



SPECIAL REPORT

ABOUT THE TRIP

Past meetings of the Institute's senior-level working group on Korea, established in fall 1993, have highlighted the need for better understanding of conditions on the Chinese border with North Korea.

To initiate contacts with local Chinese analysts of North Korea, Institute Program Officer Scott Snyder traveled in June 1997 with Mr. Wu Baiyi, deputy director of research at the Beijing-based Foundation of International and Strategic Studies, to Shenyang, Yanji, and Changchun. This research was greatly assisted by the hospitality of the Liaoning and Jilin Academies of Social Science, and the assistance of representatives from a variety of individuals from the Korean-Chinese community in Yanji—including the local institute for the Study of Overseas Issues and the Yanbian University of Science and Technology—for which the author of this report offers his thanks.

The author met with three types of individuals: Chinese specialists on North Korea, members of the ethnic Korean community in the Yanbian Korean Autonomous Prefecture, and refugees from North Korea currently in Yanbian. This report draws extensively on discussions held during the visit and on additional information gathered in South Korea; however, the result and any misinterpretations presented herein are the responsibility of the author alone.

Other recent Special Reports of the Institute's Korea Working Group include "A Coming Crisis on the Korean Peninsula? Economic Decline, the Food Crisis, and Political Considerations" (October 1996) and "The North Korean Nuclear Challenge: The Post-Kim Il Sung Phase Begins" (November 1994). For further information, please contact Scott Snyder at 202-429-3808, or visit our Web site at www.usip.org.

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North Korea's Decline and China's Strategic Dilemmas

Key Points

- For the first time, Chinese analysts are conceding that the sudden end of North Korea's political system is conceivable, even if they doubt that it is imminent. Chinese analysts cite long-standing historical, psychological, and structural factors as obstacles to a near-term collapse. They do not view the food crisis as an immediate threat to Kim Jong Il's consolidation of authority and continued political control.
- Chinese analysts recognize that if North Korea is to survive, its economic system must undergo fundamental reforms. So far, North Korea has resisted China's coaxing to adopt economic reforms. The food crisis, however, has induced at least temporary toleration by North Korean authorities of limited reforms-by-necessity from which some Chinese analysts take heart.
- North Korea's failing food distribution system has had several effects on the Chinese border region: 1) North Korea's fiscal instability has bankrupted some Chinese companies that have traded with North Korean counterparts, 2) North Korea is a source of refugees, because some North Korean nationals have been crossing the border in search of food, 3) the emergence of refugee flows has presented China with the dilemma of balancing its humanitarian and treaty obligations while maintaining stability.
- The rapidly growing presence of South Koreans in large numbers in the Yanbian Korean Autonomous Prefecture and as major investors in Shandong, Liaoning, and Jilin Provinces is a potentially significant new trend that has accelerated within the past two years. In 1996, Sino-South Korean trade grew 25 percent to US\$20 billion, and over 700,000 people traveled between China and South Korea, marking a rapid strengthening of ties between South Korea and China.
- China has instituted a pragmatic policy of reinforcing economic relations with South Korea while maintaining vestigial political ties with North Korea. While strengthening its official ties to South Korea, China is approving governmental assistance, de facto subsidies through cross-border trade, and private barter transactions with North Korea as a way to extend Chinese influence into the northern part of the Korean Peninsula and to forestall the possibility of North Korea's collapse for as long as possible.

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- The issue of foreign influence on the Korean Peninsula has historically been a source of competition among China, Japan, and the Soviet Union, and between the United States and China—the latter two countries carrying historical and psychological baggage from the Korean War. Today, however, the United States and China share the fundamental objectives of maintaining stability and preventing the outbreak of violence on the Korean Peninsula. The extent to which the United States and China cooperate or compete in managing the Korean issue will have a significant impact on the future of Korea and Northeast Asia.

Current Situation in North Korea: Views from China

Although China's diplomatic relationship with its socialist comrades in North Korea can no longer be described as one of "lips and teeth," Chinese scholars looking across the border at the plight of their neighbors in North Korea still share a special understanding of the difficulties of North Korea's political struggle and its failure to adapt to new circumstances following the end of the cold war. Chinese scholars also have the advantage of geography and an intricate web of exchange relationships—including among members of China's ethnic Korean community and relatives across the border in North Korea. These circumstances provide Chinese observers with a unique vantage point from which to analyze factors contributing to North Korea's decline and the potential for instability that could spill over the border into China itself.

Chinese Views of the Food and Economic Crisis in North Korea

Reports from Chinese scholars, ethnic Korean-Chinese citizens who visit relatives in North Korea, and North Korean refugees who have fled North Korea's crisis suggest that a major humanitarian disaster has already occurred, with tens of thousands of people already dead from starvation and starvation-related illnesses. International aid organizations, which had no access to remote northern parts of the country until April 1997, have until recently underestimated the extent of North Korea's food problems.

Interviews with North Korean refugees suggest that over 25 percent of the population in many northern villages—which were cut off from the central distribution system for years—have died, with the height of the crisis occurring in fall 1996, when people were "dropping like flies," according to a seventeen-year-old refugee from Musan, North Hamgyong Province, near the border with Jilin Province. This was also the period when the flow of refugees to Jilin Province was highest. Reports of desperation behavior, including foraging for wild plants, tree bark, or anything else that might be edible, the selling of family members into servitude for food, and even isolated instances of cannibalism are simply too widespread and too specific to be dismissed. Comparisons with China's food crisis in the 1950s during the Great Leap Forward may not prove unwarranted.

Chinese scholars view the three major bottlenecks of North Korea's failed system of central planning—a lack of food, energy, and capital—as the core problems facing the North Korean government. However, North Korea's political leadership has resisted Chinese pressure to accept the obvious path of economic reform—except when forced by absolute necessity to abandon the economic inefficiencies of central planning.

Some Chinese observers place the origins of North Korea's economic failure as far back as North Korea's decision following the Korean War in the 1950s to favor

heavy industry over light industry, a fatal mistake that subsequent economic plans have never been able to fully rectify. The recent cause of North Korea's precipitous economic decline is linked directly to the evaporation of decades of food and energy support from long-standing allies in Beijing and Moscow, which began as early as 1990. The situation was worsened by severe flooding in 1995 and 1996. Even from the early 1990s, Chinese observers recall that restaurants in Pyongyang were reported to ration patrons' portions.

Without subsidies in grain, energy, and fertilizer, North Korea's agricultural production has dropped by almost 50 percent from the late 1980s to a low of 2.5 to 2.6 million tons in 1995, according to one veteran Chinese analyst of North Korea's food production. This estimate is significantly lower than South Korean estimates of 3.69 million tons of North Korean food production for the same year. Inadequate technology or access to fertilizer, lack of mechanization, and a progressive weakening of North Korea's labor force have been primary causes for the decline.

Distortions in the centralized distribution system and successive reductions in grain rations have facilitated the emergence since the early 1990s of illegal black markets (now tolerated by the central government), where rationing coupons for material goods such as TVs or other household goods were traded for grain. Even before the flooding began in 1995 and 1996, citizens of outlying areas such as the city of Chongjin in North Hamgyong and other northern provinces were no longer receiving rations through North Korea's public food distribution system.

The extent of depreciation of the won on the black market is an important indicator of the severity of economic distress in North Korea, and it is monitored by Chinese scholars and in the Chinese-Korean community. The unofficial black market exchange rate soared as the food crisis worsened—from about 90 won per dollar in the early 1990s to over 220 won per dollar in June 1997 (the official exchange rate is 2.2 won=1 dollar, and average salaries in North Korea range from 100 to 350 won per month). The won/dollar exchange rate in black markets along the Chinese border reached its peak in late fall 1996, at 250 to 280 won per dollar, coinciding with anecdotal reports of the height of the crisis thus far. The black market price of one kilogram of rice has quadrupled during the same time frame to 80 to 90 won per kilogram, and was as high as 150 won per kilogram in October 1996.

The food crisis is only one symptom of the broader economic decline North Korea has faced in the 1990s. While South Korean estimates are that North Korea's economy has declined by about 5 percent per year since 1990, some Chinese estimates of the decline in North Korea's industrial production are as high as 10 percent per year, paralleling the rapid drop in agricultural production during the same period. North Korea's oil consumption trend shows a similar pattern, as Russia no longer provides oil subsidies and China has attempted with only partial success to convert its oil provisions from "friendship prices" (approximately one-third of the market price) to international market rates.

North Korean Responses to Crisis

With the possible exception of North Korea's efforts to promote the Rajin-Sonbong Economic Zone, Chinese sources suggest that North Korean officials have been slow to react to its economic crisis, applying reluctant "Band-Aid" fixes that have tended more to recognize the reality of coping strategies beyond the control of the central government than to outline fundamental reforms necessary to halt such a decline.

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The most significant coping development during the past two years may be the devolution of economic authority from the central government to provincial and local authorities. In the absence of goods received through the public distribution system, local officials must now engage in the truly self-reliant task of procuring resources to meet their own immediate needs. One result of assuming such responsibility is that hundreds of newly established North Korean trading interests representing local and provincial authorities have joined a small number of representatives of central government authorities in Dandong and other cities bordering North Korea.

These groups are authorized to conduct barter trade deals and to procure other resources on behalf of local authorities. For instance, a representative of the Hwanghae provincial government may be authorized to sell scrap metal or timber resources in return for wheat flour, which will then be delivered to provincial authorities for local distribution. Chinese scholars report that at one point in 1995 there may have been as many as 800 such trading representatives, but the number has since dropped to approximately 200 representatives, as many representatives failed to gain necessary resources and were forced to give up their efforts.

One unanticipated result of the devolution of economic authority may be the withering of the political influence of the central government over provincial and local authorities. If the observation of one Chinese scholar—that in North Korea “grain is power”—is correct, the central government may have been forced to give up the considerable leverage it had when all grain and all control flowed from the center to the provinces. The development of new economic relationships with outside partners—even on a temporary basis—may influence local authorities sufficiently that even if the central government is able to restore its power and authority over the grain distribution process in the future, the nature of the relationship between central and local authorities may be different. It may be impossible for the central government simply to return to the old structure of monolithic, top-down control exercised by Kim Il Sung under the new leadership of his son, Kim Jong Il.

Another potential effect of the decentralization of economic responsibility and redistribution of power between central and local governing authorities may accrue to entities that are able to establish direct economic relationships with those authorities. It may be possible for external forces to influence North Korea at a local level by establishing economic relationships under conditions that allow unprecedented external access to and cooperation with local responsible officials in key areas. Desperate local authorities may be willing to allow de facto experimentation, foreign access, and structural economic reforms to proceed as the price for gaining the resources necessary to feed their local communities, despite official concerns about or prohibitions against such activities expressed by the central government.

Another example of such a reform-by-necessity is the gradual acceptance of private market activity throughout the country. The emergence of these markets in the early 1990s coincided with early signs of economic distress, but authorities still actively opposed and prosecuted as illegal such nonsanctioned trading activities. When the food crisis reached its height following the 1995 and 1996 floods, the population had no recourse but to seek daily necessities through private market activity, as the central government’s public distribution system began to wither and was no longer adequate to meet the needs of an increasing number of citizens.

Another reform measure emphasized by Chinese scholars is the selected implementation of the “household responsibility system” in agriculture, replacing North Korea’s collective-style agricultural system. The household responsibility system

gives responsibility to smaller groups of families than in collectives to work together to manage agricultural tasks, although strictly private management of agricultural plots continues to be discouraged. Chinese analysts hail the adoption of the household responsibility system as a first step toward Chinese-style agricultural reforms, and even suggest the unlikely possibility that such reforms may enable North Korea to farm its way out of the current crisis.

Perhaps the only long-term response by North Korean officials toward seeking a resolution to North Korea's structural reforms has been North Korea's efforts to attract foreign trade and investment in the Rajin-Sonbong Economic Zone. Chinese scholars and officials have supported such steps toward opening this market, which parallel the Chinese path to economic reform. North Korean officials have inched their way toward such reform, beginning with foreign investment laws passed in 1984, but have been reluctant to fully embrace the steps necessary to reassure foreign investors. The Rajin-Sonbong Investment Forum held in September 1996 and efforts by Vice Chairman of External Economic Affairs Commission Kim Jong U to sell the zone at international gatherings were sufficient to attract initial promises of over \$265 million of investment from five companies. Almost all the investors have close connections with China, demonstrating some level of Chinese government support for North Korea's economic reform efforts. However, given the lead time required to make investments and get projects up and running, North Korea's continued weakening may prove such efforts to be too little, too late.

Implications for North Korea's Political Stability

For the first time, Chinese scholars are openly considering the possibility that North Korea's long-term survival is questionable, and some scholars are analyzing the factors that will either prolong the regime or hasten its fall, rather than simply assuming that North Korea's political leadership is sufficiently stable to ensure long-term survival. Despite this poor assessment of North Korea's survivability, Chinese scholars point to a host of indicators that suggest that political change in North Korea may not occur suddenly or easily, and that it is still possible for North Korea's current political leadership to remain in power for some time if it is willing to follow the Chinese path of controlled but steady economic reforms.

Chinese scholars site the following factors favoring stability or slow rather than sudden change:

- Ideological indoctrination and isolation of the general population. Chinese scholars point out that the average North Korean has been trained from birth to serve the North Korean leadership and has no concrete access to the outside world with which to make an informed judgment about how bad the situation in North Korea really is. One piece of evidence consistent with this view comes from a Korean-Chinese hotel worker in Yanji, who reported that "Even though they go hungry, North Korean refugees continue to praise their Great Leader and say that they live in the best country in the world."
- Absence of capacity to organize dissent. Because the people still believe in the system as a result of lifelong indoctrination and zero tolerance for political dissent, no organization exists through which political reforms can be pursued. Kim Jong Il's consolidation of control over the military ensures the perpetuation of his political control. As one Chinese scholar put it, "One million soldiers (in the Korean People's Army) are still eating, and the people cannot fight back."

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- Structure of the distribution of goods and privileges. When faced with extreme shortages, individuals have only two choices: either to use connections within the political structure to gain the resources necessary for survival or to die outside the system. Thus, the likelihood of political challenge to the leadership is slight.

One Chinese scholar provided the following assessment of factors that will affect the longevity of North Korea's system. First, the amount of international food aid North Korea receives may help it to overcome its immediate crises, perpetuating the North Korean leadership's political control. Second, the political environment within North Korea, including whether it is possible to settle political struggles in favor of opening to the international community, will have an impact on North Korea's future course. Finally, the attitude and character of Kim Jong Il himself is a critical factor in determining the fate of the regime.

Implications for Northeastern China

Adjustments in the balance of power on the Korean Peninsula in favor of South Korea have had a significant impact in northeastern China. South Korea has become an important source of trade, investment, and economic growth, while North Korea's relative poverty threatens to spill over the border in the form of demands for food and the emergence of hundreds of refugees from North Korea who have crossed the border in search of food. China's official relationship with South Korea is only five years old, but the momentum for closer economic relations (and closer political ties) is growing quickly, while North Korea's former influence and shared ideological ties are dying with its first-generation leadership.

The Growing Influence of South Korea

The Sino-South Korean economic relationship has blossomed rapidly since the establishment of official relations in October 1992. This momentous political shift from China's traditional relationship with North Korea was facilitated by economic ties with the South that had already grown to \$3 billion per year by 1992 from zero in the mid-1980s. Since normalization, the pace of growth in Sino-South Korean economic relationship has only quickened, as bilateral trade reached \$20 billion in 1996 (a 25 percent increase over the previous year). Rapidly growing South Korean investments have concentrated mostly in northeastern China, particularly in the Shandong and Liaoning provinces. Foreign direct investment from South Korea has grown from \$2.74 billion in 1995 to \$4.2 billion in 1996, a 41 percent increase. Over 160 small and medium South Korean firms have extended investments into Jilin Province, and South Korea is the third largest investor in Jilin Province behind Hong Kong and the United States. The Yanbian Korean Autonomous Prefecture, with its sizable ethnic Korean population, is one area within Jilin Province where South Korean investment has found a natural home. However, the real attraction of Yanbian for South Korean investors has been as a potential jumping-off point for future investment in North Korea.

Following normalization and particularly within the past two years, there has been a steady rise in individual visits between South Korea and China that support economic exchange. Korean-Chinese have sought both legal and illegal entry into South Korea to earn money doing low-end jobs. South Korean tourists have traveled to China and particularly to the Yanbian Korean Autonomous Prefecture, site of Mount Paektu, the mythological birthplace of the Korean people. This flow of exchanges had reached 700,000 in 1996, according to South Korean Foreign Minis-

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ter Yoo Chong Ha. Such exchanges have clearly provided new sources of capital and investment to the Korean-Chinese citizens of Yanbian.

In addition to benefits from increased investment from South Korea and increased work opportunities within South Korea, Seoul has become a new cultural resource for Korean-Chinese residents in Yanbian. However, local residents also complain that the growth in tourism from South Korea has also brought with it negative effects, including the "ugly Korean" syndrome, in which affluent visitors from the South flaunt their wealth and success in a deprecating manner before the Korean-Chinese, and an increase in the incidence of sexually transmitted diseases spread by some South Korean tourists.

Impact of North Korea's Crisis on Northeastern China

While South Korea's growing economic influence has had a positive influence on economic development in China's northeastern provinces, North Korea's food crisis has created the prospect of instability along the border, leading to an increase in flows of refugees and putting stress on the local Korean-Chinese community to provide food to help starving relatives in the North. These two developments have significant implications for management of China's official relations on the Korean Peninsula. Regional officials are on the front lines in managing concrete aspects of policy toward North Korea. The immediacy of problems stemming from North Korean instability may provoke differences in reactions between local officials, who are interested primarily in attracting investment from anyone who is willing to provide capital, and policy planners in Beijing, who may be primarily concerned with management of geopolitical and international relations concerns. The two concrete policy responses required from local Chinese officials are management of the North Korean food issue and the prospect of increased flows of North Korean refugees into China.

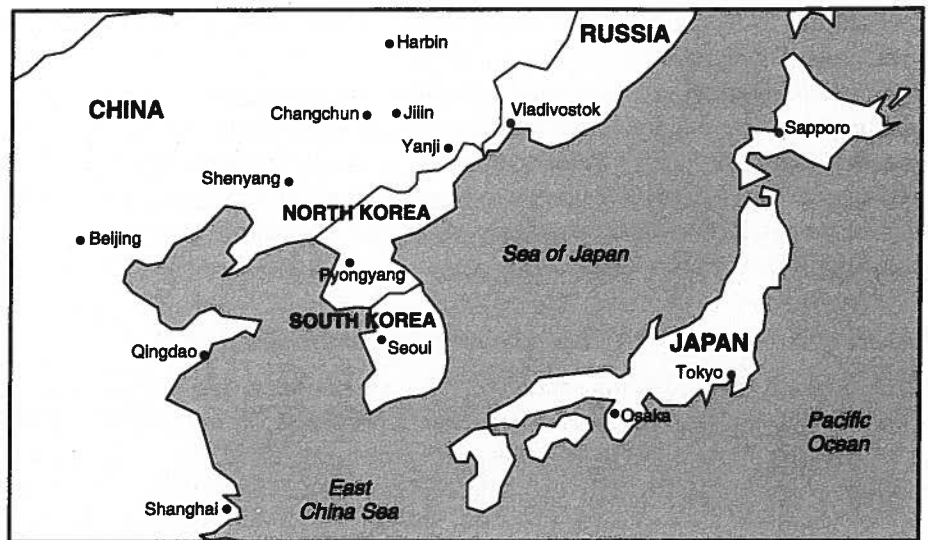
China has provided aid to North Korea through three different means: government-to-government aid, subsidized trade (disguised aid), and barter. Conversations with Chinese scholars suggest that it is proper to assume that China's contribution in recent years has averaged at least one million tons of grain per year. Recent customs figures show that at least 60,000 tons of grain per month have come across the Sino-North Korean border, and there are reports that unrecorded transactions regularly occur after the customs offices close each day. Another way of calculating China's grain contribution is to count announcements of national aid (approximately 140,000 tons in 1996 and 150,000 for 1997 through the first eight months of the year), national trade statistics (including 500,000-plus tons of wheat flour) and provincial trade statistics (approximately 100,000 tons of grain each for Liaoning and Jilin provinces, counted separately from the national figures, according to analysts of China's statistics collection process), and estimates of the amount of grain bartered by the Korean-Chinese community or delivered as part of supply to families (estimated at over 100,000 tons in Jilin province and possibly similar in Liaoning province). Although there are risks of double counting, analysts of China's statistics collection process suggest that undercounting may also be a distinct possibility.

Additional evidence of China's generous policy of allowing and possibly even encouraging grain transfers into North Korea on an unofficial basis include the following:

- Jilin Province—which had such a bountiful grain harvest in 1996 that local officials have complained at a recent Party Congress about a lack of storage space—

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Chinese scholars suggest that China's grain contributions in recent years have averaged at least one million tons of grain per year.



has been excepted from a nationwide ban on grain exports instituted in 1994. (Much of this grain is known to have been directed toward populations in grain-deficient provinces in southern China, but some may have found its way to North Korea.)

- The limit on the amount of grain that members of China's ethnic Korean population are allowed to take to their relatives has reportedly been raised to 1,000 kilograms of grain per individual. (The size of such deliveries might be measured in truckloads, rather than knapsacks.)
- Chinese scholars report that Jilin provincial officials provided a previously unreported 100,000-ton contribution in 1995, leaving open the possibility that subsequent contributions on a provincial basis may have gone unreported.

The other major potential challenge resulting from North Korean instability has come in the form of refugee flows, primarily into border areas of Jilin Province. As the food crisis heightened through fall 1996, social controls within North Korea loosened and signs of social instability in North Korea grew as it became necessary for many ordinary North Koreans to forage widely for their food. Greater movement within North Korea was permitted, and North Korean border controls became more lax, creating flows of refugees in numbers great enough to get the attention of Chinese authorities. Although South Korean media report that Chinese border camps are under construction and as many as 3,000 North Korean refugees have already crossed into China, Chinese academics deny both stories, putting the refugee count at less than 1,000, a number that the ethnic Korean community in China might be able to absorb.

Even after coming to Chinese territory, North Korean refugees have few options available to ensure their survival. They usually cannot speak Chinese and are easily distinguished from local populations outside of the border area by their dress, mannerisms, and lack of Chinese identification. Northeastern China has its own problems with unemployment and the "floating population" of unemployed Chinese, which further limits survival options for the North Korean refugee population.

Requests for asylum by ordinary North Korean refugees to South Korean consular authorities in China are easily ignored by South Korean officials in favor of high-profile defectors with potentially useful information, while Chinese authorities—concerned primarily with internal stability—claim to be bound by terms of a mutual repatriation treaty with North Korea. Refugees are returned to North Korean authorities to face punishment and likely death. Despite widespread knowledge of the fate of these refugees, one Chinese academic in Liaoning province emphasized that China has a humanitarian refugee policy: first the refugees are fed, and then they are returned to North Korea in accordance with treaty obligations. In recent months, North Korea's social controls appear to have loosened to the point that the practice of executing returned refugees has slackened; Chinese authorities are finding that some of those refugees who have been turned over to North Korea have subsequently resurfaced in China.

Chinese local authorities may seek to avoid this dilemma by providing limited access in border towns to North Korean public security officials who are allowed to operate in Chinese territory, catching and returning North Koreans who may have risked an illegal border crossing. To the extent that the ethnic Korean community in China is capable of managing and absorbing refugee flows without creating instability, local authorities appear to have adopted a policy of looking the other way as much as possible.

Official avoidance extends far enough to allow South Korean nationals and members of the Korean-Chinese community to support a limited "underground channel" through which some emigration has been possible, including cases earlier this year in which whole families made their way from North Korea to Hong Kong and eventually to Seoul with the financial help of relatives in South Korea and the United States.

Conditions in China are sufficiently restrictive, and some North Korean illegal visitors are sufficiently loyal to their families and villages, that it is common for North Koreans near the border to make brief foraging expeditions to gather food on the Chinese side of the border. Some Chinese villagers near the border are reported to simply leave food outside at night for North Koreans who may make night-time excursions across the border to look for food. One North Korean refugee from Kyongsong County, North Hamgyong Province, said, "China is a place where one can actually live off the land and eat three meals a day, compared with the hell I came from." Yet after a stay of several months in the Chinese border area, he had no choice but to return to his family in North Korea after South Korean authorities rejected his request for asylum.

China's Strategic Options toward the Korean Peninsula

Chinese scholars describe a pragmatic policy approach to the Korean Peninsula that accepts the possibility that the status quo may be unsustainable. Indeed, there is a clear recognition that the balance of power on the Korean Peninsula has shifted toward Seoul, although scholars in Beijing retain a rhetorical emphasis on China's policy of equidistance between Seoul and Pyongyang. The primary concern of Chinese observers is that Seoul's increased importance in the Korean Peninsula may signal a broader shift in the balance of power in Northeast Asia in favor of the United States and to the detriment of China.

Views of North and South Korea

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—North Korean refugee from Kyongsong County, North Hamgyong Province

Following normalization of relations with South Korea in 1992, Beijing steadily pursued a policy of equidistance between the two Koreas. In recognition of Seoul's preeminent role on the Korean Peninsula and the benefits of a rapidly expanding trade and investment relationship with South Korea, China's equidistance policy is now being effectively discarded in favor of a more pragmatic approach that reflects its own interest in stability and in the promotion of economic development.

China's official relationship with North Korea has been limited primarily to ceremonial exchanges and celebration of key anniversaries in the absence of direct personal ties formerly enjoyed by first-generation revolutionary comrades such as Kim Il Sung and Deng Xiaoping. In contrast, Jiang Zemin's week-long visit to South Korea in late 1995 focused on the future, including the fostering of economic relations. Chinese provincial officials in northeastern China—saddled with the burden of a high share of bankrupt state-owned enterprises but eager to join in the benefits of economic reform—are eager for South Korean investment regardless of political considerations.

While China cultivates an official relationship with Seoul, it has continued to encourage North Korea to follow the path of economic reform, particularly by providing economic support through unofficial channels. Limited oil subsidies continue on an official level, despite efforts to place such transactions on a hard-currency basis. In addition, the Chinese government provides indirect subsidies to North Korea by continuing to allow trade transactions between North Korean and Chinese companies on the border despite North Korea's mounting debt and the fact that many Chinese companies have gone bankrupt as a result of North Korean defaults on debts. There are also reports of expanded opportunities for Chinese-run foreign goods stores in Pyongyang, another way to extend economic leverage while making a profit from the business of prominent North Korean party cadres. Such transactions—combined with China's flexible policy of allowing sizable grain transfers through barter trade on the border—amount to informal subsidies to North Korea that are intended to foster North Korean survival and enhance its economic dependence on China.

Despite the costs of maintaining Pyongyang's economic dependence on China, some scholars hint that such dependence may be used to China's advantage regardless of whether North Korea finally pursues a path of economic reform. Jilin provincial scholars emphasize not only the importance of investment from Seoul, but also the importance of investment in North Korea's Rajin-Sonbong Economic Zone. In fact, Jilin provincial officials have been among the biggest supporters of the UN's efforts to create a regional development zone focused on the Tumen River area.

To promote its own economic reform effort, Jilin provincial officials have actively sought to encourage a channel of trade and investment that provides access to a northern seaport, and Yanji has grown rapidly as a beachhead and headquarters for a small number of companies investing in the zone, including the Hong Kong-based Emperor Group project to build a casino and hotel complex in the zone. If landlocked Jilin provincial officials cannot persuade North Korean and Russian authorities to provide China with access to the open sea by dredging the Tumen River several miles to the Chinese border town of Hunchun—as proposed several years ago—the second-best option might be for China to “buy” port access through sizable investment in the Rajin-Sonbong Economic Zone. Jilin Province's own economic self-interest supports investment in the Rajin-Sonbong Economic Zone, with some scholars suggesting that the Hong Kong turnover may free additional invest-

ment by Chinese companies interested in extending additional capital for China's stake in the Rajin-Sonbong area.

There is a strong political rationale for China to extend its economic support to North Korea, even if such investment proves unable to extend the life of the regime in Pyongyang. If China loses its political buffer on the Korean Peninsula, it may still be able to preserve an economic buffer in a reunited Korea by establishing strong trade and investment relationships with North Korean counterparts, many of whom will still be in a position to play critical roles in economic affairs even after reunification occurs.

U.S.-China Relations and the Korean Peninsula

Although the United States and China share common interests in preserving stability and preserving nuclear nonproliferation on the Korean Peninsula, the historical legacy of cold war confrontation and concerns about a possible shift in the balance of power in Northeast Asia that might accompany Korean reunification have inhibited frank consultations and coordination of policy toward Korea. At the same time, it has become conventional wisdom among Korea specialists that good U.S.-China relations are necessary to reduce tensions between the two Koreas.

The legacy of the Korean War and the sensitivity of the Korea question within China itself are major influences on Chinese perceptions of U.S. intentions toward Korea. First, senior members of the People's Liberation Army fought in Korea against the United States. Although the reestablishment of the 38th parallel as the border between North and South Korea may be seen as a victory, the possibility of North Korea's demise would be seen as a psychological defeat, despite the political differences that have grown between the two countries. Second, the Korean War shaped the context for many of the core problems that remain sources of tension in U.S.-China relations, including the perception that the Korean War and U.S. involvement in it may have helped solidify the division between mainland China and Taiwan. Third, reunification on South Korean terms might also mean the extension of U.S. alliances in Asia to the Chinese border, an unacceptable development that was a primary cause for China's original involvement in the Korean War. Finally, the situation in Korea and possible contingencies have a direct impact on many of the most sensitive domestic issues China faces, including the financial impact of North Korea's problems and management of state-owned enterprises in the northeast, dealing with China's "floating population" of unemployed citizens, issues related to ethnic autonomy, and management of foreign investment and trade relationships to support continued economic growth.

One result of such a legacy is that Chinese scholars maintain a cautious and mixed view of U.S. intentions on the Korean Peninsula. On the one hand, China has encouraged normalization of relations between the United States and North Korea as a step toward stabilization of tensions and reduction of confrontation. On the other hand, some Chinese scholars are well aware of the limits of Chinese leverage over North Korea and recognize that Washington may now have greater opportunities than Beijing to influence Pyongyang. Although the promotion of dialogue and reconciliation between North and South Korea is in Beijing's interests, many observers in China distrust Washington's motives in encouraging such a process and are worried that the process might develop at the expense of China's own national security interests. China's support for Four Party Talks may be primarily motivated by a desire not to be left out of the process, which may have a direct effect on China's

Despite the costs of maintaining Pyongyang's economic dependence on China, some scholars hint that such dependence may be used to China's advantage regardless of whether North Korea finally pursues a path of economic reform.

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The shift in the balance of power on the Korean Peninsula itself will require stepped-up policy coordination among all the parties involved, including a much more frank dialogue than currently exists, particularly among the United States, China, South Korea, and Japan. Formal consultations on Korea were initiated in June 1997 between Acting Assistant Secretary of State for East Asia and the Pacific Charles Kartman and his Chinese counterpart, Vice Foreign Minister Wang Yi. In addition, China's involvement in the Four Party Talks may be seen as another step toward establishing official subregional consultations in Northeast Asia, although such a process remains incomplete in the absence of a formalized regional structure for discussing security issues. It might also be useful to extend the dialogue to include private discussions at the Track Two level among Americans, Chinese, and South Koreans regarding various contingencies on the Korean Peninsula and their impact on respective national interests and security perceptions. In addition, consideration should be given to the influence of changes on the Korean Peninsula on the balance of power in Northeast Asia, including the impact and influence of U.S.-China relations on the Korean Peninsula.