korean trade and humanitarian assistance to the North has shrunk under the Lee Myung-bak administration, although the Kaesong Industrial Zone continues to generate revenues based on a gradually increasing number of North Korean workers in the zone. In March of 2009, the North refused international humanitarian assistance contributed by the United States via the UN World Food Programme over the North's unwillingness to comply with enhanced monitoring requirements that were a condition of those deliveries. Implementation of UN Security Council Resolution 1874 since June 2009 has resulted in a half-dozen seizures of weapons shipments from the North at various locations around the world, and these interdictions may have hurt Pyongyang's reputation as a reliable supplier. Given North Korea's currency revaluation and other efforts to curb the development of market activity internally, attempts to attract foreign investment do not appear to be driven by a new commitment to economic opening, but rather an attempt to improve the leadership's balance sheet through development of new cash flows. The North Korean won has reportedly depreciated significantly against the Chinese yuan, in which case there could be a substantial rise in exports to China in informal trade and a decline in imports from China (Korea Times, January 8). Yet North Korea's heavy-handed threats to abandon agreements with Hyundai Asan to develop Mount Keumgang also serve as a warning to potential investors regarding the dangers of investing in North Korea.

Although China has been a part of efforts to implement UN Security Council Resolution 1874 and approved an unprecedentedly strong resolution in June 2009, China's interpretation of the scope of the resolution is narrow in both intent and scope. Shortly after the passage of UN Security Council Resolution 1874, the Chinese foreign ministry spokesman took pains to note that the resolution "is not all about sanctions" and that diplomatic means is "the only way" to resolve Korean Peninsula issues [1]. During Wen Jiabao's visit to Pyongyang in October 2009 marking the 60th anniversary of the establishment of Sino-DPRK relations, he brought a high-powered delegation that offered a wide range of opportunities for heightened levels of economic engagement with North Korea [2]. In recent months, Chinese visitors to Washington have quietly explored the feasibility of North Korea's request that UN sanctions enforcement be dropped as a precondition for their return to multilateral talks [3].

Given the strategic value of access to Rajin-Sonbong port facilities for China's booming northeastern provinces, it would be natural for China to seek maritime access to the East Sea/Sea of Japan regardless of the UN resolution—or perhaps as part of a package of inducements designed to bring North Korea back to the Six Party Talks. South Korean experts indicate that about half of North Korea's total foreign trade in 2008 was with China, of which about 76 percent was with the three northeast provinces (Korea Times, November 25, 2009). According to Jilin provincial leaders, North Korea was Jilin's fourth biggest trade partner in 2008, when the Jilin-North Korea trade volume of

\$770 million accounted for 28 percent of China-DPRK trade (South China Morning Post, November 17, 2009). Official statistics show that Jilin's GDP grew an annual 13 percent to 720.3 billion RMB in 2009 despite the crisis, with a 16 percent increase in foreign investment and growth in foreign trade to \$11.75 billion (China Daily, February 12). China now has its own capital to invest in the port, in contrast to the situation in the 1990s. North Korea's financial distress provides an opportunity for China to gain strategic access at bargain prices. North Korea has once again tried to involve Russia in a competition with China for access to the port by pursuing deals with both sides simultaneously. In addition, North Korea's offer of such a prize, if successful, provides an opportunity to evade the negative effects of the UN Security Council resolution on the North Korean economy. UN sanctions constitute a potential new obstacle to North Korea's trade in specific illicit items, and the half-dozen interdictions that have occurred under the resolution have diminished the reliability of North Korean supply for potential buyers of such exports from North Korea.

Kim Jong Il's visit and a recent confirmation of a deal with North Korea by Jilin provincial authorities suggests that trade and investment in Rajin-Sonbong is a priority of the central government in Pyongyang. The emergence of the North Korean Taepung Investment Group (with apparent state backing but posing as a private entity) would be a natural interlocutor with Chinese state-owned enterprises, and the establishment of a North Korean State Development Bank, further suggest that Rajin's opening to trade and investment is being driven by DPRK central government authorities who naturally would seek involvement with central-level counterparts in China (Chosun Ilbo [South Korea], March 3). Initially established in Hong Kong in 2006, Taepung was reportedly involved in joint deals in 2007 with China's state-owned Tangshan Iron and Steel and Datang Power, which is directly managed by the CPC Central Committee, to build plants in North Korea's Kimchaek Industrial District (NK Brief No. 10-01-22-1, January 22). The Chuangli Company is reported as the Chinese company that has contracted to develop Rajin's port number one, reportedly for a period of only ten years, while Russian investors have been offered a fifty-year deal to develop the second of Rajin's five berths. In the future, the Rajin port can become a logistics hub for northeastern China through which initial plans are to export Chinese coal to Southeast Asia and Japan (Global Times Online, March 10).

During Kim's December visit to the Rason Daeheung Trade Company, he reportedly stressed the importance of export growth. The Korean Central News Agency reported Kim as saying that "it is very important to abide by the principle of the credit-first policy in foreign trade" and that Kim urged workers to observe, "export discipline and improve the quality of goods" (Yonhap News Agency [South Korea], December 24, 2009). Early this year, the Presidium of the Supreme People's Assembly designated Rason as a "special city," reaffirming the central government's direct interest in Rajin-Sonbong's economic potential (The Daily NK [South Korea], January 6). Rajin's provincial leadership has been replaced by a team led by former Minister for Foreign Trade Rim Kyung-man, signaling the central government's interest in successful management of the port (Chosun Ilbo; March 9). No doubt, the appointment also reflects high expectations regarding the level of capital that can be extracted by opening the port to foreign investment.

How the PRC central government handles Rajin-Sonbong may provide additional needed leverage to drive a financially hurting regime back to the negotiating table, or it may provide the North Koreans with a lifeline that sustains the leadership and provides it with the capacity to avoid necessary reforms. Given that many Chinese private firms recognize the risks of investing in North Korea under the current regime, a central government decision to invest in the Rajin-Sonbong is likely to be aimed more at perpetuating the status quo than at achieving the regime transformation necessary to promote North Korea's economic integration into the region.

III. Citations

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Private conversations with Chinese visitors, Washington, DC, February 2010.

IV. Nautilus invites your responses

The Northeast Asia Peace and Security Network invites your responses to this essay. Please send responses to: napsnet-reply@nautilus.org . Responses will be considered for redistribution to the network only if they include the author's name, affiliation, and explicit consent.

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