



China's Role in Squeezing North Korea

Marcus Noland reports that the Chinese are divided internally between those who want to confront North Korea and those who see it as a useful pawn in a global power game.

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Steve Weisman: This is Steve Weisman at the Peterson Institute for International Economics. Our guest, Marc Noland, the new deputy director of the Peterson Institute, is here to talk about North Korea. Thanks for joining me, Marc.

Marcus Noland: My pleasure.

Steve Weisman: Marc, North Korea is again in the news this week because it was a subject of the discussions between the United States and China under the auspices of the so-called Strategic and Economic Dialogue, which occurred in Washington and which was led by Treasury Secretary Geithner and Secretary of State Clinton on the US side. When the talks were over earlier in the week, and we're talking the last week of July, Secretary Clinton said they made progress on isolating North Korea over its nuclear program. Do you have any sense of how much progress, if any, was made?

Marcus Noland: Well, the statements that came out of the Chinese side echo what they had said earlier in the month when an American interagency delegation visited Beijing, which is to say that they are not happy with North Korea. They supported the sanctions resolution in the United Nations Security Council. But they appeared to have higher standards of evidence than the United States does when it comes to actually prosecuting and implementing those sanctions. So there's a willingness to go along in principle but I think there's a certain amount of tension in terms of implementation.

There is one episode that was almost comical during the talks when the Chinese announced that they had busted a North Korean ring that was smuggling vanadium, an item that is used or can be used in the production of high-tech weaponry. And they had seized a number of kilos, I think \$25,000 worth, and they had lots of photos of the seizure and the perp walk and so on, made quite a display of this. It certainly impressed a number of the observers here in Washington. I'm not sure how impressed the observers in Pyongyang were.

Steve Weisman: Or that you were.

Marcus Noland: Well, I think the real measure of China's cooperation in this area is what China is going to do about North Korean banks or what amount to North Korean front banks from the North Korean military that are operating in China.

Steve Weisman: Let's talk about that. How many such institutions are there and what's the level of their presence in China?

Marcus Noland: Well, these are basically small institutions that North Korean military trading companies have set up and they basically are not doing any sort of major banking. They essentially simply act as a front in order to process financial transfers. And the Chinese could either shut down or otherwise impair the operations of these institutions, without making a big to-do about it, unlike the vanadium bust.

So I think what will really be kind of the acid test moving forward is Chinese willingness to crack down on these financial movements. And some of that, as I said, could probably be done without making a big public display.

Steve Weisman: Now, in your working paper published earlier in July, with Stephan Haggard, you observed that Chinese economic activity and relations with North Korea has increased. So why is that and what does that tell us about China's relationship with North Korea?

Marcus Noland: Well, there are really two parts to this. Part of it is that there is real ambivalence within China about North Korea. There is a faction within China that thinks in very traditional realist terms and says this country is an asset, it is a fraternally allied buffer state on our border, it keeps us separated from South Korea and the US Army presence there; it is a useful pawn in our rivalries with both the United States and India, allowing in some sense us to cooperate with that, with Pakistan and Iran in the nuclear and missile fields without becoming directly involved.

Steve Weisman: I'm sorry, when you say us, you mean the US?

Marcus Noland: No, China. So they're a kind of useful pawn. There is another faction within China that says this country is simply troublesome, that our Chinese relations with the United States, Japan, and South Korea are more important than this somewhat erratic state. And indeed, when North Korea misbehaves, it's really China that's the big loser. I mean North Korea could set off a major arms race in Northeast Asia, if the Japanese, South Koreans, and possibly even the Taiwanese begin to move down the nuclear track in response to North Korean actions. So there's a faction in China that basically says these people are not worth it, and politically, that policy is contested within China.

On the economic side, there is an aid relationship. There is trade and investment that I would describe as politically determined, typically involving large Chinese state-owned enterprises and North Korean counterparts. But most of the trade and investment between China and North Korea appears to be profit-oriented, market-

conforming trade, regardless of the particular legal status of the entities on either side of the border. And that trade goes on it seems in a political vacuum, regardless of North Korean provocations, regardless of UN sanctions resolutions. There are Chinese enterprises who think that there is money to be made in North Korea and they're in there trying to make it and if they can't make it, it's usually due to North Korean behavior, not due to the United Nations. They pull out, they go home.

Steve Weisman: North Korea has had, of course, its history of economic crises and especially food crises. It's liberalized and then turned away from liberalization. Where are they now?

Marcus Noland: Well, the trends in North Korea on the economic side have been largely in a negative direction since 2005, and those negative trends have really accelerated in the last six months or so. The major North Korean policy innovation in the last six months on the economic side is the literal revival of a Stalinist economic program called the Ch'ollima Movement from the 1950s.

It is my supposition that this pattern of behavior, both on the economic side as well as the provocations on the diplomatic front, relate to the deep uncertainty about the future governance of the country. The leader, Kim Jong-Il, is clearly ill, no pun intended, and there is real uncertainty about how the country would be governed after he leaves the scene. And I think under this situation, there is an incentive to essentially demonstrate just how orthodox you are. And in the economics sphere, unfortunately, that means kind of a revival of really Stalinist economic policies.

Steve Weisman: Well, given that, Marc, and also given the name-calling that erupted a couple of weeks ago between Secretary Clinton and those in North Korea, are we in a period of suspended animation right now in terms of making any headway with North Korea?

Marcus Noland: Well, what was really strange about the name-calling that occurred around the meetings in Thailand was that it was followed up by North Korean announcements that seemed to indicate they wanted to have bilateral negotiations. Now, I personally am skeptical about how much progress can be made in those negotiations at present. I think that the North Koreans' internal political situation may encourage them to stake out positions that are either so outrageous from the standpoint of the United States or simply not a basis for moving forward.

It's likely, for example, that the North Koreans would want the United States to acknowledge them as a nuclear power. And then having done so, from a North Korean standpoint, the two countries could engage in arms reduction talks, including reduction of American nuclear weapons, including the disposition of US troop deployments in South Korea and Japan. And they might also want to try to talk about or see what they could get for the two American journalists who are currently in North Korean custody.

I think any United States government would have trouble starting from that agenda. Nevertheless, keeping open the door for engagement and negotiations, I think is an important component of trying to reach resolution with the North Koreans. We're not going to be able to do it simply through economic sanctions and military options are very limited. So I think one has to combine some carrot, some door through which the North Koreans can walk, together with the stick of sanctions, if we're really going to make progress.

Steve Weisman: Marc, thanks very much for joining us today. Very interesting.

Marcus Noland: Thank you, it's my pleasure.