North Korean leader Kim Jong Un’s uncle, Jang Song Thaek, was long a pillar of North Korea-China economic ties, someone whom Beijing used both to gain insights on North Korea and to influence developments there. So when Jang, the North’s de facto No. 2 leader, was purged and executed in December, eyebrows were raised in China on what it would mean for relations between the two countries. Dong Wook Won provides an interpretation of Beijing’s thinking.

IN LATE DECEMBER 2013, the sudden purge and execution of Jang Song Thaek in North Korea sparked major controversies. Kim Jong Un’s uncle, Jang was widely regarded as the country’s No. 2 leader due to his post as chief of the Central Administrative Department of the Workers’ Party of Korea (WPK). His demise was stunning and difficult to figure out from the official verdict released by North Korean authorities. “[Jang] instructed his stooges to sell coal and other precious underground resources at random,” the judgment read. “Jang had no scruples about committing such acts of treachery as selling off the land of the Rason Economic and Trade Zone to a foreign country in May [2013] by lending it for a period of five decades under the pretext of paying debts.” Although the verdict does not specify which foreign country, we can safely assume that it was China.1

For this reason, academics and the media in China debated the effects of Jang’s execution on future bilateral economic relations. This is largely due to the fact that Jang had strong personal ties to China and functioned as a communication channel for the two countries. Two conflicting views emerged: one was that the execution would adversely affect North Korea-China relations because the North Korean authorities had effectively made a decision to eliminate the “China factor” by purging Jang; the other view was that the bilateral economic relationship would not be affected because the basic framework was already well established and stabilized during Kim Jong Il’s regime.

Although there are grounds for both views, an accurate assessment is impossible in the present situation. So far, not only have joint projects between China and North Korea continued, both countries even announced a new collaborative project to construct a highway and railroad linking Beijing, Sinuiju, Pyongyang and Kaesong. Moreover, by treating Jang’s execution as an internal affair, China simply emphasized the importance of a healthy and uninterrupted trading relationship with North Korea. So far, North Korea’s economic ties with China appear stable and uninterrupted, at least on the surface. Pyongyang reciprocated Beijing’s response by sending signals that business would not be interrupted by Jang’s purge.

But in order to better determine the repercussions of Jang’s execution, an objective evaluation of the recent bilateral economic relationship is necessary. This, in turn, requires an assessment of China’s intentions regarding the bilateral economic relationship.

CHINA’S GEO-ECONOMIC APPROACH TO NORTH KOREA

Although North Korea-China economic relations have had their share of downturns between the second North Korean nuclear crisis in 2002 and the third nuclear test in 2013, overall growth has been stable. While China participated in US-led international efforts to apply greater pressure and economic sanctions on North Korea in response to repeated nuclear tests, it did not suspend its economic relations with the country. In particular, during the government of former South Korean President Lee Myung-bak, when inter-Korean economic co-operation was at a standstill, economic co-operation between China and North Korea grew rapidly, deepening North Korea’s trade dependence on China.

Trade between North Korea and China grew at an annual average rate of 18.2 percent — from US$488 million dollars to US$85.93 billion — between 2000 and 2012. Even in 2013, when relations cooled due to North Korea’s third nuclear test, bilateral trade increased 10 percent compared to the previous year to reach US$6.5 billion (see Table 1). In contrast, inter-Korean trade came to a near halt following a decision by the South Korean government on May 24, 2010 to place a total ban on trade and new investment in North Korea, with the exception of the Kaesong Industrial Complex (KIC). This was in response to the sinking of the South Korean corvette Cheonan, for which Seoul held Pyongyang responsible. Worse, following a temporary suspension of operations in the KIC in 2013 — the

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1 For the Korean text of the judgment by the court, see http://thedictionarystory.com/1294
last remaining bastion of inter-Korean trade — the amount of inter-Korean trade fell by 42 percent compared to the previous year to US$1.15 billion, about one-sixth the amount of North Korea-China trade (see Table 2).

Even China’s foreign direct investment (FDI) in North Korea has shown strong growth, reaching a cumulative total of approximately US$270 million by the end of 2013. In 2013, the number of Chinese enterprises investing in North Korea stood at 172. While 70 percent of Chinese investment is in the development of mineral resources and the construction of related infrastructure, investment is expanding to other industries, including construction materials, tourism, property and distribution. Meanwhile, the geographical concentration of North Korea-China economic co-operation is mainly inside North Korea, of course, and the north-eastern provinces of China, especially Liaoning and Jilin. The amount of trade between these two Chinese provinces and North Korea makes up more than 70 percent of total trade between the two countries. Moreover, of the 172 Chinese enterprises investing in North Korea, the number of firms registered in Liaoning and Jilin is 59 and 60, respectively.1

Recently, economic relations have deepened through joint development in the border region. As a strategic buffer zone, this area plays a role in China’s new approach toward North Korea. In other words, this geo-economic approach shows that China intends not only to stabilize the North Korea nuclear issue, and the second is on the problems within North Korea. China thus began approaching North Korea on two tracks the Six-Party talks, and North Korea-China economic relations. Despite sanctions on North Korea imposed by the international community, China has continuously promoted its own economic co-operation with the North. China adopted a crisis management strategy that focuses on preventing the collapse of North Korea by providing a minimum level of economic aid. Unfortunately, China’s crisis management proved futile because of North Korea’s repeated nuclear tests, and it neutralized the international community’s effort to increase pressure on North Korea through imposing sanctions, which in turn only increased the possibility of unexpected provocations from North Korea.

In 2009, the worsening health of Kim Jong Il and North Korea’s deepening economic woes following international sanctions severely threatened the survival of the regime, leading China to conclude that a resolution of the North Korean nuclear crisis was not feasible in the short term. Thus, China tried managing the situation by binding North Korea to the Six-Party talks. As for the economic track, China began to act more proactively to induce reform and opening in North Korea. With North Korea facing the challenges of stabilizing the leadership succession and resolving its economic problems in the midst of tense inter-Korean relations and international sanctions, the country’s dependence on China only increased, and China began to recognize this as a golden opportunity to expand its influence through active engagement with the North.

As a result, China’s economic co-operation with North Korea shifted from development of the private sector and market activities, which were encouraged by Beijing, to more active development through central government intervention. With Chinese Premier Wen Jiabao’s visit to the North in October 2009, movement toward joint cross-border development accelerated. Even though the Korean Peninsula was tense at the time, cross-border development began gaining speed, with Kim Jong II visiting China four times since 2010. On June 8-9, 2011, groundbreaking ceremonies were held for the joint development of special economic zones in Hwanggumpyong and Wihwa islands in the Yalu River basin, and the Rason Special Economic Zone in the Tumen River basin. Moreover, after Kim Jong Un assumed power, Jang Song Thaek, then vice-chairman of the National Defense Committee, visited China on Aug. 14, 2012 to help establish a joint management commission.

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### Cross-border joint development

**TABLE 2 RECENT CHANGES IN INTER-KOREAN TRADE AND NORTH KOREA-CHINA TRADE**

<table>
<thead>
<tr>
<th>Year</th>
<th>Inter-Korean (A)</th>
<th>N Korea-China (B)</th>
<th>A as a % of B</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>US$m</td>
<td>y-o-y %chg</td>
<td>US$m</td>
</tr>
<tr>
<td>2009</td>
<td>1,679.1</td>
<td>-7.8</td>
<td>2,624.6</td>
</tr>
<tr>
<td>2010</td>
<td>1,912.2</td>
<td>13.9</td>
<td>3,465.7</td>
</tr>
<tr>
<td>2011</td>
<td>1,713.9</td>
<td>-10.4</td>
<td>5,629.2</td>
</tr>
<tr>
<td>2012</td>
<td>1,976.2</td>
<td>15.3</td>
<td>5,930.5</td>
</tr>
<tr>
<td>2013</td>
<td>1,168.9</td>
<td>-41.9</td>
<td>6,544.7</td>
</tr>
</tbody>
</table>

Yalu River Bridge, and Hwanggumpyong and Wihwa islands. In this respect, China’s economic co-operation with North Korea has been moving beyond the previous policy of trade in goods to one emphasizing infrastructure and special economic zones in the border regions.

**CROSS-BORDER JOINT DEVELOPMENT**

Through a series of adjustments to its North Korea policy since July 2009, China has split its focus into two parts: the first is on the North Korean nuclear issue, and the second is on the problems within North Korea. China thus began approaching North Korea on two tracks the Six-Party talks, and North Korea-China economic relations. Despite sanctions on North Korea imposed by the international community, China has continuously promoted its own economic co-operation with the North. China adopted a crisis management strategy that focuses on preventing the collapse of North Korea by providing a minimum level of economic aid. Unfortunately, China’s crisis management proved futile because of North Korea’s repeated nuclear tests, and it neutralized the international community’s effort to increase pressure on North Korea through imposing sanctions, which in turn only increased the possibility of unexpected provocations from North Korea.

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**LONG-TERM STRATEGY**

China is pursuing this new approach in connection with its “Northeast Promotion Plan,” which in turn is part of a long-term national strategy that has competition with the US and Japan in mind. It covers the North Korea-China border region stretching from Dandong to Hunchun and also signifies Beijing’s proactive strategy toward the Korean Peninsula and North Korea. Furthermore, the approach aims to stabilize and manage the border, should there be any crisis in the North Korean system. This approach is similar to the development policies of China in peripheral and ethnic minority regions in places bordering Vietnam, Central Asia and Myanmar. China’s current economic co-operation with the North seems both realistic and feasible, because it is being promoted at the central governmental level rather than by local governments, as in previous joint development projects. Moreover, North Korea’s weakened position due to international isolation and a power transition leaves the country’s leadership with no choice but to consider China’s offer positively.

Kim Jong Un has responded actively to cross-border development co-operation with countries like China and Russia as he tries to open up the country to successful economic reforms. In addition, the Presidium of the Supreme People’s Assembly promulgated a decree on economic development zones (EDZ) to revitalize investment by foreign enterprises in May 2013. In November 2013, two weeks before Jang’s purge, the North Korean government announced a plan to designate 13 EDZs across the country, as well as the existing Sinuiju special economic zone (SEZ) on the border with China, to attract foreign capital and promote economic growth. Because this is one of the measures taken by the Central Committee of the WKP in March 2013 to “realize diversification and variation of...
external trade,” it is a cabinet-led plan. Hence, it could be seen as a sign of North Korean caution regarding over-dependence on China as a result of the existing cross-border projects and China’s push for reform and opening in the country. Conversely, this may be interpreted as a signal by North Korea of its desire to prevent a deterioration of its relations with China in the aftermath of Jang’s purge and to accelerate external opening.

RELATIONS FOLLOWING JANG’S EXECUTION: CHINESE PERSPECTIVES
Regardless of whether Jang Song Thaek preferred the Chinese model of reform, no doubt he was China’s key partner in bilateral economic cooperation and the one responsible in North Korea for the cross-border joint development projects. When he visited China in August 2012, he was accorded exceptional treatment, being received by top Chinese leaders like Hu Jintao and Wen Jiabao, and he led several economic co-operation projects, including Hwanggumpyong and Wihwa islands and the Rason Economic Zone. During Kim Jong Il’s regime, Jang visited China several times and showed positive interest in the Chinese model of economic development and great enthusiasm for economic co-operation by taking charge of the joint management committee for development co-operation. From the Chinese perspective, Jang saw economic development as the key factor for stability and survival, and thus he was seen as a “friendly” neighbor.

As can be discerned from that statement, the Chinese government reacted in a calm and cool manner in response to a question during a press conference, instead of directly expressing an opinion regarding a major political incident in North Korea, Jang’s execution will worsen North Korea-China relations, while the optimistic view contends it will not influence the relationship. The two opposing views and their supporting arguments are summarized in the box opposite.

In the midst of such conflicting views in Chinese academic circles and the media, how does Beijing perceive Kim Jong Un’s purging of Jang? Also, what changes would there be in China’s policy toward North Korea following Jang’s execution? To answer these questions, we need to first look at China’s official stance in the form of a statement by Hong Lei, the spokesperson of the Foreign Ministry, during a press briefing: “As a friendly neighbor, China hopes the DPRK will have national stability and economic growth and that its people will enjoy happiness. China will stay committed to pushing forward traditional friendship and co-operation with the DPRK …

This is the DPRK’s internal affair. The development of China-DPRK trade links meets the common interests of both countries. China will continue to push forward pragmatic co-operation with the DPRK in trade and other fields. We hope and believe that business relations between China and the DPRK will continue to progress in a healthy and stable way.”4

Views

Pessimistic Views
• Jang’s execution is part of the adjustment process within the North Korean internal power structure, but Jang’s power was not a threat to Kim Jong Un. Jang was a pro-China figure in North Korea, and his purge was a result of a decision by the North Korean leadership to eliminate “the China factor” in North Korea. Jang’s execution will adversely affect the future of the bilateral relationship.
• The charges that were levelled against Jang of selling off resources at cheap prices and of leasing land in the Rason Economic and Trade Zone to a “foreign country” for 50 years were directed against China and thus will negatively affect North Korea-China economic co-operation.

Optimistic Views
• Jang’s execution is at root due to a case of corruption within North Korea and can be seen as a normal process during a change in power. The amicable North Korea-China relationship is historical and cannot be swayed by the actions of a few individuals. Moreover, the North Korea-China relationship is an intimate one that can be described as that between “the lips and the teeth,” and if North Korea cannot be protected by China — its only benefactor — then the regime would collapse upon American intervention.

Jang’s Execution: What Repercussions Will It Have on North Korea-China relations?

• Because Jang was the main figure driving North Korea-China economic co-operation, the Chinese leadership under Hu Jintao regarded him as a reformer who would someday be likely introduce Chinese-style reform in North Korea and therefore they met with him to encourage him. Executing Jang and his associates is a direct provocation against China and could be a warning signal about further economic co-operation.

• Even if Jang was in charge of North Korea-China economic relations, he himself was only an agent, and the basic framework of bilateral economic co-operation had already been established during the Kim Jong Il era. Thus, bilateral economic co-operation projects between the two countries have no direct relation to Jang himself.

• On the day after Jang was arrested, the agreement on the construction of the highway and railroad linking Sinuiju, Pyongyang and Kaesong was concluded, and the North Korean authorities have sent signals to their Chinese counterparts that their bilateral economic co-operation will continue.
North Korea-China economic relations as a result of Jang’s purge. In other words, while the statement adheres to the basic principle of “non-interference in [the] internal affairs of other countries,” China stresses development of normal economic ties. Meanwhile, this can also be seen as a warning to North Korea about any regression to a closed economy, and especially any behavior that adversely affects the current economic ties between the two.

Thus, as seen from such a calm and cool response, it can be discerned that the Chinese leadership already predicted the fall of Jang. When Choe Ryong Hae was sent as a special envoy to China in May 2013 to restore cooled bilateral relations following North Korea’s third nuclear test, the Chinese authorities already had some clues about Kim Jong Un’s intentions. As such, no significant changes are expected in China’s North Korean policy despite Jang’s purge. Stability on the Korean Peninsula is the top priority.

However, in contrast to the foreign ministry spokesperson, within the Chinese leadership Jang’s purge could be perceived as the removal of a pro-China reformer, and this is a complex matter that requires thinking further about the future of North Korea-China relations without Jang. Moreover, from a Chinese stance that prioritizes North Korean stability, Jang’s purge could be seen as a symptom of crisis in the power transition to Kim Jong Un. Thus, the Chinese leadership may feel that the situation requires continual observation out of a concern that the purge could evolve into an all-out crisis.

China could also hold a grudge against North Korea for such a provocative incident and partially adjust its policies toward the North. But, viewed from China’s deeply rooted geopolitical strategic perspective, China cannot change its fundamental position of support for Kim Jong Un’s regime despite Jang’s purge, because its priority is a stable North Korean regime. By putting a swift end to the incident, China would promote the stability of the regime. This is the reason why Global Times, a sister paper of China’s People’s Daily, argued in an editorial on Dec. 10, 2013, that China should quickly push for a visit to China by Kim Jong Un. The editorial also emphasized that North Korea should make efforts to create conditions that would be conducive to such a visit. In the end, China acknowledged the inevitability of creating a direct communication channel to Kim Jong Un, without using Jang. At the same time, China seems to be insisting on a forward-looking attitude toward North Korea by continuing existing economic co-operation and returning to the Six-Party talks as preconditions for Kim’s visit.

**FUTURE DIRECTIONS OF CHINA-NORTH KOREA ECONOMIC TIES**

The purge of Jang Song Thaek has put North Korea-China co-operation into a new situation. For China, it has lost one of its key methods of exerting influence on internal changes in North Korea. North Korea also lost a key hotline to the Chinese leadership. North Korea has maximized the utility of all its underground mineral resources and labor to earn more foreign currency in its trade with China. China took the initiative to develop resources in the North to secure strategic goods such as energy and natural resources in a stable and inexpensive way. It also expanded the consigned processing of clothing by taking advantage of cheaper North Korean labor to save on domestic production costs. As such, China’s investment in North Korea, especially in mining, has played a key role in propelling bilateral trade ties. In 2012, anthracite accounted for about 50 percent of North Korea’s exports to China, and mineral products including anthracite made up approximately two-thirds of exports to China. Judging from Jang’s purge, however, the North Korean leadership seems to view its mining exports to China negatively, and thus a modification in the policy of exporting importing mineral resources seems inevitable. Furthermore, there might be some retreat from the cross-border joint development in the Rason Economic and Trade Zone.

As for isolated North Korea, its economic ties with China are the main pillar sustaining the North Korean economy. Nevertheless, an asymmetric structure in which China’s superior position is dominant could have an adverse influence on the North Korean economy in the long run. In addition, as North Korea’s trade dependence on China, excluding inter-Korean trade, reached 88.3 percent in 2012, China enjoys a dominant share of North Korea’s domestic market through bilateral trade. From the perspective of an isolated North Korea, co-operative economic ties with China are crucial, and hence cannot be severed. However, as for North Korea’s concern about being subordinate to China and dependent on it for trade, Jang’s purge could spur changes in its economic co-operation with China. It may move toward diversification and search for new partners for economic co-operation. As we can see from Pyongyang’s recent active attitude regarding the Kaesong Industrial Complex, North Korea can take a more forward-looking attitude toward inter-Korean economic co-operation. It will also attempt to check China’s unilateral lead by co-operating with Russia on railroad and port projects. Also, along with the development of SEZs in border regions, North Korea will try to maintain a balance by establishing 13 new special economic zones across the country.

In conclusion, due to the purge of Jang, a perceived reformer and key figure in relations with China, North Korea-China economic ties could be affected somewhat in the short-term. In the mid- and long-term, however, the bilateral relationship is likely to become normalized. The fact that Ji Jae Ryong, North Korea’s ambassador to China and a right-hand man of Jang, remains in his position could be a signal by North Korea of the strength of North Korea-China relations. Likewise, the fact that China’s ambassador to Pyongyang, Liu Hong-cai, also remains in his post seems to show China’s intention to manage any crisis situation in North Korea following Jang’s purge by promoting consistent development of bilateral ties. Thus, it can be concluded that despite Jang’s purge, economic ties between the two countries are likely to return to a state of normalcy for a combination of reasons: China’s stance that North Korea is a useful buffer zone that needs stable management; and North Korea’s view that strategic co-operation with China is necessary because China is its one and only patron in overcoming international sanctions and helping it build its economy.

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