

Policy Forum 06-08A: Taking Care of Business



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"Taking Care of Business"

Essay by Bruce Klingner

CONTENTS

[I. Introduction](#)

[II. Essay by Bruce Klingner](#)

[III. Nautilus invites your responses](#)

I. Introduction

Bruce Klingner, Korea analyst for Eurasia Group, the world's largest political-risk consultancy firm, writes "even if China could achieve a resumption of six-party talks - most likely by having Pyongyang agree to distinguish between the illegal actions of "rogue" North Korean companies and the government - the nuclear negotiations would remain deadlocked."

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II. Essay by Bruce Klingner

- Taking Care of Business
by Bruce Klingner

North Korean leader Kim Jong-il's tour of businesses in China's Guangdong province this past week has resurrected speculation that Pyongyang is on the verge of implementing extensive economic reforms. The economic segment of Kim's trip, however, is more likely an attempt to garner additional Chinese developmental assistance and investment to counter growing US pressure against North Korean illicit economic activities.

Although North Korea expanded its trade and business ventures with China during 2005, Pyongyang's recent restrictions on previously allowed market activity reflect a retrenchment of the command economy.

Kim's visit to Shenzhen has been cited as a particularly significant indicator, reminiscent of Chinese leader Deng Xiaoping's decision in 1979 to select that city as a laboratory for Chinese market reforms. Deng later followed up with his famous "tour of the south" in 1992, including the Shenzhen Special Economic Zone (SEZ), to signal Beijing's commitment to economic reform.

Kim's January 2001 tour of Shanghai - including the Shanghai Stock Exchange, Shanghai Huahong NEC Electronic Co, Pudong district and Zhangjiang High-Tech Park, and with a pledge to build a high-tech city in North Korea - was similarly touted as the precursor to adopting Chinese-style economic reforms. But reports that then quoted Kim praising China's economic reforms - a marked reversal of his previous condemnation of Beijing's "straying from the socialist path" - often neglected to include his cautionary statements that such measures would not work in North Korea because of the country's unique characteristics.

During his most recent visit, Kim may have requested additional Chinese food deliveries to compensate for the loss of international donations following Pyongyang's demand that all non-governmental organizations depart North Korea or convert emergency aid programs to developmental initiatives. Despite Pyongyang's claim of an improved harvest, North Korea still faces a million-tonne shortfall.

The World Food Program (WFP) had previously provided 500,000-700,000 tonnes of food annually, but is likely to ship only 75,000 tonnes this year. A recurrence of the 1990s famine in which more than a million North Koreans died is not expected, however. China and South Korea would likely increase deliveries to offset deteriorating conditions. Beijing had shipped 400,000 tonnes of food to North Korea in the first nine months of 2005, and Seoul pledged 500,000 tonnes of rice.

Beijing has long pushed Pyongyang to adopt Chinese-style economic reforms to improve the North Korean economy and reduce the potential for political instability. China's interest in preventing a regime collapse or widespread social unrest that could cause an influx of hundreds of thousands of Korean refugees has been a primary factor in Beijing's resistance to US pressure tactics to resolve the nuclear impasse.

Despite skepticism over North Korean intentions, Beijing will likely leverage Kim's trip to augment Chinese efforts to transform its economic engagement from aid to developmental opportunities. As

such, it would not be unexpected to see Chinese announcements during coming months of new bilateral economic agreements, similar to the recent accord to jointly develop energy resources. There have been rumors that Chinese President Hu Jintao pledged during his October visit to invest more than US\$10 billion in North Korea, potentially in an SEZ in Cheolsan county, North Pyongan province.

Kim must balance the economic benefits of acquiring Chinese developmental assistance and increased business activity with his fear of the contagion of foreign influence on the North Korean populace. He has traditionally imposed severe restrictions on foreign engagement, regardless of the debilitating impact on the North Korean economy. Chinese investment would be perceived as less threatening than that from other nations and could be used to prevent an over-reliance on growing South Korean largess. That said, Kim would be predisposed to proceed slowly and limit Chinese interaction with the population. Moreover, he would likely incorporate increased engagement within the existing North Korean economic system rather than emulate China's economic reforms.

Beijing may condition significant economic benefits, including unannounced food aid to offset declining international donations, on a North Korean agreement to return to the six-party talks on its nuclear program.

Chinese leaders likely pressed Kim to drop his insistence that the United States must remove economic sanctions prior to Pyongyang returning to the six-party talks, emphasizing that the US will not negotiate on a law-enforcement issue. Last year, Washington imposed sanctions against eight North Korean companies and three Chinese banks for their alleged role in weapons proliferation, counterfeiting and money-laundering. South Korean officials privately delivered the same message during bilateral meetings with the North last month. Moreover, China, South Korea and Japan have all publicly supported Washington's recent assertion that the sanctions must be treated as a separate issue.

Beijing will continue its efforts to mediate differences between the US and North Korea. Chief Chinese negotiator Wu Dawei met with his Japanese and South Korean counterparts and may have facilitated a meeting in Beijing between visiting assistant secretary of state Christopher Hill and North Korean negotiator Kim Gye-gwan. Despite China's efforts, a restart of talks is unlikely in the near term.

Pyongyang reacted harshly to the resumption of strong US rhetoric against it since the signing of the September 19 joint statement. Secretary of State Condoleezza Rice labeled North Korea a "dangerous regime", while US Ambassador to South Korea Alexander Vershbow described it as a "criminal regime" and accused Kim of being the first national leader to be involved in counterfeiting since Adolf Hitler. Pyongyang will look for indications of Washington's policy in President George W Bush's upcoming State of the Union address.

Even if China could achieve a resumption of six-party talks - most likely by having Pyongyang agree to distinguish between the illegal actions of "rogue" North Korean companies and the government - the nuclear negotiations would remain deadlocked. The US and North Korea continue to disagree over several contentious issues, including the provision of light-water reactors, sequencing of benefits in return for North Korean denuclearization, and the extent of a monitoring regime.

While neither the US nor North Korea is ready to scuttle the talks, Washington's high-visibility campaign against Pyongyang's illicit activities has complicated the negotiations and further reduced the potential for resolution of the nuclear impasse. The window of opportunity for the six-party talks appears to have closed since initial signs of US and North Korean flexibility in August. Bush administration hardliners then were quiescent, but the joint statement provided them a target of

opportunity. Hill has spent much of the past few months defending his flanks against accusations that he was too lenient with North Korea. Hill's negotiating flexibility is rumored to have been curtailed and he was forced to cancel a potential trip to Pyongyang as well as a meeting last year with North Korean counterparts.

Washington will disregard Seoul's entreaties to alter its policy, which the Bush administration sees as an opportunity to increase pressure on Pyongyang by targeting illicit methods of gaining foreign currency. South Korea will respond by emphasizing its engagement efforts toward the North as a way of diffusing peninsular tensions. Washington's more confrontational approach will exacerbate existing strains in its relations with Seoul.

A human-rights conference in Seoul last month - partially sponsored by the US government - harshly criticized South Korea's accommodating policy toward Pyongyang. Jay Lefkowitz, US special envoy for North Korean human rights, bluntly called on the administration of South Korean President Roh Moo-hyun to confront Pyongyang and reproached Seoul for abstaining on a UN resolution that condemned the North for human-rights abuses. He also called on Seoul to link future aid deliveries to North Korean human-rights improvements.

South Korea will not speak out against Pyongyang for fear of jeopardizing its engagement policy. A government spokesperson stated that maintaining stability on the Korean Peninsula was a higher priority for the Roh administration than North Korean human rights. Similarly, Seoul has publicly played down the veracity of Washington's evidence of North Korean counterfeiting, despite South Korean intelligence officials' testimony that Seoul has known of such counterfeiting since the early 1990s.

Seoul's outreach to Pyongyang reflects a pervasive public perception that North Korea no longer poses a military threat. South Korean polls have consistently shown a more benign view of North Korea than in the past and a growing sense that Washington is to blame for the nuclear impasse. South Korean city and provincial governments have even announced plans to dismantle fortifications built to impede an invasion as a way to reduce North-South tensions.

III. 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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[Return to top](#)
[back to top](#)

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Nautilus Institute
608 San Miguel Ave., Berkeley, CA 94707-1535 | Phone: (510) 423-0372 | Email:
nautilus@nautilus.org