

Deepening China-North Korea Economic Ties: Trends, Characteristics and its interaction with the Future Inter-Korean Economic Community

Liu Ming¹

Shanghai Academy of Social Sciences

North Korea nuclear issue and Six-party Talks indeed provide a platform for China to play a significant and provocative role to safeguard Korean Peninsula peace and stability and ensure China basic security interests in the Northeast Asia. While seeing the long stalemate of the Six-party Talks, we also observe a parallel avenue that China is actively playing role, i.e. promoting economic relations with North Korea. How are they developing? How should we read this trend and implications? Having taken these questions in mind, this brief paper will take a try to explore the causes, characteristics and the implications of the development.

Review of China-DPRK Economic Cooperation after Cold War Era

After the conclusion of Cold War, China-DPRK political and economic relations became cool and pragmatic because partly China's economy had been gradually transformed into a market system, which stressed benefits and reduction of costs in utilizing resources and focused economic cooperation ties more on the Western countries; and partly Beijing and Seoul normalized their diplomatic relations since 1992, while Pyongyang didn't realize the goal of improving relations with Washington and Tokyo, for which Pyongyang was very much irritated and cold-shouldered towards China for several consecutive years. ²Among all these factors, the change of trading transaction pattern on the side of China towards North Korea may inflict a fatal blow upon their bilateral economic relations because DPRK

¹ Liu Ming, is a professor of the Institute of Asia and Pacific Studies, Shanghai Academy of Social Sciences, his research focus in on Korean Peninsula security and economic issues.

² Park Doo-bok, "Sino-Korean Relations since 1992: Achievements and Prospects", *East Asian Review*, Vol.14, No.1, Spring 2002, p.5.

had no sufficient cash to pay the imported goods from China.

This shift was mainly marked by a new trade pact between Beijing and Pyongyang signed in January of 1992, in which barter trade was replaced by the foreign exchange trade (cash payment system), and also with one article providing that two side business between enterprises should be less influenced and intervened by the governments.¹ Of course, the trade figure alteration was not displayed in the all descending trend. From 1991-1993, the total trade figures were around \$ 550 million to \$ 990 million, which nominally kept a climbing trend. But from 1994, the trade fell down sharply to \$ 624 million, and continued to drop to the rough range of \$ 500 to 550 million in the following two years. Then it developed in another round of uneven (curving) stage. In 1997, it returned to the year of 1994 level, reaching up to \$ 656 million. But in 1998, it receded to the \$ 413 million and continued to drop to the lowest \$ 379 million in 1999 and maintained 1998 level until 2001.

A sharp rebounding was seen in 2001 when the trade re-climbed to \$ 740 million and then \$ 739 million in 2002, \$ 1,023 million in 2003 (up 38.51 %), \$ 1,385 million in 2004, \$ 1,580 million in 2005, 1,700 million in 2006 (the amount reaches to \$ 1,250 million by the end of August 2007). Now China has become the biggest trade partner of North Korea, accounting for 39% of North Korea total trade. The increasing amount of Sino-North Korea trade accounts for 77% of the total rising amount of North Korea foreign trade.

Since the July 1 of 2002 measures came out in North Korea, many Chinese enterprises held that North Korea would soon move to the complete reform path and its market prospects looked very bright, so they began to invest in the North Korea through the China-North Korea border trading activities. Within a year in 2004, those companies had invested \$ 50 million there, sharing 85% of total North Korea foreign investment. China now has 44 accumulative items of investment in North Korea, equaling \$ 219.35 million in agreement amount (\$1.27 million in actual amount). The investment items cover foods, electronic products, chemical industry, medicine, light

¹ See Chen Feng-jun and Wang Chuan-jian, *yataidaguo yu chaoxianbandao* (Asian-Pacific Major Powers and Korean Peninsula), Peking University Press, 2002, p.333.

industry, mine, forage, transportation, garment, building materials, etc.

Generally speaking, before 2003, Sino-DPRK economic relations were in a relative low level and small scale. The reasons for that were various: first, China substantively reduced its generously economic assistance with traditional friendship. This action of assistance reduction didn't just aim at the North Korea, but was a result of foreign policy adjustment in the 1980s' and 1990s'. China started cutting down all its foreign assistance towards Third World countries since Deng Xiao-ping launched a reform campaign and demanded Chinese foreign aids need to be more pragmatic and accommodate to our own limited ability and fiscal status as a Third World country¹. However, during most of the years of Deng's leadership (1978-1992), given the close and traditional feeling between Deng and Kim Il-sung personally, which inherited from Mao Ze-dong and Zhou Enlei, Beijing still offered some privilege or preferential treatment to the North Korea. But when the Beijing's power was transferred to the third generation---Jiang Ze-min and Zu Rong-ji, it seemed they had less willingness and enthusiasm than their predecessor to maintain this politicized assistance modality with DPRK, which rendered China to shift its trade transaction approach in 1992.²

Second, since North Korea didn't open up and adopt reform policy during the years in 1990s and the beginning of 2000, and its economy was very dull, inactive and ossified, and people didn't have money to buy the foods for survival and do trade through credit, so there was little chance of gaining profits for investment and bringing back the pre-paid money on credit there while the whole North Korea had no valuable goods to export to exchange for purchasing daily-necessaries outside. On the contrary, Chinese market was very prosperous and full of vitality and its enterprises and businessmen were getting used to the marketization and cultivating their sense of profits, therefore most of them had no interests in continuing to widely develop economic cooperation with a non-commercial country---DPRK.

In spite of the decreasing trend of the bilateral economic and trade relations,

¹ Liu Xiang-dong, "*Deng Xiao-ping duiwaikafang lilundeshijian*" (Deng Xiao-ping's Theory of External Opening Door and its Practice), China External Economy and Trade Publishing House, 2001.

² Park Doo-bok, "Sino-Korean Relations since 1992: Achievements and Prospects", *East Asian Review*, Vol.14, No.1, Spring 2002, p.6.

China still kept providing North Korea many goods freely during that difficult period, which included grain, coke, diesel fuel, fertilizer and the others. The thinking behind Beijing's position to maintain the minimum assistance relations with Pyongyang might lie at that, two countries were traditional allies, and thus they were of sentimental symbolism as well as political importance, though descending in degrees, in ideology, regional strategy, protection credibility and border security. Therefore Beijing just didn't want to hurt DPRK's leaders feelings too much.

At the same time, there was another form of economic cooperation existed as a replacement for the official economic ties, i.e. barter trade. That trade first emerged in 1994 when North Korea started to experience starvation. Since DPRK desperately needed foods at that time, so it authorized its trading companies to ship all their exportable goods to China in exchange for grains and other foods, and in turn, a growing number of Chinese private business people along the border seized this chance for trading. During that period, North Korea usually shipped scrap iron and spare parts to Dandong, China. Though this business was very vigorous and profitable then, it involved in some risks in the transaction. When Pyongyang suspended scrap iron from shipping to outside all of sudden in 1997, many large Chinese trading companies went bankruptcy because they were unable to get back the debt from the North.

The year of 1998 was another time that witnessed the re-booming of border trade between two countries since "Sunshine Policy" towards the North South Korea, sought by President Kim Dae-jung, because South Korea exempted all goods, originated from the North, from taxation. Chinese businessmen grasped this new chance by shipping various goods from North Korea to South Korea to gain the difference of the prices. In recent years, North Korea offered another cooperation chance for Chinese private businessmen: that is extraction of mines by setting up joint ventures. Usually Chinese side gets back the coal, scrap iron and nonferrous metals through contributing its capitals, technology and transportation tools to the North.

North Korea Resources and Denuclearization: Having an Important

Bearing on the Chinese National Strategy

China has a three-tier of national strategy, which involves both economic development and security strategy, i.e. putting together all its resources to fully develop its economy and try to move its state into the rank of developed countries in the middle of 21st century in terms of people's life (in per capita GDP) and turns itself into a harmonious society; forging its military force to be more powerful so that it could deter Taiwan separatist forces from declaring independence and the US forces from intervening in the Taiwan Strait crisis, and defend China's sea-lanes of communication and other oceanic interests; developing strategic partnership relationship with all major powers (the US is in the center) and surrounding countries and creating a harmonious, prosperous and stable environment in the East Asia.¹

Judging from the components of the above strategy, they are certainly associated with North Korean special position and role, which might be implied in the following aspects. First, as Chinese coast areas have been fully developed in these years, while the Northwest and Northeast areas are still very backward or be deeply perplexed by state enterprises severe cost and sluggish development, the region disparity and disequilibrium become more salient and social grievance and frictions are growing, therefore the central government of China has to invest more resources and work out creative blueprint for these regions.

In 2003, the Central Party of Chinese Communist Party issued the 11th Papers that decided to take the Northwest region development as one of state focal points. In March of 2006, the No.3 local government Decree came into being in Liao Ning Province, which involved a "Five Points and One Line" plan that designed to integrate Dandong and Dalian with other three cities as a core development area and plus an East-lane Railway Line connecting Dalian city with Mudanjiang city. Since Dandong is a border city of North Korea and DPRK Rajon Port could offer Chinese city Hunchun and surrounding region a sea exit, so North Korea could play a very

¹ Part of the strategy content could refer to the news reporting of Chinese Communist Party Foreign Affairs Conference held in August 21st -23rd, 2006 in Beijing. For China's Grand Strategy, please also see Tang Shi-ping and Zhang Yunling, "China's Regional Strategy" (*Zhongguo de Diquzhanlue*), *World Economy & Politics* (in Chinese), No.6, 2004, p.8.

significant role in the reform and opening of Northeast of China.

Second, to sustain China's a fast economic growth, propped up by a labor-intensified and mass energy- consumed industry, needs a large amount of secured energy from overseas, nevertheless China now faces the severe shortage of energy. While as North Korea has a rich storage of many kinds of natural materials (mainly want of oil) and it now wants to use this resources advantages as a leverage to lure investment and exchange for its much-needed rice and other daily necessities from overseas, its resources market certainly become one of the China's large enterprises hunting objects for meeting the increasing domestic demand for different kind of materials and energy. Currently, for whatever foreign natural resources fields or oil input could be fully locked by any of the Chinese company, it would be encouraged by the government.

Third, China sees North Korea as an inseparable part of China's diplomatic goal---Harmonious Asia-Pacific region, which demands a denuclearized, stable and economically viable Korean Peninsula. Beijing neither wants to see the sudden collapse of current North Korea leadership, which possible lead to a civil war or social turmoil and refugees fleeing to China, nor accept a military strike or regime change carried by the US to solve the nuclear issue, which would likely spur North Korea to take risky retaliation action against the US, Japan or South Korea, or produce a new regime that is not friendly to China. ¹For military action, no matter it is a conventional or nuclear one, the peninsula would be again involved in a major war, and Chinese strategic chance for economic development would be interrupted and its security and economic interests would be considerably damaged.

But now, DPRK has developed nuclear program, owning several nuclear war heads, and it still persists in pursuing a "Military First Strategy" and has no intention to fully open door and conduct a substantial reform. Since North Korea nuclear test on October 9, 2006, the crisis has been much acerbated, UN has adopted the No.1718 Resolution for imposing sanction on DPRK, the US, Japan and some other countries,

¹ Bush administration for some time appears to pursue a strategy to have North Korea regime change, please refer to Kosuke Takahashi, "China's Worsening North Korean Headache", *Policy Forum Online*, Northeast Asia Peace and Security Network, www.nautilus.org, February, 8, 2005, p.5.

in line with PSI, CSI (Proliferation Security Initiative, Container Security Initiative), are ready to take measures to inspect North Korea vessels for weapons of mass destruction and technology at various arriving and departing ports. Therefore, a sort of conflict between the opposing parties might occur, if no crisis management measures are properly being taken.

In this case, on the one hand, China has to step up its shuttle diplomacy between Washington and Pyongyang, trying to drag North Korea back to Six-party Talks for a unlikely accomplished goal of dismantling its nuclear program; on the other hand, it would continue to take an engagement policy towards the DPRK so as to lure it to restrain its provocative behavior and ease the tense situation on the peninsula.

Fourth, over a long time, North Korea, as an abnormal country in terms of international regime and norms, has been a security hotspot or one of the spotlights in the international community since it often created crisis or trouble for the US and other surrounding countries. China now is a stake-holder with the US in the international community and has the obligation to maintain all existing international regimes and build new regimes if necessary for the stability of international system.¹ Therefore, on the score of North Korea weapons of mass destruction development, Chinese interests and policy almost fully fall on the category of members of international community, they don't want to other countries cast skepticism about Chinese commitment towards the goal of denuclearization on the Korean Peninsula.

Further more, China is widely regarded as DPRK's traditional protector and biggest donor, thus whenever North Korea is entangled in a collision with the US and other countries, China would be pressed to play a role to force North Korea change its policy and behavior. In this case, China has to take up the responsibility with the utmost endeavor to control this recalcitrant country, while envisaging creative approach to turn this long-born burden into a valuable resource of the region, i.e. encouraging North Korea to open up and conduct reform.²

¹ Then American Deputy Secretary of State Robert Zoellick re-conceptualized Sino-American relations as stake-holder in September of 2005, Chinese President Hu Jin-tao responded this concept to American President George Bush in April of 2005 as both sides were not only stake-holders and but also the constructive cooperators and builders of the international system.

² See Kim Tae-kyung, "China's Abandonment of North Korea: a US Neo-Con Fantasy?", [www. OhMyNews.com](http://www.OhMyNews.com),

China-DPRK Economic Cooperation: Changing Patterns in Part

It seems there are five patterns of China-DPRK economic cooperation. First one is regular official assistance, which mainly involves fuel and grain. This kind of aid serves the basis of two countries economic and politic relations, and ensures, along with the other assistance from South Korea, WFP and North Korea's own produced grain, North Korean people survival. Without them, the operation of DPRK state apparatus might face great straits, and more North Korea people will cross the border to China, let alone the difficult bilateral ties. The amount of Chinese assistance won't fluctuate frequently, since North Korea foods situation have been improved in these years and they are able to buy the additional needed fuel from China or other countries with the increased cash earned from their border-trade and other business.

Second one is also a regular one, which refers to some special industrial projects, which are demanded by the DPRK and accepted by China according to the needs of priority. The most recent examples are the just completed Friendship Glass Factory (\$ 24 million investment) and the bicycle factory assisted by Tianjian city.

Third one is the infrastructures construction. This cooperation is driven by two sides' economic development. All North Korea trains, railways, port facilities are very backward, which become the bottleneck of their economy revitalization. And for China, its transportation of goods to the North is also seriously encumbered by their decayed facilities and systems. And further more, the vitalization of the economy in the Northeast China and its trade and material transportation linkage with the countries in Pacific Asia and Europe all heavily rely on train, highway and sea route, thus the role and condition of North Korea infrastructures become salient for the bilateral cooperation.

Given DPRK no sufficient capitals and technology to remold and upgrade those facilities, the best complementary way is to set up joint ventures with China or rent out part of their facilities to China. There are two examples for that test-experiment. 1. Last October, two countries railway Ministries and Chinese railway companies

(mainly Hong Kong International Industrial Development Co. headed by Qian Haomin) agreed to set up a joint corporation, so that the latter could buy 200 used freight trains recently and up to 1,000 trains in the future for North Korea and build a railway line from Tumen to Chongjin. As a result, it would open up new trading routes between Pyongyang and Shenyang, and Chongjin, Rajin and Tumen.¹ 2. Last July two Chinese companies from Hunchun city also signed an agreement with the North on leasing Rajin Port for development and management for 50 years (No.3 and No.4 quays), which would be operated by a newly-set joint venture---Rason International Goods Transportation Incorporation (both sides hold 50 % shares), in exchange for Hunchun city's pledge to build highways from Rajin Port to a commercial development zone in Rason City, and remodel a quay No.3, and build 3 quays---No. 4, 5, 6 for Rajin Port, and plus a Duty-free Assembling Zone and Industrial Zone in the near future.

Fourth one is the raw material production cooperation. This is also a new item that may fall into the economic cooperation agreement between two governments. With a high economic growth and heavy consumption of raw materials, China now is badly in searching for energy and raw materials everywhere in the world. Last November, two Chinese steel companies plus a trading company negotiated with the North Korea Musan Iron Ore Mine company for granting rights to develop the largest iron ore deposit in the DPRK in exchange for Chinese offering power and rice back, the talks was reported to be suspended with some unexplained reasons. ¹However, it was also reported China had invested there for \$ 100 million, and that mine had exported 0.6 million tons of high-grade iron ore to China in 2004, and in 2005 it was estimated to reach 1 million tons.

If this agreement goes into effect, China will invest \$ 900 million for providing electricity, mechanical equipments and technology and building highways and rails.² And in the last fall, China's Five Metals and Mines Corporation signed an agreement with the North Korea Trade Ministry on setting up joint ventures in the area of

¹ See *Chosun Ilbo*, "China and North Korea Plan Large-Scale Railway Link", October 23, 2005.

¹ *Interfax China*, "China Tonghua Steel to Develop North Korea's Largest Iron Ore Deposit", November 1, 2005.

² Yonhap News reporting in Hong Kong, November 3, 2005.

coalmines.³ In last December, two governments also signed an agreement on cooperation in the joint extraction of oil in Bohai Bay.⁴ Of course, there are other kinds of cooperation contracts in the joint extraction of copper, coal and gold. We also note that in the 12th inter-Korean Economic Cooperation Promotion meeting, two Koreas signed similar agreement on cooperation in the joint extraction of underground resources, which shows North Korea is eager to use this comparative advantage.

The fifth is private or non-government planned investment, and private distribution contract with DPRK's department stores. This is a new development. In the past, it usually was the Chinese government that arranged its state enterprises or trading companies to develop investment and trade with the North in the service sector, but now it is those private companies that take the lead for such an economic cooperation. Even there are state enterprises involving in the investment, but they are not in a free assistance package. According to a report, 120 Chinese companies have invested in North Korea (among which, 20 Yianbian companies have invested in Rajin-Sonbong Special Economic Zone), mainly in the mining, fisheries and construction materials industries.¹ In addition to these formal companies, there are 40 merchants from Wenzhou, Dongyang and Hangzhou in Zhejiang Province having exchanged a letter of intent with North Korea First Department Store for retailing goods there, among which, Dongyang Guohao Trading Co. is in charge of the whole contract of lease (ten years) and its deputy general manager Lu Yunlei will become the general manager of North Korea First Department Store.

Chinese Expanding Investment in North Korea: A Mainly Spontaneous Action by Businessmen

There are various reasons or elements driving the current trend that China and North Korea increase their economic cooperation, or as South Korean economists and media put it that North Korea's trade dependency on China has surpassed 50 percent

³ See Hongkong *Wenhui Bao (Daily)*, October 29, 2005.

⁴ Interfax, "China, North Korea Agree to Jointly Develop Oil Fields in Bohai Bai", June 6, 2006.

¹ See Asahi Shimbun, "Resource-Hungry China Looks to North Korea", October 8, 2005.

and investment and cooperation between the two countries has become increasingly institutionalized.²

First, from above changed focus of two countries' economic cooperation, we can see the adjusted direction that Chinese government wants to set, i.e. making this ties more diversified---from government-directed to market-driven (less economic burden); from the free package deal to the profitable projects; from one side assistance to two-way cooperation (reciprocal); from narrow and short-term economic effects to the long-term reciprocal cooperation and spill-over economic effects.

This trend is in line with Chinese President Hu Jin-tao's suggestion to Kim Jong-il when Hu visited North Korea last year. These remarks could be summarized as four lines of expression: under the principle of mutual benefits and common development, encouraging Chinese enterprises to develop all forms of investment cooperation with the North Korean counterparts; expanding sizes of economic and trade cooperation; upgrading cooperation level; promoting the cooperation further ahead.

Second, it should not be neglected that without the proactive initiative and efficient, pragmatic and flexible coordination from the DPRK, this kind of policy adjustment couldn't be well implemented. As a matter of fact, lots of above-mentioned projects originally came from the North Korea suggestions and investment promoting activities, not merely from Chinese government economic arrangement. As more North Korea economic officials come to China, organizing economic cooperation promoting meetings and propagating their preferential policy and the recommended projects, there will be more Chinese enterprises and businessmen being attracted and persuaded by this kind of enthusiasm in DPRK style and deciding to seek their business opportunity in DPRK. And it also should be noted that behind these economic cooperation's projects, there is a smart Hong Kong businessman Qian Hao-min's contribution, who was appointed by North Korea deputy Prime Minister as an "Investment Promoting Delegate" in the early 2005.

² Jeong Hyung-gon (郑衡坤), "The Impact of Strengthened North Korea-China Economic Cooperation", *Global Economic Review*, February 2006, Vol.9, No.2, p.1 (page in downloaded paper---*Korea Focus*), Korea Institute for International Economic Policy.

Third, in theory, Chinese government encourages private enterprises to develop cooperation with the North, and it plays a regulating role, but the government actually doesn't formulate any incentive policy to that effect. The "going out strategy" mainly relates to big corporations, which are stimulated to go to world market to compete with multi-national corporations and to expand their products influence. For North Korea case, the investment environment is not benign and the legal system is not very much reliable, so at this moment, it is not the government real desire to push Chinese companies all out to risk their fortune there. However, for those private businessmen, they could go freely to any place, and by their own commercial instincts, they would like to risk their sufficient or redundant capitals in the potential market wherever there appears the commercial chance. Since Chinese market is so competitive, now more and more small and medium enterprises or dealers would like to go to some small, unknown or undeveloped, or less Chinese inhabited overseas countries, where they could find more commercial chance. Among them, the businessmen from Zhejiang Province are more adventurous and ambitious. Therefore when they first appear in this potential market in North Korea for digging up the first barrel of gold, we should not feel surprise.

Fourth, as Chinese reform deepens, there will come out more policy-line conflicts between central and local governments, and the latter would have more economic autonomy. In developing economic relations with the North Korea, the local governments (cities and prefectures) of the three northeast provinces show much great interest and are the main driving force. Every place wants to find what China calls a growing point, that is to say to take full use of their geographic or resource advantages to make their sub-regions to be the economic hubs. In the project of Rajin Port, we also can see some competition among different areas. By using Rajin Port, Hunchun city and Yanbian prefecture could turn the chance of materials delivering from Dalian Port and Dandong Port, Liaoning Province to their own region. Of course, the central government sometimes will take some policy coordination and give political and financial support to their active plan.

Fifth, aside from formal package assistance, most of the above cooperation projects

are spontaneously designed and promoted by various local areas and enterprises (Rajin Port project initiative was held out by Hunchun in 2003 in an attempt to open direct channel to the sea, so as to save time and a large amount of shipping charges for transportation). So far, Chinese investments are dispersed in different areas in North Korea, but mainly in the limited sectors of mining, fisheries, construction materials and light industries, they are not systemically organized and haven't formed any production base or centers.

Form above elaborated reasons, we don't find convincing evidence that China wants to control North Korea economy in a system way. What China has adjusted its economic cooperation patterns just demonstrates that it puts reciprocal profits and resource needs first, and it wants to break up one of the economic bottlenecks---poor infrastructures---that long constrains North Korea economic advancement and its future large-scale reform. For example, North Korean railways system has three big problems---keeping a large stock of goods, defaulting debts, holding Chinese railway wagons frequently, and just in the year of 2004, 2,000 Chinese carriages were withheld there, so it is very imperative to remold that system for the sake of two sides smooth economic cooperation, and inter-Korean cooperation in the next step.

The current status of North Korea trade and investment dependence on China is a special case, a by-product in a special time. If nuclear issue could be resolved in the near future, two Koreas could substantially implement the October 4 Joint Declaration of the second inter-Korean summit and the U.S. and Japan could normalize their relations with DPRK and Pyongyang could finally take a bold reform policy, the situation would be changed dramatically, American, South Korean, Japanese and European businessmen could swarm into North Korea market. In this regard, their external economic relations could go into a new diverse balance. And the ongoing projects between China and North Korea will pave the way for the all Northeast Asian countries to accelerate building the Tumen River Area Development Programs and Northeast Asian material transportation hub, to fully tap and utilize and integrate this regions resources and different kinds of economic elements based on their comparative advantages. So it will be a win-win game for China, North and South

Korea.

Now more and more Chinese daily-necessities are sold in North Korea markets, this is because Chinese light industrial goods have the price competitiveness, and for the time being, North Korea people's consumption level is compatible with those low price Chinese goods. However, North Korea government will not allow Chinese to be deeply integrated with its scientific and other strategically economic sectors and the markets. Therefore, this dependence is still a tactical one, not a strategic one.

South Korean people really want to see they can play a leading economic role in the North Korea economy, it is understandable. However, the currently inclined China-DPRK economic ties are a combined product of globalization and NK closed-door policy. So long as DPRK clings to the Juche ideology and family-dynasty, it will take a cautious way to accommodate South Korean investment and people in major parts of its country. Both Koreas have the same language and culture, so if South Korean investment and goods could freely get into everywhere of North Korea markets and soil, they will worry about its survival of the socialist society and its party system. As far as the North Korean leaders are concerned, bringing in Chinese businessmen would entail less political risks, of course, when Chinese businessmen have too much influence there, Kim Jong-il would also take measures to limit such an expansion. North Korea party will continue keep its strong national independence as its foremost principle to be abided by.

2007 South-North Korean Summit, Building Korean Peninsula Economic Community and its Impact on China-North Korean Economic Relations

From the content of October 4 Declaration, we could very well perceive the fruitful results of the South-North Korea summit. In the declaration, the most striking clause is about building a "special peace and cooperation zone in the West Sea encompassing Haeju and establishing cooperative complexes for shipbuilding in Anbyeon and Nampo, while continuing cooperative projects in various areas such as agriculture, health and medical services and environmental protection. If that could be established in the near future, it would be breakthrough or landmark development in

the inter-Korean relations. Any overestimation of the significance could not be overdue: 1. so far there are only two limited special economic zones in North Korea built by South Korea, their economic and political spill-over effect is limited, because their focuses are more on people's leisure life, NK profits-gaining as well as reducing South Korean labor-intensified industries costs. For this new peace zone, the cooperative complexes and other comprehensive projects, they have more wide scope, their locations are in NK wide coast areas and they will overall promote NK's industries and improve North Korean people's living condition. 2. These areas are the congregated place of frequent maritime skirmish occurred and boundary line dispute, and of NK naval headquarter, so it is very sensitive and strategically important for NK. So whether opening these areas to the South Korea would become a litmus test for Pyongyang genuine intention for taking a more open-minded approach towards Seoul over the issue of economic cooperation and peaceful co-existence.

Observed from current progress in letter, such kind of upgraded inter-Korean economic cooperation would considerably overwhelm China-North Korean economic cooperation in terms of momentum and overall scope, and it would greatly enhance the unity of Korean compatriot and confidence of building an economic community in the near future. More importantly, the expansion of inter-Korean economic cooperation would serve a balance function for South Korea against the fast-developed China-North Korea economic cooperation.

However, both China's and South Korea's economic cooperation with the North is not all incompatible. According to Oct. 4 Declaration, South Korea would push forward with the building of infrastructure and the development of natural resources in the North. Given the fact that DPRK's infrastructure is worn-out and they lack the electricity and technology to explore their underground resources, Chinese and South Korean efforts in different areas would help the North to gradually improve its infrastructure condition and take its resources to exchange for their urgently-needed goods and rice. And for two Koreas' pledge of repairing of the Gaeseong-Sinuiju railroad, all three countries would be the benefactors, and further more, all Northeast Asian and some European countries goods transportation from Japan, South Korea via

China to Europe would be more smoothly and less costly. Currently, there is no evidence to show that China wants to use its economic relations to compete with inter-Korean economic cooperation and national reconciliation, or even to resist the process of Korean unification, so China would not feel upset about this new development. And all what Beijing would care is the ongoing cooperation projects between PRC-NK would be faithfully carried on and any future North Korean economic revitalization arrangement needs to take other Northeast Asian countries into account.

Over a long time in the wake of Chinese reform, it was some Chinese leaders' view that the capital, technology and the main sources of assistance for North Korea economic development should be diverted from China to the South, and it is South Korea that could play a leading role in helping the North to open its society. This was the reason that former Chinese premier Zhu Rong-ji urged Kim Jong-il to set up a special economic near DMZ, not at the bordering city of China and North Korea.

In sum Both China and South Korea share part of the goal in developing economic cooperation with the North, because in addition to the commercial benefits, both countries desire to encourage North Korea to open its door, conduct reform and improve their people's living standard.

Beijing now is consolidating its political and economic relations with Pyongyang, just because China wants to change the old one-sided assistance formula into a somewhat reciprocal commercial type, and it also desires to keep the channel open with North Korean top leaders in a normal way, ensuring effective influence on them and preventing some unexpected events from happening, and avoiding nuclear crisis being escalated. The ties between two countries are much closer than previous years since both sides realize the relations are complementary in terms of bilateral strategic needs, security and prosperity in the Northeast Asia, but close contact doesn't amount to deep trust and converging interests. In Chinese mind, patience, respect of its sovereignty and persuasion are always valid in dealing with North Korea, the key of the solution lies on their policy and system reform, but before that, we need to help them to build confidence, economic strength, benign environment and let them adapt

to the new ideas and rules in the world system. So what China is doing in North Korea is just to explore new path and to have trying new effective leverage.