



universität
wien

DISSERTATION / DOCTORAL THESIS

Titel der Dissertation /Title of the Doctoral Thesis

„China’s economic engagement strategies towards a
reforming DPR Korea”

verfasst von / submitted by

Theo Clement, master

angestrebter akademischer Grad / in partial fulfillment of the requirements for the degree of
Doktor der Philosophie (Dr. Phil.)

Wien, 2018 / Vienna 2018

Studienkennzahl lt. Studienblatt /
degree programme code as it appears on the student
record sheet:

A 792 399

Dissertationsgebiet lt. Studienblatt /
field of study as it appears on the student record sheet:

Dr.-Studium der Philosophie
(Dissertationsgebiet: Wirtschaft und
Gesellschaft Ostasiens) UG2002

Betreut von / Supervisor:

Univ. Prof. Mag. Dr. Rüdiger Frank
Prof. Yveline Lecler



DOCTORAL THESIS

„China’s economic engagement strategies towards a reforming DPR Korea”

Submitted by Théo Clément, MA

in partial fulfilment of the requirements for the degrees of:

-Doctorat de Science Politique
-Doktor der Philosophie (Dr.Phil)

Paris, 2018

Université de Lyon

École Doctorale n°483

Supervisor: University Professor Yveline Lecler

Universität Wien

Studienkennzahl lt. Studienblatt

A 792 399

Dissertationsgebiet lt. Studienblatt

Dr. –Studium der Philosophie Wirtschaft and
Gesellschaft Ostasiens UniStG

Supervisor: University Professor Rüdiger Frank

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ABSTRACT (English)

“China’s economic engagement strategies towards a reforming DPR Korea”

Key words: China, DPRK, Special Economic Zones, Economic Engagement, *Dongbei*

Since the beginning of the 2000’s, China and the DPRK (North Korea) have tried to implement economic cooperation and crossborder-economic integration programs. These cooperation programs have been facilitated by reformist policies in the DPRK, as the 1990 decade famine that struck North Korea convinced the Pyongyang leadership that some degree of economic reform was needed to restart and regain control over a greatly damaged economy. As a result, trade and investment ties between China and North Korea soared. However, political experimentations by the Pyongyang leadership, such as Special Economic Zones, have attracted limited attention from Chinese entrepreneurs and officials.

Through an empirical analysis of a selection of North Korean Special Economic Zones and related policies, interviews with Chinese businessmen active in the borderlands as well as anecdotal evidence gathered in the DPRK, the author argues that Chinese economic engagement policies and North Korea’s economic development strategy bear structural incompatibilities which makes the current economic cooperation patterns a source of diplomatic and political friction. It seems that China has indeed been trying to achieve different political and geopolitical objectives through economic means, which largely resonates with the larger Chinese-led “One Belt, one Road” initiative” but is seen as interfering from Pyongyang. Quite paradoxically, the author argues that later generations of Special Economic Zones do not only constitute institutions designed to foster economic integration between China and the DPRK but also embody political resistance to the Chinese economic embrace.

ABSTRACT (French)

“Stratégies d’engagement économique chinoises à l’égard d’une RPD de Corée en cours de réforme”

Key words: Chine, RPDC, Zones Économiques Spéciales, stratégies d’engagement économique, *Dongbei*

Depuis le début des années 2000, la Chine et la RPDC (« Corée du Nord) ont tenté de mettre en œuvre des programmes de coopération économique et d’intégration transfrontalière. Ces programmes de coopération ont été facilité par des politiques réformatrices en Corée du Nord, la famine des années 1990 ayant fait prendre conscience à Pyongyang qu’un certain degré de réforme économique était nécessaire pour reprendre le contrôle et relancer une économie désorganisée et appauvrie. En conséquence, les échanges et les investissements entre la Chine et la RPDC ont connu une hausse spectaculaire. Ceci étant, les expérimentations politiques menées par Pyongyang, dont notamment les Zones Économiques Spéciales, n’ont pas réussi à attirer l’attention des entrepreneurs et des officiels chinois.

A travers l’étude empirique d’une sélection de Zones Économiques Spéciales et de leurs environnements politiques et législatifs, des entretiens avec des hommes d’affaires chinois impliqués dans les relations économiques bilatérales à la frontière et des observations sur le terrain en Corée du Nord, l’auteur développe l’idée selon laquelle les stratégies d’engagement économiques chinoises et les politiques de développement économique chinois sont fondamentalement incompatibles, ce qui fait des actuelles pratiques de coopération économique une source de tensions politiques. Il semblerait que la Chine a en effet essayé d’atteindre certains objectifs politiques et géopolitiques à travers des outils économiques, ce qui est vu par Pyongyang comme une ingérence dans ses affaires internes. Ces stratégies chinoises sont particulièrement intéressantes à étudier dans le contexte de l’initiative « *One Belt, One Road* ». Paradoxalement, l’auteur cherche à expliquer que les plus récentes générations de Zones Économiques Spéciales ne visent pas seulement à faciliter une certaine forme d’intégration économique bilatérale mais incarnent dans le même temps une forme de résistance à l’étreinte économique chinoise.

ABSTRACT (German)

“China’s wirtschaftliche Engagement Strategien in Richtung einer reformierenden Demokratischen Volkrepublik Korea”

Schlüsselwörter: China, DPRK, Sonderwirtschaftszonen, wirtschaftliches Engagement, Dongbei, “One Belt One Road”.

Seit dem Beginn der 2000er Jahre haben China und die Demokratische Volksrepublik Korea (Nordkorea) versucht, eine wirtschaftliche Kooperation und grenzüberschreitende wirtschaftliche Integrationsprogramme zu implementieren. Diese Projekte wurden durch reformorientierte Politik in der DPRK ermöglicht, da die Hungersnot, welche Nordkorea in den 90er Jahren heimsuchte, die Pjöngjanger Führung überzeugte, dass ein gewisser Grad an wirtschaftlichen Reformen nötig sei, um die schwer beschädigte Wirtschaft neu zu starten und über sie Kontrolle auszuüben. Infolgedessen steigerten sich der Handel und die wirtschaftlichen Beziehungen insgesamt zwischen China und Nordkorea auf ein noch nie da gewesenes Niveau. Jedoch haben politische Experimente der Führung in Pyongyang, einschließlich eines direkten „Policytransfers“, welche chinesischen Erfahrungen nachempfunden waren, wie zum Beispiel Sonderwirtschaftszonen, eingeschränkte Aufmerksamkeit von chinesischen Unternehmern und Beamten erfahren.

Auf Basis einer empirischen Analyse einer Auswahl von nordkoreanischen Sonderwirtschaftszonen und damit verbundenen „Policies“, Interviews mit im Grenzgebiet aktiven, chinesischen Unternehmern und in Nordkorea gesammelten Einzelberichten, argumentiert der Autor, dass die chinesischen wirtschaftlichen Engagement Strategien und die wirtschaftliche Entwicklungsstrategie Nord-Koreas strukturellen Unvereinbarkeiten aufweisen, welche die derzeitigen wirtschaftlichen Entwicklungsmuster zu eine Quelle diplomatischer und politischer Spannungen werden lassen. Es scheint, dass China in der Tat versucht hat, verschiedene politische und geopolitische Ziele auf wirtschaftlichem Wege zu erreichen, was größtenteils in der bedeutenden, von China angeführten, „One Belt, one Road“ Initiative seinen Nachhall findet, jedoch von Pjöngjang als Einmischung gesehen wird. Paradoxerweise sind, so die Argumentation des Autors, spätere Generationen der Sonderwirtschaftszonen nicht nur Institutionen zur Förderung der wirtschaftlichen Integration zwischen China und der Demokratischen Volksrepublik Korea, sie verkörpern auch den politischen Widerstand gegen die chinesische wirtschaftliche Umklammerung.

ACKNOWLEDGMENT

As cliché as it might sound, the author's doctoral journey benefited from the help, advices and assistance from so many people that the following acknowledgments cannot properly give them all the credit they deserve. Besides, for confidentiality reasons, many of them cannot be named.

First and foremost, I would like to thank Prof. Yveline Lecler, who went to great lengths to help me start my Ph.D, create the cotutelle with the University of Vienna and obtain the necessary funding to research and draft this dissertation in excellent work conditions.

Prof. Rüdiger Frank's well-established expertise on the DPRK and his support for my research project was immensely appreciated and was a great motivation throughout this Ph.D journey. Prof. Lecler and Prof. Frank's contribution to this research cannot be underestimated and it was considered a privilege to work under their intellectual leadership.

I also would like to thank former and currents head of the Institute for East Asian Studies, Prof. Jean-Pascal Bassino and Dr. Béatrice Jaluzot for their continuous assistance and support. Dr. Gédéon, who supervised the M.A. dissertation on which this doctoral project was built, has been instrumental in getting this project started and provided always insightful advices. At the University of Vienna, I would like to thank Dr. Christian Kolowrat and Prof. Ina Hein for managing the cotutelle, and especially Mr. Martin Mandl, for his dedication and for making the cotutelle easier. I wish him the best as a scholar and a father.

My sincere gratitude to all members of the thesis committee for their time, efforts and interests in my research I hope this dissertation will meet your expectations.

Many people in China and in the DPRK have been extremely helpful in assisting me decipher Sino-North-Korean relations, although most of them are not necessarily aware of it. Many people definitely deserve to be acknowledged but cannot appear here for security or confidentiality reasons. Collectively, I can, however, express my sincere gratitude to Chinese business-owners who opened doors for me in Dandong and elsewhere on the border. I also would like to thank DPRK diplomats, officials, scholars and students for the interesting and often very candid discussions.

The author would also like to send his regards to Mr. Michael Spavor for helping me organize my research in Yanbian, for the friendly discussions and insightful remarks. My sincere thanks also go to Mr. Michael Kovrig, from the International Crisis Group, for the insightful discussions and advices. In France, Commander Marianne Péron-Doise, and Dr. Jean-Baptiste Jeangène-Vilmer, from the *Institut de Recherche Stratégique de l'École Militaire*, have kindly supported the author at both the personal and financial levels during his final race towards completion of his Ph.D. Dr. Abdo Malac and his colleagues at the French Embassy in China should also be thanked for their time, remarks and efforts for helping me during fieldwork in China. M. Emmanuel Rousseau, former head of the French Cooperation Bureau in Pyongyang, helped me getting access and opening doors that led to promising leads for this research. Catharina Martinez from the French Ministry of Economy and Finance, should also be thanked for her help, insights and support. Romain Roszak and Mathilde Cambournac's friendship and thoughts have contributed to this research and to my personal balance to a much larger extent than they might believe.

Last but not least, I would like to thank my family for supporting me all these years and be patient while I have been spending these years abroad. Nothing would have been possible without the unflinching personal and spiritual support of my soon-to-be wife Fanny Missir.

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List of Acronyms

CCP (CC): Chinese Communist Part (Central Committee)
CGA: Central Guidance Authority (for Special Economic Zones)
CPEC: China-Pakistan Economic Corridor
CPVA: Chinese People's Volunteer Army
CPSU (CC): Communist Party of the Soviet Union (Central Committee)
DMZ: Demilitarized Zone
DPRK: Democratic People's Republic of Korea
EPZ: Export-processing Zones
FTA: Free Trade Agreement
ITZ: International Tourism Zone
KCNA: Korea Central News Agency
KPA: Korean People's Army
KWP (CC): Korea Worker's Party (Central Committee)
LDC: Least Developed Country
MC: Management Committee
MOEE: Ministry of External Economy (DPRK)
MOFCOM: Ministry of Commerce (PRC)
NEA: North-east Asia
OBOR: "one belt, one road" policy
RETZ: Rajin-Sonbong Economic and Trade Zone
ROK: Republic of Korea
RPC: Rason People's Committee
SAR: Special Administrative Region
SAS: State Academy of Science (DPRK)
SEZ: Special Economic Zone
SPA: Supreme People's Assembly
SZIT: Special Zone for International Tourism
TEU: Twenty-foot Equivalent Unit
THAAD: Terminal High-Altitude Area Defense
TRA: Tumen River Area
TRADP: Tumen River Development Program
UN: United Nations
UNDP: United Nations Development Program
UNSC: United Nations Security Council

Introduction

The issue of China's DPRK economic engagement strategy

On the 23rd of January 2015, then-US President Barack Obama explained journalists that the Democratic People's Republic of Korea (DPRK; "North Korea") was "the most isolated, the most sanctioned, the most cut-off nation on Earth". This view is not only the one of a former important political leader; it also largely mirrors popular views on North Korea: according to conventional wisdom, Pyongyang is the capital of an isolated, closed, almost autarkic country. There would be, however, one exception, one other nation that, for historical, political and ideological reasons, has a "privileged access" to the DPRK: the People's Republic of China (PRC). The two countries share common political characteristics: they both claim to be socialist countries with one constitutionally "dominant"¹ political party, they maintain a strict control on information coming in and out of the country and they also follow guiding ideologies, respectively Marxism-Leninism, Mao Zedong Thought, Deng Xiaoping Theory and the Three Represents on the Chinese side, against the *Juche* and Songun Ideas in the DPRK. The Chinese and North Korean States also share a long historical bond that originates in imperial times until the revolutionary era in the first half of the XXth Century, when Korean and Chinese communists guerrilla fighters undertook a common struggle against the Nationalist Party of China and the Japanese colonizer. As it is well-known, Chinese volunteers also played a key role in the 1950-1953 Korean War, when they crossed the northern border of the Korean peninsula to support the struggling Korean People's Army (KPA) against South Korean and United Nations-supported troops. Ultimately, in 1961, China and the DPRK inked a mutual aid and cooperation friendship treaty, renewed in 1981 and 2001 (contrary to its Sino-Soviet equivalent which expired in 1979). As of 2017, the PRC still has not signed a treaty that includes automatic military assistance to the other party with any other country than the DPRK, making North Korea China's sole military ally (at least in the formal sense of the term). Last, but not least, both countries do share an important economic relation, as the PRC now is North Korea's most important supplier and client, its most important foreign investor and, quite certainly, its most important provider

¹ The "leadership" of both the Communist Party of China and the Workers Party of Korea is stated in both Constitutions, respectively in the Preamble and in the article 11.

of aid and assistance. In recent years, China has been the source of more than 80% of the DPRK's total imports. In other words, the least that can be said is that China and North Korea do share a "special" bond.

Given the strategic value of the Korean peninsula, which was, since 1945 at least, one of the "hot front" of the Cold War, foreign powers have often been trying to persuade China to use this "privileged access" in order to influence the otherwise isolated North Korea in the "right direction". As Pyongyang is considered by Western powers and their allies to be a source of instability, a human rights violator, a proliferating State and a centrally-planned socialist country, many of them that are unable to constructively dialogue with the DPRK do seem to count on China to urge North Korea to change its political, military, diplomatic course.

Having a "special bond", however, is substantially different from having the ability (or even the will) to influence its partner. Especially if the aforementioned partner trumpets above all things the notions of self-reliance and independence. Based on standard International Relations theory, there are three main ways to influence a foreign country: military influence (soft influence through intelligence operations, hard influence through open military actions or threats), cultural influence (soft power, propaganda) and economic influence (assistance plans, economic cooperation or competition, sanctions, etc.). Given the extremely sensitive nature of the controversies surrounding the DPRK, the alliance networks in Northeast Asia, the extreme militarization of North Korea, few people would expect the PRC to exert military pressure on the DPRK. Cultural influence from China or the rest of the world also hardly is a viable option, since it would collide with China's self-asserted diplomatic "tradition" of non-interference in foreign countries, but also because Chinese soft power is still quite weak, and the DPRK is notoriously mistrustful about information flows getting in the country. Last remaining option is economic influence, where Beijing could indeed have cards to play. The strong economic relation mentioned above between the two countries in fact is a one-sided one, where China constitutes the DPRK's most important trade and investment partner, while on the other hand North Korea represents a tiny fraction of the PRC's total foreign trade. The DPRK entirely depends on China for crucial items such as fuel and oil, which necessarily gives Beijing a strong potential economic leverage on its neighbor. While the actual self-reliance of the DPRK economy is very difficult to assess, it can be safely assumed

that without its Chinese partner, the North Korean economy would encounter serious difficulties.

And China is, in fact, using economic pressure against the DPRK. Beijing has joined the United Nations Security Council (UNSC) attempts to sanction the North Korean economy, it also has broken with a long diplomatic tradition and took (in 2016) unilateral economic measures against the DPRK. As it will be explained and discussed, paradoxically, China is extremely carefully economically engaging with its only ally, and is much more cautious in dealing with North Korea than with the overwhelming majority of its Asian neighbors. The results of these pressures, are, however, quite mixed and problematical. Regarding controversial issues such as Pyongyang's nuclear, spatial and ballistic programs, it can be said that few successes in containing these programs have been achieved. Pyongyang, already sanctioned by the United States and a few allies since the beginning of the Korean War, has been able to detonate six nuclear weapons (in 2006, 2009, 2013, twice in 2016 and 2017), test-fired hundreds of rockets, carrier rockets and missiles, including long-range intercontinental ballistic missiles (ICBM). Analysts and experts almost unanimously consider that the DPRK keeps making rapid progresses in these fields. Among other elements allowing observers to believe that economic pressure from the UNSC member States (including China) and other countries have shown limited results are the numerous "signs" as well as anecdotal evidences observed in the DPRK by experts that the North Korea economy is experiencing a modest but existing, and steady, economic growth since at least the 2000 decade. In the absence of official statistics and reliable figures (see "limitations and difficulties" below), it is quite hard to assess the scope and scale of this recent economic development, especially given the nature of the North Korean economy and the epistemological difficulties in quantitatively measuring it. Several researchers and scholars, both in think tanks and universities have tried to estimate the DPRK's recent GDP growth, often with contradictory results. For the 2009-2013 period, the Bank of (South) Korea estimates North Korea's growth fluctuated above and below the 0% bar², based on a

² Bank of Korea, 2016, Gross Domestic Products Estimates for North Korea in 2015, *Press Release*. Url: http://www.nkeconwatch.com/nk-uploads/GDP_of_North_Korea_in_2015_ff.pdf. Last accessed 20th of January 2017. See also Korean Statistical Information Service, 2016, 북한의 주요 통계 지표 [Major Statistics Indicators for North Korea], *Statistical Report*. Url: http://kosis.kr/ups/ups_01List.jsp?pubcode=IF. Last accessed 20th of January 2017.

methodology that does not escape criticisms for its lack of accuracy³. These fragile results collide with numerous on-the-ground observations from scholars and experts who, in recent years, have explained how the North Korean economy shows signs of development⁴, which participate in building an even larger consensus on the inefficiency of economic sanctions⁵.

Since China is the DPRK's almost only trade partner (especially since 2008), Western countries and their allies have been pointing out fingers at the PRC for economically "supporting North Korea" and mitigating the effects of economic sanctions. After the Arduous March, a widespread famine that struck the DPRK between 1995 and 1998, the North Korean economy "went back on track" and Pyongyang experimented with economic measures aimed at (among other objectives) bolstering economic ties with its main partner, the PRC. Since 2001-2002, trade and foreign direct investment data (FDI), although also quite patchy, showed that bilateral economic ties between both socialist neighbors sharply expanded, resulting in a closer than ever economic relation and an increased dependence of North Korea on the PRC. As historians have shown⁶, well before the Arduous March the DPRK had tried to create sustainable economic channels with the outside world (including capitalist countries). But from the 1980s on, given the dramatic geopolitical changes that occurred on a world scale, Pyongyang increasingly relied on economic experimentations and reforms to revitalize these economic ties with former socialist partners and China. Contrary

³ NOLAND, Marcus, 2014, BOK's Estimate of North Korea's National Income, *PIIE North Korea Witness to Transformation blog*. Url: <https://piie.com/blogs/north-korea-witness-transformation/boks-estimate-north-korean-national-income>. Last accessed 20th of January 2017. Interview with South Korean official, November 2017, Paris.

⁴ TOLORAYA, Georgy, Byungjin vs. the Sanction Regime: which works better?, *38th North*, 20th of October 2016. Url: <http://38north.org/2016/10/gtoloraya102016/>. Last accessed 19th of May 2017. ABRAHAMIAN, Andray, 2015, Tumen Triangle Tribulations, The Unfulfilled Promise of Chinese, Russian and North Korean Cooperation, *US-Korea Institute at SAIS Report* (online). URL: <http://uskoreainstitute.org/wp-content/uploads/2015/11/Abrahamian-Tumen-Triangle.pdf>. LI Dunqiu, *Jinzhengeun zhizhengyilai, chaoxian jingji weihe lianceng?* 金正恩执政以来, 朝鲜经济为何连增 [why does the North Korean economy keep

growing since Kim Jong-un took power?], *Huanqiu Shibao*, 26th of December 2015. Url: http://opinion.huanqiu.com/opinion_world/2015-12/8263042.html, last accessed 19th of May 2017.

⁵ FRANK, Rüdiger, 2006, The Political Economy of Sanctions against North Korea, *Asian Perspective*, vol.30 n°3, pp.5-36. delury

⁶ AGOV, Avram Asenov, 2010, *North Korea in the Socialist World: Integration and Divergence, 1945-1970, The Crossroads of Economics and Politics* (Ph.D Thesis, unpublished yet). Url:

https://circle.ubc.ca/bitstream/handle/2429/24246/ubc_2010_spring_agov_avram.pdf?sequence=1.

ARMSTRONG, K. Charles, 2013, *Tyranny of the Weak*, Cornell University Press, Ithaca. ARMSTRONG, Charles, 2010, The Destruction and Reconstruction of North Korea, 1950 - 1960, *The Asia-Pacific Journal* Vol 8, Issue 51 No 2. Url: http://www.japanfocus.org/-charles_k_-armstrong/3460. Last accessed 31th of August 2014.

to the popular wisdom mentioned above, Pyongyang has been actively trying to accompany this relative but existing opening by doing substantial revisions of its trade and investment-related laws, opening numerous Special Economic Zones (SEZs) throughout the country, and increasingly relying on market mechanisms. To put it in a nutshell, the DPRK is trying, since the 1980s at least, to make adjustments to its economic policies in order to find a sustainable pattern of economic interaction with foreign partners, de facto mostly with China. But Pyongyang's economic opening policies have encountered skepticism from investors. Among the existing 26 SEZs in the DPRK, only two of them⁷ have attracted relative attention from Chinese investors. As a matter of fact, as Thompson pointed out⁸, China, a net FDI exporter since 2015, invests much less in the DPRK than in most other neighboring countries. Total trade volume between the PRC and the DPRK is much lower than those with other northeast Asian countries, or even States in Asia in general. In other words, while China is widely believed to be the North's political and economic backer, trade and investment statistics actually suggest that it is a very "careful" partner of the DPRK. Quite counter-intuitively, while Pyongyang is currently making adjustments and adaptations to its current economic development strategies and opening policies, implementing "reforms" in a specific sense, Beijing seems to pay little attention.

The goal of this study is to examine China's economic engagement strategy towards the DPRK as well as Pyongyang's reaction to these strategies. In other words, *how does China economically engage with North Korea? What are the political objectives behind this engagement strategy? How does the DPRK, in return, adapt its economic and foreign policies to China's economic engagement strategy?*

Research Hypotheses

Based on what has been explained above, the dialectical relation between Chinese economic engagement of the DPRK and the latter's current review of its traditional economic policies

⁷ Excluding the Kaesong Interkorean complex, a South Korean *chasse gardée*, currently closed.

⁸ THOMPSON, Drew, 2011, Silent Partners, Chinese Joint Ventures in North Korea, *U.S.-Korea Institute at SAIS report*, pp.29. Url: <http://uskoreainstitute.org/research/special-reports/silent-partners-chinese-joint-ventures-in-north-korea/>. Last accessed 29th of February 2016.

can be studied based on a few research hypotheses. There are three sets of hypotheses that will be useful in examining this relation. These three hypotheses do not necessarily exclude each other, as Chinese and North Korean policy-making is undergoing deep evolutions and involves a plurality of actors with their own interests.

➔ **1) Chinese economic engagement strategies aim primarily at maintaining the North Korean State.**

In this hypothesis, Chinese economic engagement strategies are based first and foremost on maintaining the North Korean “buffer State”. As Western experts sometimes depict the bilateral relation, according to this hypothesis, China would be the economic lifeline of the DPRK, and would choose to trade with or invest in North Korea in order to prevent it from collapsing. Due to the political rationale on which would be based this engagement policy, Chinese companies could suffer financial losses in North Korea and Beijing would be trying to maintain a balance between economic and financial costs and political gains in its economic relation with North Korea. The DPRK would mainly benefit from this situation and thus not resist Chinese economic engagement, and would thus not be “pressured” into economic reform.

➔ **2) Chinese economic engagement strategy aims at influencing the DPRK’s economic policy-making.**

In this hypothesis, China would use economic leverage and pressure, including sanctions, to coerce or incentivize Pyongyang into a more far-reaching economic reform or more generally to choose other political options in terms of economic, foreign and military policies. Chinese engagement strategy would thus most likely be limited in scale, but would reward the DPRK’s gradual opening by investing in key sectors. China would also use economic sanctions to pressure the DPRK into different policies. According to this scenario, Pyongyang might either be accompanying or resisting Chinese economic engagement, through internal or external balancing/bandwagoning as standard International Relations theory posits (see “conceptual framework”). If properly incentivized by promising investments and potential spill-over effects for its economy, North Korea might be tempted to

“cooperate” with China and show some flexibility. On the other hand, if Pyongyang considers that economic strategies implemented by China are detrimental to its economy, security, or political stability, it might try to resist China’s embrace and trade and investment levels would most likely be very low.

➔ **3) Chinese economic engagement strategy is not determined by political and economic development in the DPRK.**

In this scenario, Chinese economic engagement strategy towards the DPRK would not be trying to achieve any particular objective in North Korea (besides China’s consistent objective of stability in its periphery), but would be determined by other factors. These factors could be either internal or external. As for internal factors, the most likely would be the Chinese slowing economy, and especially the morose economic situation in the three northeastern provinces collectively known as “Dongbei”. In this scenario, China would be essentially trying to make the best of a bad situation and help foster business opportunities in the DPRK for Dongbei-based companies in order to alleviate the struggling local economies. This hypothesis could also potentially imply that Chinese economic engagement policies are not determined by developments in the DPRK or in China but rather by external dynamics, and especially the Beijing-Washington relationship. North Korea’s controversial programs indeed put Beijing in an awkward diplomatic position, exposing China to criticisms from the United States in particular. China’s economic engagement strategy would be used as a “diplomatic signal” in its relation with Washington: if Beijing wants to facilitate its dialogue with the White House, it would decrease its involvement in the North Korea economy; on the contrary, increasing economic cooperation would be a means to tighten up the old alliance with the DPRK in order to contain perceived American threats in the Asia-Pacific region.

State of the Art

The least that can be said is that times when academic publications about the DPRK were scarce are over. When the Arduous March drew to a close, the “collapsist school” of scholars

and academics who predicted a likely collapse of the North Korean State was proven wrong. Since then, a plethora of academic work has been published on the DPRK, although, as will be explained, publications that fit within the specific scope of this doctoral study are still quite rare. The Chinese case, and especially Chinese economic diplomacy, has attracted considerable attention, especially since China emerged as a FDI exporter at the beginning of the 2000's. As a political actor, China's diplomacy towards the Korean peninsula has been increasingly scrutinized by scholars, especially following the collapse of the USSR, but even more in the context of the North Korean nuclear and ballistic programs as the relationship between Beijing and Pyongyang is indeed considered as crucial by many and thus frequently examined and assessed by scholars. However, the economic ties between both socialist States have been the focus of analysts much later, when the DPRK economy went back on track after the Arduous March, but even more after the 2006 nuclear test and the following uni- and multilateral economic sanctions against North Korea.

On Chinese economic reform and diplomacy:

Contrary to publications on the DPRK economy that tend to be scarce, there has been prolific academic work on the PRC's economic reform and the resulting changes in Beijing's foreign policies. While it is necessary to describe traditional and more recent economic policies in the DPRK, since North Korea remains a somewhat less known (and more peculiar) case study, this dissertation does not focus on the DPRK or the PRC but on the dynamic interactions between them. There is thus no need to comprehensively describe the Chinese economic reform in itself, especially since nearly-comprehensive syntheses of academic research on the subject is now available; among others, Brandt and Rawski's 2008 *China's Great Economic Transformation*⁹ and Goodman and Macfarquar's *The Paradox: China's Post-Mao reforms*¹⁰ will be used to identify striking patterns in economic reforms in China. The contrasted results of the first generation of Chinese SEZs has been highlighted by Chinese and Hong Kong scholars such as Yeung, Lee and Kee¹¹, or Tseng and Zebregs¹² and the details

⁹ BRANDT, Loren, RAWSKI, Thomas, 2008, *China's Great Economic Transformation*, Cambridge University Press, New York.

¹⁰ GOODMAN, Merle, MACFARQUAR, Roderick (eds), 1999, *The Paradox China's Post-Mao Reforms*, Harvard University Press, Cambridge.

¹¹ YEUNG Yue-man, LEE Joanna, KEE Gordon, 2009, China's Special Economic Zones at 30, *Eurasian Geography and Economics*, Volume 50, Issue 2, pp.222-240.

of power shifts and struggles inside the CCP during the reform era have been examined in recent biographies of Deng Xiaoping¹³ and other reformist leaders.

The specific economic impact of the Chinese economic reform in territories that are adjacent to North Korea will however require special focus, as the broadly-defined Northeast China obviously plays a crucial role not only in economic integration strategies between China and the DPRK but also for Northeast Asia in general. The impacts of the reforms on populations living in Northeast China have been described by Lee¹⁴. More economy-oriented scholarship on the Chinese “rustbelt” includes Chung, Lai and Joo¹⁵. The recent disclosure of large-scale manipulation of official statistics in the region (on which these studies are partially based) does however call for prudence in using these otherwise very robust analyses. Beijing’s economic plan to re-start economic activity in the area (Zhengxin dongbei program, see chapter 3) has also been studied in details by Chinese¹⁶ and foreign¹⁷ scholars, just like other developmental initiatives in the area, such as the Changjitu program¹⁸ or the role of Yanbian

¹² TSENG, Wanda, ZEBREGS, Harm, 2002, Foreign Direct Investment in China: Some Lessons for Other Countries, *IMF Policy Discussion paper* (online). Url: <https://www.imf.org/external/pubs/ft/pdp/2002/pdp03.pdf>

¹³ VOGEL, Ezra, 2011, *Deng Xiaoping and the Transformation of China*, Belknap Press of Harvard University Press, Cambridge. PANTSOV, Alexander V., LEVINE, Steven I., 2015, *Deng Xiaoping, A Revolutionary Life*, Oxford University Press, Oxford. See p.379.

¹⁴ LEE Chin Kwan, 2007, *Against the law : labor protests in China's rustbelt and sunbelt*, University of California Press, Berkeley.

¹⁵ CHUNG Jae-ho, LAI Hongyi, JOO Jang-hwan, 2009, Assessing the "Revive the Northeast" (zhengxing dongbei) Programme: Origins, Policies and Implementation, *The China Quarterly* n°197. pp108-125.

¹⁶ ZHANG Pingyu, MA Yanji, LIU Wenxin, CHEN Qunyan, 2004, *zhengxing dongbei lao gongye jidi de xinxing chengshihua zhanlue* 振兴东北老工业基地的新型城市化战略 [New Urbanization Strategy for Revitalizing the Traditional Industrial Base of Northeast China], *Dilixuebao*, vol.59. pp. 109-115. LIN Musi, 2003, *zhengxing dongbei lao gongye jidi de lixing sikao yu zhanglue jueze* 振兴东北老工业基地的理性思考与战略抉择 [On Some Reflexions and Policy Options to Revitalize the Traditional Industrial Base in Northeast China], *Jingjixuedongtai*, vol.10. CHEN Cai, 2003, *Zhenxing dongbeilaogongye jidi de zhanlue sikao* 振兴东北老工业基地的战略思考 [Strategic thoughts on the Revitalization of the Old Industrial Base in Northeast China], *Dongbeiyaluntan*, n°6. WANG Gelin, WEI Houkai, 2006, *zhengxing dongbei tiqu jingji de wenlai zhengce xuanze* 振兴东北地区经济的未来政策选择 [Revitalize the Northeast Area: Future Economic Policies Options], *Caimaojingji*, N°2. DONG Lisheng, 2005, China’s Drive to Revitalize the Northeast, *China Perspectives*. Url :<http://chinaperspectives.revues.org/462>. Last accessed 31th of January 2015.

¹⁷ COTTON, James, Jilin's Coastal Development Strategy, *Asian Survey*, Vol. 36, No. 11.

¹⁸ LEE Yeon-ho, KANG Jeong-shim, 2011, The Changjitu Project and China-North Korea Economic Cooperation: Beijing’s and Pyongyang’s intentions, *BISA Annual Conference session 1.8*.

as an interface between China and the Korean peninsula¹⁹. These accounts will prove extremely useful within the context of this study.

Regarding China's outbound investment patterns, case studies on recent Chinese investments developing countries in Africa²⁰, South America²¹ and Asia have allowed more theory-driven work on Chinese outbound FDI patterns and characteristics²². John Cooper's three-volume contribution on Chinese Foreign Aid and Investment Diplomacy²³ provided a well-detailed account of China's rise as a global economic power but also offered useful information on bilateral ties between Beijing and Pyongyang during the Cold War. All these analyses roughly converge in showing that the PRC has a strong tropism for natural resource-rich countries, is less bothered by endemic local corruption than other investors and tends to invest in countries that usually attract limited investments.

Last, given the depth and the consequences of reforms on the Chinese State and society, the changes that occurred in the PRC diplomatic options and practices have attracted sustained interest from scholars. An introduction to issues that prompted China to alter its diplomatic

¹⁹ COLIN, Sébastien, 2003, La préfecture autonome des Coréens de Yanbian : une ouverture frontalière aux multiples enjeux géopolitiques, *Perspectives chinoises*. Url: <http://perspectiveschinoises.revues.org/104>.

²⁰ CHEN Wenjie, DOLLAR, David and TANG Heiwai, 2015, Why is China investing in Africa? Evidence from the firm level, *Brookings Research Paper* (online). Url:

<http://www.brookings.edu/~media/research/files/papers/2015/08/why-china-is-investing-in-africa/why-is-china-investing-in-africa.pdf>. Last accessed 14th of June 2016. SCHIERE, Richard, RUGAMBA, Alex, 2011, Chinese Infrastructure Investments and African Integration, *African Development Bank Group Working Paper*. Retrievable here:

<http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/WPS%20No%20127%20Chinese%20Infrastructure%20Investments%20.pdf>. Last accessed 14th of June 2016.

²¹ CHEN Taotao, LUDENA Miguel Perez, BARCENA Alicia, 2013, Chinese Foreign Direct Investment in Latin America and the Caribbean, *Economic Commission for Latin America and the Caribbean Working Document* (online). Url: http://repositorio.cepal.org/bitstream/handle/11362/35927/1/S2013956_en.pdf. Last accessed 14th of June 2016

²² LIAN, Lina, MA Hanyin, 2011, Overview of Outward FDI Flows of China, *International Business Research* Vol.4, N°3. pp.103-107. MARUKAWA Tomoo, ITO Aei, ZHANG Yongqi (eds), 2014, China's Outward Foreign Direct Investment Data, *Institute of Social Science Contemporary Chinese Research Studies* N°15 (online). Url: http://web.iss.u-tokyo.ac.jp/kyoten/research/ISS_China_series_No.15.pdf. Last accessed 9th of June 2016.

GARCIA-HERRERO, Alicia, LE Xia, CASANOVA, Carlos, 2015, Chinese outbound foreign direct investment: How much goes where after round-tripping and offshoring?, *Banco Bilbao Vizcaya Argentaria Research Branch* (online). Url: https://www.bbvarresearch.com/wp-content/uploads/2015/06/15_17_Working-Paper_ODI.pdf.

Last accessed 7th of June 2016. SAUVANT, Karl P., NOLAN, Michael D., 2015, China's Outward Foreign Direct Investment and International Investment Law, *Journal of International Economic Law*, pp.1-42.

²³ COPPER, John F., 2016, *Chinese Foreign Aid and Investment Diplomacy* (three volumes), Palgrave Macmillan, New York.

policy-making can be found in Medeiros and Fravel²⁴, the importance of China's economic outreach initiatives in Beijing's development is explained in China's Resource Diplomacy in Africa by Power, Mohan and Tan-Mullins²⁵.

On the DPRK traditional and recent economic policies

North Korea-focused academic publications have long been centered on a handful of aspects, among which the Korean and Cold Wars, as well as their impacts on the North Korean political system top the list. Historians, such as Bruce Cumings²⁶, have studied the historical roots and specific characteristics of North Korean independent political stance and *Juche* idea, sometimes through comparisons with other authoritarian States in Asia. Scholars from the former socialist block interested in North Korean history, like Andrei Lankov or Balazs Szalontai, have studied east-European archives funds in order to examine and shed light on intra-bloc divergences that occurred between North Korea and other socialist countries. Lankov's article "Kim Il Sung's Campaign against the Soviet Faction in Late 1955 and the Birth of Chuch'e"²⁷, and his adapted book *Crisis in Korea*²⁸, describes and analyzes with a profusion of details the internal power struggles that riddled the KWP during the 1950's decade, but also provides useful keys to examine the role played by the DPRK's economic policies in the internal and external confrontation with Moscow and Beijing during the first part of the Cold War. Balazs Szalontai, also using east-European archive funds, has also detailed power and economic relations between North Korea and its socialist allies, as well as the increased isolation of Pyongyang during the Khrushchev era²⁹. Charles Armstrong's

²⁴ MEDEIROS, Evan, FRAVEL, Taylor, 2003, China's New Diplomacy, Foreign Affairs. Retrievable here: <https://www.ou.edu/uschina/texts/FravelMedeiros2003NewDiplomacy.pdf>. Last accessed 31th of January 2016.

²⁵ POWER, Marcus, MOHAN, Giles, TAN-MULLINS, 2012, *China's Resource Diplomacy in Africa*, Palgrave Macmillan, New York.

²⁶ CUMINGS, Bruce, 1997, *Korea's Place in the Sun : a Modern History*, W.W Norton, New York.

²⁷ LANKOV, Andreï, 1999, Kim Il Sung's Campaign against the Soviet Faction in Late 1955 and the Birth of Chuch'e, *Korean Studies*, Volume 23, University of Hawai'i Press, Honolulu.

²⁸ LANKOV, Andreï, 2005, *Crisis in North Korea: the Failure of Destalinization 1956*, University of Hawai'i press, Honolulu.

²⁹ SZALONTAI, Balázs, 2005, *Kim Il Sung in the Khrushchev era : Soviet-DPRK relations and the roots of North Korean despotism, 1953-1964*, Woodrow Wilson Center Press, Washington. SZALONTAI, Balázs, 2003, "You Have No Political Line of Your Own" Kim Il Sung and the Soviets, 1953-1964, *Cold War International History Project Bulletin*, Issue 14/15 (winter 2003/Spring 2004). Url: http://www.wilsoncenter.org/sites/default/files/CWIHP_Bulletin_14-15.pdf.

2013 book, *Tyranny of the Weak*, offered a useful summary and analysis of the DPRK's peculiar diplomacy, highlighting, among others, the continuous search of allies and/or partners outside the Soviet bloc by the North Korean authorities. Chinese scholars such as Shen Zhihua³⁰ have also provided with an interesting and relatively balanced point of view on Sino-North Korean relations during and after the Korean War, which to some extent prefigure later developments in the bilateral relationship. Academic contributions focusing on economic history are however much rarer, and mostly focus on the pre-1980 period (due to archives unavailability, mostly). Rüdiger Frank's case study dealing with the German Democratic Republic's assistance programs to the DPRK³¹ shows how the 1950s North Korean leadership tried to benefit from foreign assistance from the socialist bloc to launch the reindustrializing of the country. Avram Agov's 2010 Ph.D dissertation³², exclusively focused on the issue of economic cooperation between the DPRK and the socialist bloc, explains with a profusion of details how the DPRK consistently tried to forge a specific pattern of economic cooperation with foreign partners. In *North Korea and the Socialist World*, he explains and describes the bones of contentions that divided the eastern bloc and how North Korea tried to participate to economic exchanges inside the bloc without being politically determined by them. This contribution is especially important within the scope of this study, as, as will be explained later (see "methodology" and below), in order to assess the scale and nature of economic "reforms" in the DPRK, one needs a "benchmark" to establish comparisons between "traditional" and current economic policy-making.

Academic work on the current DPRK economy and its foreign economic cooperation patterns is still made difficult by the lack of available data and its imperfect reliability. The

³⁰ See, in English language: SHEN Zhihua, 2003, Sino-North Korean Conflict and its resolution during the war, *Cold War International History Project Bulletin*, Issue 14/15 (winter 2003/Spring 2004). Url: http://www.wilsoncenter.org/sites/default/files/CWIHP_Bulletin_14-15.pdf. SHEN Zhihua, 2008, Alliance of "Tooth and Lips" or Marriage of Convenience? The Origins and Development of the Sino-North Korean Alliance, 1946-1958, *US-Korean Working Paper Series*. Url: <http://uskoreainstitute.org/wp-content/uploads/2010/09/USKI-WPS08-09.pdf>. SHEN Zhihua, XIA Yafeng, 2012, China and the Post-war Reconstruction of North Korea, Woodrow Wilson International Center for Scholars' Working Paper Series, N°4. Among Chinese language publication, see SHEN Zhihua, 2004, *Mao Zedong, Sitalin yuchaoxian zhanzheng* 毛泽东, 斯大林与朝鲜战争 [Mao, Stalin and the Korean War], Guangdong renmin Press, Guangzhou.

³¹ FRANK, Rüdiger, 2008, Lessons from the Past: The First Wave of Developmental Assistance to North Korea and the German Reconstruction of Hamhùng, *Pacific Focus*, vol. 23, n°1. pp 46-74.

³² AGOV, Avram Asenov, 2010, *North Korea in the Socialist World: Integration and Divergence, 1945-1970, The Crossroads of Economics and Politics* (Ph.D Thesis, unpublished yet).

concept of *Juche* has been debated by countless scholars, especially those interested in cultural studies³³, but this angle of approach only marginally overlaps the scope of this research. Rüdiger Frank has published a large number of books and articles that deals with many aspects of the DPRK's political economy³⁴, from the impact of economic sanctions³⁵ to the current "reforms" (a term never used in DPRK official publications³⁶) under Kim Jong-un³⁷. James Cotton made early contributions to the academic debate on North Korean "reforms"³⁸ in the 1990s which already pointed out the specificities of North Korean economic measures and their "reality", a position that widely contrasts with more orthodox views of recent economic policy experimentations in the DPRK. Nicholas Eberstadt most notably warned that the DPRK would not be able to survive as a State unless it implements "necessary" economic reforms³⁹. Marcus Noland and Stephen Haggard have often argued in the same direction⁴⁰. Japanese and foreign researchers from the Economic Research Institute for Northeast Asia (ERINA) also have, collectively⁴¹ or individually⁴², provided with

³³ See the argument between Myers and David-West: DAVID-WEST, Alzo, 2007, Marxism, Stalinism, and the *Juche* Speech of 1955: On the Theoretical De-Stalinization of North Korea, *The Review of Korean Studies* Vol. 10 N° 3, Academy of Korean Studies. MYERS, Brian, 2006, The Watershed that Wasn't: Re-evaluating Kim Il-Sung's « *Juche* Speech » of 1955, *Acta Koreana* vol.9, n° 1.

³⁴ FRANK, Rüdiger, 2006, Classical Socialism in North Korea and its Transformation: the Role and the Future of Agriculture, *Harvard Asia Quarterly*, vol. X, N°2. See p.6.

³⁵ FRANK, Rüdiger, 2006, The Political Economy of Sanctions Against North Korea, *Asian Perspective*, vol. 30, n°3. pp. 5-36.

³⁶ The term "new economic management measures" [새로운 경제관리조치 ; *saeroun kyōngjegwallijoch'i*] is preferred. Email conversation with DPRK diplomat positioned in Europe, January 2017.

³⁷ FRANK, Rüdiger, 2013, North Korea's Rolling Economic Reforms, East Asia Forum. Url: <http://www.eastasiaforum.org/2013/09/24/north-koreas-rolling-economic-reforms/>. Last accessed 22nd of May 2017.

³⁸ COTTON, James, 1998, 'The Rajin-Sonbong Free Trade Zone experiment: North Korea in pursuit of new international linkages', in *North Korean foreign policy in the post-Cold War era*, Oxford University Press, Hong Kong, pp. 212 – 233.

³⁹ EBERSTADT, Nicholas, 2015, *North Korea's "Epic Economic Fail" in International Perspective*, Asan Report. Url: <http://en.asaninst.org/wp-content/themes/twentythirteen/action/dl.php?id=35046>.

⁴⁰ NOLAND, Marcus, 2011, The Political Economy of North Korea: Historical Background and Present Situation, in *New International Engagement Framework for North Korea: Contending Perspectives*, Korea Economic Institute. Url: <http://www.keia.org/sites/default/files/publications/04Noland.pdf>. Last accessed 31th of August 2014. NOLAND, Marcus, 2002, West-Bound Train Leaving the Station: Pyongyang on the Reform Track, Council on US-Korea Security Studies paper. Retrievable here: <http://www.iie.com/publications/papers/paper.cfm?ResearchID=484>.

⁴¹ Northeast Asia Economic Review, *Special Edition on the DPRK economy*, vol.3, n°1. Url: http://www.erina.or.jp/wp-content/uploads/2015/06/naer31_tssc.pdf.

⁴² MIMURA Mitsuhiro, 2015, The Newly Created Economic Development Zones in the Democratic People's Republic of Korea: In relation to the new economic policy under the Kim Jong Un government, *The Northeast*

often groundbreaking analysis and information on current economic policy developments in the DPRK, including the DPRK SEZs, thanks to long-lasting ties with research centers in Pyongyang. Researchers from the Choson Exchange NGO, Andray Abrahamian in particular, are among the few that published studies and research reports on SEZs in the DPRK⁴³. While noting that SEZ development in the DPRK still requires important reforms, Lim and Kim⁴⁴ have pointed out that these special zones still embody substantial policy changes in Pyongyang. Interestingly, while the DPRK legal corpus dealing with FDI and SEZs is still limited (but definitely expanding), it has been studied by a surprisingly high number of law scholars since the 1980s: Goedde⁴⁵, Zook⁴⁶, Lee⁴⁷, Soble⁴⁸ and Yoon⁴⁹, among others, have offered thorough academic reviews of legal developments in the DPRK (sometimes through comparisons) which are crucial to understand recent economic policy options favored by Pyongyang.

Of course, North Korean scholars have also participated in the academic debate regarding Pyongyang's international economic integration strategy⁵⁰, the role of foreign exchange⁵¹

Asian Economic Review Vol. 3, No. 1. pp.27-37. TSUJI Hisako, 2004, The Tumen River Area Development Programme: Its History and Current Status as of 2004, *Economic Research Institute for North East Asia discussion Papers* N°0404.

⁴³ ABRAHAMIAN, Andray, SEE, Geoffrey K., WANG Xinyu, 2014, ABC of North Korea's SEZ, *United States Korea Institute Report*. Url: <http://uskoreainstitute.org/wp-content/uploads/2014/11/Abrahamian-SEZs-14-1118-HQ-Print.pdf>. Last accessed 3rd of May 2015. ABRAHAMIAN, Andray, 2011, Report on Rason Special Economic Zone, Democratic People's Republic of Korea, *Choson Exchange Report* Url:

<http://static.squarespace.com/static/52dd9f05e4b0089d6701446a/53064026e4b086a219c80ff3/53064034e4b086a219c810de/1392918580555/Choson-Exchange-Rason-Report-August.pdf?format=original>. Last accessed June 2013. ABRAHAMIAN, Andray, 2012, The Honeymoon Period is over, Short Report on Rason Special Economic Zone, Democratic People's Republic of Korea, *Choson Exchange Report*.

⁴⁴ LIM Ho Yeol, KIM Junyoung, 2015, DPRK's Special Economic Zone Policies: Recent Development and Future Challenges, *KIEP Research Paper*. Url: <https://ssrn.com/abstract=2771039>. Last accessed 13th of January 2017.

⁴⁵ GOEDDE, Patricia, 2003, Law "Of Our Own Style": The Evolution and Challenges of the North Korean Legal System, *Fordham International Law Journal*, Vol.27, N°4. pp.1265-1288.

⁴⁶ ZOOK, Darren C., 2012, Reforming North Korea: Law, Politics, and the Market Economy, *Stanford Journal of International Law*, Vol.48, n°1.

⁴⁷ LEE, Yong-joong, 2000, Development of North Korea's Legal Regime Governing Foreign Business Cooperation: A Revisit under the New Socialist Constitution of 1998, *Northwestern Journal of International Law & Business*.

⁴⁸ SOBLE, Stephen, 1985, Joint Venture Law Announced, *International Legal Materials*, Vol. 24, No. 3, pp. 806-808.

⁴⁹ YOON Sang-Jick, 1997, Critical Issues on the Foreign Investment Laws of North Korea, *Wisconsin International Law Journal* n°325.

⁵⁰ CHOE Yong-ok, 2014, The Noticeable Issues in Introduction of Foreign Investment to the Economic Special Zone, *Kim Il-sung University Journal*, vol.2. 68-69.

and SEZs⁵² in a socialist country like the DPRK, but given the allegedly strong political pressure and governmental redlines on academic publications in the DPRK, North Korean scholarship will mostly be used as illustrative sources within the context of this study.

On current bilateral economic and diplomatic ties:

In the context of the DPRK's controversial nuclear, ballistic and spatial programs, the peculiar Beijing-Pyongyang relationship currently is at the core of intense political and diplomatic battles, and has thus been intensively researched by scholars. These studies are extremely interesting for us to study within the scope of this research, as they provide with an always-updated picture of the current political ties between Beijing and Pyongyang. What economic ties have to say about the bilateral relations between the two socialist neighbors is, however, much less debated (hence this study's academic relevance)⁵³. Publications dealing with general "engagement" strategies with the DPRK will not be addressed here, as they most often adopt the standpoint of Western countries and their allies (South Korea, Japan). Chinese scholars' stance on the current evolution of bilateral ties has been detailed in a 2009 publication by the International Crisis Group⁵⁴, and will be discussed at length in Part III. Among many others, Swaine⁵⁵, the International Crisis Group⁵⁶, Billingsley and Glaser⁵⁷, Glaser et al.⁵⁸, Manyin and Nanto⁵⁹, Szalontai⁶⁰, nearly comprehensively identified,

⁵¹ KIM Un-nam, 2014, Basic Principles of the Law of the WTO and Some Legal Problems of Them, *Kim Il-sung University Journal*, vol.2.pp.77-80.

⁵² Kim Hong Il, 2014, Establishment and Management of the Economic Development Zone is an Important Task of the External Economic Sector, *Kim Il-sung University Journal*, vol.1. pp. 52-55.

⁵³ Among the few studies that explicitly combine Chinese influence and economic policies towards North Korea, see DUCHÂTEL, Mathieu, SCHELL, Philippe, 2013, China's Policy on North Korea: Economic Engagement and Nuclear Disarmament, *SIPRI Policy Paper* n°40. Url: <http://books.sipri.org/files/PP/SIPRIPP40.pdf>. Last accessed 7th of February 2017.

⁵⁴ International Crisis Group, 2009, Shades of Red: China's Debate over North Korea, *Asia Report* n°179.

⁵⁵ SWAINE, Michael, 2009, China's North Korea Dilemma, *China Leadership Monitor*, Fall 2009, n°30.

⁵⁶ International Crisis Group, 2013, Fire on the City Gate: Why China Keeps North Korea Close, *Asia Report* n°254.

⁵⁷ GLASER, Bonnie S., BILLINGSLEY, Brittany, 2012, Reordering Chinese Priorities on the Korean Peninsula, *Center for Strategic and International Studies Freeman Chair in China Studies Report*. Url: https://csis-prod.s3.amazonaws.com/s3fs-public/legacy_files/files/publication/121217_Glaser_ReOrderingChinese_web.pdf. Last accessed 4th of June 2015.

⁵⁸ GLASER, Bonnie, SCOTT, Snyder, PARK, John, 2008, Keeping an Eye on an Unruly Neighbor, Chinese Views of Economic Reforms and Stability in North Korea, *United States Institute of Peace Working Paper*. Url: <https://www.usip.org/sites/default/files/Jan2008.pdf>. Last accessed 17th of August 2015.

introduced and analyzed the current difficulties and issues at stake (both internally and externally) in Beijing's North Korea policy. Hong Sukhoon⁶¹ also usefully identified the salient features of the current bilateral relationship but with a "reversed approach": the DPRK foreign policy goals regarding China.

Given the lack of access to statistical data and the issue on its reliability, academic research on economic interaction between both countries is much rarer; Of course, most studies dealing with China-DPRK ties in general do provide figures about trade ties or, in fewer cases, investment projects, but these publications most often do not question the political nature of economic cooperation patterns or how economy-related policies intersect with political goals. Kim, in 2006⁶², wrote one of the very first detailed academic papers on the then-current post-2002 Chinese investment wave and its potential political consequences. Thompson⁶³, Haggard and Shi⁶⁴, Zakharova⁶⁵, and Gearin⁶⁶ made groundbreaking research using, among other sources, Chinese Ministry of Commerce databases to identify Chinese patterns of investments in the DPRK (especially in the mining sector for the latter one). Using firm-level studies and fieldwork interviews in the Sino-Korean borderlands, Haggard and

⁵⁹ NANTO, K.Dick, MANYIN, Mark, 2010, China-North Korea Relations, *Congress Congressional Research Service Report*.

⁶⁰ SZALONTAI, Balazs, 2015, "If the Neighborhood Catches Fire, One Will Also Come Home to Grief", Chinese Attitudes Towards North Korea's Confrontational Acts, *Tiempo Devorado, Revista de Historia Actual*, n°2. pp.68-97.

⁶¹ HONG Sukhoon, 2014, What Does North Korea Want from China? Understanding Pyongyang's Policy Priorities toward Beijing, *The Korean Journal of International Studies*, vol 12 n°1, pp.277-303.

⁶² KIM Jaechol, 2006, The Political Economy of Chinese Investment in North Korea, A Preliminary Assessment, *Asian Survey* vol. XLVI, n°6.

⁶³ THOMPSON, Drew, 2011, Silent Partners, Chinese Joint Ventures in North Korea, *U.S.-Korea Institute at SAIS report*. Url: <http://uskoreainstitute.org/research/special-reports/silent-partners-chinese-joint-ventures-in-north-korea/>.

⁶⁴ HAGGARD, Stephan, SHI Weiyi, 2014, Chinese Investment in North Korea: Some Data, *Peterson Institute for International Economics* (online.) Url: <https://piie.com/blogs/north-korea-witness-transformation/chinese-investment-north-korea-some-data-part-i>. (part I). Last accessed 2nd of June 2016.

⁶⁵ ZAKHAROVA Ludmila, 2013, North Korea's International Economic Ties in the 21st Century and Prospects for Their Development under Kim Jong Un, *Far Eastern Affairs*, Vol. 41 n°3, pp.129-148.

⁶⁶ GEARIN, Daniel, 2010, Chinese Infrastructure and Natural Resources Investments in North Korea, *U.S.-China Economic and Security Review Commission Staff Background Report*. Last accessed 7th of June 2016.

Shi⁶⁷ show that most of the Chinese businessmen active in the DPRK are from the private sector, which is globally consistent with other studies mentioned above.

Last, but not least, the borderlands and their role as geoeconomic interfaces between China and the DPRK have also been increasingly dealt with by scholars. Ducruet et al⁶⁸, Ducruet et al⁶⁹, and Ducruet and Roussin⁷⁰ described the link between North Korean economic geography and its international linkages and their mutation after the collapse of the USSR. Among others, Colin⁷¹, Lin and Hao⁷², Burns⁷³, Zhu⁷⁴, Cotton⁷⁵, have discussed the Yanbian Korean Autonomous Prefecture's potential as an economic interface with the Rajin-Sonbong Special Economic Zone, with the DPRK in general and with the whole of Northeast Asia. Lee, in several academic papers⁷⁶, examined the impact of Chinese economic development strategies on both sides of the border. Given the DPRK's most recent policies of establishing Special Economic Zones in the borderlands (see chapter 7), this will prove especially useful for later developments.

⁶⁷ HAGGARD, Stephan, LEE, Jennifer, NOLAND, Marcus, 2011, Integration in the Absence of Institutions: China-North Korea Cross-Border Exchange, *Peterson Institute for International Economics Working Paper Series* (online). Url: <https://piie.com/publications/wp/wp11-13.pdf>. Last accessed 7th of June 2016.

⁶⁸ DUCRUET, César, ROUSSIN, Stanislas, JO Cheol-jin, 2009, Going West? Spatial polarization of the North Korean port system, *Journal of Transport Geography*, vol. 17, N°5. pp.357-368.

⁶⁹ DUCRUET, César, GELÉZEAU, Valérie, ROUSSIN, Stanislas, 2008, Les connexions maritimes de la Corée du Nord. Recompositions territoriales dans la péninsule Coréenne et dynamiques régionales en Asie du Nord-Est, *L'Espace Géographique*, vol.37. pp.208-224.

⁷⁰ DUCRUET, César, ROUSSIN, Stanislas, 2007, L'archipel nord-coréen : transition économique et blocages territoriaux, *Mappemonde* n°87. Url : <http://mappemonde.mgm.fr/num15/articles/art07302.html>. last accessed 15th of April 2016.

⁷¹ COLIN, Sébastien, 2000, Ambitieuse tentative de coopération en Asie du Nord-est : la zone de développement économique du fleuve Tumen, *Hérodote*, n°97, pp. 88-106.

⁷² LIN Jinshu, HAO Fanglong, 2011, *changjitu xianlingqu yu chaoxian luoxianshi de jingmao hezuo* 长吉图先导区与朝鲜罗先市的经贸合作 [Economic cooperation between Changjitu Pilot Zone and the DPRK's city of Rason], *Yanbian University Journal of Social Science*, vol.44, N°2, pp.14-18

⁷³ BURNS, Katherine B., Undated (1994?), Subregional Power and Regional Integration: the case of Tumen River Development, *The Massachusetts Institute of Technology Japan Program Report*.

⁷⁴ ZHU Yuchao, 1995, The Tumen River Delta Project and Northeast Asian Regional Economic Cooperation, conference talk at the International Studies Association, Chicago.

⁷⁵ COTTON, James, 1996, The Rajin-sonbong Free Trade Zone Experiment: North Korea in Pursuit of New International Linkages, *Australia National University Working Paper* 1996/9.

⁷⁶ LEE Seung-Ook, 2014, China's New Territorial Strategies Towards North Korea, Security, Development and Inter-scalar Politics, *Eurasian Geography and Economics*, vol.55 n°2. pp.175-200. LEE Seung-Ook, 2014, The Production of Territory in North Korea: 'Security First, Economy Next', *Geopolitics*, vol.19 n°1. pp 206-226.

Theoretical framework and methodology

➔ Theoretical framework

With this research project first and foremost focused on the geopolitical implications of China's economic engagement strategies towards the DPRK, this doctoral dissertation can be considered as part of the "geoeconomics" branch of the larger International Relations family. Early definitions of geoeconomics were formulated in the somewhat "euphoric" post-Cold War context when analysts considered that the days of "frontal" military confrontations were over (at least in developed countries), and to be replaced with other forms of competition and confrontation in the economic sphere; as Edward Luttwak notoriously explains: geoeconomics are "the admixture of the logic of conflict with the methods of commerce" ⁷⁷. Since then, scholars have been refining this "rough" definition of geoeconomics to turn it into a more easily usable framework of analysis; as Pascal Lorot defines it, geoeconomics are

*"the analysis of economic strategies –especially commercial ones- decided by States within the framework of policies aimed at protecting their national economies and at helping their "national companies" to master key technologies and/or conquer some market sectors [...] as their possession or control provides the State or the "national company" with a mean to increase its power and international influence and allows it to reinforce its economic and social potential."*⁷⁸

This definition partially applies to Chinese economic engagement strategies towards the DPRK. China is, admittedly, not looking for "key technologies" in the DPRK. But since North Korea is notoriously skeptical about "orthodox" economic integration and actively tries to exit China's orbit, it does constitute a market to conquer for both Chinese public or private companies. The China-DPRK economic ties can thus be analyzed using a geoeconomical approach, as Beijing's policy objectives towards the northern part of the peninsula are indeed aimed at increasing "its power and influence and allows it to reinforce its economic and social potential": as will be explained, China's "economic conquest" of North Korean

⁷⁷ LUTTWAK, Edward, 1990, From Geopolitics to Geo-economics : Logic of Conflict, Grammar of Commerce, *The National Interest*, n°20. pp. 17-23.

⁷⁸ LOROT Pascal, 2009, De la géopolitique à la géoéconomie, *Géoéconomie*, Vol.50, n°3. pp.9-19.

markets could amount to an important political, diplomatic and economic success, especially in the context of Beijing's trumpeted "One Belt, One Road" Initiative.

Although scholars versed in geoeconomic studies often are realist thinkers (for instance Luttwak and Lorot), it should be pointed out that this particular approach shares some common features of Marxian analysis, as the approach posits that socio-economic elements ("infrastructure" in Marxian terms) at least partially determine the (geo)political realm (... "power and international influence"), or "superstructure". The idea that the roots and causes of foreign and diplomatic policies are to be found in determinants mostly economic in nature (position in the International Division of Labor, natural resources, technological level, mode of production, etc.) is indeed shared, at least to some degree, by both geoeconomists and Marxian/Marxist thinkers, including World-System (as theorized by Wallerstein) and Dependency Theorists (Gunder Frank, Peixoto, Cardoso, etc.). The North Korean leadership, as evidenced in Kim Il-sung's writings⁷⁹, has repeatedly explained that the DPRK's "independence in politics" [자주; *chaju*] was determined by its "independence in economy" [자립경제; *charip kyŏngje*].

In 2006, Frank argued that "so far, most attempts at integrating North Korea into standard theoretical models have stopped at transitology or transformation theory"⁸⁰. In fact, limited attention has been paid to epistemological issues in North Korean studies, as the main issues faced by researchers often are methodological ones (lack of access and data). At the epistemological level, debates are often centered on the "North Korean exceptionalism" and the idea that if the DPRK is indeed unique, researchers might not be able (or not have the adequate tools) to understand it. Cumings, for example, was criticized⁸¹ for famously arguing that *Juche* ideology was "ultimately inaccessible to the non-Korean"⁸². On the other extreme, Eberstadt, while refusing the idea of North Korean exceptionalism, applies orthodox economic theory to the DPRK and thus unsurprisingly concludes on the "failure"⁸³ of the

⁷⁹ Among many occurrences: ⁷⁹ KIM Il-sung, 1986i. See bibliography.

⁸⁰ FRANK, Rüdiger, 2006, Can Economic Theory Demystify North Korea?, *Asia-Pacific Journal* (online). Url: http://www.japanfocus.org/-R_diger-Frank/2341/article.html. Last accessed 07 June 2015.

⁸¹ MYERS, Brian, 2006, The Watershed that Wasn't : Re-evaluating Kim Il-Sung's « *Juche* Speech » of 1955, *Acta Koreana* vol.9, n° 1. "The idea that some ideas of states of mind are accessible only to certain ethnic groups does not merit discussion".

⁸² CUMINGS, Bruce, 1997, *Korea's Place in the Sun, A Modern History*, Norton and Company, New York.

⁸³ EBERSTADT (2015).

North Korean economic system. Pursuing the effort initiated by Frank, the epistemological framework of this dissertation is based on the prerequisite that North Korean policy options are rational and thus can be understood, at least if considered through the prism of an adapted theory. In order to provide with an alternative understanding of current bilateral dynamics, one needs to find alternative epistemological “inroads” that necessarily lead to different results. However, given the nature of this research, which deals with two different countries but also aims at studying the evolution of their economic and foreign policies, one single theory cannot satisfactorily be used to explain all phenomena to be dealt with below. It was thus decided to build a larger but coherent analytical and conceptual framework that relies on different theories to be used as epistemological tools in different moments of this research: Dependency theory and Flying Geese paradigm will be used to understand the current reform in the DPRK and its changing attitude towards foreign partners; David Harvey’s “Spatial Fix” theory will be helpful to better understand Chinese economic engagement strategies towards the DPRK and their compatibility with North Korea economic development strategies. The political dynamics of Chinese engagement towards the DPRK will be studied through the perspective of standard realism school of international relations, and especially the bandwagoning/balancing dilemma. Last, but not least, the concept of economic engagement, as defined by Kastner and Kahler, will be used to study the very nature of Chinese economic diplomacy towards the DPRK.

-Dependency theory and Akamatsu’s flying geese paradigm

Surprisingly, to the author’s knowledge, scholarship on the DPRK’s economic policies has made little use of dependency theorists’ epistemological contributions, although these theories prove very useful in deciphering Pyongyang’s former (but also contemporary) economic and foreign policies. More than world-systems theory, which uses macro-scale analysis and most often refuses State-centered approaches, specific sub-currents of dependency theory and the idea that the world is divided in central and peripheral countries bears structural resemblances with Kim Il-sung’s analysis of colonial-era economic relations and “self-centered/self-reliant” economic strategies. Dependency theories describe countries at the “center” as nations that have mastered the whole industrial production cycle and thus do not, or marginally rely on other countries inputs for economic

development. On the other hand, “peripheries” only partially master these production cycles and need inputs (most often capital, know-how and technology) from more “developed” countries, and thus depend on them. Frank⁸⁴ also pointed out that this situation of dependence was not only a political issue but also had for collateral effect to widen the gap (in terms of development) between centers and peripheries. Among the multi-faceted field of dependency theorists, the concept of “*Delinking*” by Marxist-leaning author Samir Amin⁸⁵ constitutes a precious epistemological tool to understand North Korean economic policies, as the self-reliant economic development and international integration model he explicitly advocates closely mirrors⁸⁶ the early economic choices of the DPRK leadership. What’s more, in his 1985 book *Delinking*, Amin explicitly distinguishes delinking theory from other forms of dependency theory-inspired development models such as self-centered development (which does not systematically require socialism), autarky or industrialization by import substitution (Feldman-mahalanobis hypothesis). This “typology” of dependency theory-inspired development models helps underlining the proximity between *Delinking* and *Juche*-inspired economic theory. Since the heavily politicized North Korean official literature lacks coherence, Amin’s concept of delinking provides a very clear theoretical framework for unveiling the logic behind what can otherwise only be seen as voluntary irrational isolation by the North Korean leadership. Standard economic theory does not, or only marginally, allow to see how recent economic practices differ from the past. Many scholars have for example pointed out that economic reforms in the DPRK, for the past thirty years were “half-heartedly”⁸⁷, “reluctantly” made or implemented, or simply do not constitute “genuine reforms”⁸⁸. Considering that there are “genuine” or “non-genuine” reforms is not only a political bias (or a confusion between “reform” and structural adjustments”, the latter being much more specific in scale and nature) but also an epistemological pitfall: it is indeed quite difficult to make sense of the logic behind the DPRK’s recent economic policies (why would Pyongyang implement changes that would have no or very limited impact?). On the contrary,

⁸⁴ FRANK, Andre Gunder, 1969, *The Development of Underdevelopment*, New England Free Press, Boston.

⁸⁵ AMIN, Samir, 1985, *Delinking, Towards a Polycentric World*, Zed, London.

⁸⁶ The above-mentioned book is actually partially based on a case study of North Korea policy choices.

⁸⁷ PARK Yong-soo, 2008, The Political Economy of Economic Reform in North Korea, *Issues and Studies*, vol.44, n°4. pp.201-226. POLLACK, Jonathan, 2006, *Korea: The East Asian Pivot*, Naval War College Press, Newport. See p.74.

⁸⁸ LEE Doowon, 1993, Assessing North Korean Reforms: Historical Trajectory, Opportunities and Constraints, *Pacific Focus*, vol.8 n°2. See p. 17.

Amin's theoretical work provides specific criteria for the implementation of delinking strategies, which can be used as "landmarks" to identify when and how North Korea decided to introduce reform policies, and thus suggest their ultimate objectives.

Symmetrically opposed to dependency theory, the revised version of Akamatsu's flying geese paradigm⁸⁹, one of the most often used theories to study Asian economies, also proves useful in understanding post-reform North Korean economic policies as well as China's attempts to integrate the DPRK into a China-led international division of labor (as evidenced in current Chinese investment patterns in neighboring Asian countries, including the DPRK), especially in the context of the "one belt, one road" initiative [一带一路; *yi dai yi lu*]. Indeed, the combination of both flying geese paradigm and delinking theory provide with a multi-criteria analytical framework that allows to precisely "locate" current North Korean reforms between two polarities but also allows to make sense of Chinese economic cooperation patterns with the DPRK and their underlying political objectives (see "engagement" below).

-David Harvey's "Spatial fix"

Drawing inspiration from recent scholarship and research⁹⁰, this research will examine the possibility that Chinese economic engagement patterns on a world scale and towards the Korean peninsula are not predominantly based on external dynamics (Strategic interests in the peninsula, US pressure, etc.) but rather on internal necessities. Indeed, some scholars⁹¹ do consider China's increasing economic expansion, such as the "going out" [*zouchuqu*; 走出

⁸⁹ SHIGEHISA Kasahara, 2013, The Asian Developmental State and the Flying Geese Paradigm, *United Nations Conference on Trade and Development Discussion Papers*. Url: http://unctad.org/en/PublicationsLibrary/osgdp20133_en.pdf.

⁹⁰ ZHANG Xin, 2017, Chinese Capitalism and the Maritime Silk Road: A World-Systems Perspective, *Geopolitics*, vol.0, n°0. pp.1-22.

Overcapacity in China: An Impediment to the Party's Reform Agenda, *European Union Chamber of Commerce in China report* (online), 2016, Roland Berger. Url: http://static1.squarespace.com/static/5537b2f8e4b0e49a1e30c01c/t/56cc3017cf80a1fc057c84e4/1456222242257/Overcapacity_in_China_An_Impedim.pdf. Last accessed 17th of August 2017. See p.6 and 36.

The Belt and Road Initiative, *yi dai yi lu* 一带一路, *Institute for Security and Development Policy Backgrounder* (online), 2016. Url: <http://isd.eu/content/uploads/2016/10/Belt-and-Road-Backgrounder-ISDP.pdf>. Last accessed 17th of August 2017. See p.2.

⁹¹ GAULARD, Mylène, 2014, *Karl Marx à Pékin, Les Racines de la Crise en Chine Capitaliste*, Demopolis, Paris.

去] policy or later the OBOR initiative to have internal, more than external, causes. More precisely, the decreasing rate of returns of China's domestic investment⁹² may be symptomatic of a looming overproduction crisis (acknowledged by the Chinese leadership) that could be overcome by what David Harvey describes as a "spatial fix"⁹³. A "spatial fix" is, according to Harvey, the geographical expansion and spatial reorganization that would be used to absorb capital surpluses ("capital glut" [资本过剩; *ziben guosheng*]) and thus overcome (or at least postpone) these overproduction crises. This is especially interesting for this study as it provides with additional clues as well as a potential alternative explanation of North Korea's somewhat "reluctant" reform and China's reluctance to seize business opportunities in the DPRK. If Chinese engagement strategies turn out to be nothing else than a "spatial fix", they would necessitate a far more welcoming business environment than present-day North Korea's, and thus constitute an attempt at economic integration rather than a pattern of mutual economic cooperation.

-Alliance formation and the "balancing/bandwagoning" dilemma

In addition to economy-based international relations theories like dependency theory, the use of standard IR theoretical works on alliance formation with a realist perspective also proves useful in deciphering both China's and the DPRK's foreign policies. International relations theory is of course not limited to realism and includes an ever-growing set of sometimes conflicting theories such as constructivism (Wendt) or feminism (Cohn). However, due to the opaque and seemingly monolithic nature of the DPRK (and to a lesser extent China) it was assumed that non-state centric approaches would, either offer limited results, or simply be impossible to use due to lack of access. These remarks obviously do not mean that studies on China using alternative approaches necessarily bring limited results but obviously apply to the very specific scope of this research as the DPRK is an extreme case of political centralization and opacity.

⁹²*Zhongguo shifo yijing chuxian le ziben guocheng* 中国是否已经出现了资本过剩[is China experiencing a capital glut]?, 2015, *Hongguan guancha*, n°121. See p.7: "2003 年以来发改委几乎每年都会提到产能过剩问题." BAI Chongwen, ZHANG Qiong, 2014, *Zhongguo de ziben huibaolü jiqi yingxiang yinsu fenxi* 中国的资本回报率及其影响因素分析[Return to Capital in China and its Determinants], *Shijie Jingji*, vol.10. pp.3-30.

⁹³HARVEY, David, 2006, *The Limits to Capital*, Verso, New York.

On the contrary, approaches in terms of “balancing” and “bandwagoning” are quite interesting for this research given China and North Korea’s historical records of maximizing their national interests rarely by engaging into open power struggles but often through unstable alliance formation. Walt has defined balancing as forming alliance “in opposition to the principle source of threat”, whereas bandwagoning refers to forming alliances “with the principle source of danger”. The Korean War and later the Cold War provide interesting examples of how Beijing and Pyongyang were sometimes allies, sometimes *de facto* foes due to a pattern of “balancing” and “bandwagoning” with Cold War Great Powers. This is quite interesting in the context of this research, since Chinese-DPRK ties are becoming increasingly complex and cannot be fully understood without looking at the wider picture of US-Chinese rivalries in the Asia-Pacific region, North-South relations, etc. With Pyongyang being increasingly isolated and antagonizing China, the nature of its bandwagoning policies with the PRC needs to be addressed, as does the role played by economic ties and policies in this strategy. Symmetrically, China’s very subtle attempts to maintain stability in its immediate periphery do necessitate a fragile mix of both balancing and bandwagoning with the US and North Korea, evidenced, in geoeconomic terms, by its simultaneous use of economic engagement strategies towards the DPRK (including assistance) as well as economic sanctions. Last, given Pyongyang’s isolation and inability/unwillingness to bandwagon or balance with foreign powers, Pape’s refined concepts of “internal” balancing/bandwagoning⁹⁴ (for example by developing nuclear weapons or fostering economic cooperation) provide with an alternative light on current North Korean practices of seemingly incoherent parallel development of nuclear weapons and increased economic interaction (“*pyŏngjin* line” [평진]).

-Economic engagement

Based on wide-ranging theoretical and empirical studies dealing with economic interdependence⁹⁵, sanctions⁹⁶, and “economic inducements”⁹⁷, the concept of “economic engagement”, which is at the core of this study, has been put forward by Kastner and

⁹⁴ PAPE, Robert A., 2005, Soft Balancing Against the United States, *International Security*, vol.30, n°1. pp.7-45.

⁹⁵ BARBIERI, Katherine, 1996, Economic Interdependence: a Path to Peace or a Source of Interstate Conflict?, *Journal of Peace Research*, vol.33, n°1. Pp.29-49.

⁹⁶ PAPE, Robert A., 1997, Why Sanctions Do Not Work, *International Security*, Vol.22, n°2. pp. 90-136.

⁹⁷ DREZNER, Daniel W., 2000, The Trouble with Carrots: Transaction Costs, Conflict Expectations, and Economic Inducements, *Security Studies*, vol.9, n°1-2. pp.188–218.

Kahler⁹⁸. According to them, economic engagement is “a policy of deliberately expanding economic ties with an adversary in order to change the behavior of the target state and improve bilateral political relations”. In its engagement strategy, China would thus have a more or less hidden⁹⁹ political agenda and would try to use economic leverages in order to achieve political goals. Thanks to the theoretical but also empirical works of Kastner and Kahler, but also more generally speaking the contributions of scholars versed in geoeconomic studies, it seems possible to identify the nature of Chinese engagement strategy towards the DPRK, the political goal it seeks to achieve and, in a more prospective way, its chance of success. Last, Kastner and Kahler’s argument that through increased economic interaction one State can reshape political preferences of the target State or company, due to the so-called “transformative effect”¹⁰⁰ of engagement, also seems useful and will be tested via the analysis of China-DPRK economic cooperation patterns.

➔ Methodology

The research methodology used to pursue this study has been following a three-step pattern and included both qualitative and quantitative research methods, albeit to a lesser degree for the latter. Although the geoeconomic approach to international relations does necessitate a thorough study of currently available statistical data dealing with bilateral economic ties, the lack of precision, reliability, or even availability (especially on the North Korean side) of data requires triangulation with qualitative methods.

Step 1: theoretical stage

In a quite classical fashion, the first stage of research was mostly focused on the theoretical level, with the identification and the surveying of main research theories (see “analytical framework” above) that could provide additional epistemological “inroads” into the topic of China-DPRK economic cooperation, as well as potential results. North Korean sources dealing with economic policies (especially Kim Il-sung’s *Works*, vol.8 to 40) and historians works on DPRK economic history were also the focus of particular attention at that stage.

⁹⁸ KAHLER, Miles, KASTNER, Scott, T., 2006, Strategic Uses of Economic Interdependence: Engagement Policies on the Korean Peninsula and Across the Taiwan Strait, *Journal of Peace Research*, vol.43 n°5. pp.523-541.

⁹⁹ DUCHÂTEL, Mathieu, SCHELL, Philippe, 2013, China’s Policy on North Korea: Economic Engagement and Nuclear Disarmament, *SIPRI Policy Paper* n°40. Url: <http://books.sipri.org/files/PP/SIPRIPP40.pdf>. Last accessed 7th of February 2017.

¹⁰⁰ KALHER, KASTNER, 2006, *op cit.*

This preliminary research allowed the identification of the logic behind North Korean “traditional” (pre-reform”) economic policies, the role that is left to foreign partners and thus, mechanically, the identification of when and how did Pyongyang show interest in economic reform and experimentation. In addition, a selection of available literature and sources on China-DPRK political relations has been examined to see if there might be a pattern of correlation between bilateral economic relations (assistance, trade, investment), political ties and both countries’ economic performance. What’s more, in order to get a more detailed and qualitative understanding of current bilateral economic ties (from the end of the famine and the 2002 economic reforms onwards), it has been necessary to study in detail available data sets (mostly published by the Chinese customs or the UN Comtrade) dealing with China-DPRK trade (evolution, structure) as well as Chinese investments in the DPRK¹⁰¹. This statistical review also encompassed comparisons of Chinese economic cooperation with a selection of other Asian and African countries in order to grasp the relative importance of bilateral economic ties in China’s global economic integration strategy.

Step 2: Empirical phase n°1

Following this theoretical research phase was the preparation for field research and more precisely research interviews with a selection of Chinese businessmen identified at the Pyongyang Trade Fair in 2014 and 2015 and during previous fieldwork¹⁰². The overall majority of these Chinese businessmen and entrepreneurs are established in borderlands cities such as Dandong and Yanji, or, to a lesser extent, in larger cities in Northeastern China (Shenyang, Jilin, Changchun, Dalian). During these fieldwork interviews, three different objectives were followed: 1) examining the perception of Chinese entrepreneurs on the DPRK’s business environment and the state of economic reforms in the DPRK, especially their perspectives on potential business opportunities in Special Economic Zones (see empirical phase n°2). 2), understanding the role and efficiency of government policies aiming at fostering (SEZ joint committees) or limiting (sanctions) bilateral economic cooperation. 3), observing Chinese businessmen’s perception on the influence of North Korea-related controversies (nuclear and missile tests, etc.) on cross-border trade (imports and exports).

¹⁰¹ Since this research deals first and foremost with Chinese engagement strategies towards the DPRK, the very low levels of North Korean Investments in China (mostly hotels, restaurants) will not be addressed.

¹⁰² The author also did fieldwork interviews in Rajin-Sonbong and in Northeast China during Spring 2014 for his master dissertation.

Based on previous fieldwork experience among Chinese businessmen active in North Korea, semi-structured interviews were preferred (obviously in a flexible way) since interviewees do not necessarily understand a researcher's angle of approach and have a quite limited understanding of the international political context that surrounds their professional activities, which often requires the interviewer to "keep them on track". Although the primary "target" for these fieldwork interviews was Chinese businessmen, the initial objective was to also conduct research interviews with a smaller selection of other Chinese actors involved in the political or policy-oriented realm (diplomats, researchers working on bilateral projects, local officials), since their practitioners' perspective can provide with clues for later analysis. As will be explained, officials became especially hard to get access to in the wake of the DPRK's 4th nuclear test. Last, during journeys in North Korea, it was tried to engage in discussions with key actors (scholars, students, officials, diplomats positioned abroad) on topics relevant to this study. Given the political situation in the DPRK, the author is fully aware that "interviews" conducted there cannot be considered as "real" research interviews and the data gathered has been used for reference only (see "difficulties").

Step 2: Empirical phase n°2

Last, in order to obtain a more detailed and "concrete" picture of current obstacles or successes that altogether give shape to the pattern of bilateral economic cooperation, it was decided to make case studies on specific North Korean economic policies that aim at fostering economic integration: Special Economic Zones. These SEZs are particularly interesting to study for numerous reasons. First, SEZs constitute an acknowledged policy transfer from the PRC to the DPRK and the comparison between Chinese and North Korean SEZs provides clues on which particular aspects of the Chinese reform the DPRK seems to be interested in. Second, since Pyongyang opened several "batches" of SEZs since 1991, all of them displaying different characteristics (and different legal corpuses), a trend in opening policies can be identified, offering additional indications on the final objective of reform policies. Third, the study of China's attitude regarding North Korean SEZs (in comparison to Chinese investment in SEZs elsewhere in its periphery) could help unveil the more general attitude of Chinese economic actors (State-led or private) regarding business opportunities in the DPRK. As of 2017, there are 26 SEZs in the DPRK, the overall majority of them being too young to have attracted substantial attention from businessmen, and comprehensive

case studies on every single zone would be uselessly repetitive. It was thus decided to study in details a selection of SEZs based on their own distinctive characteristics. Part II provides case studies on: the Rajin-Sonbong SEZ, the first SEZ in the DPRK; the Sinuiju SEZ, which is strategically located on a major Sino-Korean trade route; the Wonsan-Kumgangsan, as it seems to benefit from a particular attention from the central government; last, a selection of younger zones located at the border with China or near strategic infrastructures (Nampo port), due to their structural links with the PRC. Empirical research on SEZs will mostly be based on North Korean official literature (English and Chinese), advertisements, call for investments in SEZs, on-site visits when possible (Rason, Hamhung, Wonsan) as well as satellite imagery.

This two-step empirical phase was designed to allow better triangulation of gathered data and prepare solid and reliable data samples to be interpreted and analyzed according to the analytical corpus described above.

Scope of study, limitations and difficulties

The limits of this dissertation as well as the difficulties encountered during research and fieldwork processes need to be addressed. Any research dealing with countries with quite opaque policy-making processes necessarily implies a substantial difference between the ideal planned research agenda and its concrete implementation. Although the first stage of the fieldwork process followed initial expectations relatively well, given the complex environment of the borderlands, the 4th North Korean nuclear test and especially the additional round of sanctions in March 2016, completely changed the situation at the border. Chinese private businesses involved in North Korea became much more difficult to access, and views expressed by interviewees became increasingly incoherent if compared with pre-test interviews. What's more, for obvious security reasons, the author refrained from asking questions that might have been considered too sensitive to both North Korean and Chinese interviewees, especially after the January 2016 nuclear test and the resulting tensed situation in the borderlands.

Generally speaking, interviews conducted with researchers and consultants in Beijing and Yanji were done in satisfactory conditions (in nearly all cases with condition of anonymity).

In the borderlands, low-level officials and traders tend to confuse the role of scholars and journalists, which often led interviewees to provide us with “stereotypical” answers aiming at promoting their businesses or current projects. Interviewees on the Chinese side of the borderlands seem to be globally unaware of the role they play in cross-border economic ties and since, for geographical reasons, most of them are only active in the DPRK and China, they can hardly draw comparisons on the DPRK’s business environment with other countries. Interviews conducted in the DPRK cannot, in any way, be considered as formal research interviews, as it is very rare for foreign visitors to engage in lengthy discussions with officials since they are often accompanied by at least two guides. Officials from the Ministry of Foreign Affairs of the DPRK most of the time stick to official positions, and rare expressions of personal opinions are extremely difficult to triangulate and cross-check. Quite surprisingly, interviews with officials from the Ministry of External Economy positioned abroad or in charge of SEZ management (in Pyongyang) were much more candid and outspoken, although officials interested in economic affairs often have a quite blurry overall picture of economic policies in the DPRK. Another important issue when discussing economy-related questions with North Koreans scholars was their tendency to answer questions at a very theoretical level (often using an extremely technical approach) but very reluctantly apply theories to the current economic situation in the DPRK.

Due to the similarities between standard mandarin (*putonghua*) and Northeast dialects (*dongbeihua*), language was generally not an important obstacle during conversations in the borderlands. The author’s very limited command of Korean was not an issue on the Chinese side of the border, as virtually all Chinese Korean [朝鲜族; *chaoxianzu*] speak mandarin and DPRK officials positioned in China speak sufficient Chinese or English/French. On the Korean side, except in one occurrence when a translator was needed, the author was always in contact with English- or Chinese-speaking officials or scholars/students. During stays in North Korean academic institutions, interacting in Korean with locals was frowned upon by the local staff, due to the personal proximity it implies but also because of the immediately noticeable differences between standard Korean taught to foreigners (which closely resembles Korean as spoken in the South) and the one used in the North.

For practical reasons as well as intellectual coherence, there are some important aspects of North Korean reform that will not be addressed in this study. The Kaesong Interkorean Complex (KIC), for example, was considered a major feature of North Korean reform before it was unilaterally closed by Seoul in 2016. However, although the Kaesong SEZ will be mentioned several times in the present dissertation, it does not play a particular role in the China-DPRK relation (at least not directly) and therefore was not examined in details¹⁰³. North Korean attempts at reform that either are strictly internal or only indirectly have external effect will also be mentioned throughout this study, but do not constitute the core of this research. Reforms such as the “5.30” or the “6.28” measures on agriculture and economic management system are only interesting, within the scope of this study, in that they demonstrate a certain “pragmatism” in Pyongyang’s economic policy-making. As they are unrelated to current China-DPRK ties, and internal policies in the DPRK are very difficult to monitor and observe, these policies will not be detailed here.

Thesis structure

Apart introduction and conclusion, this dissertation will be divided into three parts.

In order to better understand the depth and nature of economic opening policies in the DPRK, part I aims at highlighting the historical foundations of the North Korean economy as well as the role of economic cooperation and integration with foreign countries in general and with the PRC in particular. Indeed, internal and external economic options favoured by Pyongyang in the aftermath of the Korean War (1950-1953) will be studied in details for several reasons: the period approximately running from 1953 to the late 1970’s constitutes the “golden era” of North Korean socialism, an era of quick economic development, as well as diplomatic and political successes. During this crucial period were designed North Korea’s peculiar relations with the “outside world”, paradoxically aiming at maximizing economic interaction with both socialist and capitalist countries while minimizing political influence. As explained above, the description of Pyongyang’s early economic policy options will provide a baseline to be compared with current reforms. China-DPRK relations from the beginning of the Chinese reform in 1978 to nowadays will of course require particular attention, in order to examine the transformations in bilateral ties (on a national but also regional and local

¹⁰³ As a matter of facts, the KIC might have been the focus of much more research than all other SEZs combined.

level) due to internal economic reforms in both China and the DPRK, but also due to the collapse of the socialist bloc and Pyongyang's resulting increased diplomatic isolation.

The second part will be mostly dealing with concrete multi-, bi- or unilateral initiatives to create economic opening "corridors" or "areas" in the DPRK and foster deeper economic integration with the PRC. Part II will be introduced by a panorama of present-day DPRK-PRC economic ties highlighting current trade and investment patterns. This panorama will not only point out statistical data which is important to understand the nature of bilateral ties, but also underline the specificities of China-North Korea trade such as Pyongyang's growing dependence on Chinese exports, and the sharp contrast between the PRC outbound investment patterns towards the DPRK and the rest of the world. Based on this description of current bilateral economic ties at a general level, case studies of concrete cooperation attempts will provide additional information on the different actors' attitude regarding cross-border cooperation. As the DPRK has increasingly tried to "open" parts of its territory to foreign investment, it was chosen to study only a selection of seemingly high-potential areas, due to their historical ties with China and their geographic situation, as well as a few relevant other areas which seem to provide additional clues on Pyongyang's economic policy priorities.

The third part will more directly address and analyze the PRC's current economic engagement strategies towards the DPRK based on previous observations. It will proceed in three steps; first, the depth and nature of the DPRK's current reforms and the resulting North Korean business environment will be examined. From there, it will be possible, on the one hand, to deduce Pyongyang's expectations from the increasing economic integration with the PRC, and on the other hand to see how economic cooperation patterns, which the DPRK is trying to foster, differ from those favored in the past. Second, China's peculiar attitude regarding the North Korean reform and economic cooperation opportunities will be detailed in the wider perspective of the PRC's foreign policy objectives towards the DPRK, the Korean peninsula and the Asia-Pacific region. Third, the degree of "compatibility" between the North Korean economic opening attempts and China's interests and economic engagement strategies will be discussed, in order to understand to what extent both sides are able to show flexibility and adaptation to the other's needs, and assess the short to medium term potential of China-North Korea economic integration attempts.

Finally, a general conclusion will summarize and synthesize research findings and highlight other potential research directions.

Part one: The North Korean Economic System in the International Context of the Cold War

Even if North Korean archives are still not accessible to historians, the academic debate regarding the post-WWII northern half of the Korean peninsula has been quite intense since at least the 2000 decade. Indeed, declassified archives of former European People's Democracies (including Russia) and, to a lesser extent, data gathered in Chinese archives allowed historians to shed some light on international relations and the internal political situation of North Korea during the crucial 1953 to 1980 period. The relatively detailed historical accounts on this critical period will not only help to identify a pattern in North Korea's external relations with the world, but they will also show how, since the very beginning of the second half of the XXth century, the DPRK's diplomacy and economy are deeply intertwined¹⁰⁴. A selective but necessary historical overview of the DPRK foreign and economic policies will enable us to identify the North Korean "*traditions*" in these fields, a critical step to better understand the scale and nature of later North Korean *reform* as well as the mutation of Beijing-Pyongyang bilateral economic ties.

Interactions between the Chinese Communist Party (CCP) and different Korean groups during the Chinese Civil War or the Korean War need to be quickly mentioned as these contacts constitute the roots of the "blood-cemented friendship" between Chinese and North Koreans. The core of the following first part is dedicated to the study of the post-Korean War period, and will be segmented into three chapters: Chapter one will deal with the reconstruction of North Korea (From 1953 to 1962), often considered to be the cradle of the modern Beijing-Pyongyang relation, and a key period when long-lasting economic policies and idiosyncratic ideologies (like *Juche* idea) were formulated. Chapter two will deal with the "golden age" of Korean-style socialism (approximately 1960-1970 decades), the unfolding of peculiar economic/diplomatic policies in the very specific context of the Cold War and Pyongyang's concrete implementation of an "independent policy". Last, the third chapter will focus on the gradual weakening of the North Korean economy and diplomacy

¹⁰⁴ Avram A. Agov, in his Ph.D dissertation, has shown with a profusion of details to what extent North Korea's economy has been deeply linked with its relations with other socialist countries. See AGOV, Avram Asenov, 2010, *North Korea in the Socialist World: Integration and Divergence, 1945-1970, The Crossroads of Economics and Politics* (Ph.D Thesis, unpublished yet). Url:

https://circle.ubc.ca/bitstream/handle/2429/24246/ubc_2010_spring_agov_avram.pdf?sequence=1

during the 1980-1990 decades, the early attempts at economic reform and the mutation of sino-korean ties.

Chapter I/ Post-war reconstruction of North Korea and the issue of socialist “cooperation”

1.1 Preamble: China’s strategic importance for Korean communists and guerrilla fighters

Interactions between Korean and Chinese communist groups largely predate the end of the Second World War. As explained by leading historians¹⁰⁵, in the context of the Japanese colonization of the peninsula, several groups of Koreans fled to China, were exposed to socialist ideology and fought by the Chinese Communist Party’s side (CCP) against the Chinese nationalists until the very end of the civil war and even until the beginning of the Korean War¹⁰⁶. Some Koreans joined the CCP’s post Long March base in Yan’an, forming an informal group that would later be known as “the Yan’an faction” [연안파, *yōnanp’a*; 延安派, *yan’an pai*] in North Korea. Besides this “Yan’an faction”, Northeast China was used as base for other Korean resistance movements that were both active in China and in Japanese Korea, and were even integrated in the CCP’s ranks in 1931¹⁰⁷. Led by the future North Korean *Great Leader*, Kim Il-sung, this group will later be known as the “guerrilla faction” [갑산파, *kapsanp’a*; 甲山派 *jiashan pai*]. After the liberation of Korea from the Japanese colonizers, the northern part of the peninsula became a logistic base and an important supply route for the CCP and the People’s Liberation Army (PLA) to fight the last remnants of nationalist troops in the Chinese Northeast [东北; *dongbei*], with more than hundred

¹⁰⁵ SHEN Zhihua, 2008, Alliance of “Tooth and Lips” or Marriage of Convenience? The Origins and Development of the Sino-North Korean Alliance, 1946-1958, *US-Korean Working Paper Series*. Url: <http://uskoreainstitute.org/wp-content/uploads/2010/09/USKI-WPS08-09.pdf>. CUMINGS, Bruce, 1997, *Korea’s Place in the Sun, A Modern History*, Norton and Company, New York. ARMSTRONG, K. Charles, 2013, *Tyranny of the Weak*, Cornell University Press, Ithaca.

¹⁰⁶ CUMINGS (1997), p.242.

¹⁰⁷ HUANG Chungchiu, SHI Zhiyu, 2014, *Harmonious intervention: China’s quest for relational security*, Ashgate, Farnham. p.60.

thousand Korean troops actively fighting with the PLA and supporting the CCP administration (especially Yan'an Koreans) established in Changchun.

In a sense, besides pragmatic calculations and self-interest, the later Chinese People's Volunteer Army's (CPVA) involvement in the Korean War was a way to settle a moral debt to fellow Korean comrades and answer to the internationalist duty against South Korean and US-led UN forces. That being said, as explained by Armstrong¹⁰⁸, the "forgotten war" also was the place of important antagonisms between China (and especially the head of the CPVA in Korea, Peng Dehuai) and Pyongyang, as the North Korean leadership was extremely reluctant to accept Chinese assistance or share intelligence with its socialist partner¹⁰⁹. This behavior is considered to be a defense mechanism for the leadership in Pyongyang, which was well aware of China's long history of interference in peninsular affairs. But given the precarious situation of the Korean People's Army (KPA) following the UN forces' landing in Busan and Incheon, the Pyongyang leadership had to accept deputy posts in the commandship, with Peng in charge who had a quite bad opinion of Kim Il-sung due to operational mistakes and the loss of Chinese lives in "friendly fires"¹¹⁰.

As the Chinese saying goes, the Sino-North Korean friendship was indeed "sealed by blood" [鲜血铸就的友谊, *xianxue zhujiu de youyi*] (Mao lost his own son in the first month of the war), both in the Manchurian hinterland against the Nationalists and during the Korean War. This political narrative cannot, however, hide the fact that the sino-korean friendship (and later alliance) emerged despite strong and early antagonisms and contradictions between Beijing and Pyongyang. As will be discussed at length throughout this study, albeit with a special focus on economic cooperation, this paradoxical alliance has lasted until today. After the Korean War, when China and other members of the Socialist bloc had participated in a large-scale assistance program to rebuild the DPRK, Beijing and Moscow repeatedly tried to interfere in North Korean internal and external economic policies¹¹¹ which proved to be

¹⁰⁸ ARMSTRONG (2013). See also

¹⁰⁹ SHEN Zhihua, 2016, *chaoxian duihua de duikang xintai conghe erlai* 朝鲜对华的对抗心态从何而来? [Shen Zhihua : where does the China-DPRK antagonism stems from?], Sohu (online). Url : <http://cul.sohu.com/20160228/n438781559.shtml>. Last accessed 29th of February 2016.

¹¹⁰ SHEN Zhihua, 2003, Sino-North Korean Conflict and its resolution during the war, *Cold War International History Project Bulletin*, Issue 14/15 (winter 2003/Spring 2004). Url: http://www.wilsoncenter.org/sites/default/files/CWIHP_Bulletin_14-15.pdf

¹¹¹ AGOV (2010).

counter-productive: facing increasing pressure from its socialist partners to integrate their economic sphere, the ruling Worker Party of Korea¹¹² and Kim Il-sung in particular designed peculiar, self-centered economic policies that still constitute an important bone of contention in current China-DPRK relations today.

1.2 Reconstruction of post-war DPRK, the three-year plan and the internationalist “solidarity” among East bloc members

When the armistice was signed, on the 27th of July 1953, the DPRK was almost burned to the ground. About a million and a half Koreans died during the War, the majority of them being from the North, which had only half of the population of the ROK (9, 5 million versus less than 20 millions¹¹³)¹¹⁴. With the Korean People’s Army (KPA) and the CPVA having lost the skies to the US air force very early in the conflict, North Korea temporarily became an underground society and was therefore unable to protect its industry and economy from almost relentless US bombing.

In 2013, Armstrong gave an unambiguous description of post-war North Korean economy:

North Korean sources claimed a reduction in industrial output at the end of the war of nearly 40 percent compared to 1949 levels. The production of consumer goods declined similarly, and the production of agriculture by some 24 percent. Nearly three-quarters of homes had been destroyed, along with hundreds of thousands of acres of farmland. Electricity production was down to 26 percent of its prewar level, chemical production 22 percent, fuel and metallurgical production 11 percent and 10 percent respectively. The transportation infrastructure was in chaos, with 70 percent of trains and 85 percent of ships destroyed and much of the railway system unusable¹¹⁵.

North Korea, “virtually destroyed as an industrial society”, was however able to quickly recover. At the end of the 1950 decade, that is seven year after the Korean War, the DPRK’s

¹¹² Also known as the Korea Worker’s Party (KWP)

¹¹³ US.Census Bureau.

¹¹⁴ ARMSTRONG, Charles, 2010, The Destruction and Reconstruction of North Korea, 1950 - 1960, *The Asia-Pacific Journal* Vol 8, Issue 51 No 2. Url: http://www.japanfocus.org/-charles_k_-armstrong/3460. Last accessed 31th of August 2014.

¹¹⁵ ARMSTRONG (2013), see p.53.

growth in industrial output was indeed among the highest (if not the highest) in the world. According to Kim Il-sung, the DPRK indeed had several cards to play in order to face the challenge of (re)industrialization. In several speeches between 1953 and 1956, the *Great Leader* explains that North Korea would be able to catch up its postwar economical “backwardness”¹¹⁶ thanks to three factors: 1) Pyongyang could count on the experience it gained during the 1945-1950 period; 2) the country had abundant natural resources (which is still true nowadays) and 3) it would benefit from the help of democratic countries¹¹⁷. The DPRK indeed had several assets for reconstructing its economy (one could also mention the industrial legacy of Japanese colonizers) and whereas the first two elements mentioned by Kim Il-sung are true, the role of the assistance from the socialist camp, especially from the USSR and China, cannot be underestimated and needs to be addressed here. Indeed, these early years of peacetime economic cooperation between socialist countries will have deep economic, political and diplomatic consequences for the DPRK as a State and as a regional player. They constitute the formative years of North Korea “traditional” diplomatic and economic policies regarding the socialist bloc and other ally States (especially the PRC) and are the cradle of what became later Pyongyang’s official ideology: the *Juche* ideology.

Less than one month after the signature of the armistice in Panmunjom, the Worker’s Party of Korea (WPK), the ruling political party of North Korea, launched its sixth plenary meeting of Central Committee (CC Plenum) with the main task of discussing the plan for reconstruction. A three-step program was agreed on in order to rebuild the economy and even surpass its pre-war level. According to the plan, there would be a six months preparatory stage (mid-1953-1954) in order to assess the need of the DPRK’s economy and draft the economic plan; then a first three-year plan (1954-1956) which was supposed to bring the economy back to its pre-war level, and finally a five-year plan (1956-1960), for the industrialization of the whole country under socialist principles.

Due to the need for assistance and resources, Moscow was indeed Kim Il-sung’s first pick when he decided to ask for help in reconstructing North Korea. On September 1953, he flew to Moscow and negotiated the terms of Soviet assistance. Only two months later, in

¹¹⁶ Term used by Kim himself.

¹¹⁷ These three elements always come in this particular order, hinting that Koreans have first rely on their own, but will also receive help from socialists countries.

November the same year, he met with Mao in Beijing and also received generous pledges from the Chinese side¹¹⁸. The fact that Kim was initially leaning toward Moscow can be explained by two factors: first, Sino-Korean relations were rather strained after the Korean War (the CPVA was still “occupying” the North half of the peninsula), as we saw earlier; secondly, the USSR seemed to have much more to offer to Pyongyang than the extremely poor China at that time. More than an ideological choice between “Maoism” and orthodox Marxism-Leninism (which were not seen as antagonizing at that time), Kim’s first pick seems to be rather pragmatically driven¹¹⁹. Understandably, Mao was upset by this ungrateful choice, and some historians¹²⁰ believed it participated in triggering the beginning of Sino-Soviet competition over North Korea and even in the upcoming Beijing-Moscow dispute.

1.2.1 Assistance programs

The Eastern Bloc assistance to the DPRK during the 1950 decade was multi-faceted and outstanding. If China and the Soviet Union furnished the bulk of aid (roughly two thirds of the total, split almost equally), even the poorest countries of the eastern bloc pitched in. Numerous calculations have been made by scholars in order to find out which socialist brethren offered the largest amount of aid. But a significant part of the aid provided came in kind or in a form that cannot be easily quantified. The poorest countries of the bloc, for instance (North Vietnam, Albania, Mongolia), provided the DPRK with symbolic donations in foreign currency (Democratic Vietnam being the smallest donor with less than half a million ruble¹²¹), but offered in-kind donations (tar from Albania, cattle from Mongolia...). These donations were even especially welcomed by Pyongyang as they came with “no strings attached” from Hanoi, Tirana or Ulaanbataar since these countries were too weak and unwilling to engage in political/ideological struggle with North Korea. Soviet and Chinese

¹¹⁸ ARMSTRONG (2013), see p.56.

¹¹⁹ Russian scholar Andrei Lankov argues that on the “short” 1950 decade as a whole (1953-1960), North Korea was more siding with Beijing than with Moscow. Whereas it does not seem true for the end of 1953, Lankov considers that Pyongyang choices between Moscow and Beijing were (at least partially) pragmatically driven. See LANKOV, Andrei, 2003, *The real North Korea : life and politics in the failed Stalinist utopia*, Oxford University Press, Oxford, p.18.

¹²⁰ ARMSTRONG, Charles, 2005, “Fraternal Socialism”: The International Reconstruction of North Korea, 1953–62, *Cold War History* Vol.5, N°2, pp. 161-187.
see p.162.

¹²¹ AGOV (2010), see p.219.

assistance, on the other hand, while constituting a *sine qua non* condition for the rebuilding of the Northern half of the Korean peninsula, *de facto* integrated the DPRK in the eastern bloc as a “satellite” country, whereas Pyongyang leaders, and especially Kim Il-sung, had a much different conception of intra-bloc relations. Interestingly, the first (published) Kim Il-sung speech dealing with fraternal aid during this key period¹²² (before he actually went to Moscow and Beijing in fall 1953 to formally ask for help and assistance) emphasizes the role of Mongolia but only quickly mentions Beijing’s and Moscow’s upcoming pledged assistance.

The many aspects of socialist assistance are described with a luxury of details in Agov’s Ph.D thesis. It is thus only necessary to mention the few aspects that are useful within the scope of this study.

As mentioned, Chinese and Soviet assistance to North Korea came first and foremost as aid (see table 1). Agov estimates the net Chinese financial assistance between 1954 (the beginning of the three year plan) and 1961 (beginning of the first seven-year plan) at 1, 808 billion rubles¹²³. During 1957 and 1958, China provided mostly low-interest loans, but they were pardoned in 1960 and thus can be counted as direct aid. What’s more, Beijing cancelled the tremendous amount of Pyongyang’s debt contracted during the Korean War¹²⁴ (729 millions yuans, or USD 325 millions¹²⁵). Beijing also sent, free of charge, humanitarian aid in the form of clothes, winter shoes, and grain (including emergency supply of food during the 1955 food crisis which will be dealt with later)¹²⁶.

After his September 1953 trip to Moscow, Kim Il-sung came back with the Soviet promise of giving 1 billion rubles for the three year plan (1954-1956), and made additional donations until 1961, adding up to 1.800 billion rubles. The KWP leadership tried to use the bulk of the Soviet help in key industrial projects, including the Hungnam fertilizer plant (the biggest plant in Asia until the war)¹²⁷, the Kim Chaek Steel mill¹²⁸, and the Sup’ung/Shuifeng hydropower plant, which lies across the Sino-Korean border (today Sakchu county/Kuandian

¹²² KIM Il-Sung, 1981a. See bibliography.

¹²³ *Idem*, p. 207.

¹²⁴ ARMSTRONG (2013), see p.57.

¹²⁵ SHEN, XIA (2012), see p.6.

¹²⁶ *Idem*.

¹²⁷ AGOV (2010), see p.223.

¹²⁸ Steel mills and other smelting facilities were paid particular attention, during the three year plan, as shown by Kim Il-sung speeches at that time.

Mandchu Autonomous Prefecture) and was the biggest hydropower plant of East Asia at that time¹²⁹ (providing half of the country's energy supply¹³⁰). If added to long-term low-interested loans and military aid provided by socialist countries, Pyongyang received about 5.02 billion rubles¹³¹ from the Eastern Bloc between 1954 and 1961, adding up to more than 30% of North Korea's financial budget¹³² (see table 2). While this figure is only a small fraction of what South Korea received from the USA at the same time, the DPRK achieved by far greater results¹³³, as will be seen later.

Table 1: Aid and assistance to the DPRK, 1954-1961 (million rubles)

Country/Region	Economic Aid	Loans	Military aid	Total
USSR	1,160	140	500	1,800
PRC	1,808	n/a	n/a	1,808
Eastern Europe	1,042	351.5	16	1,410
GDR	372	n/a	n/a	372
Poland	335	n/a	16	351
Czechoslovakia	113	344	n/a	457
Romania	90	n/a	n/a	90
Bulgaria	76,4	n/a	n/a	76.4
Hungary	52,5	7,5	n/a	60
Albania	2,46	n/a	n/a	2.46
Mongolia	1,76	n/a	n/a	1.76
Vietnam	0,44	n/a	n/a	0.44
Total	4,012.2	491.5	516	5,019.7

Source: AGOV (2010), see p.219.

¹²⁹ ARMSTRONG (2005), see p.165. It is possible that Armstrong's source is a 1956 Kim Il-sung speech. See KIM Il-Sung, 1981k. See bibliography. Agov (2010) mentions that Soviet engineers studied its generator for reverse engineering.

¹³⁰ KIM Il-Sung, 1981k. See bibliography.

¹³¹ AGOV (2010), see p.219.

¹³² SHEN, XIA (2012), see p.3.

¹³³ ARMSTRONG (2010), see p. 57.

The PRC and the USSR hosted the greatest number of students and also sent many technicians to Pyongyang. While data on North Koreans studying in the USSR seems to be conflicting¹³⁴, more details are available on the Chinese programs of hosting North Koreans students in China. The first waves of North Korean trainees actually were the 20 000 war orphans sent to China during or after the war, as a humanitarian gesture¹³⁵. Six thousands of them came back after having received short-term technical training¹³⁶.

Many foreign technicians also came to the DPRK to train North Korean inside factories and other production facilities. It is interesting to note that after 1945, many Soviet technicians already gave North Korean economy a hand, but were already –and maybe legitimately– considered as a factor of foreign influence in Korean affairs, even before the war. From about 200 in 1946, the number of Soviet advisers in the North fell down to less than 50 only one year later in 1947¹³⁷. In the 1950s, however, Moscow-Pyongyang-Beijing cooperation reached unprecedented heights amidst sometimes stark political tensions. More than 5000 foreign specialists were sent to the DPRK at the end of the 1950 decade to implement training programs, mostly aimed at increasing production, but also at high-level scientific exchange, for example in the field of nuclear physics (for civilian use) (North Korean scientists left for the Dubna Institute of Nuclear physics while Soviet engineers helped for the construction of a nuclear reactor in North Korea)¹³⁸.

The USSR and China also organized large-scale technology transfer programs to the DPRK. The PRC signed an agreement for technical cooperation with Pyongyang (in 1957), according to which sets of technical documents were also supposed to be exchanged. Although the exact number seems to be unknown, it can be assumed that it reached a level lower than DPRK-USSR cooperation, since the Soviet Union at that time was technologically way more “advanced” than the PRC (Beijing was actually also benefiting from Soviet technical assistance at that time).

¹³⁴ ARMSTRONG (2013), see p.62-63. It is mentioned that “thousands of North Koreans received technical training” in the USSR and in European popular democracies, while more than “ten thousands were enrolled in colleges and universities”. On the other hand, Agov mentions only 2000 students in the USSR, between 1951 and 1962.

¹³⁵ Most popular democracies did host Korean war orphans. Most detailed description of this programs (including number of hosted orphans and costs) can once again be found in AGOV (2010), p. 202.

¹³⁶ AGOV (2010), see p.249.

¹³⁷ CUMINGS (1997), See p.226.

¹³⁸ AGOV (2010), see p.248.

Trade often was a different form of assistance from other socialist countries, and at the same time was deeply intertwined with Pyongyang's diplomacy and economic policy-making, while also surprisingly pragmatically-driven. Being crucial to this research, the role of trade in the DPRK's foreign relations (especially with China) will be discussed –at length- when assessing Pyongyang's "traditional" economic model (see chapters 2 and 3).

The Soviet Union did not directly take part in the Korean War. As we briefly saw, following the KPA retreat, Beijing sent the CPVA to North Korea in order to rebalance the conflict, and even if the bulk of Chinese volunteers went back to the PRC after the 1953 armistice, several hundred thousand Chinese soldiers stayed on North Korean territory. They gave North Korea a much-needed hand recovering from the war, and their help was much appreciated in a DPRK severely suffering from labor shortages¹³⁹. Manpower was already lacking in North Korea by 1946¹⁴⁰ and since about 1,2 million souls had disappeared in the midst of the Korean War. With more than half the death toll accounting for the DPRK alone, North Korea was in a dire of arms and brains. Brainpower (coming mostly from the USSR and, to a lesser extent, from the GDR and East European countries¹⁴¹) was needed to design a whole new country, labor force, from China, to build it (women did their share of work for ideological but also practical reasons)¹⁴². At its peak, 34 divisions of the CPVA were stationed in the DPRK, adding up to half a million troops¹⁴³. While 19 of them went back to the PRC between 1954 and 1955, the remaining 15 stayed until 1958¹⁴⁴, when Chinese soldiers left once and for all the Korean peninsula. The role played by Chinese troops in the reconstruction of the DPRK cannot be underestimated as some scholars consider it to be the most important

¹³⁹ According to Kim Il-sung himself, about 15 000 additional arms were needed to achieve the goal of the plan regarding construction. KIM Il-sung, 1982f. See bibliography.

¹⁴⁰ SZALONTAI, Balázs, 2003, "You Have No Political Line of Your Own" Kim Il Sung and the Soviets, 1953-1964, *Cold War International History Project Bulletin*, Issue 14/15 (winter 2003/Spring 2004). Url: http://www.wilsoncenter.org/sites/default/files/CWIHP_Bulletin_14-15.pdf. See p.93.

¹⁴¹ For example, Pyongyang was redesigned by Soviet architects and urban planners. See ARMSTRONG (2013), see p.66-70.

¹⁴² KIM Il-Sung, 1981a. See bibliography.

¹⁴³ SHEN, XIA, (2012), see p.3.

¹⁴⁴ AGOV (2010), see p. 206.

Chinese contribution to the post-Korean War DPRK economy¹⁴⁵. Indeed, the CPVA troops stationed in North Korea took part in an astonishing number of reconstruction projects. When they withdrew they had repaired or built about 881 public spaces, 4263 bridges (including the “friendship bridge” on the Yalu linking Dandong in China with Sinuiju in North Korea¹⁴⁶), elevated 429 220 kilometers of dams, and dig 1218 kilometers of ditches and canals for irrigation¹⁴⁷, a move that totally transformed North Korean agriculture. The benefits of Chinese occupation of the Northern half of the Korean peninsula were not immediately understood by average Koreans, who, after several decades of colonialism, might have felt disappointed to see foreign troops on Korean soil (several cases of crimes, including rapes of North Korean women, occurred until complete withdrawal of the Chinese troops¹⁴⁸).

Assistance from socialist brethren allowed North Korea to quickly recover from a devastating war. Indeed, in 1954, more than 30%¹⁴⁹ of the DPRK’s national budget came from foreign aid, and Pyongyang was dependent on socialist assistance for more than 80% of its industrial output during the three-year plan (1954-1956). The reconstruction progressed very quickly and, even if the 1954-1955 year were tough for the overall majority of the population (due to important food shortages), the economy recovered from the war extremely quickly, leading prominent Marxist economist Joan Robinson to consider this quick recovery as a “Korean Miracle”. The post-war era was indeed a hard time for both Koreas, but initially (until the mid-seventies) the economic results of the reconstruction surfaced in the North quicker than in the South, that received much more assistance¹⁵⁰ for a longer period¹⁵¹. According to Armstrong, “this difference cannot be explained by foreign aid alone”¹⁵². Encouraged by ideological as well as material incentives (in April 1954, wages were raised by

¹⁴⁵ ARMSTRONG (2013), see p.56.

¹⁴⁶ See part 2, chapter 2.

¹⁴⁷ SHEN, XIA, (2012), see p.8. Figures are from the *Renmin Ribao* (People’s Daily).

¹⁴⁸ *Idem*, see p.20.

¹⁴⁹ SHEN and XIA (2012) consider the figure to be 31,6%, ARMSTRONG (2005, 2013) gives 33,4%, while AGOV (2010) mentions 34%.

¹⁵⁰ ARMSTRONG (2005), p.165. South Korea is described as a “black hole” for foreign assistance, with large American assistance programs but unsatisfying results.

¹⁵¹ AGOV (2010), see p.221.

¹⁵² ARMSTRONG (2013), see p.57.

25% in average¹⁵³, the peasantry's debt was partly pardoned and taxes were lowered for the poorest social strata¹⁵⁴), the overwhelming majority of the North Korean population was mobilized for construction and production efforts. What's more, the precarious state of the North Korean economy during the 1950 decade triggered "draconian"¹⁵⁵ austerity measures by the Pyongyang leadership¹⁵⁶, partly due to an emphasis put on heavy industry rather than on consumer goods.

1.2.2 North Korea's reconstruction: an issue at stake in the Sino-Soviet dispute

During the second half of the 1950 decade, the first signs of the Sino-Soviet dispute sprang up, and some scholars¹⁵⁷ have argued that instead of (or in addition to) a socialist cooperation between socialist brethren, the reconstruction of North Korea saw the first sparks between Beijing and Moscow. As we said earlier, even if Beijing-Pyongyang relations during the War could have been smoother, Mao was understandably unhappy with Pyongyang turning to Moscow for assistance, whereas Chinese blood had been shed to defend the DPRK. In this perspective, the tremendous amount of help received by North Korea from the PRC and the USSR could be explained by the two heavyweights of the eastern bloc trying to lure the DPRK in their orbits by financing postwar reconstruction. As Armstrong points out, the "coopetition" between China and the USSR ironically further contributed to develop Kim Il-sung's independent inclination. During the 1950's, both Beijing and Moscow interfered in the DPRK's internal affairs (either directly or through proxies), and even if North Korea was, after the war, in dire need for aid, it did not remain aid-dependant for long: whereas the share of foreign help reached more than 30% of Pyongyang's budget in 1954, it progressively decreased to a mere 2,4% at the beginning of the 1960 decade. As the following table shows, the bulk of foreign assistance was spent during the three-year plan (1954-1956), but quickly dropped afterwards.

¹⁵³ *Idem*, see p.59.

¹⁵⁴ KIM Il-Sung, 1981i. See bibliography.

¹⁵⁵ ARMSTRONG (2005), p.162.

¹⁵⁶ KIM Il-Sung, 1981i. See bibliography.

¹⁵⁷ ARMSTRONG (2005), p.161-162.

Table 2: Assistance as share of DPRK's income, 1954-1960

Year	Amount of Aid (million won)	DPRK's National Income (million won)	Share of aid (percentage)
1954	n/a	n/a	34
1955	235	1,082	21.7
1956	164	993	16.5
1957	153	1,253	12.2
1958	63	1,529	4.2
1959	63.6	1,716	3.7
1960	50	1,968	2.4

Source: AGOV (2010), see p.221.

Of course, the generosity of the eastern bloc was not infinite, but the sharp decrease of international assistance was also rooted in the deteriorating relations between Moscow, Pyongyang and Beijing. Kim Il-sung's "self-reliant" line increasingly guided Pyongyang's domestic and foreign policies and the ideological U-turn of the XXth Congress of the Communist Party of the Soviet Union (CPSU) in 1956 deeply worried the KWP and led to sharp ideological and political antagonisms inside the KWP CC that peaked in August 1956.

Chinese historian Shen Zhihua offers an alternative account of the reconstruction era: according to him the PRC's contribution was made to compensate China's interference in the DPRK's internal affairs during the war. It should indeed be noticed that Beijing, which had already repaid its moral debt by sending the CPVA to North Korea during the war, chose to offer up to 3,4%¹⁵⁸ of its entire budget to the reconstruction of the DPRK (in 1954). Interestingly, the man who generously funded the North Korea's reconstruction at the beginning of the three-year plan¹⁵⁹ was no other than the future Chinese reform mastermind, Deng Xiaoping, who held the position of Finance Minister of the PRC in 1953-1954. Even if the Chinese participation in the reconstruction of North Korea was limited by its

¹⁵⁸ SHEN, XIA (2012), see p.7.

¹⁵⁹ VOGEL, Ezra, 2011, *Deng Xiaoping and the Transformation of China*, Belknap Press of Harvard University Press, Cambridge.

technological “backwardness” or its lack of financial means, Chinese effort and sacrifice relative to the size of its economy were indeed undoubtedly greater than the Soviet Union’s. Even at the beginning of the 1960 decade, while China was suffering from widespread famine in the midst of the Great Leap Forward, it furnished an additional 230 thousand tons of grains to a sometimes ungrateful Pyongyang¹⁶⁰.

The North Korean quest for political independence is undoubtedly the most commented feature of the DPRK, past and present. There are literally hundreds of pieces of original research dealing with this specific issue, and historians have been more particularly interested in the events that occurred in 1955-1956¹⁶¹ sometimes considered as an allegory of the DPRK’s struggle to obtain room to maneuver inside the eastern bloc and obtain more actual independence.

Until 1952, the DPRK only exchanged goods with the PRC and the USSR¹⁶² (even before the war), leading some scholars to argue that North Korea “strove to fit in a Soviet-centered” world¹⁶³, and that this stance dramatically changed after the Korean War. On the other hand, Cumings points out that the KWP’s independent and self-reliant stance appeared much earlier. He points out, for example, that Soviet troops quickly withdrew from the DPRK, in 1948, while U.S. soldiers remained much longer in the South, until 1949. Although Pyongyang’s relations with both Moscow and Beijing dramatically deteriorated during the Korean War, the KWP leadership could not afford to keep the USSR and Moscow at arm’s length in the midst of the War, for obvious reasons. However, Stalin’s death, in the midst of the Korean War, and more particularly the political troubles that occurred in Eastern Europe in the wake of Moscow progressive shift in its political line, raised concerns in Pyongyang.

¹⁶⁰ Although Kim Il-sung acknowledged, in the Chinese press, the scale of the Chinese effort for the DPRK, he also explained during the KWP 4th Congress in 1961 that “the Soviet people is the closest friend of the Korean people”, while China was only mentioned as a “brother-in-arms”. See KIM Il-sung, 1983f. KIM Il-sung, 1983j. See bibliography.

¹⁶¹ Russian historian Andreï Lankov published a book centered on events that occurred during this period LANKOV, Andreï, 2005, *Crisis in North Korea: the Failure of Destalinization 1956*, University of Hawaiï press, Honolulu.

¹⁶² SZALONTAI, Balázs, 2003, “You Have No Political Line of Your Own” Kim Il Sung and the Soviets, 1953-1964, *Cold War International History Project Bulletin*, Issue 14/15 (winter 2003/Spring 2004). Url: http://www.wilsoncenter.org/sites/default/files/CWIHP_Bulletin_14-15.pdf.

¹⁶³ GABROUSSENKO, Tatiana, 2012, *The North Korean Philosophy of Foreigners*, in FRANK, Rüdiger, 2012, *Korea 2012: Economics, Politics and Society*, Brill, Boston.

The DPRK was indeed worried that Moscow's new reformist policies would sooner or later lead to internal trouble inside the KWP or a progressive alignment on the USSR's political stance. While the XXth Congress of the CPSU (1956) is often considered to be a turning point concerning "Stalinism" and especially the issue of the personality cult, it should nevertheless be pointed out that the Congress also greenlighted reformist economic policies that actually began, on an experimental basis, only a few months after the Generalissimo's death, under Georgy Malenkov (1953-1955)¹⁶⁴.

Since Hungary somehow spearheaded the new "reformist" political line in Europe, North Korean officials tried to isolate the DPRK's Academy of Science from Hungarian diplomats as early as the last month of 1953¹⁶⁵ in order to prevent "ideological contamination"¹⁶⁶ in the DPRK. The latter also quickly understood that their North Korean colleagues were increasingly discreet about intra-KWP matters in front of foreigners¹⁶⁷. At that time, the DPRK was indeed under great political pressure from its socialist brethren¹⁶⁸: due to massive flooding, bad weather conditions but also an overemphasis of investment on heavy industry (see below), the 1954 food harvest was bad, and it led to local food shortages later that year, turning into a larger scale food crisis in 1955¹⁶⁹. Foreign diplomats in Pyongyang "harshly criticized" the DPRK leadership and the CPSU CC passed a resolution condemning Kim Il-sung (in January 1955¹⁷⁰) for its agricultural policies (especially heavy taxation of private farmers) and agreed to send additional food assistance to the DPRK if, and *only if*, North Korean leaders agreed to lift some pressure off the peasantry's back. Pyongyang had limited options, and was forced to admit, during an April 1955 Plenum of the KWP CC, that the "majority of the population was dissatisfied with the economic situation"¹⁷¹. This political setback, which closely mirrors the heavy-handed Chinese handling of the Korean War, increased pressure

¹⁶⁴ AGOV (2010), see p. 157.

¹⁶⁵ ARMSTRONG (2013), see p.83 and SZALONTAI (2003), see p.88.

¹⁶⁶ SZALONTAI (2003), see p.88.

¹⁶⁷ *Idem*, see p.89.

¹⁶⁸ SZALONTAI (2003), see p.90.

¹⁶⁹ ARMSTRONG (2013).

¹⁷⁰ NOBUO Shimotomai, 2007, Pyeongyang in 1956, *Cold War International History Project Bulletin*, Issue 16, Woodrow Wilson Center for Scholars.

¹⁷¹ PERSON, James F., 2006, "We Need Help from Outside": The North Korean Opposition Movement of 1956, *Cold War International History Project*, Working Paper N°52, *Woodrow Wilson International Center for Scholars*.
Url: <http://www.wilsoncenter.org/sites/default/files/WP52.pdf>

on the KWP's shoulders, which most likely felt frustrated by the socialist brethren's interference in what was considered internal Korean affairs.

1.2.3 Foreign interference, maneuvering between Beijing and Moscow

Ideological debates in Europe and especially in the USSR reached the DPRK, mostly through the "Soviet Faction", Koreans who were long established in the Soviet Union. They drew the first blood in 1955¹⁷², by indirectly criticizing Kim Il-sung's personality cult, a move that was immediately criticized as "factionalism" by Kim Il-sung in April 1955¹⁷³. But once again, at this stage, the KWP leadership was hardly in a position to purge members of foreign-supported factions and, although criticism of the Soviet Koreans was fairly brutal from Kim loyalists, the cultural and artistic spheres were often used as "proxies" in order not to display frontal opposition on political and ideological issues¹⁷⁴. However, even before the 1956 incident when the conflict openly broke out, several more or less direct critical references to the new political line of the Soviet Union can be found (especially on Khrushchev's *peaceful coexistence*) in Kim Il-sung speeches :

Comrade Pak Yong Bin, on returning from the Soviet Union, said that since the Soviet Union was following the line of easing international tension, we should also drop our slogan against U.S. imperialism. Such an assertion has nothing to do with revolutionary vigilance. The U.S. imperialists scorched our land, slaughtered our innocent people *en masse*, and are still occupying the southern half of our country. They are our sworn enemy, aren't they?¹⁷⁵

The concept of "peaceful coexistence" between the United States and the USSR did not come under the spotlight until a few weeks later, after the XXth Congress (14-25 February 1956). However, compromises and appeasement policies towards the "sworn enemy" occurred much earlier in 1955 (Geneva Summit between Eisenhower and Khrushchev, the

¹⁷² LANKOV, Andreï, 1999, Kim Il Sung's Campaign against the Soviet Faction in Late 1955 and the Birth of Chuch'e, *Korean Studies*, Volume 23, University of Hawai'i Press, Honolulu.

¹⁷³ KIM Il-Sung, 1981h. See bibliography.

¹⁷⁴ LANKOV (1999), see p.50.

¹⁷⁵ KIM Il-Sung, 1965, On eliminating dogmatism and formalism and establishing *Juche* in ideological work, Speech to Party Propagandists and Agitators, December 28, 1955, *Selected Works*, Vol. I, pp. 582-606, Foreign Languages Editions, Pyongyang.

treaty on the neutrality of Austria, the Tito-Khrushchev meeting and the withdrawal of Soviet troops from Finland, among others).

The blames were also fairly limited¹⁷⁶ in order not to trigger larger scale discontent and to temper down the political atmosphere before the Third Congress of the KWP in April 1956. However, measures were taken to limit “ideological contamination” in the wake of the XXth Congress in February 1956: Provincial offices of the USSR-Korea friendship association closed their doors¹⁷⁷, Russian-language radio broadcast was limited, Soviet-supported teaching of Esperanto was forbidden, and some aspects of the traditional Korean society (like Korean traditional medicine¹⁷⁸) were strengthened.

In February 1956, after the XXth Congress, political U-turn in the Soviet Union became explicit. Kim Il-sung, who did not make the trip to Moscow, thought that the political cloud he was under had passed and believed that the Third KWP Congress, scheduled for April 1956, would be a good time for further dismantling factionalists activities. Indeed, the April and December 1955 warnings had been efficient in discouraging “factionalism” and “reformism” among the KWP leadership, and returnees from China and/or the USSR had an increasingly bad reputation among the North Korean population. According to Person¹⁷⁹, not only did the factions know internal troubles before and after the December plenum, but members of foreign-supported factions were increasingly considered as outsiders of Pyongyang’s political circles.

On the other hand, Soviet Koreans were well-aware of the conclusions of the XXth Congress and believed that, with Moscow bolder than ever on political and economic reform, they had a window of opportunity. Yan’an Koreans, who were definitely less thrilled by the conclusions of the XXth Congress, also felt they could way in, especially on economic issues. Even Moscow seemed eager to see the political line of the KWP curbed, as revealed by the speech made by the head of its delegation, Leonid Brezhnev, who jumped on the occasion to

¹⁷⁶ SZALONTAI (2003), see p.88.

¹⁷⁷ ARMSONTRONG (2013), see p.96

¹⁷⁸ SZALONTAI (2003), see p.90.

¹⁷⁹ PERSON (2006), see p.11.

urge his “North Korean hosts to import Soviet consumer goods instead of machines”¹⁸⁰, the exact opposite of what Kim Il-sung was trying to do (see *infra*). Under both Moscow’s and the Soviet Korean’s pressure¹⁸¹, some symbolic compromises had to be made, such as withdrawing Stalin’s name from the charter of the KWP. The KWP Third Congress turned out to be a success for Kim Il-sung and it was supposed to turn the page on factionalist trouble and enshrine unchallenged leadership for Kim Il-sung and his supporters; however, it did nothing but antagonize more foreign-supported factions that tried to take revenge later in the year.

After the April 1956 plenum, a North Korean delegation, led by Kim Il-sung, left North Korea for a two-month trip to Eastern Europe and Mongolia¹⁸², in order to strengthen political ties but also ask for additional assistance. During that time, foreign-supported faction members revealed to the USSR’s and the PRC’s embassies in Pyongyang¹⁸³ that they were planning to overthrow Kim Il-sung at the next KWP CC session¹⁸⁴. Conspirators were from both Yan’an and Soviet factions, but coordinated their actions¹⁸⁵. Kim Il-sung learned about the plot¹⁸⁶ and postponed the August KWP CC session, until the end of the month. Pro-Kim members of the CC and the Party (which apparently constituted a majority inside the Party¹⁸⁷) took measures in order to split the factionist blocs and counterattack¹⁸⁸. Eventually, due to tactical mistakes¹⁸⁹ from the faction members as well as a lack of support outside the faction members, the plot, which was at that time a desperate attempt more than an actual coup¹⁹⁰, failed during the KWP CC session. As with the Soviet Korean faction, the attack was followed by political purges made easier by the factionalist feature of the “August incident”. But as

¹⁸⁰ PERSON (2006), see p.24.

¹⁸¹ NUBUO (2007), see p. 457.

¹⁸² They visited USSR, East Germany, Romania, Hungary, Czechoslovakia, Bulgaria, Albania, Poland, and Mongolia. See NOBUO (2007), see p.457.

¹⁸³ PERSON (2006), see p.33.

¹⁸⁴ SZALONTAI (2005), see p.94.

¹⁸⁵ PERSON (2006), see p.35.

¹⁸⁶ PERSON (2006), see p.38.

¹⁸⁷ SZALONTAI (2003), see p.91.

¹⁸⁸ LANKOV (2005), see p.130.

¹⁸⁹ SZALONTAI (2003), see p.91. Pak Ch’ang-ok, for instance, insisted in making a 80-pages long speech at the KWP CC session, which was understandably considered non practical and way too much for someone his rank.

¹⁹⁰ *Idem*.

the KWP leadership had to maintain close ties with Beijing and Moscow, the punishments were relatively limited (at least compared to other political purges in Eastern Europe) although still much harsher than after the December 1955 plenum, leading some of the conspirators to definitely abandon the North Korean citizenship.

Following the “August faction incident”, Beijing and Moscow’s attitude changed. Beijing provided shelter to political dissidents that (legally or not) left the DPRK for China¹⁹¹ and the North Korean factionalist issue was promised to be a heated debate at the upcoming XVIIIth PCC congress (September 15-27th). In the second half of 1956, it seems that Sino-North Korean political ties were at a historic low, as Kim Il-sung decided not to attend the CCP Congress (for the very first time since the 1949 revolution) and was suspected of “titism” (or worse, “nagysm”) by Mao¹⁹² for increasingly wanting to drive the CPVA out of Korea and to involve the UN in the reunification of the peninsula. Reflecting this state of mind, North Korea’s request for additional assistance in 1956 (Pyongyang asked for 50 million yuan¹⁹³) was turned down by Beijing¹⁹⁴.

Quickly after the August Incident, North Korean ambassador to the USSR Yi Sang-jo, a Yan’an Korean and a long-time thorn in Kim Il-sung’s side, sent a very critical report of Kim Il-sung to the presidium of the CPSU, that discussed the North Korean issue and decided to task its delegates to the XVIIIth CCP Congress by addressing Kim Il-sung’s behavior with Chinese hosts and North Korean delegates¹⁹⁵. In Beijing, the Soviet and Chinese sides decided to set up a joint delegation to the DPRK to investigate the recent political troubles. The composition of the delegation was however a very bad omen for Kim Il-sung: the Soviet delegate, Anastas Mikoyan was the very one who pushed former Hungarian Communist Party leader Rakosi towards the exit a few months earlier, while the Chinese delegate was an “old friend” of Kim, the former commander-in-chief of the CPVA Peng Dehuai. The two heads of the delegation met several times with Kim Il-sung, and pressured him to cancel the

¹⁹¹ Idem.

¹⁹² SHEN, XIA (2012), see p.13.

¹⁹³ Idem.

¹⁹⁴ Szalontai even argues that the PRC started claiming North Korean territories (including parts of Mount Paektu, the legendary cradle of the Korean nation, but is also sacred for the Manchu), but we have not found confirmation in other scientific publications dealing with the history of the North Korean borders. See, among others, GOMA PINILLA, Daniel, 2004, Les litiges frontaliers entre la Chine et la Corée du Nord, *Perspectives Chinoises* (en ligne). Url : <http://perspectiveschinoises.revues.org/1262>. Last accessed 6th of February 2015.

¹⁹⁵ PERSON (2007), see p.44.

outcome of the August purge. This move, a blunt and direct interference in North Korea's internal political affairs, seemed to be a success: on September 22nd, during a new plenum (carefully prepared by Mikoyan and Peng¹⁹⁶), the KWP CC passed a resolution admitting that the August plenum was "premature"¹⁹⁷ and agreed to reinstate the former leaders of the faction incident¹⁹⁸. People who fled the DPRK for China were reaccepted as full members of the KWP¹⁹⁹ under Chinese pressure. Kim Il-sung, at that time, had to agree with opinions. The USSR-PRC joint delegation has gathered a lot of attention from scholars since it is critical to fully understand the nature of the relations between Moscow, Beijing and Pyongyang and it is widely considered (with the Soviet faction purge) as the cradle of *Juche* ideology. Just as *Juche* is a multi-faceted concept, encompassing economic policies, the September 1956 joint intervention was also (partly) aiming at "correcting" Pyongyang's peculiar economic preferences. Soviet "advisers" and diplomats were highly skeptical about the DPRK's will to produce locally many items that could have been sent (as aid) from others socialist countries. Although the DPRK's economic policies will be dealt with, one should be aware that economical issues were not side issues in the context of the USSR-PRC joint delegation: along with the personality cult, lack of intra-Party democracy and other political criticisms, the emphasis on domestic production (instead of importation) and on heavy industry instead of consumer goods²⁰⁰ were important bones of contention between foreign-supported factions, socialist brethren and the DPRK leadership.

Only one month after the Mikoyan-Peng delegation, on the other side of the globe, the effect of the XXth Congress of the CPSU started to surface in Hungary during the October 1956 anti-communist insurgency. This major event of the Cold War was an additional warning (after the East Berlin demonstrations in 1953 and the June 1956 riots in Poland) for the North Korean leadership as well as for Beijing: Khrushchevism ("revisionism") could

¹⁹⁶ LANKOV (2005), see p. 140.

¹⁹⁷ SHEN (2008), see p.20.

¹⁹⁸ SHEN (2008) argues that Pak Chang-ok and Choe Chang-ik returned to their former political positions, while Person (2007) or Nobuo Shimotomai (2007), drawing from Soviet sources, believe that the Pak was appointed head of the Madong Cement Factory and Choe director of Security for National Monuments. Even if these positions can be considered as being really political in the North Korean context, they are obviously not as prestigious and important than their former political positions.

¹⁹⁹ Idem. However, they never came back to the DPRK and even asked, through Chinese diplomatic channels, to the North Korean government to allow their families to leave for China. See PERSON (2007), p.47.

²⁰⁰ Yi Sang-jo's reports to the CPSU's Presidium mentions all these elements. See in NOBUO (2007), p.458-460.

prove to threaten the PRC and the DPRK's security²⁰¹. After the end of the Hungarian crisis and the Soviet military intervention in Budapest, in November 1956 (only two months after the joint delegation's visit to the DPRK), the North Korean leadership once and for all purged "revisionists" from the highest spheres of the KWP, this time without Beijing's or Moscow's intervention. After the Hungarian events, the USSR could not afford another blunt interference in the internal politics of a close ally. Lankov even argues that since the post-joint delegation purges were mostly directed at the Yan'an Faction, the CPSU, increasingly mistrustful of Beijing, was no longer ill-at-ease with such a political crackdown²⁰². Kim Il-sung and the KWP leadership had the hands free to finally and definitely excommunicate "factionists and revisionists"²⁰³.

Following the Hungarian and Polish events of 1956, the destalinization movement was widely discredited in China and in North Korea and Beijing became almost instantly cautious about reformism. As a matter of fact, the Hungarian crisis, the increasing rift between Beijing and Moscow coupled with the DPRK and China's common mistrust of destalinization fueled the warming up of Sino-North Korean ties after November 1956.

Between 1953 and 1956, for mostly economic reasons, one can safely say that the DPRK was closer to the USSR than to China; Moscow was richer, more "advanced" technologically and the CPVA was still occupying North Korea, leading to political frictions. What's more, before 1956, even if destalinization and peaceful coexistence were already on the agenda, the Soviet Union's political U-turn became explicit after the XXth Congress. In this context, China and the DPRK, which were already *ideological* allies, also became *objective* allies, resisting the further spreading of khrushchevian "reformism" or "revisionism". Beijing and Pyongyang have had their differences since at least the Korean War but decided to temporarily forget about them. In this context, Kim Il-sung understood that foreign interference was less likely to happen and that the DPRK could even benefit from the situation: being crucial to both Moscow's and Beijing's security, the DPRK would increasingly become an issue at stake in the Sino-Soviet controversy. Beijing began taking gloves in its relationship with North Korea as early as the beginning of 1957 when it explicitly explained to the North Koreans refugees

²⁰¹ SZALONTAI (2003), see p. 92.

²⁰² LANKOV (2005), see p. 159.

²⁰³ LANKOV (2005), see p. 175.

in China that they were allowed to stay (Pyongyang was not willing to welcome them back in the DPRK²⁰⁴), but had to keep quiet and stop causing trouble to the friendly relations between North Korea and China²⁰⁵. In order to prove Beijing's goodwill, Chinese exports (as "trade", including free assistance), jumped from about 120,5 million rubles in 1957 to 234 million in 1959, while Chinese purchases of North Korean products (mostly raw materials, ores, coal, etc.) skyrocketed from 64,4 million rubles to 228,8 million over the same period. Mao himself apologized to Kim Il-sung in Moscow in November 1957²⁰⁶ and agreed as early as 1957, to withdraw the CPVA troops stationed in North Korea (effective in 1958). From this short but intense period of Sino-North Korean friendship remains the very famous sentence allegedly used by Zhou Enlai but that actually was part of a 1958 *Renmin Ribao* editorial: the PRC and the DPRK are "as close as lips to teeth, sharing safety and danger, brotherly affection, and being bound by a common cause"²⁰⁷. The Chinese four-letter saying (*chengyü*) "as close as lips and teeth" [唇齿相依; *chunchi xiangyi*] is nowadays often used to describe the standard of the Sino-North Korean relations²⁰⁸, but it was actually used in the context of the peak of bilateral relations in the 1950 decade.

Box 1: The Albanian Witness

Andreï Lankov, in his *Crisis in Korea* book, uses the testimony provided in *Memoirs* by the Albanian leader Enver Hoxha²⁰⁹. Hoxha actually made an official visit to the DPRK on the 7th of September 1956, and discussed the August events with Kim Il-sung.

²⁰⁴ SHEN, XIA (2012), see p.19.

²⁰⁵ SHEN (2008), see p.21. Shen gives the example of a Yan'an Korean named Kim Chyn-sik (金忠植), but more famous cases include So Hwi: SZALONTAI (2003), see p. 92.

²⁰⁶ SHEN, XIA (2012), see p.19.

²⁰⁷ Idem, see p.24.

²⁰⁸ *Chaoxian zhanzhengqijian de zhongchao guanxi: chunchixiangyihaiishi tongchuan yimeng* 朝鲜战争期间的中朝关系：唇齿相依还是同床异梦 [China-North Korea relations during the Korean War: as close as lips and teeth or sharing the same bed but having different dreams ?], *Zhongguo Xinwen Zhoukan* (online). Available at: <http://military.china.com/history4/62/20131012/18085183.html>. Last accessed 7th of February 2015.

²⁰⁹ LANKOV (2005), see p.124.

Obviously only a tiny part of the Hoxha-Kim discussions are available in Hoxha's memoirs²¹⁰, but due to the similarities between the two leaders (and, to some extent, their home countries) Lankov chose to "reproduce it in full" (p.124). However, the transcripts of Hoxha's memoirs in *Crisis in Korea* are only a small part of Hoxha's Korea-related developments: a few lines further, Hoxha establishes explicit parallels between the political situation in Albania and Korea (the "threat" of revisionist groups, tensed relations with Moscow), and explains that few days later, during the CCP's VIIIth Congress in Beijing, he opposed Soviet delegate Ponomarev on the DPRK's case. According to Hoxha and his utterly anti-Khrushchev line, Ponomarev explains that the Koreans have failed in implementing measures following the XXth Congress in 1956, and that they now should pay the price for it.

While Hoxha's word can certainly not be taken at face value (Hoxha writes his memoirs more than thirty years after the facts and the whole purpose of its book is to criticize the Soviet Union and especially Khrushchev²¹¹ or Mao) it is interesting to know that in the mind of the fierce "anti-revisionist" the post-August 1956 Korean events played a rather important role in cracking the post-XXth Congress bloc, and that Hoxha sees in Kim another "victim" of Soviet "social-imperialism".

Contrary to a popular belief, as explained in the memoirs, Hoxha's famous words on the DPRK ("The revisionist wasp had begun to implant its poisonous sting there, too"²¹²) do not refer to the DPRK governmental policies but to the foreign-supported "revisionist" faction.

1.2.4 *Juche*: the ideology of self-reliance in the North Korean context

As noted earlier, the first appearance of the Korean term *Juche* [*Chuch'e*, 주체; often as *Chuche sasang*, 주체사상, *Juche* ideology] used by Kim Il-sung in the political context of the DPRK dates back to 1955, in the midst of the political struggle against the Soviet Faction. The concept of *Juche* and *Juche* ideology might in fact be the most commented political feature of the DPRK, scholars from many different academic backgrounds have been struggling with how to translate, interpret and synthesize the meaning of *Juche*, leading scholars like

²¹⁰ HOXHA, Enver, 1986, *The Artful Albanian: Memoirs*, Éditions en Langues Étrangères, Tirana.

²¹¹ The title of the French edition is unequivocal: *Les Krouchtcheviens* ("The Khruchevists")

²¹² HOXHA, 1986, see p.177.

Cummings to argue that the actual meaning of *Juche* is “ultimately inaccessible to the non-Korean”²¹³. Facing such an enormous challenge, only some basic features of *Juche* ideology will be recalled (allowing us to sort out several possible definitions), to try to explain to what extent it constitutes a crucial concept for this research and precisely identify the (mostly economy-related) aspects of *Juche* that will be discussed throughout the whole dissertation. Although *Juche* is often used by Kim Il-sung since 1955 to express the “koreanness” of the North Korean revolution, the term itself, like many Korean words, is rooted in classical Chinese culture. *Juche* initially is the translation of the Chinese word *zhuti* [主体], a philosophical concept meaning (main) *subject*; in a Marxist-Leninist publication, for example, instead of writing the “masses are the makers of history”, it could be said that regarding History, masses are the *zhuti/Juche*, since they actively take part in shaping it (towards class-free society). Nowadays, Chinese philosophers are still using the term *zhuti* when it comes to advocating the need to strengthen some aspects of contemporary culture that are intrinsically Chinese²¹⁴. As we will see, this original meaning partially overlaps the meaning of *Juche* in the North Korean context, but *necessarily* with some indigenous characteristics. Contrary to what the translation in English or in most Western languages might suggest, *zhuti/Juche* does not mean “subject” like in the past principle “subjected”, quite the contrary. It would be better translated as “agent” if, and only if, it is to be understood as an active and conscious agent. Anecdotal evidence gathered among intellectuals and students in Pyongyang shows that North Koreans sometimes use the English word “subjectivity” to translate both the idea of willingness and creativity to solve different kinds of problems. The first occurrence of the term *Juche* used by Kim Il-sung appears in December 1955, in the speech called “On eliminating dogmatism and formalism and establishing *Juche* in ideological work”²¹⁵ that we mentioned before. Dealing mostly with propaganda and cultural

²¹³ CUMINGS, Bruce, 1997, *Korea's Place in the Sun, A Modern History*, Norton and Compagny, New York.

²¹⁴ LOU Yulie, 2015, *zengqiang zhonghua wenhua zhuti yishi cong “renzhe zi ai” 增强中华文化主体意识从“仁者自爱”说开去* [on the concept of “benevolent self respect” to strengthen the self-consciousness of Chinese culture], *Renminwang* (online). Url: <http://opinion.people.com.cn/n/2015/0206/c1003-26517034.html>. Last accessed 9th of February 2015. “主体意识”, literally *zhuti* consciousness is improperly translated as “self-consciousness”.

²¹⁵ KIM Il-Sung, 1965, On eliminating dogmatism and formalism and establishing *Juche* in ideological work, Speech to Party Propagandists and Agitators, December 28, 1955, *Selected Works*, Vol. I, pp. 582-606, Foreign Languages Editions, Pyongyang.

work inside and outside the Party, the “*Juche* speech” mainly points out the fact that in these fields, *Juche* “has not been firmly established”. As the title says it, the lack of establishment of *Juche* allows two major flaws: the first one is *formalism* (or to “fail to go deeply into matters”) and the second and most important one is *dogmatism* (or to “merely copy and memorize foreign things instead of working creatively”). Kim Il-sung’s main idea developed in the speech is that Koreans, while drawing inspiration from other socialist experiences should first and foremost *adapt* “the universal truth of Marxism-Leninism” to the unique Korean material and spiritual conditions, since North Koreans are “not engaged in any other country’s revolution, but precisely in the Korean revolution”²¹⁶. This kind of adaptation would necessitate an extensive knowledge on Korean history, geography and customs as well as a high level of national pride. The intensive study of Marxism-Leninism is not considered sufficient (but necessary²¹⁷) by Kim, since it would only make Koreans copy foreign ways instead of creatively adapting them to the Korean environment. It would, as a matter of fact, lessen their ability to “display revolutionary initiative”.

While one can find sharp –albeit indirect– criticism aimed at the Soviet Union²¹⁸, as Kim even calls Moscow’s will to ease international tensions “utterly ridiculous”, the speech was shaped in order not to offend political and ideological sensitivities. While purging the Soviet Faction, Kim also seems to be giving guarantees to Moscow that he is not leaning towards Beijing, but rather appears as a pragmatist, even using a Deng Xiaoping-like sentence *avant la lettre*:

*It does not matter whether you use the right hand or the left, whether you use a spoon or chopsticks at the table. No matter how you eat, it is all the same insofar as food is put into your mouth, isn't it?*²¹⁹

²¹⁶ *Idem.*

²¹⁷ *Idem.* “At that time the Party centre maintained that we should learn all the good things from both the Soviet Union and China and, on this basis, work out a method of political work suitable to the actual conditions of our country.”

²¹⁸ *Idem.* The appeasement policies followed by the Soviet Union (soon to be known as Peaceful Coexistence) is said to have “nothing to do with revolutionary vigilance”, and the U.S. is considered as a “sworn enemy” that scorched our land”, “killed our innocent people en masse” and occupier of the Southern half of Korea. However, criticisms are not directly aimed at Moscow, but at a North Korean official (Pak Yong-bin) who had recently returned from the USSR and delivered Moscow’s message.

²¹⁹ *Idem.*

Some scholars have argued that December 1955 has had an historical significance (the apex of the anti-Soviet Faction purge), and that the North Korean meaning of the term *Juche* was forged with the short-term goal of politically maneuvering between the foreign-supported factions, Beijing and Moscow. The first appearance of the *Juche* idea in the midst of the political struggle against foreign supported factions is indeed certainly not an accident. Several historians have argued, like Nobuo Shimotomai, that “what eventually became the famous [*Juche*] ideology started as a tool to eliminate Soviet influence on DPRK ideology”²²⁰. Surprisingly, years later, in 1965, Kim himself seems to explicitly support this point of view:

*In order to eliminate these mistakes in ideological work, our Party started, from 1955 on, a brisk struggle against flunkeyism towards Great Powers and dogmatism, for the establishment of Juche [...]. Thanks to the implementation of Juche in the ideological work our Party was able to relieve the pressure of the chauvinistic Great Powers as well as their conspiracies and plots.”*²²¹

This does not however mean that elements that can *a posteriori* be considered as *Juche*-inspired did not appear before the 1955-1956 political crisis. Well before 1956, even during the 3-year plan, Kim Il-sung’s rhetoric was already fundamentally opposed to “flunkeyism” [사대주의, *sadaejuŭi*; 事大主义, *shida zhuyi*], a term borrowed from antique Chinese philosopher Mencius (Meng Zi). In the 1940 decade, this set of ideas was further conceptualized under a more directly political vocabulary, using for instance terms like *chajusŏng*, *minjok tongnip*, *charipkyŏngje* [자주성, 민족독립, 자립경제] which can be respectively translated as self-reliance/self-consciousness²²², ethnic/national independence

²²⁰ SHIMOTOMAI, Nobuo 2011, Kim Il-sung’s balancing act between Beijing and Moscow, 1956-1972, in HASEGAWA Tsuyoshi, 2011, *Cold War in East Asia, 1945-1991*, Woodrow Wilson Center Press, Washington.

²²¹ KIM Il-sung, 1984h. See bibliography.

²²² There is a note in the 11th volume of Kim Il-sung’s *Works* (1957) that explains to the reader that *chajusong* is « the attribute of the human social being who wants to live and evolve independently while ruling the world and enjoying full control of himself”.

and independent economy²²³. These political concepts quickly bear fruits in the context of the Korean War and the immediate post-war years, which were peppered with more or less direct political interferences from both China and the USSR. *Juche*-like ideological features can be found before 1955 in a variety of spheres of the North Korean society, including culture and literature²²⁴, but also, more interestingly from our perspective, in the fields of diplomacy²²⁵ and economic policies, as early as 1953. Indeed, immediately after the war, while massive assistance programs were implemented in the DPRK, the *Great Leader* has been continuously emphasizing the need to rely on the DPRK's own strengths²²⁶. Kim Il-sung's October 1953 speech called "let's train numerous well-qualified technical executives on our own", dealing mostly with education in the DPRK can be *a posteriori* understood as textbook *Juche* : the North Korean leader explains that there is no need for the DPRK to send too many students abroad, but rather to create many schools and universities inside the country, in order not to weaken "the scientific research, the sense of responsibilities" of the North Korean teachers, and not to "paralyze" their "hope for independence and spirit of initiative". Kim advises, instead, to translate as many foreign books as possible, in order to increase knowledge of modern science and technology. The apparent paradox in Kim Il-sung's thinking when it comes to interaction with the outside world was synthesized years later by his son Kim Jong-il in a quote that is almost ubiquitous in the DPRK now: "plant your feet on your own ground, but turn your eyes to the world"²²⁷.

To use Myer's word, the December 1955 speech was and was not a watershed²²⁸. *Juche*-like ideology (in the North Korean context) had existed much before 1955 and the awareness of historical importance and political significance of *Juche* ideology was a gradual phenomenon. But, on the other hand, the *Juche* idea became explicit in 1955 for the whole bloc and the DPRK's resistance to what was considered interference in its internal affairs, which was well-

²²³ "independent economy", interestingly, is also a concept that is known to be used by South Korean president Park Chung-hee after its coup in 1961. See LEE Jin-kyung, 2010, *Service Economies: Militarism, Sex Work, and Migrant Labour in South Korea*, University of Minnesota Press, Minneapolis.

²²⁴ GABROUSSENKO, Tatiana, 2012, *The North Korean Philosophy of Foreigners*, in FRANK, Rüdiger, 2012, *Korea 2012: Economics, Politics and Society*, Brill, Boston.

²²⁵ SZALONTAI (2003), see p.88.

²²⁶ KIM Il-Sung, 1981d. See bibliography.

²²⁷ Quoted in GABROUSSENKO (2012), p.244.

²²⁸ MYERS, Brian, 2006, *The Watershed that Wasn't : Re-evaluating Kim Il-Sung's « Juche Speech » of 1955*, *Acta Koreana* vol.9, n° 1.

known to foreign diplomats in Pyongyang, *gradually* became understood as inspired by the *Juche* theory²²⁹. Even if many countries have tried to implement Marxist-Leninist policies in a relatively creative manner, the official introduction of a homegrown ideology, stemming from but also paralleling (and eventually eclipsing) Marxism-Leninism is, to the author's knowledge, unprecedented in the socialist bloc.

As will be seen later, the theoretical, ideological and political development of the *Juche* idea was both *gradual* and *phased*, as it has been encompassing more and more aspects of the North Korean society throughout the second half of the XXth Century. *Juche* ideology gradually became a full-fledged ideology that eventually superseded Marxism-Leninism in the DPRK's rhetoric (if not policies). In addition, the basic idea of ethnic/national self-reliance impacted many other aspects under specific circumstances: for example, "*Juche* in national defense" became a North Korean motto after the Park Chung-hee military coup. In a 1963 speech²³⁰, two years after the coup in Seoul, Kim explains that relying on other countries for arms and weapons would prevent it from maintaining its "political *chajusŏng*" and "ideological *Juche*". The same could be said about culture, which was the first field of experimentation for the *Juche* idea, because of the context of assistance programs from socialist brethren, Kim could hardly bluntly emphasize self-reliance in economics. Culture, as noted earlier, thus became a means, by proxy, to counter Soviet influence; after the official end of assistance plans (1962) and during the first years of the Sino-Soviet dispute, Kim rhetoric on self-reliance and *Juche* became much more direct and outspoken (as we will see in details later).

The very definition of *Juche* Idea, but also the aspects of North Korean society it encompasses, have evolved during the second half of the XXth century. Initially focused on culture, *Juche* ideology also gradually impacted other fields like science, education, defense, economy, diplomacy, etc. This peculiar evolution within a given context allows to consider (perhaps paradoxically) *Juche* as a fundamentally pragmatic and dynamic thought, especially regarding contemporary North Korea. While *Juche* idea has undoubtedly impacted the DPRK in many aspects, and is still systematically used today in North Korean publications (at least

²²⁹ LANKOV (1999), see p.61.

²³⁰ KIM Il-sung, 1984d. See bibliography.

as a means of legitimization), it does not prevent Pyongyang from actively reforming its economic policies or adapting (with more or less success) to a changing international environment.

1.3 The DPRK's postwar economic policies

The North's industrial recovery was quick, thanks to both the scale of foreign assistance and domestic mobilization. Indeed, whereas the share of industry in the DPRK's GDP was around 47% in 1949, it reached 76% ten years later, with annual industrial growth rates ranging between 44% and 53% at the end of the 1953 decade²³¹.

1.3.1 The role of heavy industry in the DPRK postwar recovery

Many scholars, experts and DPRK observers have argued that in the aftermath of the war, North Korea quickly embarked on a "Stalinist model" in regard to economic policies, as, since 1953, the North Korean leadership emphasized the importance of heavy industry in economic development. The official line regarding the structure of the economy was "to develop heavy and light industries, as well as agriculture²³²" at the same time, but with the emphasis put on heavy industry.

This biased vision of the economy is explained, at length, by Kim Il-sung in numerous speeches. The basic idea is that in order to rebuild the damaged North Korean economy, Pyongyang must first establish a strong heavy industry base to secure the local production of intermediate products (as opposed to importation). During the five year-plan, about 80% of the industrial investment or about 40% of total investment was made in the heavy industry²³³. One example of this strategy was the deeply unbalanced agroindustry policy of the DPRK in the immediate postwar, which was entirely based on the production of machines for self-reliance purpose. In addition to creating a whole new agricultural infrastructure (collectivization, new irrigation techniques, etc.), the Pyongyang leadership believed that fishing was the fastest and the cheapest way to relieve the severe food shortages that occurred in the 1953-1955 period. Since the DPRK has a long coastline and a traditional expertise in fishing, this was not necessarily a bad option to cope with the

²³¹ AGOV (2010), see p.160.

²³² KIM Il-sung, 1982b. See bibliography.

²³³ ARMSTRONG (2005), see p.167.

emergency. However, since the overall majority of North Korea fishing vessels had been lost in the war, the Pyongyang leadership chose to heavily invest in the timber and steel industries in order to eventually being able to produce fishing vessels on its own. These policies came under sharp critics from both inside (the Soviet faction, as well as the Yan'an one, albeit not on the same scale) and outside (Moscow) the country during the food crisis²³⁴. Due to natural disasters as well as an overemphasis on heavy industry, these food shortages offered an opportunity for Moscow (and Beijing) to put some pressure on Pyongyang's leadership and force it to ease control on private market activity in the food sector (while making additional food shipments as aid²³⁵). Taxes on the peasantry were reduced²³⁶, private grain trade was allowed (and even maybe encouraged²³⁷), and private debts were cancelled²³⁸. Although Kim Il-sung did compromise, he also stated, in a 1957 speech²³⁹, that in order to further develop the agricultural production, the development of heavy industry and especially chemistry was a *sine qua non* precondition for higher agricultural output (for example in the production of chemical fertilizers in Hungnam). The priority to heavy industrial development also eventually aimed at boosting the production of consumer goods (this would be the main objective of the upcoming seven-year plan). One trumpeted example of the alleged success of these policies is the famous Vinalon [비닐론, *binillon*; 维尼纶, *weinilun*]²⁴⁰. Thanks to investment in heavy industry and chemistry, the DPRK was able to mass-produce an artificial fiber made from anthracite (which abounds in North Korea). The fiber itself was invented in 1939 by a Korean in Japan, but additional research started in Hamhung as early as 1952²⁴¹ (the February 8 Vinalon Complex reportedly opened its gates in 1961). According to Kim Il-sung and, later, the DPRK propaganda, the invention of what is

²³⁴ ARMSTRONG (2013), see p.84-86.

²³⁵ See SZALONTAI, Balázs, 2005, *Kim Il Sung in the Khrushchev era : Soviet-DPRK relations and the roots of North Korean despotism, 1953-1964*, Woodrow Wilson Center Press, Washington, D.C. (p.73).

²³⁶ According to Hungarian scholar Balázs Szalontai, Yan'an Koreans were especially critical on this particular point since agricultural taxes were much higher in North Korea than in the PRC: 23 to 27 % of the income in the DPRK against 18,2 to 18,7 in China. SZALONTAI (2005), p.67.

²³⁷ KIM Il-sung, 1982a. See bibliography. In this speech, Kim Il-sung argues that the trade activity of independent merchants should not be too heavily taxed since they would raise their price to compensate.

²³⁸ ARMSTRONG (2013), see p.84-86.

²³⁹ KIM Il-sung, 1982b. See bibliography.

²⁴⁰ "Vynilon", "Vynalon" are also used.

²⁴¹ Idem, p.99.

sometimes called the “*Juche* fiber”²⁴² exemplifies the virtues of a “Korean-style independent economy” and the emphasis on heavy industry in the immediate postwar: it constitutes a *creative* solution (Korean science and technology), based on *local characteristics* (anthracite) that enables the country to overcome dependence on both objective laws of nature (technical impossibility of growing cotton in the DPRK²⁴³) and on foreign powers (limits the need for importation of raw materials or consumer goods). In the North Korean narrative, short-term sacrifices (emphasis on heavy industry which translated into food shortages) were strategic choices that allowed, years later, the independence of the economy and the country²⁴⁴.

1.3.2 Towards self-sufficiency

After the Korean War, the whole industrial basis of North Korea had to be rebuilt from scratch. With most of the factories and production plants burnt to the ground or severely damaged, the task of rebuilding the industry was tremendous but Pyongyang had almost *carte blanche* and could entirely redesign its industrial production system based on its needs but also its own ideological options. The production was totally reorganized, but since most of the funds were coming from abroad, Pyongyang could not master everything (and did not decide everything)²⁴⁵, which certainly constituted an additional source of political frustration and diplomatic friction.

The DPRK was, in the 1950, the textbook example of a command economy. As noted before, the main objective of the three year plan was the reconstruction of the industrial basis (back to its 1949 level), while the following five-year plan’s goal was further economic

²⁴² In Its 1968 book, Australian journalist Wilfried Burchett sums up an interview he had in 1967 with the inventor of the “*Juche* fiber”, Lee Sung-gi. See BURCHETT, G. Wilfried, 1968, *Again Korea*, International Publishers, New York

²⁴³ KIM Il-sung, 1983g. See bibliography.

²⁴⁴ Little known fact about Vinalon, even in China, is that it also used to be produced in the PRC (in different parts of the country), thanks to the scientific cooperation and exchanges between the Chinese Academy of Science and its Korean counterpart. FENG Baosheng, *jiaqiang kexue jiaoliu, fazhan zhongchao youyi* 加强科学交流, 发展中朝友谊 [*Strengthen Scientific Exchange, Develop Sino-Korean Friendship*], *Huanqiu Shibao*, 10th of October 2015, Url : http://opinion.huanqiu.com/opinion_world/2015-10/7721735.html. Last accessed 10th of October 2015.

²⁴⁵ “Man is the master of everything and decides everything” has become, much later the basic premise of the *Juche* idea. See KIM, Jong-il, 1982, *On the Juche Idea*, Foreign Language Edition, Pyongyang. When asked to define *Juche* ideology to foreigners, DPR Koreans most often use this quote.

development. The production of steel²⁴⁶, electricity and coal were prioritized in order to prepare the reindustrialization of the country. From 1953 on, Kim Il-sung closely followed the restarting of several steel mills and iron works across the country, like the Kim Chaek steel mill²⁴⁷ (whose single blast furnace was the only of its kind still in activity in North Korea after the war²⁴⁸ and remained so until the restarting of the Hwanghai plant in 1958²⁴⁹), the Kangsun smelting plant (restarted in September 1954²⁵⁰), etc. Regarding the electricity output goals, the objective of the five-year plan was to reach about 975 kWh per capita in 1961, which was an extremely bold objective (more than ten times the production of South Korea at that time and even slightly higher than Japan²⁵¹). The objective of the plan was nonetheless fulfilled, thanks to a colonial legacy of huge hydropower plants (such as the Supung/Shuifeng power plant, the biggest of its kind in East Asia at that time), but also a very quick development of small and medium plants everywhere in the country, as no less than 1149 hydro and thermo power plants were built in North Korea until 1959²⁵². Since the DPRK is a very mountainous country (with 80% of its territory being mountains and uplands²⁵³) and is abundant in coal, Pyongyang chose to multiply energy sources everywhere in the country, even if sometimes the power plants had a very low output. In a 1958 speech²⁵⁴, Kim Il-sung even lauds a homemade power generator in a cooperative farm in the Jagang province as an example of “independent spirit”. Lacking technology and funds, the North Korean leadership chose to create only a few additional big power plants, in Kanggye (Jagang) and Doknongang. What can be seen as a temporary solution proved to be efficient enough to support the North’s massive reindustrialization and even allowed North Korea to

²⁴⁶ KIM Il-Sung, 1981f. See bibliography.

²⁴⁷ Located in North Hamgyong province, this steel mill was originally built by the Japanese and is still North Korea’s biggest steel plant today. Its name was changed in 2000, it is now called Kim Chaek Iron and Steel Complex. Kim Ch’aek Iron and Steel Complex, *Nuclear Threat Initiative* (Online). Url: <http://www.nti.org/facilities/181/>. Last accessed 10th of December 2014.

²⁴⁸ KIM Il-sung, 1982c. See bibliography.

²⁴⁹ KIM Il-sung, 1983b. See bibliography.

²⁵⁰ KIM Il-Sung, 1981g. See bibliography.

²⁵¹ AGOV (2010), see p.167.

²⁵² *Idem*.

²⁵³ GALGANO, Francis A., PALKA, Eugene J., 2002, North Korea: A geographic Overview, *United States Military Academy West Point*. Url: <http://www.usma.edu/gene/SiteAssets/Sitepages/Publications/NorthKorea.pdf>. Last accessed 11th of December 2014.

²⁵⁴ KIM Il-sung, 1983, Des quelques tâches immédiates des travailleurs du secteur de l’industrie électrique, Conclusions énoncées lors de la 3^{ème} conférence des éléments dynamiques du ministère de l’Électricité [4th of February 1958] in *Œuvres* tome 12 [1958], Éditions en Langues Étrangères, Pyongyang.

have one of the world's lowest dependency rates on oil products²⁵⁵ (at least until the Arduous March in the mid-1990 decade). This policy was pursued until the end of the XXth century²⁵⁶ and until the 1980 decade, the production of electricity was higher in the North than in South Korea, whose population is twice as big as in the DPRK.

The sharp increase in steel and electrical production made possible the construction of numerous new plants and transportation infrastructures and triggered the growth of North Korea industrial output. However, from the postwar era onwards, Pyongyang's goal was not only reindustrialization, but the reindustrialization under new principles. Japanese colonizers developed an industrial basis in Korea which tended to be more concentrated in the mountainous north than in the south (with the southern half traditionally considered as the peninsula's rice bowl). The Japanese were mostly interested in the peninsula's natural resources (Japan showed interest in purchasing the DPRK's anthracite as early as 1957²⁵⁷), and built only the necessary infrastructures for the transformation of coal, minerals, and other resources to be shipped to Japan to be transformed into finished goods and consumed on the archipelago. As a colony, Korea had to furnish primary goods and to consume finished products made on Japanese soil. What's more, the Korean industry was geographically structured in order to allow quick shipments of primary or semi-finished goods to Japan, which means it was essentially located near the coast on the Eastern Sea (as will be seen in part II).

The Japanese colonial model became for Kim Il-sung and its supporters the exact anti-model the DPRK should avoid at all costs. According to the *Great Leader*, in addition to its technological "backwardness" and its collapse during the War, the Korean economy had the extremely serious disadvantage of having a "colonization-induced imbalance". This expression seems to have two different meanings²⁵⁸. First, the bulk of the industry of the Northern half of the Korean peninsula was located near the eastern coast as it was mainly (if not exclusively) a captive market for Japan. Second, as explained, the Korean peninsula used

²⁵⁵ CUMINGS (1997), see p.422.

²⁵⁶ Kim Jong Il wisely leads socialist construction in *Annals of Revolution*, KCNA, 8th of December 2014. Url: <http://www.kcna.co.jp/item/2014/201412/news08/20141208-17ee.html>. Last accessed: 12th of December 2014.

²⁵⁷ KIM Il-sung, 1982c. See bibliography.

²⁵⁸ The careful study of Kim Il-sung's speeches during the 1950 decade shows that he uses the « colonization-induced imbalance » expression to alternatively describe either the Korean industry being located on the eastern coast or the Korean peninsula as a natural resources supplier.

to be a natural resource (or semi-finished products) supplier to Japan. In Kim Il-sung's mind, being a natural resource supplier not only prevented Korea from achieving substantial economic development; the biggest issue that hurt Kim's nationalistic ideals was that Korea's economy depended on Japan's growth. Having to send primary goods or natural resources abroad, or even simply import finished goods that could be domestically produced had become highly undesirable for North Korea after 1945 (and especially after 1953), since it would imply that the DPRK's economy is back to its pre-1945 state, being part of a "colonial scheme":

*"Before, in order to plunder our country's resources, Japanese imperialists partially built an imbalanced colonial industry, producing primary goods and semi-finished products. Also, just after the Liberation, our country had almost no plants producing finished goods or a mechanical constructions unit. As we experienced during the War, we were not able to produce one single automobile spare part"*²⁵⁹

Kim Il-sung's conception of international economic cooperation, basically trying to avoid the DPRK to become a "semi-colony", was not new in the socialist bloc and was maybe closer to Leninist principles than the USSR's approach (after the mid-1950 decade). According to Lenin²⁶⁰, a "semi-colony" actually is a politically independent State whose development is "submitted" to more developed countries. Lenin's analysis was well-known to Kim Il-sung, and the *Great Leader* made countless references in his speeches to the structural links between economic (*charip kyŏngje*) and political independence (*chaju*), albeit never as explicit as in a Pravda article published in 1970:

"From the end of the XIXth century to the beginning of the XXth century, Eastern countries were gerrymandered into colonies of imperialist powers and the Asian continent was turned into a area for the exportation of capital, into a sales market for the exportation of capitalists countries"

²⁵⁹ KIM Il-Sung, 1981e. See bibliography.

²⁶⁰ LENIN, Vladimir, 1973, Division of the World among the Great powers, *in* Imperialism, Highest Stage of Capitalism, *Selected Works* Vol. 1, Progress Publishers, Moscow.

oversupplied goods [...], considerably limiting the normal economic development of these Eastern countries[...] Our country has become today a socialist State with complete autodetermination in politics, possessing a strong national independent economy, a splendid national culture and a powerful defense capacity”²⁶¹

Eager to recover national sovereignty after getting rid of Japanese colonizers, it can easily be imagined that the Soviet and Chinese interference in Pyongyang’s policies reinforced Kim Il-sung’s initial lukewarm feelings about the “socialist cooperation”. What’s more, from 1956 onwards, Sino-Soviet struggle for the leadership of the communist movement led Pyongyang to be even more cautious regarding the cooperation with foreign countries, even from the socialist bloc. Much needed help and assistance (as well as trade) was more than welcome, but not political or ideological influence. Pyongyang has been trying, ever since, to build an economic system where trade and foreign economic cooperation would not lead to political influence, but on the contrary allow the country to develop according to its own principles. This development strategy shows striking resemblances with the development model advocated by the dependency theorist Samir Amin (strongly influenced by Lenin himself), as will be explained later.

If Kim’s analysis was not unprecedented for a Marxist-leaning nationalist activist, some features of his response to the “colonization-induced imbalance” problem of the DPRK’s economy are unique. When Joseph Stalin embarked on a heavy industrialization program in 1928, this was “justified” by two distinct elements: the USSR, the largest country in the world, had enough resources not only to self-sustain its industrial development but also to earn foreign currency (by selling gold and other minerals on international markets); what’s more, and that might be the most important element, Stalin’s USSR was the *only* socialist power at that time and was facing a rather hostile international environment (until the Second World War). In other words, Moscow could only count on itself to achieve economical development, and giving temporary priority to heavy industry was aimed at

²⁶¹ KIM Il-sung, 1986b. See bibliography. Interestingly, in this article, Kim establishes an implicit parallel between the ideologies that fostered the Russian and Korean revolution, between leninism and *Juche*. He argues that Leninism was a “creative” application of Marxism to the Russian empire, just like *Juche* for the DPRK.

strengthening economic independence from hostile capitalist countries, at least in Moscow's narrative. North Korea's situation after the Korean War was totally different; The DPRK was founded in the midst of the "post-WWII red tide", and had other options than implementing an ambitious –but risky– program of economic self-reliance. Paradoxically, the first and only large-scale cooperation project led by every single eastern bloc member (the post-Korean War reconstruction of the DPRK) triggered a "conscious withdrawal"²⁶² from the world economic system. Even if Pyongyang willfully *chose* to follow this path, repeated interference in the North's policies, from 1945 on but especially after the Korean War, might have driven the DPRK to adopt an extensive definition of national sovereignty (crystallized in *Juche* Ideology) that encompasses many aspects of the North Korean model, including its economy.

1.3.3 Economic integration as a mean to achieve self-reliance?

Since North Korea, after 1953, was unable to reindustrialize on its own, it was very keen in trying to obtain assistance from socialist countries. Kim Il-sung himself made several trips to Moscow, Beijing, and even to several Eastern European countries (in June 1956) in order to receive more aid from its allies. The bulk of aid was directed towards the factories' reconstruction and heavy industry, a policy that was frowned-upon by Soviet advisers in North Korea. As Armstrong explains, North Korea before the Korean War was mostly a primary goods and natural resources supplier to the USSR²⁶³: North Korea's seafood, timber as well as coal and mining products were abundant and cheap and thus making it interesting for Moscow to have Pyongyang integrate a "Soviet-centered international division of labor"²⁶⁴. After the War, Pyongyang's attitude changed. The North Korean side wanted to climb up the industrial ladder and focus on the production and export of manufactured goods. The initial development of primary goods exportation to the Soviet bloc, stressed by Kim Il-sung only a few weeks after the war, was explicitly considered as a means to obtain foreign currency and import the very necessary sophisticated goods and machines for the further development of domestic industry:

²⁶² CUMINGS (1997), see p.420.

²⁶³ ARMSTRONG (2013), see p.60.

²⁶⁴ *Idem*.

*“To obtain foreign currency we must research and extract the primary goods needed by fraternal countries and strengthen their exploitation; on the other hand, we will import the machines and primary goods we need”*²⁶⁵

Importation of carefully selected foreign technology and foreign products were considered indispensable –but temporary- compromises. The Pyongyang leadership’s objective was to avoid at all cost to depend on foreign technology but was well aware of North Korea’s long distance from the technological frontier at that time²⁶⁶. Whereas Soviet advisers tried to pressure Pyongyang to import textile products (which were severely lacking in the North²⁶⁷) from the Soviet bloc²⁶⁸, North Korea planners chose to strengthen the DPRK textile production (hence scientific research on the Vinalon, the reopening and modernization of the Pyongyang textile factory and the Chongjin spinning plant²⁶⁹) and asked the USSR to provide research laboratory equipments instead²⁷⁰, since the DPRK was unable to domestically produce them at that time.

To put it simply, the DPRK’s post-war economic policies aimed at reinforcing its economic foundation in order to achieve the highest level self-sustainability as quickly as possible. The economic cooperation with foreign countries, and especially with China and the USSR, was designed in order to fasten the pace of economic reconstruction and the progression towards self-reliance. Pyongyang made efforts in order to quickly develop the extraction and exportation of mineral resources at a low cost (although they were bought at above-market prices by allied states), but this was explicitly to be understood as a temporary compromise in order to secure access to foreign currencies. The cash flow that resulted from exports of mining products was highly sought after by Pyongyang, which could use it to import the machinery and technology it needed. While these items could have been offered as part of aid from socialist countries, it would have necessitated for the DPRK to explain the importance of these items for its development strategy, which almost systematically led to frictions with Moscow (see later). The five-year plan allocated up to 30% of resources earned

²⁶⁵ KIM Il-Sung, 1981a. See p.54.

²⁶⁶ Kim Il-sung repeatedly employs the word « backward » or « backwardness » to describe the DPRK industry.

²⁶⁷ According to Kim Il-sung, only two small textile factories were still working when the Japanese left: one in Sinuiju, and another one in Sariwon: KIM Il-sung, 1983a. See bibliography.

²⁶⁸ ARMSTRONG (2013), see p.60.

²⁶⁹ KIM Il-sung, 1983a. See bibliography.

²⁷⁰ KIM Il-Sung, 1981c. See bibliography.

from the exportations of minerals and metals to the mechanization of mineral resources extraction, in order to be more cost-efficient and to reallocate the manpower made available towards industrial production²⁷¹. In order to obtain even more foreign currencies (essentially rubles), the North Koreans also surprisingly chose to export foodstuffs, such as sunflower oil, mushrooms, onions²⁷² and especially seafood²⁷³, which was particularly advantageous for North Korea to export to the USSR since the evaluation of fisheries resources in the East Sea had been made free of charge by Soviet experts²⁷⁴ and that Moscow often bought North Korean seafood at above market prices²⁷⁵. On the other hand, its steel and cast iron industry, thanks to large investments, became one of the largest in East Asia. Instead of exporting food, a more “orthodox”²⁷⁶ way of doing things would have been to export steel or cast iron and to use the foreign currency earned to import food. But the DPRK reversed this paradigm and exported food to further develop heavy and chemical industry that would later be needed to increase light industry (synthetic fibers) and agricultural *domestic* output: North Korean fishers, for instance, required motorboats or modern fishing nets, while agronomists and peasants needed fertilizer and motorized pumps for irrigation²⁷⁷. On the contrary, the exportation of steel (or cast iron) was explicitly considered “unacceptable” by Kim Il-sung as it could be useful for the domestic development of light industry and eventually consumer goods production:

“The importation plan must correctly take the economic situation of the country and the people’s interests into account. The plan draft for next year forecast the construction of numerous factories and other companies in order to export cast iron. This exportation is unacceptable. Instead of thinking about restarting the [blast furnaces] and produce steel bullions, our civil servants want to export cast iron. Instead of exporting cast iron, we need to use it to produce steel bullions. In the textile sector, we export silk threads, whereas we import textile. This is also unacceptable. Instead

²⁷¹ SZALONTAI, 2003, see p.89.

²⁷² KIM Il-sung, 1983c. See bibliography.

²⁷³ KIM Il-sung, 1982d. See bibliography.

²⁷⁴ *Idem.*

²⁷⁵ AGOV (2010), see p.261.

²⁷⁶ In this context, “orthodox” could also mean “capitalist” for the North Korean leadership, even in the context of economic cooperation with socialist powers.

²⁷⁷ KIM Il-sung, 1983c. See bibliography.

of exporting silk threads, we must import weaving looms and produce ourselves more textile.”²⁷⁸

1.4 Early economic cooperation with foreign countries

“No other country offers us its help like after the ceasefire; what’s more, our country has now robust enough economic foundations to avoid being dependent from others. We have to manage everything on our own. This is the only way to lay the foundations for socialist industrialization and to eliminate the colonization-induced imbalance of our industry”²⁷⁹

1.4.1 Understanding the DPRK’s traditional patterns of external economy

Kim’s economical reasoning, in the 1950’s was unorthodox but simple: the goal was to export as many items and natural resources as possible to earn foreign currencies, and to limit importations as far as possible to be less dependent from the “outside world” but also to relieve Pyongyang’s tight budgets. For example, the need for an automobile spare parts factory was stressed since North Korea was importing as much as 12 million rubles worth of spare parts from the USSR; in Kim’s mind, domestically producing them would be equivalent to saving 12 million rubles. This economic strategy proved to be successful to a certain extend (North Korea never was able to produce everything but had a definitely more able industry than any Third World country at that time) but turned out to be extremely costly, especially during the first seven-year plan (1961-1967) and afterwards.

There has been much debate on how to define North Korea’s economic policies. There is no doubt that North Korea, from the 1950’s until (at least) the 1980 decade, was a socialist country and a very centralized command economy. However, its peculiar attitude regarding the Eastern bloc and its constant need to improve its “economic independence” was unique. When it comes to describing the DPRK’s economic policies, one of the most often used term in the academic literature is autarky²⁸⁰. There is no wide consensus on the exact academic

²⁷⁸ KIM Il-Sung, 1981, Conclusions énoncées lors de la 30^{ème} session plénière du Conseil des Ministres de la RPDC [23 Aout 1954], in *Œuvres complètes* vol.9, Éditions en Langues Étrangères, Pyongyang.

²⁷⁹ KIM Il-Sung, 1981j. See bibliography.

²⁸⁰ The word is used, among many others, by Armstrong (ARMSTRONG, 2013, see p.60, p.252), Cumings (CUMINGS, 1997, see p.422), Kim and Lee (KIM, Samuel, LEE Tai Hwan, 2002, *North Korea and North East Asia*, Rowan and Littlefield, Lanham, see p.124), David-West (DAVID-WEST, Alzo, 2007, *Marxism, Stalinism, and the Juche Speech of 1955: On the Theoretical De-Stalinization of North Korea*, *The Review of Korean Studies* Vol. 10 N° 3, Academy of Korean Studies) or Noland (NOLAND, Marcus, 2000, *Avoiding the Apocalypse: the future of*

definition of the word “autarky” in the field of political economy or even political science. One reason for this is that genuine autarky is less a political concept than a thought experiment (or an “ideal”): even the most self-centered political regimes (Japan during the Edo period, or Albania between 1945 and 1982, are textbook examples) never completely severed their ties with the outside world. On the contrary, a truly autarkic country would intentionally try to be as self-reliant as possible *and* would limit its trade to the strict minimum or implement a no-trade policy. In this regard, Edo Japan can be considered *relatively autarkic* since it tried to reduce as much as possible its economic (and political) cooperation with the outside world. The DPRK, on the other hand, was not (and still is not) an autarkic country, not even in a relative manner. Indeed, not only did Kim Il-sung repeatedly asked socialist brethren for assistance after the war (making several trips abroad to ask for help, including in Europe) and even in the following decades (until now)²⁸¹, but from about the middle of the 1950 decade, North Korea began to think of itself as a rising trading power (or, at least, an exporting power), mostly with other socialist countries, but also with extra-bloc capitalist powers. Exporting actually was a priority of the DPRK government and, just a few days after the Korean War, the Pyongyang leadership pushed for the renovation of strategically-located ports since

“The most important question after the armistice [...] is the renovation and the construction of ports and berths that we need for external trade”²⁸²

Clearly socialist but sensibly different from external economic policies that existed in the Soviet bloc at that time, the DPRK’s initial external economic policies are difficult to grasp for economists, political scientists and scholars in general, often leading observers to consider

the two Koreas, *Institute for International Economics*, Washington, see p.71). However, one should note that the overwhelming majority of scholars using the word “autarky” to describe the state of North Korea’s economy use it a relative way: “the most autarkic”, “rather autarkic”, etc.

²⁸¹ As we will see, North Korea is still benefiting from foreign assistance (from China, South Korea and Russia but also foreign non-state organizations, albeit on a much smaller scale and in a rather discontinuous way), and the abrupt end economic assistance from the USSR after 1991 is one element (among others), that triggered the 1990 decade famine, the so-called *Arduous March*).

²⁸² KIM Il-Sung, 1981a. See bibliography.

the DPRK to be an “irrational” or “stubborn” country. In a 2007 article²⁸³, Rüdiger Frank explains that the DPRK being a State by all commonly-accepted definitions, it also constitutes a “normal” research topic that can normally be understood as long as one uses adapted epistemological tools. To grasp the rationality of Pyongyang’s external economic policies, the safest option would be to look for an economic theory close enough to Kim Il-sung’s thinking and *Juche* ideology but developed and formulated in a systematic, generalized (non specifically Korean) and “scientific” way.

Surprisingly, although the DPRK trumpets its “national spirit of independence” and “independent” or “self-reliant” country, scholars have made little use of Dependency Theory in regard to the DPRK. Besides one short essay by Foster-Carter (a former Marxist himself²⁸⁴), Dependency Theorists have mostly tried to clearly distance their School of Thought from political developments in the DPRK²⁸⁵. Controversial figure among a controversial School of Thought, Franco-Egyptian author Samir Amin’s works prove nonetheless to be extremely interesting and useful in order to approach early (as well as current) economic cooperation patterns of the DPRK.

Samir Amin spent most of his academic career describing and analyzing the “world-system” through the prism of Dependency Theory, an intellectual movement in which he played a central role, alongside scholars like Raul Prebisch, Fernando Cardoso, Immanuel Wallerstein or Andre Gunder Frank. Amin however counts as one of the most “radical” among Dependency Theorists, with its work being deeply rooted in Marxism and Leninism, whereas several of his colleagues (Frank or Wallerstein, for example) often consider Marx or Marxian concepts merely as a source of inspiration. Dependency Theorists have spent limited attention to the DPRK, and Amin, as with numerous Marxists thinkers, mainly focused on analyzing, describing, criticizing current patterns of development in a increasingly globalized world. Among Amin’s extensive bibliography, only a tiny part of his works offers a normative perspective and positively advocates for alternative development patterns that would allow for peripheral countries to achieve substantial economic development. In his 1985 book

²⁸³ FRANK, Rüdiger, 2006, Can Economic Theory Demystify North Korea?, *Asia-Pacific Journal* (online). Url: http://www.japanfocus.org/-R_diger-Frank/2341/article.html. Last accessed 07 June 2015.

²⁸⁴ “Beliefs, if any”, *Aidanfc* (online). Url: <http://www.aidanfc.net/beliefs.html>. Last accessed 19th of August 2016.

²⁸⁵ RIST, Gilbert, 2007, *Le Développement, Histoire d’une Croyance Occidentale*, Presses de Sciences Po, Paris.

called *Delinking: Towards A Polycentric World*²⁸⁶, the Franco-Egyptian economist tried to design an economic policy that would allow peripheral countries to “emancipate” themselves from the capitalist World-system while also developing their economies based on locally-decided criteria. Contrary to *Maldevelopment*, *The Empire of Chaos* or *Unequal Development*, *Delinking* attracted limited attention from the scholars and researchers not only because of the current loss of impetus of the Dependency school of thought, but also because Amin makes some quite laudatory comments to the development scheme chosen by one country which quickly became a “pariah State” a few years after the publication of *Delinking*: North Korea. Indeed, even if Amin and the Pyongyang leadership had important ideological and political divergences, the development model advocated by Samir Amin (“Delinking”) and the path chosen by Kim Il-sung and the KWP leadership show striking resemblances. The *Delinking* paradigm turns out to be an extremely useful reference to analyze DPRK economic policies and measure their evolution (economic reform), but also is a systematic theory much easier to handle intellectually than *Juche* ideology *per se*.

The starting point of Amin’s thinking, like other dependency theorists, is that the world is divided into two main categories: centers and peripheral countries. These defined by Amin in the following way:

*“In the centers, the process of capital accumulation is mostly commanded by the dynamics of internal social relations, strengthened by external relations that serve [national capital accumulation]; in the peripheries, capital accumulation derives from the evolution of the centers, grafted on them, somehow “depending” on them”*²⁸⁷.

Peripheries, contrary to centers, do not master the whole accumulation process (whole production cycle) and thus rely on the “stimuli” from the centers and their evolutions. One of the “symptoms” of this division of States between centers and peripheries is, according to Amin, the increased economic specialization of the peripheries in contrast to the centers: specializing in one particular industry or sector (based on “comparative advantages”) would mechanically lead to dependence on the needs of more developed countries. Not only

²⁸⁶ AMIN, Samir, 1985, *La Déconnexion, Pour Sortir du Système Mondial*, La Découverte, Paris. For english version see AMIN, Samir, 1990, *Delinking : Towards a Polycentric World*, Zed Publishing, New York.

²⁸⁷ AMIN, Samir, 1985, *La Déconnexion, Pour Sortir du Système Mondial*, La Découverte. See p.18.

critical of the dominance of centers in the world economy, the first part of *Delinking* also sharply criticizes development strategies based on economic interdependence that appeared in the Third-World (led by the “Bandung bourgeoisie”²⁸⁸). Among these strategies criticized by Amin are industrialization by import substitution and self-centered development: these development strategies, according to Amin, should not be confused with socialism and aim at developing internal markets for the benefit of an economic elite. The *Delinking* strategy, in sharp contrast, clearly is a socialist theory (that requires a political monopoly and a political will to implement reforms aimed at more material equality) that aims at “disconnecting” a given’s country criteria of economic rationality from worldwide dominant (orthodox) economic criteria of development. Delinking first and foremost is a multi-faceted intellectual “revolution” whose main tenet is the creation of a

“System of economic choices rationality criteria based on a national and popular law of value, independent from [other] rationality criteria that stem from the dominating capitalist law of value that exist on a world scale”²⁸⁹.

In other words, the objective would be to design an economic system that is not based on worldwide economic rationality but on idiosyncratic socio-economic conditions as well as local political projects. Making no reference to “the capitalist law of value that exists on a world scale” enshrines the preeminence of internal economic choices based on local conditions and ideological options on external relations: external exchanges are thus welcome, as long as they do not contradict internal choices and participate to the national accumulation and economic development. As Amin puts it, one of the key principles to implement *delinking* strategy is the “strict submission of external relations in all fields to the logic of internal choices made without reference to capitalist rationality”²⁹⁰. Instead of having its own policies shaped by the international context and the division of labour, Amin explains, in a sentence that could almost be extracted from North Korean publications, that

²⁸⁸ Idem, see p.35.

²⁸⁹ Idem, see p. 108.

²⁹⁰ Idem, see p.105

“Delinking means becoming an *active agent* that shapes the globalization process forcing it to adjust to the requirements of one's own development”²⁹¹.

We can already see that this peculiar theory bears striking resemblances with Kim Il-sung's socio-economic options and practices (insistence in “irrational” economic policies like the emphasis on heavy industry and the refusal of economic specialization), although the Great Leader tends to express similar points of view, but in a very nationalist perspective (often antagonizing concepts like “*national*” vs “*foreign*”, while Amin prefers “*internal*” vs “*dominant*”²⁹²):

*“Our country is full of natural resources such as gold, iron, silver and copper that could not be properly used for the development of our economy if it had no proper mechanical construction industry. If the latter is not developed, we will not be able to process extracted minerals or use them to create necessary products and we will thus be forced to import all of the consumer goods, the machines and even spare parts. It is intolerable to export raw minerals and to import even simple machines and spare parts.
[...] Syngman Rhee feeds on European biscuits he bought with the so-called “assistance” provided by the United States, whereas we use all of our energy to the edification of the industry, overcoming temporary difficulties in order to create solid economic base for our country and to ensure eternal happiness for the popular masses”²⁹³”*

The strong nationalistic aspect of the DPRK socio-economic policies surprisingly converge with Amin's analysis. Leaving the sphere of a purely economic analysis, the Franco-Egyptian scholar actually argues, against most Marxists, that “in a world-system, peripheral nationalism has virtues” and could be used as a leverage to keep foreign influences and “dominant capitalist rationality” at arm's length. What's more, the Dependency theory also share similar resemblances with more recent North Korean academic contributions which

²⁹¹ AMIN, Samir, Capitalism, Imperialism, Globalization, in, CHILCOTE, Ronald M., 1999, *The Political Economy of Imperialism: Critical Appraisals*, Springer, New York. The emphasis is ours.

²⁹² These differences can be partially explained by the historical context: Amin writes in the 1980's, in an already globalized world, much different than the 1950/1960's when the DPRK's traditional economic policies were forged.

²⁹³ KIM Il-Sung, 1981k. See bibliography.

often reformulates (“koreanizes”) traditional arguments of scholars like Amin or Gunder Frank (the principle of unequal exchange in particular²⁹⁴). However, Amin and Kim differ on the issue of nationalism as Amin strongly opposes cultural nationalism that could prevent from absorbing useful technologies and foreign experiences. Amin explains that one key condition for the success of delinking policies paradoxically is an important absorptive capacity of foreign technology and thus a relative opening that the DPRK most likely never had, as will be explained below.

In its book *Delinking*, Amin explicitly mentions the experience of the DPRK in relatively laudatory terms. According to him, the KWP made the right choice after the 1956 incident, by resisting the introduction of the DPRK in the Soviet-centered division of labor²⁹⁵. The successes of the DPRK’s economic policies would prove that, even for a small country like North Korea, delinking policies have a positive effect (contrary to countries like Vietnam or Cuba)²⁹⁶.

After the war, Pyongyang’s approach regarding trade was rather pragmatic. Until late 1952, the North Korea leadership showed no interest in having a Ministry of Foreign Trade²⁹⁷, and only exchanged goods with China and the USSR. While paying attention to events that occurred after Stalin’s death in Europe, Pyongyang showed interest in establishing close political ties only with countries which were able to provide substantial help for its reconstruction. While the DPRK exchanged diplomatic recognition with every single member of the Eastern bloc before early 1950, its diplomatic relations with Albania and Bulgaria (Eastern Europe poorest countries at that time) were still at a ministerial level until 1954²⁹⁸. Postwar trade was first and foremost conducted with socialist powers, which very often agreed to buy North Korean goods at relatively high (above market) prices, but also because, as hinted by Agov, trade (as opposed to aid) does not (necessarily) imply a hierarchical relationship and was thus preferred by Pyongyang.

²⁹⁴ KIM Un-chol, 2014, Bourgeois “Comparative Advantage” Theory Justifying Imperialist Trade Policy and Its Reactionary Nature, *Kim Il-sung University Journal*, vol.1. pp.134-137.

²⁹⁵ Amin, 1985. See p.275.

²⁹⁶ Ironically, the North Korean economy collapsed ten years after *Delinking* was published.

²⁹⁷ SZALONTAI (2003), see p.87.

²⁹⁸ *Idem*.

North Korea never had anti-trade policies, and even struggled to expand its trade volume (with some success²⁹⁹). But Pyongyang planners carefully paid attention to the terms of the trade, even though these were most of the time very advantageous to the Korean side. Indeed, in “its initial stage, communist bloc trade acted as a kind of aide to North Korea”³⁰⁰. Pyongyang was particularly interested in dealing with Moscow since it had way more interesting products to sell (the high valued-added goods –machines, cars, trucks- that could not be domestically produced at that time) and was able to heavily subsidize its exports to its Korean neighbor. Thanks to Moscow-Pyongyang friendly ties and North Korea’s strict policy on imports, the DPRK was sometimes able to achieve a positive balance in its trade with the USSR (in 1954, 1957 and 1961, see table 3). Most of the time, however, it recorded important trade deficits (especially from the 1960 decade on) and struggled to balance its external trade with most of its partners.

Table 3: Soviet-North Korean Trade, 1954-1961 (rubles, million)

Year	1954	1955	1956	1957	1958	1959	1960	1961
USSR exports	72.6	174.5	213.0	237.6	229.7	323.8	295.7	305.0
DPRK exports	110.0	161.5	202.8	247.7	186.5	204.0	156.2	317.7
Total	182.6	336.0	415.8	485.3	416.2	527.8	451.9	622.7

Source: AGOV (2010), see p.262.

While Moscow took the lion’s share in North Korean trade, Pyongyang’s second partner was obviously the PRC. However, it is hard to provide accurate figures on Moscow’s and Beijing’s share of the DPRK’s external trade since DPRK-PRC’s trade was extremely volatile. Due to China’s internal economic issues (outbreaks of famine induced by the Great Leap Forward) and an unstable political bilateral relation, Pyongyang’s trade with Beijing was less developed than with Moscow, as can be seen in table 4.

²⁹⁹ “The USSR, China and the East European countries concluded their first postwar trade agreements with North Korea in the 1955-1957 period. There were quick results. If North Korea’s foreign trade was 100 points in 1953, in 1956 it was 195.9 percent in the import and 222.9 percent in export area – an aggregate increase of the trade volume of 209.5 percent”. AGOV (2010), see p.261.

³⁰⁰ AGOV (2010), see p.260.

Table 4: Sino-North Korean Trade, 1954-1961 (rubles, millions)

Year	1954	1955	1956	1957	1958	1959	1960	1961
PRC exports	261.0	239.6	n/a	120.5	n/a	234.0	222.4	210.5
DPRK exports	10.6	11.2	n/a	64.4	n/a	228.8	174.6	180.5
Total	271.6	250.8	n/a	184.9	n/a	462.8	397.0	391.0

Source: AGOV (2010), see p.262.

One important feature of Sino-North Korean trade was barter trade, which was particularly interesting for an economy lacking of foreign currency like North Korea's. Although accurate figures are not available, it seems that barter trade between North Korea and China continued until 1992³⁰¹, a few years before the global collapse of the DPRK's economy. Chinese authors point out that Beijing, in its bilateral trade relations with North Korea, obtained a surplus every year³⁰²; this was perhaps because Chinese trade statistics at that time included the shipment of assistance, while Pyongyang was not really interested in spending its scarce resources in Chinese low value-added products. However, like the Soviet Union, Beijing adopted a very generous attitude regarding "traide" ("aid in form of trade"): Chinese trade surpluses were often given back to the DPRK as loans, and almost always later pardoned. This peculiar kind of DPRK-China trade needs to be pointed out since it had an important impact on contemporary trade relations between the PRC and the DPRK.

While the DPRK never had anti-trade policies strictly speaking, it had its own economic rationality, which was not easily understood by foreign partners, especially not by the USSR. As a result, trade level of the DPRK remained extremely low, even for a socialist country. North Korea's amount of trade per capita was only around 21 rubles, three times less than

³⁰¹ LIU Ming, 2011, China's Role in the Course of North Korea's Transition, in AHN Choong-yong, EBERSTADT, Nicholas, LEE Young-sun, *New International Engagement Framework for North Korea: Contending Perspectives*, Korea Economic Institute. Url: <http://www.keia.org/sites/default/files/publications/04Ming.pdf>. Last accessed 1st of September 2014.

³⁰² SHEN, XIA (2012), see p.18.

Romania's which had the lowest level in Eastern Europe³⁰³. While these trade records are often interpreted as a very poor economic performance, it should however be noted that according to Amin, the implementation of Delinking policies, while clearly different from autarkic policies, *de facto* leads to a reduction in foreign trade.

The DPRK also had an ambitious will to become a trade partner of extra-bloc capitalist countries. Even though North Korea's strategy of expanding political, diplomatic and economic ties towards the Third World countries ("North Korea's global aspirations"³⁰⁴) only came to light during the 1960 and 1970 decades, Pyongyang, as an aspiring exporting power, had a strong (and explicit³⁰⁵) will to establish ties with any foreign country, including its former colonizer Japan. While very few archival research have been conducted on North Korea's 1950-mid-1960 foreign trade and diplomatic activities, it appears that even if the DPRK showed only relative interest in gaining political and diplomatic recognition from foreign countries³⁰⁶, it was very keen in establishing trade agreements and commercial relations with foreign States. By 1961, North Korea had established trade relations with more than thirty non-socialist countries. Trade partners were extremely diverse, including developing and Third World countries (India, Indonesia), left-leaning anti-imperialist countries (Morocco, Burma, Cuba from 1959 on, United Arab Republic³⁰⁷, Mali, Guinea) and Western liberal democracies including Switzerland (trade agreement in 1957), the United Kingdom, Austria, France and even West Germany (North Korea imported about 1,9 million

³⁰³ AGOV (2010), see p.289.

³⁰⁴ ARMSTRONG, K. Charles, 2009, *Juche* and North Korea's Global Aspirations, *North Korea International Documentation Project Working Paper Series N°1*, Woodrow Wilson International Center for Scholars. Url: http://www.wilsoncenter.org/sites/default/files/NKIDP_Working_Paper_1_Juche_and_North_Koreas_Global_Aspirations_web.pdf. Last accessed 11th of October 2014.

³⁰⁵ KIM Il-sung, 1982g. See bibliography.

³⁰⁶ Interestingly, its first formal recognition of an extra-socialist bloc country was Ferhat Abbas' Provisional Government of the Algerian Republic at the very beginning of the Algerian War in 1958. National Committee on North Korea, 2014, DPRK Diplomatic relations, *NCNK Issue Brief* (online). Url: <http://www.ncnk.org/resources/briefing-papers/all-briefing-papers/dprk-diplomatic-relations>. Last accessed 25th of June 2015.

³⁰⁷ The UAR was a short-lived political union of both Egypt and Syria (1958-1961), in the wake of nasserism. Kim Il-sung several times refers to this political union in his speeches: KIM Il-sung, 1982, *Sur les tâches immédiates du pouvoir populaire dans l'édification socialiste*, Discours prononcé lors de la première Session de la 2^{ème} législature de l'Assemblée Populaire Suprême [20th of September 1957] in *Œuvres*, Éditions en Langues Étrangères, Pyongyang.

Deutschmark worth of goods while exporting 2 millions DM in 1960³⁰⁸). At the very same time, the GDR was still funding the reconstruction of the North Korean city of Hamhung. What's more, the DPRK most important capitalist partner was no other than Japan, its former colonizer who eventually became Pyongyang's third trade partner, partly due to a large Pyongyang-leaning Korean population living in Japan who still plays a key role in bilateral trade.

1.4.1 (Another) source of antagonism within the bloc?

North Korea's trade started very low but quickly grew, and this was the result of two factors: first, massive aid and assistance programs from socialist countries aimed at integrating the DPRK into the "Soviet-centered international division of labour"³⁰⁹. Second is that, in reaction, Pyongyang voluntarily (and against Moscow's traditional line) aimed at expanding its commercial ties with extra-bloc countries in order to protect its independence. The DPRK never was a full member of the Council for Mutual Economic Assistance (Comecon), and stopped attending its work sessions in 1962³¹⁰. This expansion was once again motivated by "ideological-pragmatic" concerns: the KWP leadership used trade, as well as other means, in order to distance itself from "big powers", namely the Soviet Union and (to a lesser extent) China. However, this strong ideological appealing from maximal national independence, led to very pragmatic choices, including establishing trade relations with capitalist countries like France or the United Kingdom (Kim Il-sung publicly condemned Paris and London's interference in the Suez crisis³¹¹), or even its former colonizer Japan. However, if the DPRK was interested in diversifying its trade partners, countries with limited sympathy towards North Korea did not prove to be overwhelmingly enthusiastic towards DPRK low-quality products, with the notable exception of Japan.

The DPRK's trade, measured in volume, was multiplied by 5,1 between 1953 and 1961³¹². Initial pre-war trade volume was very low: at its peak, benefits of trade only counted as up to 17% of North Korea's income³¹³. Indeed, North Korea's approach to trade (limitations on

³⁰⁸ AGOV, 2010, see p. 283.

³⁰⁹ ARMSTRONG, 2013, see p.60.

³¹⁰ AGOV, 2010, see p.251. North Korea came back to the Comecon table in 1972, as an observer.

³¹¹ KIM Il-Sung, 1981l. See bibliography.

³¹² AGOV (2010), see p.285.

³¹³ *Idem*.

importations) and internal economic policies (refusal of specialization) inevitably lessened its potential as a trading power: North Korea's amount of trade pro-capita in the 1950's was by far the smallest of the eastern bloc³¹⁴ (excluding Vietnam). The most revealing feature of North Korea's trade during the 1950 decade is actually not its scale but rather its structure and terms. While North Korean exports were dominated by ores and other natural resources in the beginning of the 1950 decade (ores represented about 82% of North Korea's exports in 1953³¹⁵), their share quickly dropped to 13 percent in 1960. Meanwhile, exports of more value-added products like chemicals or steel impressively skyrocketed: on an annual basis, exports of steel (at the end of the decade), soda ash or electrolyte lead grew of respectively 468, 347 and 349 %³¹⁶.

Economic and trade policies were an important bone of contention in USSR-PRC-DPRK relations, as Pyongyang economic planning was designed with the help of Soviet planners but aimed at self-reliance and independence. Although the DPRK made "tactical setbacks", as already seen, it never gave up on its self-reliant and independent stance, which led to increasing tensions with Moscow: archives funds show that eastern Europeans diplomats considered the DPRK economic policies and goals to be "completely unrealist"³¹⁷. Khrushchev himself, when meeting with Kim Il-sung during the XXIth Congress CPSU in 1961, bluntly told to the *Great Leader* that North Korea should not try to produce everything by itself and instead cooperate with socialist brothers³¹⁸. In addition, the USSR became increasingly frustrated by Pyongyang's focus on producing high-value added products while food shortages still periodically occurred. In 1960, Moscow sent about 590 000 tons of wheat to the DPRK, Beijing 130 000, and other socialist countries 65 000 tons³¹⁹, reflecting Pyongyang's lasting inability to feed its population. On the other hand, at the same time, the DPRK was insisting on domestically producing expensive watches, bicycles, and sewing

³¹⁴ *Idem*, see p.289.

³¹⁵ *Idem*, see p. 285.

³¹⁶ *Idem*.

³¹⁷ PERSON, James, OSTERMANN, Christian, 2009, New Evidence on North Korea's Chollima Movement and the First Five-Year Plan (1957-1961). North Korea International Documentation Project, *Document Reader N°1* (online). Url : http://www.wilsoncenter.org/sites/default/files/Chollima_DocReader_WebFinal.pdf. Last accessed 12th of January 2015. See p.5.

³¹⁸ ARMSTRONG (2013), see p.108.

³¹⁹ AGOV (2010), see p.287.

machines³²⁰. This peculiar behavior is important to keep in mind as it shows that Pyongyang was more comfortable with a formally equal-to-equal trade relation than with the hierarchical relation implied by assistance programs.

The DPRK's focus on exports, including exports outside the Soviet bloc, was also frowned upon by East European partners, who did not think it to be "practical"³²¹. Soviet planners' approach regarding Pyongyang's trade and self-reliance policies was rather inflexible, since they even advised against self-sufficiency in most basic consumer goods like textile and clothing³²². Episodes of frictions also resulted from Pyongyang trying to turn assistance from a global power to a small country into the fantasy of equal to equal trade, generating sometimes tough negotiations and intense bargaining³²³ between socialist brethren.

Pyongyang's attitude was seen as ungrateful from Moscow, which was already very generous towards the DPRK and literally financing Pyongyang's increasing independence. Goods manufactured in the DPRK were often of poor quality and overpriced, the KWP's policies seemed suspicious to both China and Moscow, Pyongyang showed only limited interest in the Comecon but in spite of all this, North Korea benefited from decreasing but continuous assistance from socialist countries, even if, after the mid-1950 decade, the KWP leadership was much less vocal on the role played by foreign powers in its economic development in domestic publications. Indeed, it is believed that by the end of the five-year plan, in 1960, about 40% of electricity production, 51% of cast iron, 22% of steel were produced thanks to Soviet assistance³²⁴, and additional technical and loan agreements were signed in 1959, in order to build more factories³²⁵.

1.4.2 *Ill-fated successes*

The post-war period of the DPRK represents without doubt the golden era of North Korea. The DPRK leaped from the ashes of the postwar to an industrialized socialist power within a decade, thanks to massive assistance from allied countries, but also to successful indigenous policies and a tiring effort from the North Korean population. At the end of the 1950 decade,

³²⁰ SZALONTAI (2003), see p.92.

³²¹ *Idem.*

³²² ARMSTRONG (2013), see p.60.

³²³ AGOV (2010), see p.291.

³²⁴ ARMSTRONG (2013), see p. 62-63.

³²⁵ *Idem*, see p. 108.

the contrast with South Korea, “black hole” of American assistance, was obvious: US Assistance formed no less than 70% of the South Korean State budget in 1958³²⁶. North Korea’s success is first and foremost an economic success: according to estimates, North Korea, in 1960, at least tripled its 1953 national income per capita (from \$61 to \$172)³²⁷. These statistical calculations cannot, however, be taken at face value, since, as it is very often the case when it comes to the DPRK, the GDP estimates of North Korea are often unreliable and different estimates show large variations³²⁸.

Even if scholars do not agree on the scale of the expansion of North Korea’s GDP, there is a wide consensus on the fact that postwar economic policies of North Korea were a global success. Alternative indicators of development all point towards the same direction: the production of electricity, which nearly doubled between 1956 (5,15 billion kW) and 1960 (9,14 billion kW), is the most spectacular example since the 1960 output per capita was higher than Japan and ten times more than South Korea³²⁹. Besides, industrial output was following the same upward trend, as described by Chinese experts Xia Yafeng and Shen Zhihua:

*The value of total industrial output increased 40 percent more in 1958 over 1957. Industrial output was twice that of 1956 and four times that of 1949. [...] The value of total industrial output in the first season of 1959 increased 75 percent more than it had during the same period in 1958 and 7 percent more than during the fourth quarter of 1958*³³⁰

Crucial elements of the North Korean “welfare” appeared during this period of time: free and compulsory education, almost free housing, free healthcare etc. In the North Korean collective psyche, the major realizations of that era seem to be deeply linked with the idea of

³²⁶ WOO Jong-eun, 1991, *Race to the Swift: State and Finance in Korean Industrialization*, Columbia University Press, New York.

³²⁷ HAMM Taik-young, 1999, *Arming the Two Koreas : State, Capital and Military Power*, Routledge, London. See p.127.

³²⁸ On the most common biases in the estimation of the North Korean GDP, see QUENNEDEY, Benoit, 2012, *L’Économie de la Corée du Nord en 2012: naissance d’un nouveau dragon asiatique?*, Les Indes Savantes, Paris.

³²⁹ Figures and comparisons are in AGOV (2010), see p.167. It should however be noted that South Korea was at that time two times more populated than the North, while Japan’s population was more than 90 millions in 1960.

³³⁰ SHEN, XIA (2012), see p.26.

wealth and development. Recent official press releases dealing with the economy and/or encouraging the North Korean masses to develop the country often mention the Chollima campaign³³¹ or important symbolic plants like the Hwanghai steel mill³³², the Pyongyang textile factory³³³ or the Kim Chaek Steelworks.

The post war era was also a success if considered from the angle of the KWP leadership. Political events in the wake of the “August faction incident” of 1956 showed that Kim Il-sung and its followers had enough leverage to face both Beijing and Moscow, while still benefitting from their assistance. At the beginning of the 1960, the DPRK’s economy was still not self-reliant, but Pyongyang already followed its own path. Undoubtedly, the economic implemented policies were of socialist nature (strong centralization, economic planning, etc.) but mixed with idiosyncratic elements (“creative implementation of socialism”) like the refusal of further international economic integration, limited importation and a somewhat bold extra-bloc diplomacy (the strengthening of Belgrade-Western world ties was one of the rationale that led to the Tito-Stalin split). In other words, Pyongyang had the benefits of being part of the Eastern bloc but also tried to limit, as much as possible, the inconvenient. As showed by the evolution of the structure of its exports, the DPRK felt it was able to become a regional economic power, and a developed, modern, independent country. Indeed, while the share of assistance in the DPRK’s national budget dropped from 34% in 1954 to 2,4% in 1960, North Korea’s economic development continuously followed an upward trend, hinting that even if Pyongyang’s economic successes were triggered by massive assistance programs, the country was nonetheless quickly able to keep developing its economy with less and less assistance.

³³¹ See, for example : KCNA, 2014, *Rodong Sinmun Calls upon Scientists, Technicians and Educators to Become Present-day Chollima Riders* [24th of November 2014] (online). Url: <http://www.kcna.co.jp/item/2014/201411/news24/20141124-07ee.html>. Last accessed 24th of November 2014.

³³² See, for example: *Chaoxian zongli kaocha gangtiechang yaoqiu pin benguo tou shu fazhan zhijin gongye* 朝鲜总理考察钢铁厂 要求凭本国技术发展冶金工业”[North Korea’s Prime minister visits a steel plant, wants to rely on indigenous technology to develop metallurgical industry], *Huanqiu Shibao*, 5th of January 2015.. Url: <http://world.huanqiu.com/hot/2015-01/5343406.html>. Last accessed 5th of January 2015.

³³³ According to recent visitors, the Pyongyang textile factory was visited, a of 2015, twice by Kim Jong-un, thirteen times by Kim Jong-il, and no less than forty-eight times by Kim Il-sung. Pyongyang is Booming, but in North Korea all is not what it seems, *The Guardian*, 15th of January 2015. Url: <http://www.theguardian.com/world/2015/jan/15/-sp-pyongyang-north-korea-kim-jong-un>. Last accessed 16th of January 2015.

These initial economic and political successes cannot, however, hide the fact that North Korea's economic development was deeply unbalanced and remained aid-dependent for long. While North Korea's steel and heavy industry output in general was very important, other sectors of the economy were far less "advanced". Food and agricultural output, in particular, increased slowly and in the 1954-1956 years, food shortages or even famines occurred (in the remote and mountainous Chagang province)³³⁴, and the DPRK had to import (as aid or trade) grains and cereals almost every year, even asking the famine-struck China for additional food assistance in 1960³³⁵. The main issue was North Korea's deeply unbalanced development: on the one hand, the DPRK tried to export more value-added products, with relative success³³⁶; while on the other hand being still dependant on foreign assistance, including in several sectors which were critical for the export of these higher value-added products. In other words, trade of relatively sophisticated goods to socialist partners was made possible not only because allied countries agreed to establish trade agreements on generous terms, but also because they provided North Korea with necessary technological assistance. Chemicals, for example, have been weighting increasingly in North Korean exports (soda ash, for instance), and were mainly produced in the Hungnam chemical plant, rebuilt by the GDR. North Korea also benefited from foreign technical knowledge to increase its exports. For example, the KWP quickly decided to increase the output of fisheries for both domestic consumption and export³³⁷. To do so, Pyongyang asked Moscow to send, almost free of charge (accompanying a Soviet governmental delegation), Soviet experts to evaluate the fish stock of the Eastern Sea ("Sea of Japan") and study the feasibility of the project³³⁸. North Koreans, on their side, only had to throw their nets and sell its harvest to the USSR or China, at above-market prices. But the biggest issue of the North Korean economy, namely the quality of domestically produced goods, was only a relative issue at that time. North Korean goods were expensive and unreliable. Until the official Sino-Soviet split (1961), this did not worry the DPRK leadership since Pyongyang knew the

³³⁴ AGOV (2010), see p.179.

³³⁵ SHEN, XIA (2012), see p.31. The PRC sent about 230 thousand tons of grain.

³³⁶ "In 1953, 85 percent of exports consisted of metal and non-metal ores, while in 1957 their portion dropped to 39 percent and in 1959 – 23.6 percent. At the same time, the share of metallurgy products increased from 9 percent in 1953 to 38 percent in 1959 and the chemical products increased from 13.4 percent to 15 percent for the same period" (AGOV (2010), see p. 289.)

³³⁷ KIM Il-sung, 1982b See bibliography The five-year plan aimed at producing 60 kgs of fish per capita.

³³⁸ KIM Il-sung, 1982d. See bibliography.

socialist community was willing to support it financially. However the split turned Pyongyang-Beijing and Pyongyang-Moscow relations into almost *mutually exclusive* relations, thus making North Korea unable to benefit from both the USSR's and China's unquestionable support at the same time.

Chapter II/ 1960-1970s: Chaos, Order, Success and Failure

Having contextualized and defined the “traditional” economic policies of the DPRK, dismissed most common misconceptions about the DPRK economic diplomacy, the following chapter will focus on the two following decades, from the official end of post-war assistance programs to the diplomatic recognition of China by the United States in 1979. While the (official) opening of the DPRK to Foreign Direct Investment (FDI) did not occur before 1984, these two decades have set the framework of Pyongyang's upcoming and growing economic difficulties, and thus the need for economic “reform” and reorientation of the DPRK's external economic relations. This chapter will thus only provide a bird's eye view of the DPRK economic and political trajectory as well as a schematic reminder of the dynamics of the Beijing-Pyongyang relationship. Only after deep and profound evolutions, such as China gradually evolving towards a market economy and trying to diffuse abroad (with some success) its unorthodox economic thinking, or the sudden disruption of the USSR, the Beijing-Pyongyang relationship gradually started to evolve towards its current status. Even if violent disruptions occurred during the 1960-1980 period, like the Cultural Revolution or the Vietnam War³³⁹, momentarily antagonizing the PRC and the DPRK, historical perspective allows to say that there was no major long-term impact on the bilateral relationship, contrary to more discreet but more profound trends, especially in China (economic reform), but also in the DPRK. While it is often considered that the DPRK was tempted by reforms only during the 1980s, it seems that Pyongyang was much quicker to understand that the

³³⁹ LERNER, Mitchell, 2010, “Mostly Propaganda in Nature”: Kim Il Sung, the *Juche* Ideology, and the Second Korean War, *North Korea International Documentation Project Working Paper Series N°3*, Woodrow Wilson International Center for Scholars. Url: http://www.wilsoncenter.org/sites/default/files/NKIDP_Working_Paper_3_Kim_Il_Sung_Juche_Ideology_Second_Korean_War_web.pdf . See p. 34.

economic difficulties it went through could be addressed by some changes in its economic policies, as recent scholarship also suggests³⁴⁰.

What's more, it should also be said that, on the 1960-1980 period maybe even more than usual, reliable sources and detailed scientific accounts are lacking, especially if one pays attention to the economic aspects of DPRK history. While some recent works have partially filled this gap, they mostly focus on North Korea's very active –and quite fascinating– “Third-world diplomacy”. With the activities of foreign embassies being much more limited after the official end of assistance programs in 1962 and Pyongyang's refusal to provide statistics on its economy or Net Material Product (NMP³⁴¹) from 1967 on³⁴², it is indeed quite difficult for historians and economists to access reliable data. Kim Il-sung and Kim Jong-il speeches, especially when made after or during “on-the-spot guidance” tours in different kinds of economy-related sites, are certainly a goldmine for scholars; but without additional data available to triangulate them, it is extremely hard to draw reliable or detailed analytical conclusions from them.

2.1 “Plant your feet on your ground, turn your eyes to the world”

The beginning of the 1960's, which coincided with the end of post-war assistance programs, is often considered at the acme of North Korea's “golden era”, both at the economic and political levels.

2.1.1 Juche in practice

At the beginning of the 1960's, the DPRK had indeed achieved major political and economic successes, while maintaining a relatively independent political line. Indeed, as explained earlier, industrial growth rates were going through the roof, the KWP was firmly in power after the 1956 purges, centrifugal forces inside the Party have been muted and Pyongyang

³⁴⁰ PARK, Philipp, 2016, *Rebuilding North Korea: Politics and Policy*, Lynne Rienner Publishers, Seoul.

³⁴¹ NMP is a statistical tool used to monitor growth in centrally planned economies. Contrary to GDP, it does not include “non-productive” sectors output like health, housing, education, etc., that are often free of charge in socialist systems (including the DPRK).

³⁴² Actually, statistics were published until 1980, but in an irregular way. See KIM Byung-yeon, KIM, Suk-jin, LEE Keun, 2007, Assessing the economic performance of North Korea, 1954–1989: Estimates and growth accounting analysis, *Journal of Comparative Economics* N°35, p.564–582.

was able to maintain “working relations” (basically technical assistance and generous trade policies) with China and the USSR while keeping them at safe distance. In other words, Kim Il-sung’s project for the DPRK was on the path of success, with friendly partners that were also generous donors while national policies were designed to “protect” the country from external influences.

Even if Pyongyang knew it was still heavily depending on foreign technology, know-how and capital, the structure of its trilateral relation with Moscow and Beijing, especially in the context of the increasing rift between the PRC and the USSR, provided it free room to maneuver politically. In 1961, in less than a week, North Korea inked friendship treaties with both the USSR and China (with future leader Deng Xiaoping being present at the ceremony) that included mutual military assistance in case of external aggression. It was thus the only country of the socialist bloc that never had to formally pick a side in the midst of the sino-Soviet split.

Internally, North Korea dared to be bold to protect its “national independence”. An extreme example of this sense of audacity is the 1963 law that prohibited marriages between Korean and foreigners, mixed couple allegedly being a factor of external influence in the DPRK (preexisting mixed couples were expelled out of Pyongyang³⁴³). European embassies, considering this move as pure racism, decided to slowdown their activities in Pyongyang, but at that time, it was clear to everyone that Pyongyang would not step back and that in the context of the Cold War, the DPRK was a geostrategic asset too important to be lost over minor ideological or political frictions. What’s more, in the 1960’s, the emergence of Beijing as potential alternative to Moscow as socialist bloc led to an increasing competition for political support from bloc members and Third-world countries, leaving North Korea with important opportunities. Moscow could afford to break ties with Albania because of the remoteness of Tirana’s sole ally, China, as strained Yugoslavian-Albanian ties left Tirana no choice but increased isolation. Both China and the USSR, however, had to woo Pyongyang, even if reluctantly, allowing it to be an “ungrateful” partner without suffering major economic consequences: not only was North Korea the only socialist country that shared a

³⁴³ ARMSTRONG, 2013, see p. 130.

border with both the USSR and China (besides Mongolia) but it also was in direct contact with the capitalist world.

2.1.2 *The DPRK in the Sino-Soviet Split*

From 1955 on, Moscow's and Beijing's different political stances and development strategies became gradually more explicit. After the XXIIth Congress of the CPSU in 1961, when the split openly broke out (the Congress was the last one attended by a delegation of the CCP), Moscow and Beijing turned into ideological, political and even military foes (with the USSR supporting India during the 1962 Aksai Chin war or more directly with the Damansky/Zhenbao islands 1969 armed conflicts).

The Split did nothing but reinforced the DPRK's independent line: Moscow's attitude towards China "proved" that the USSR was an unreliable partner and that it would eventually try to become a political "center" of the Eastern bloc, a view incompatible with the DPRK's stance. Pyongyang was well-aware that the split constituted a security threat for the Socialist bloc, but also saw interesting political opportunities as it became an important issue at stake in the Sino-Soviet dispute. Although the economy was already fully reconstructed and while the North Korea average living standards were likely to be much higher than in GLF-devastated China (at least in some areas)³⁴⁴, Pyongyang received substantial additional loans from the PRC in 1961 (45 million rubles). In comparison, the same year, the USSR provided 18 million rubles, less than half of China's contribution and only slightly more than Poland's³⁴⁵. Indeed, while Pyongyang never formally picked sides in the dispute, it initially had much closer ideological ties to Beijing than to Moscow. The USSR was unsatisfied with the DPRK's political course of events and tried to pressure Pyongyang to reintegrate the Soviet-centered world, and de facto, the "Socialist division of labour": as explained, in substance, by Vice Premier Alexei Kosygin to Kim Il-sung in Pyongyang in 1961,

³⁴⁴ During the GLF, thousands of Chinese Koreans actually fled to the DPRK in order to escape famine. See LEE Dongjun, 2011, An uneasy but durable brotherhood: Revisiting China's Alliance Strategy and North Korea, *GEMC Journal*, N°6, (online), p.120-137. Url: http://www.law.tohoku.ac.jp/gcoe/wp-content/uploads/2012/04/gemc_06_cate5_21.pdf. Last accessed 8th of February 2015. Szalontai gives a more accurate number of around 30 000 (SZALONTAI, 2003, see p.96). A. Lankov even argues that they were granted housing and jobs in the DPRK. LANKOV, Andrei, 2003, *The real North Korea: life and politics in the failed Stalinist utopia*, Oxford University Press, Oxford.

³⁴⁵ AGOV (2010), see p. 288.

North Koreans should not waste time trying to invent everything themselves³⁴⁶. Personal relations between Kim and Khrushchev were execrable, due not only to ideological divergence³⁴⁷, but also partly because the Soviet leader several times ridiculed the Great Leader by cancelling his announced plans to visit Pyongyang. On the other side, the PRC, increasingly isolated, was craving for an alliance with Pyongyang³⁴⁸, and if “koreanness” was undoubtedly at the core of Kim Il-sung political and ideological model, many observers agree on the fact that the KWP leaders’ ideological and cultural sympathy tilted more towards Beijing than Moscow. China was willing to cooperate with and to woo the DPRK, which was certainly appreciated by Pyongyang. While pragmatic reasons certainly played an important role in the design of the North Korean foreign policy, ideological issues also mattered. Between 1960 and 1962, the DPRK, increased its cooperation with Tirana³⁴⁹, Beijing sole ally. Contrary to Beijing, Albania was unable to provide substantial assistance to the DPRK, which tend to prove that Pyongyang’s sympathy towards Tirana (and, beyond, Beijing) was at least partially ideological, a political position in the conflict. Revealingly, at the beginning of the 1960 decades, all DPRK students abroad were recalled to Pyongyang, in order to avoid ideological contamination, except the ones who were studying in Tirana and Beijing³⁵⁰. The PRC, being an “underdeveloped” country at that time, was unable to provide to the DPRK the assistance it needed. Pyongyang quickly understood that China’s much appreciated political and economic goodwill would not be sufficient.

With Nikita Khrushchev out of the picture after 1964, Pyongyang seized the occasion to get closer to the USSR. Many historians refer to this behavior as Pyongyang playing Moscow and Beijing against each other, in order to maintain both powers at arm’s length. From a purely geopolitical perspective, this is however very close to the standard realist theory on alliance formation and the balancing-bandwagoning dilemma: forming alliances of weaker States, in this case, the PRC and the DPRK antagonizing Soviet revisionism or “social-imperialism”³⁵¹;

³⁴⁶ SZALONTAI, 2003, see p.97.

³⁴⁷ After the XXlth Congress of the CPSU, in 1959, Khrushchev harshly criticized the DPRK’s economic development strategy to Kim Il-sung in person. ARMSTRONG (2013), see p.108.

³⁴⁸ CHEN Jian (2003).

³⁴⁹ ARMSTRONG (2013), see p.122.

³⁵⁰ AGOV, 2010, see p. 323.

³⁵¹ To our knowledge, the term “social-imperialism”, common in Chinese and Albanian publications, does not appear in North Korean texts. “Social-imperialism”, or the idea that the USSR has shifted so far away from socialism that it has become an imperialist country, would have constituted a *casus belli* for Moscow.

or getting closer to Moscow in order to benefit from economic and military assistance³⁵². What is striking in the DPRK's case, is the pendulum movement that was made between both allies, in a very pragmatic/opportunistic fashion. North Korea was never equidistant between the USSR and the PRC, but nor was it fully sided with one of them. It was always *transitioning* from one to the other, depending on what one had to offer for its economic (or, from the 1960 decade on, military) development. Once again, this behavior provides a good example of Samir Amin's main theory: in a country aiming at *delinking*, the structure of external relations is submitted to the logic of national economic accumulation. In other words, North Korea would get closer to any country that is able to provide it enough technology, loans, or assistance in general to build up its economy, and that does not attempt to interfere in its economic policies (no international integration, no international division of labour, no direct interference). Neither Beijing nor Moscow was able/willing to agree on such a program. As mentioned, the PRC was too underdeveloped and not technologically "advanced" enough to be able to provide the assistance the DPRK needed. The DPRK actually provided technical, technological and scientific assistance the PRC in different fields, including agronomy, until long after the GLP or the Cultural Revolution³⁵³. Moscow, on the other hand, was looking for a reliable and committed partner it could integrate in a Soviet-centered world ("*reconnect*" or "*relink*" the DPRK). Pyongyang's position in the conflict was thus at the same time awkward but stable: it did not officially take sides, as there was no perfect partner to side with; on the other hand, the Split *de facto* reinforced the DPRK political independence.

2.1.3 Adapting to a unstable Chinese ally

In the general context of the Sino-Soviet Split, the DPRK tried to remain above the conflict as much as possible. But, during the 1960 and 1970 decade, military tension rose up in the Korean Peninsula, and with South Korean economy finally starting to take off, the KWP leadership was facing additional pressure and needed to balance the Seoul-Tokyo-

³⁵² We do mean to imply here that Moscow alone was considered as a threat by Pyongyang ; Beijing also was, especially during the Cultural Revolution (see *infra*), but to a much lower degree: the PRC, at that time, was less prone to direct interference in other countries internal affairs.

³⁵³ FENG Baosheng, *jiaqiang kexue jiaoliu, fazhan zhongchao youyi* 加强科学交流, 发展中朝友谊 [Strengthen Scientific Exchange, Develop Sino-Korean Friendship], *Huanqiu Shibao*, 10th of October 2015, Url : http://opinion.huanqiu.com/opinion_world/2015-10/7721735.html. Last accessed 10th of October 2015.

Washington alliance. As a result, Pyongyang, which had dire needs for its economic development, military build-up and its own security could not entirely stay away from the dispute. The DPRK, implementing a self-centered strategy of development, was however a quite “loose” ally (“unreliable” in Moscow and Beijing’s point of view), as it was often asking for help but unable to compromise on several core issues. However, not being able/willing to compromise on core issue does not necessarily mean that Pyongyang was not pragmatic; in some cases, especially on foreign relations, it showed substantial flexibility³⁵⁴. The DPRK even showed interested in the Comecon, joining as an observer in 1949, but stopped attending sessions in 1962³⁵⁵, when Albania was kicked out of the organization and when DPRK-USSR relations became more distant. In 1972, however, the DPRK came back to the table (still as an observer), in the light of warmer bilateral ties with Moscow and East European countries.

Nowadays, it has become topical to state that the DPRK is an unstable country. Historical perspective allows nonetheless to say that, in the long run, the DPRK has been among the most stable countries of the region. In the second half of the XXth century, South Korea or the USSR/Russia went through different regimes and had frequent political turnovers. The PRC, on the other hand, was continuously led by the CCP, but behave paradoxically as an even more unstable country, with frequent radical political upheavals (Cultural Revolution, economic reform, etc.). The DPRK has itself known some “turbulences”: military and political adventurism of the 1960-1980 decades, Arduous March, controversial nuclear and ballistic programs etc. But North Korea’s socio-political system has basically remained the same, and this relative continuity can in no way be compared with Beijing’s (or any neighboring state’s) historical trajectory. From the 1960 decade on (until today), Pyongyang actually had to adapt to Beijing’s chaotic political cycles as well as its important economic (and eventually diplomatic) *volte-face* at the end of the 1970s. As noticed earlier, after the two Friendship treaties of 1961 and the explicit split between Beijing and Moscow, Pyongyang leaned towards Beijing. Ideological proximity certainly played its part, but the CCP’s efforts to lure Pyongyang did not leave anything to chance. Between 1961 and 1964, Kim Il-sung and Choe

³⁵⁴ ARMSTRONG (2013) provides several historical examples of the DPRK supporting US-backed guerrilla groups or political movement in several African countries like Angola or Zaire (see p. 181).

³⁵⁵ AGOV, 2010, see p.309.

Yong-gon were invited to Beijing, while, on the other side, Zhou Enlai and Liu Shaoqi toured the DPRK. The two sides secretly settled their border dispute (as a revealing sign of China's instability, the agreement was denounced by Beijing shortly after) at that time³⁵⁶. Kim Il-sung's 50th birthday, in April 1962, was also celebrated with much emphasis³⁵⁷ in Beijing, a move that was likely not only aimed at getting closer to the DPRK but also to alienate Pyongyang from Moscow. The USSR was irritated with Kim Il-sung's personality cult, if not in itself, at least as an evidence of the skepticism that several socialist countries held towards destalinization. The fact that Kim Il-sung was celebrated abroad, with China's collusion, was a *casus belli*.

With Khrushchev politically neutralized, the DPRK-USSR ties began to warm-up, but Pyongyang, for self-interested reasons, tried to remain close to Beijing. Indeed, both sides signed a loan agreement for around 75 million rubles³⁵⁸ in 1965, in order to develop borderland projects that included the Sinuiju textile factory, paper plants in Hyesan, or radio stations.

The break-up of DPRK-China ties in the mid-1960 decade was actually initiated by the Chinese side. When the Cultural Revolution was unleashed in 1966, Kim Il-sung came under sharp criticism from the Red Guards, on ideological and political grounds. Hua Guofeng, who had at that time Mao's favor, bluntly attacked Kim Il-sung, calling him a "revisionist" and likening him to Khrushchev, a move he certainly deeply regretted ten years later. The tensions between the two countries quickly built up until Pyongyang rallied Moscow in criticizing the "massive lunacy"³⁵⁹ of the Cultural Revolution. At the peak of the tensions, the PRC once again raised the question of the Sino-Korean border (supposedly settled a few years before), with PLA troops making small incursions in North Korean territory, while the Yanbian Korean autonomous prefecture of China, a major interface between the PRC and

³⁵⁶ According to Armstrong (ARMSTRONG, 2013, see p. 127) the agreement was inked in 1962, but Goma Pinilla (GOMA PINILLA, Daniel, 2004, « Les litiges frontaliers entre la Chine et la Corée du Nord », *Perspectives chinoises* [online], vol.81.) gives 1963 and Agov (AGOV, 2010, see p. 307), 1964.

³⁵⁷ ARMSTRONG, 2013, see p. 125.

³⁵⁸ AGOV, 2010, see p.388.

³⁵⁹ SCHÄFER, Bernd, 2004, North Korean "Adventurism" and China's Long Shadow, 1966-1972, Woodrow Wilson Center for Scholars, *Working Paper #44*. Url: <http://www.wilsoncenter.org/sites/default/files/swp44.pdf>

the DPRK, was militarized and under control of Mao Yuanxin, Mao's nephew³⁶⁰. In 1968, when a North Korean delegation was invited to Moscow, they asked the USSR to allow the plane to take the longer route (via the Primorsky Krai) in order not to overfly China, fearing the unpredictable behavior of their neighbor³⁶¹.

But the turmoil of the Cultural Revolution ended as quickly as it had begun, with the PRC leaders quickly understanding that it was jeopardizing the prominent auras of the CCP and Mao Zedong among Third-world leaders. On several levels, the aggressive stance on the DPRK was counter-productive: not only was it increasing the PRC's isolation by pushing Pyongyang in Moscow's arms, but it also made Kim Il-sung a "victim" of Chinese unstable behavior, gave credit to the *Juche* idea that was already spreading to the Third-world and made him appear as a potential charismatic leader for non-aligned countries in Asia. Just before the 1970s, Hô Chi-minh passed away, Mao Zedong and Zhou En-lai were getting old and increasingly unreliable. Kim Il-sung, on the other hand, was still relatively young (under 60), had led North Korea to achieve substantial economic success and, to top it, was glorifying independence above all, a political stance favored by newly independent Third World nations.

The twentieth anniversary of the PRC, in 1969, provided an opportunity for the warming up of PRC-DPRK ties, with the visit of a high-level delegation in Beijing, and especially the following year when Zhou Enlai toured Pyongyang in a trip that put the PRC back on the map as an international actor, ending the "isolationist" years of the Cultural Revolution. Pyongyang obviously welcomed the end of Chinese revolutionary experiments, as it believed it could allow it to find back its more stable position right in between Moscow and Beijing (indeed, three weeks after Zhou, Pyongyang was visited by the highest USSR delegation since 1963³⁶²). To show some political goodwill, the PRC and North Korea decided to celebrate a "week of Sino-North Korean friendship" in July 1971³⁶³, and exchange delegations. While this week of celebration is not of historical importance, it is interesting to know that at the exact

³⁶⁰ COLIN, Sébastien, 2003, La préfecture autonome des Coréens de Yanbian : une ouverture frontalière aux multiples enjeux géopolitiques, *Perspectives chinoises* (online). Url: <http://perspectiveschinoises.revues.org/104>.

³⁶¹ SCHÄFER, 2004, see p.2.

³⁶² ARMSTRONG, 2013, see p.159.

³⁶³ Kim Il-sung explains that this week celebrated the tenth anniversary of the 1961 Friendship treaty. KIM Il-sung, 1986f. See bibliography.

same time when North Korean politicians were touring Beijing and celebrating socialist friendship, the Chinese capital was hosting another distinguished guest who was already actively preparing the PRC's next big shift: Henry Kissinger.

When Richard Nixon made its historic visit in Beijing in February 1972, the architecture of Eastern Asia's international relations suddenly changed. North Korea once again adapted to these changes, in the same way it adapted to the Cultural Revolution or the Sino-Soviet split. While ten years before, Kim Il-sung might have been upset to see its ally "sleeping with the enemy" (like during Khrushchev's "Peaceful Coexistence"), he once again seized the opportunity to enhance the DPRK's own national interests. Compared to the 1960's, the situation on the Korean peninsula was completely different: the ROK was no longer the black hole of American assistance but was achieving substantial economic growth, and the South Korean military were firmly in power. In this context the Sino-American talks were a good opportunity to ease tensions in the Korean peninsula (i.e. the historical North-South common declaration on the reunification of the peninsula in 1972). But Pyongyang was also able to benefit from additional favors from China and the USSR. In order to reassure its neighbor, the PRC promised to send military equipment free of charge to Pyongyang in 1971, quickly followed by the USSR, more than ever afraid of losing its neighbor to Chinese influence.

As a result of this newfound stability, relative openness and political independence, in the 1970 decade, North Korea made several diplomatic breakthroughs, establishing full diplomatic relations with no less than 63 countries in a decade³⁶⁴, including several important capitalist countries (Norway, Finland, Austria, Australia). By 1975, the DPRK also became a member of several major international organizations such as Non-aligned Movement as a full member, or the World Health Organization. Based on these favorable winds, the DPRK unfolded a quite active foreign policy, while also trying to keep close contacts with the USSR and the PRC.

During the 1970s decade, Kim Il-sung's son, Kim Jong-il, gradually emerged as a successor for his father. While this quasi-dynastic succession was designed in order to ensure a political

³⁶⁴ National Committee on North Korea, 2014, see p.4.

continuum at the head of the DPRK, on the other side of the Yalu River, the succession of Mao Zedong raised the important political issues of the post-Mao era. Although the KWP seemed to be centered on Kim Il-sung, open factionalism existed in the CCP, with the existence of *de facto* groups inside the Party (Gang of Four, Youth League, etc.) and important ideological antagonisms. A lot has been written on these intra-CCP conflicts. Although it is an important issue, it would be unnecessary to develop it comprehensively here. It is however worth recalling that, after the end of the Cultural Revolution and especially after Mao's death (1976), some groups defended a faithful commitment to Mao Zedong's political legacy (essentially Hua Guofeng and the promoters of the famous "two whatevers" [两个凡是; *liangge fanshi*] article), some other were in favor of a more pragmatic approach, arguing that "practice is the sole criterion of truth"³⁶⁵. In a nutshell, the political struggle in Beijing opposed legitimists, led by Hua, and reformists, led by Deng. While one might be tempted to believe that Kim Il-sung was leaning towards Hua's side, many elements made him see Deng in a much more favorable light. First of all, as said in the first chapter, Deng was Finance Minister of the PRC in 1953, and partly designed assistance programs to the DPRK, funding the reconstruction of the country. Second, during China's chaotic experimentations, at times of cold bilateral relations, Deng, was either exiled or downgraded. Hua, on the other hand, was a fierce proponent of the Cultural Revolution and made the tactical mistake of personally attacking Kim Il-sung at that time (see above). On the contrary, when Deng and Kim Il-sung first met in Beijing, in April 1975, the Sichuanese was personally introduced to the *Great Leader* by the diminished Mao Zedong in these laudatory terms:

*"I won't speak to you about political matters. I will let him talk to you about that. That person is named Deng Xiaoping. He can wage war, he can oppose revisionism. Red Guards attacked him, but now there are no problems. At that time, he was knocked down for some years, but now he's back again, we need him"*³⁶⁶

³⁶⁵ "Practice is the sole criterion for judging truth" is an article written by three Chinese philosophers (Wu Jiang, Ruan Ming, Sun Changjiang), published in *Guangming Ribao* in 1978 in order to criticize the views exposed in the "two whatevers". It was backed by Deng Xiaoping.

³⁶⁶ VOGEL, Ezra, 2011, *Deng Xiaoping and the Transformation of China*, Belknap Press of Harvard University Press, Cambridge. See p. 107.

Third, Deng understood that the DPRK needed to be wooed and reassured (in the context of a quickly developing ROK and Sino-US thaw), and was able to show some goodwill. When Deng was appointed minister of Foreign Affairs in 1977, the very first government official he met was the DPRK envoy to Beijing. Right after taking its position, Deng visited eight different countries, with the intention of reestablishing contacts with capitalist countries. Only one of the countries Deng toured was a communist State: North Korea. Deng stayed in Pyongyang five full days, from September 8th to the 13th 1978, in order to attend the celebrations of the 40th anniversary of the founding of the DPRK. The Chinese guest honored his host by being the highest delegate to attend the celebrations, and Kim Il-sung, in return, honored Deng by always placing him next to himself for official occasions³⁶⁷. The Chinese leader visited several locations of the North Korean capital, including Kim Il-sung University, where he was escorted by Zhang Dejiang³⁶⁸, a Korean-speaking Chinese student of the prestigious university at that time, and who would later become Party Secretary of Jilin Province and member of the Political Standing Committee of the CCP. A few years later, after the PRC's right turn became explicit, Deng pursued to show a particular deference to the North Korean leader. When Margaret Thatcher first toured Beijing, in 1982 (mostly to discuss Hong Kong-related issues), the Chinese leader snubbed the farewell dinner in the honor of the *Iron Lady*, preferring to welcome in person its North Korean counterpart at the airport³⁶⁹.

Finally, another element that made Kim Il-sung lean towards Deng and the Chinese reformists is that Kim Il-sung himself, although not a reformist himself at that time, was also quite pragmatic. Political redlines certainly exist in the DPRK, but the context of the 1970s made the DPRK leadership available for a different angle of approach: the North Korean economy was not as efficient as it used to be, leading the burgeoning South to catch up with the North in the middle of the 1970 decade. The need to build up the military infrastructure of the DPRK slowed further industrial development and the perspective of an easing of tensions in the Korean peninsula (embodied by the 1972 North-South common

³⁶⁷ *Idem*, see p.277.

³⁶⁸ FUNABASHI Yoichi, 2007, *The Peninsula Question : a Chronicle of the second Korean nuclear crisis*, Brookings Institution Press, Washington. See p. 434.

³⁶⁹ *Idem*, see p.497.

declaration³⁷⁰) was thus welcomed by Pyongyang³⁷¹. What's more, the U.S. defeat in Vietnam, Nixon's visit to Beijing (seen by Kim Il-sung as a american defeat³⁷²) and the Sino-Japanese diplomatic normalization (in which Deng played an important role³⁷³) reassured Pyongyang and opened a window of opportunity for experimentation and pragmatism. To put it in a few words, Kim Il-sung had many reasons to prefer seeing in Deng a more reliable partner than in Hua. If Deng's reformist agenda certainly did not match the Great Leader's, both men agreed on several key issues, including economic ones; as Deng told Kim during his 1978 Pyongyang tour:

*"the world's cutting edge technology must be the starting point of our modernization. Recently, when our comrades have gone abroad to take a look, the more we have seen, the more we realize we are backward."*³⁷⁴

In the 1960s, and especially in the 1970s, the Chinese and North Korean economies were facing similar challenges. Pyongyang's main response was simple but quite hard to implement in the context of a planned and rigid centralized economy. After the radical *quantitative* transformation of the DPRK during the 1950s, time was ripe for a *qualitative* evolution of the North Korean economy (towards an independent, "modern", "advanced", communist society³⁷⁵). Pyongyang thus needed to *innovate*, leaving an *extensive* growth pattern to create a more *intensive* one³⁷⁶. North Korean did not (or marginally) succeed in

³⁷⁰ The text of the joint statement can be found here: <http://www.monde-diplomatique.fr/dossiers/coree/A/1905>.

³⁷¹ In his famous speech "On the Three Principles of the Reunification of the Fatherland", Kim Il-sung even explains that since the South Korean government is currently emphasizing sovereignty, self-defense, and independence, he believes that "we can find some common ground" with Seoul. See KIM Il-sung, 1986m. See bibliography.

³⁷² KIM Il-sung, 1986j. See bibliography.

³⁷³ Normalization of relations: China claims it agreed with Japan to shelve the dispute in 1972, Japan denies, *Asahi Shimbun*, 12 December 2012. Url: http://ajw.asahi.com/article/special/Senkaku_History/AJ201212260103.

³⁷⁴ VOGEL (2011), see p.229.

³⁷⁵ KIM Il-sung, 1986c. See bibliography.

³⁷⁶ See GILLS, 1996, p.205. See also NOLAND, Marcus, 2001, North Korea's external economic relations, *Peterson International Institute for Economics papers* (online). Url: <http://www.iie.com/publications/papers/paper.cfm?ResearchID=398>. Last accessed 27th of February 2015. More recently, however, the use of the words "extensive" and "intensive", both applied to the economy, have been used almost as synonyms by the DPRK official News Agency, KCNA. See WPK Central Committee and Central Military Commission Publish Joint Slogans, *KCNA Watch*, February 12th 2015.

this transition, but its economy, at the most general level, still benefited from the momentum of the big infrastructural “push” of the 1950’s.

2.2 Successful but slowing down, the 1960-1980 DPRK economy

The economy of North Korea, during the seven-year plan (1961-1967) and the following six year plan (1971-1976), mixed elements rather common in an Eastern Bloc country with idiosyncratic characteristics of the DPRK, indirectly due to its peculiar ideological doctrine. As a matter of facts, *Juche* ideology itself never prevented from establishing (two-way) trade ties and forge temporary alliance with other States; but its “national development/national independence first” attitude definitely led to increasing mistrust between Pyongyang and its partners around the globe. While Pyongyang shared some common characteristics with its socialist brethren (bold social welfare programs, sub-optimal economic performance), it also stood out by trying to implement the local version of *Delinking*, following the *Juche* doctrine.

2.2.1 For better or worse: a peculiar developing socialist economy

The main objective of these two plans was to raise the people’s living standards. While the 1950s were dedicated to the reconstruction and development of the pre-war industrial basis, the following decades aimed at implementing *qualitative* changes in the daily lives of the North Koreans. While substantial progress had been made in several sectors (in 1964, about 71,1% of countryside households had access to electricity³⁷⁷, according to North Korean sources), the strong focus on heavy industry and the reliance on domestic production of consumer goods had for obvious collateral damage a quite low output of and low quality in the light industrial sector. Local production centers, on the frontline of the consumer goods battle, had a very low productivity and were most of the time disconnected from the rest of the economy. While one might have thought that there was an opportunity for a switch from heavy industry-oriented policies to more consumer goods-friendly ones, Kim Il-sung opposed this “capitalist way of development”³⁷⁸. At the same time, however, he agreed that the focus on heavy industry in itself, at this stage of development, had become useless.

³⁷⁷ KIM Il-sung, 1984f. See bibliography. It does not however mean that energy supplies were reliable, as admitted by Kim Il-sung himself: due to overuse of hydroelectricity, energy supplies greatly depended on the climatic conditions. See KIM Il-sung, 1984k. See bibliography.

³⁷⁸ KIM Il-sung, 1984c. See bibliography.

Hence, what Pyongyang chose to implement was a “real” compromise between heavy industry (to support the continuing industrialization of the country³⁷⁹, and to obtain foreign currency) and light/consumer goods industry (in order to improve the people’s daily lives).

This relative rebalancing between national accumulation (production of means of production) and domestic consumption was a rather bold (and risky) move. As seen earlier, instead of developing the internal market (basic commodities like rice were either free or heavily subsidized³⁸⁰), Pyongyang’s economic development strategy was based on aggressive commercial policies towards foreign countries. Yet, the DPRK’s most exported goods were mostly minerals, ores, steel and other heavy industry products. On the contrary, the DPRK had the largest share of consumer goods in its imports among Socialist bloc countries³⁸¹, and greatly depended on imports for this kind of goods. The North Korean leadership was however well-aware that consumer goods were much more lucrative to export, but also acknowledged that DPRK-made consumer goods were of very poor quality³⁸², while expensive, and thus unable to make a big hit on foreign markets. Rebalancing the industrial policy, in Kim Il-sung’s perspective, was thus necessary in order to raise the people’s living standards. But on the other hand, diverting resources from the heavy industry sector, a prime source of foreign currency (according to North Korean standards) was undoubtedly risky. The transition from heavy industry to consumer goods thus had to happen in a quick, smooth fashion.

On paper, the plans’ objectives might have been reached, depending on two important conditions. First of all, it depended on the attitude of foreign partners. If Moscow, Beijing and other countries had accepted to keep on exchanging important volumes of “aid in form of trade” (purchasing North Koreans expensive and low-quality goods at above-market prices, like it happened in the 1950s), it would have provided a safety net for the DPRK’s experimentations. Second, the DPRK’s strategy might have fully worked if the DPRK had

³⁷⁹ One important trend of that era was to deconcentrate industrial production and multiply local production centers in the vicinity of consumption centers. See KIM Il-sung, 1986, *Prenons un grand tournant dans la production des articles de grande consommation grâce au développement de l’industrie locale*, Discours prononcé lors de la conférence nationale des travailleurs du secteur de l’industrie locale [27th February 1970] *Œuvres*, vol.25, Éditions en langues Étrangères, Pyongyang.

³⁸⁰ AGOV (2010), see p. 360.

³⁸¹ AGOV (2010), see p. 260.

³⁸² KIM Il-sung, 1984c. See bibliography.

been able to quickly enhance the quality of its products (and its means of production) and thus become more competitive on international markets. However, numerous policies, based on ideological, financial incentives or technology diffusion aiming at increasing production levels or quality were either half-successes or failures.

2.2.2 Adaptation: former benefactors, new trade partners

The USSR, and today the PRC, have always been the most important trade partners (and benevolent benefactors) of the DPRK. Even at the very beginning of the 1960s, the Eastern bloc (China not included, as it implemented its own assistance plans) offered Pyongyang substantial amounts of assistance and technology transfers³⁸³. But, in light of worsening Soviet-Korean relations, the amount of economic and technological aid was divided several times, until 1965 when other agreements were signed (with Leonid Brejnev in command of the USSR). Trade patterns with Beijing followed the same “on again, off again” trajectory, and in total, all things considered (loans, technology transfers, etc.) assistance programs to the DPRK were quite limited if compared with the 1950s. Agov, for example, points out that whereas the share of local capital spent on new equipment was 47% in 1956, from the 1960s on, it rose above the 90% bar³⁸⁴. This was partly due to a North Korean policy of trying to implement self-reliance in concrete terms, maybe making virtue out of necessity as Soviet aid was quickly drying up.

With the bilateral relations with its main trade partners being extremely volatile, North Korea sought to expand its trade ties with the rest of the world in order to maintain, if not increase, its foreign currency earnings. Even if this move was antagonizing Moscow, it was initially a success and is quite coherent with the DPRK bold economic diplomacy of that time. North Korea’s trade volume, between 1966 and 1971, nearly doubled (from 451 million rubles to more than a billion³⁸⁵). This was not only due to the North aggressive diplomacy towards almost every part of the world, but also because a significant amount of what used to be considered as aid and assistance became trade. The DPRK established full diplomatic relations with no less than 20 countries in the 1960s, and 63 others in the 1970s³⁸⁶. While

³⁸³ AGOV (2010), see p. 382.

³⁸⁴ Idem, see p. 345.

³⁸⁵ Idem, see p. 407.

³⁸⁶ National Committee on North Korea, 2014, see p.4

DPRK embassies opened in numerous Africa, Middle East and, more generally speaking, Third-world countries during the 1960s and the 1970s, it also made several diplomatic breakthroughs in the West. Pyongyang opened trade missions in numerous western countries (Switzerland, Austria, Finland, Singapore, France, etc.) to obtain “advanced” technologies that socialist allies were unable to offer. As a result, a few relatively large projects were born under these favorable auspices: in 1972 some French firms invested in the construction of chemical works in North Korea, with some additional equipments coming from the Netherlands. In this expanding network of commercial ties, Japan seems to have had a particular position. Tokyo was the DPRK’s most important capitalist partner³⁸⁷, due to the historical ties between Pyongyang and the archipelago. *Zainichi* Koreans (“Koreans in Japan”) had started to repatriate as early as 1959, providing additional manpower and particular skills that were much needed in the DPRK. Japan-North Korea trade value more than tripled during the 1960s, and in 1971, Tokyo became the third most important trade partner of the DPRK, despite the absence of formal diplomatic relations³⁸⁸.

These initial successes in the DPRK trade policies were however relative and short-lived. First of all, even if North Korea’s trade volume certainly increased, it remained very low in absolute terms, even if compared with other socialist countries. For example, in 1971, the DPRK’s average value of trade per capita was still three times lower than that of Romania³⁸⁹. The USSR and China remained the DPRK most important trade partners, and even with the two socialist giants providing extremely generous terms of exchange, North Koreans almost always recorded a substantial trade deficit with these two countries. What’s more, even if both economic plans emphasized the need to produce more light-industry or semi-processed goods, North Korea’s most exported items remained minerals and ores, amounting to about 63% of exports in 1971³⁹⁰. Besides, the DPRK had to import large amounts of machines that still could not be produced domestically, and was still dependant on oil imports from socialist countries. From a North Korean point of view, limited but existing progress had been made, as it marginally was able to access foreign capital and

³⁸⁷ ARMSTRONG (2013), see p.

³⁸⁸ AGOV (2010), see p.445.

³⁸⁹ AGOV (2010), see p. 409.

³⁹⁰ Idem, see p.411.

technology. Expensive North Korean finished goods were really hard to sell on foreign markets, even in socialist countries. The DPRK political circles were well-aware of the endemic quality and productivity issues³⁹¹ and tried to implement different policies in order to overcome them. But progresses in these fields were too slow and Pyongyang's reputation among its trade partners began to deteriorate at the beginning of the 1970s. The 1973 oil shock in a context of declining metal prices (an important source of foreign currency for the DPRK) was the final straw that ultimately aggravated Pyongyang's trade deficiencies. Trade-related issues were manifold: Pyongyang was a mediocre trade partner was not nearly flexible enough to adapt to the needs of foreign customers and was often unable to deliver goods on time³⁹² (as were numerous planned economies). Lack of effective management of the North Korean economy as a whole, is in good part responsible for the deteriorating reputation of the DPRK on foreign markets, even if Kim Il-sung exhorted economic planners and managers to dedicate a very special care to the quality and on-time deliveries of goods produced for foreign markets³⁹³.

Many of the shortcomings of the North Korean economy encompass the "standard" issues of a planned economy (waste of resources, lack of initiative, lack of innovation, etc.), and were quite common to the socialist bloc: the USSR, for example, also had difficulties to ship goods to the DPRK on time³⁹⁴. But political relations among socialist countries, even if unstable during the 1960-1970 decade, provided a safety net for DPRK companies. Capitalist countries, however, beheld a less friendly attitude towards Pyongyang. These links with capitalist countries were extremely important for the DPRK as it was looking for more "advanced" technology, and thus imported large amount of Europe and Japan-made machines and equipments³⁹⁵. As a result, the balance of payments deteriorated and as the absorption/adaptation of these foreign technologies was more difficult than expected due to the poor management of the DPRK economy, the country had to borrow always more on Western and Japanese financial markets. All this finally led Pyongyang to default on its

³⁹¹ KIM Il-sung, 1986n. See bibliography.

³⁹² KIM Il-sung, 1986h. See bibliography.

³⁹³ KIM Il-sung, 1984b. See bibliography.

³⁹⁴ AGOV (2010), see p.412.

³⁹⁵ KIM Il-sung, 1986a. See bibliography.

debt³⁹⁶. From that point on, the scarce financial resources of the DPRK became a major issue of the North Korean economy as it prevented actual technological catch-up, while the debt problem also remains an important issue of the DPRK-developed countries dialog and trade relations.

2.2.3 According to the plan: hubris, self-reliance and economic challenges

Massive imports of foreign technology and machinery were considered a “necessary evil” in order to get closer to the technological border, to become more competitive and to turn the DPRK into an exporting power of finished, sophisticated goods. Expanding commercial relations with developed industrialized Western countries was a mean to achieve this goal. As a matter of fact, even if the postwar reconstruction plans did help North Korea to reindustrialize, the quality and the so-called “backwardness” of North Korean goods quickly (from the end of the 1950s on³⁹⁷) became an important issue. Not only this poor quality limited North Korean trade partners to ideological allies, it also prevented further domestic economic development of the DPRK, in the context of an economic strategy that was heavily relying on exports.

In the early 1960s, however, the emphasis put on self-reliance and *Juche* led the North Korean leadership to compromise on the issue of the quality of DPRK-produced goods. Using Korean-made goods, even of poor or medium quality, was explicitly considered a better option than using more “advanced” foreign-imported goods³⁹⁸. Since Pyongyang was trying to save on foreign currencies as much as possible, it actually made sense. At the beginning of the 1960s, North Korean leaders turned out to be overconfident in the power of the revolutionary will of the Korean masses and made some tactical mistakes such as sending less and less students abroad³⁹⁹, as in some cases “some end up becoming Japanese if they go to Japan, Russian if they go to Russia, Americans if they go to the United States”⁴⁰⁰. Pyongyang indeed made some bold choices that had clear political advantages

³⁹⁶ YANG Moon-soo, 2012, North Korea’s External Debts: Trend and Characteristics, Review of the North Korean Economy, *Korea Development Institute* (online). URL:

http://www.koreafocus.or.kr/design2/layout/content_print.asp?group_id=104047. Last accessed 12/08/2015.

³⁹⁷ KIM Il-sung, 1983d. See bibliography.

³⁹⁸ KIM Il-sung, 1983i. See bibliography.

³⁹⁹ KIM Il-sung, 1983h. See bibliography.

⁴⁰⁰ KIM Il-sung, 1984a. See bibliography.

(independence, less “ideological contamination”) but also undermined the further development of the economy. While these choices partially made sense if seen from the “*Delinking*” perspective, Pyongyang was maybe overzealous in its emphasis of using national resources, leading to major disruptions of the economy a few years later. Whereas challenges to the DPRK’s economy were numerous, Kim Il-sung’s sole answer were domestic innovation and voluntarism (“revolutionary zeal”), as a mean to overcome the shortages of manpower⁴⁰¹, quality issues, transportation problems, rural depopulation, but also in order to accelerate the race towards a communist society: technical innovation, especially during the 1970s, would eventually eliminate the distinction between “hard” (manual) and intellectual labor, between rural and urban living standards, and alleviate women from their “natural”⁴⁰² domestic chores⁴⁰³.

In order to enhance the quality and the reliability of its products, Pyongyang made important investments in human capital, with education being the top priority of the 1961-1967 plan⁴⁰⁴. 180 000 engineers were trained throughout the country, and the compulsory education time was extended to 10 years in 1971⁴⁰⁵. Killing two birds with one stone (closing the gap between manual and intellectual labor and providing much needed manpower), students were sent to production centers in order to take part in “productive labour” (“study-while working system”) and to create better linkages between factories and research centers. While this emphasis on human capital actually does make sense in a small socialist country like the DPRK, Western economists, and especially American theorist Theodore W. Schultz⁴⁰⁶ have shown that economic returns on investment in human capital are much higher when made in a “flexible” economic and business environment. This human capital theory tends to support the view that when people can individually respond to external shocks, those with a stronger educational background tend to have better responses (more

⁴⁰¹ KIM Il-sung, 1986d. See bibliography.

⁴⁰² KIM Il-sung, 1984l. See bibliography.

⁴⁰³ KIM Il-sung, 1986a. See bibliography.

⁴⁰⁴ KIM Il-sung, 1983j. See bibliography.

⁴⁰⁵ KIM Il-sung, 1986i. See bibliography.

⁴⁰⁶ Among the extensive bibliography of Theodore W. Schultz, one interested in human capital theory should see SCHULTZ, Theodore W., 1963, *The Economic value of education*, Columbia University press, New York. SCHULTZ, Theodore W., 1981, *Investing in people: the economics of population quality*, University of California Press, Berkeley.

efficient, more creative)⁴⁰⁷ and participate more in technology diffusion, for example⁴⁰⁸. The DPRK being a planned economy, this kind of individual initiative, in an extremely bureaucratic (institutional constraints) and centralized system, was (and still is) much harder to obtain⁴⁰⁹. With little (or unadapted) material incentives to work, enhance productivity, quality or to innovate, the production of goods and the economic development of the DPRK in general was promoted by the plan and other bureaucratic measures, following a “top-down” approach. In this context, even the massive investments made in education and human capital only had relative effect on the country’s economy, as the DPRK suffered not only from the traditional shortcomings of a planned economy, but also from its limitation on foreign trade and imports (*de facto*, due to financial constraints, or because of political choices). Pyongyang reached later the same conclusions, and developed a shy but existing material incentive program.

At the most general level, the least that can be said is that the management of the DPRK economy was sub-optimal. Due to an underdeveloped transportation network, the supply of raw materials and primary goods was chaotic, and factory managers had to travel quite far in order to purchase goods and bring them to the production centers⁴¹⁰. According to Kim Il-sung, at any given time, about 1200 managers were travelling the country in order to find raw materials to be transformed into finished goods. The transportation networks of the DPRK were in an extremely poor shape, leading to important amounts of time, money and resources to be wasted: as of 1970, North Korea only had one functioning East-West railway⁴¹¹, was direly lacking of oil and gasoline (“the number one issue”⁴¹²) and locomotives or trucks were relatively rare or unreliable. In a 1972 speech, the *Great Leader* states that in

⁴⁰⁷ Empirical developments of Schultz’s human capital theory can be found in: KING, Elizabeth M., MONTENEGRO, Claudio E., ORAZEM, Peter F., 2010, Economic Freedom, Human Rights, and the Returns to Human Capital, an Evaluation of the Schultz hypothesis, *Policy Research Working Paper*, World Bank Development Research Group (online). Url: <https://openknowledge.worldbank.org/bitstream/handle/10986/3890/WPS5405.pdf?sequence=1>. Last accessed 19/08/2015.

⁴⁰⁸ GLASS, Amy Jocelyn, SAGGI, Kamal, The Role of Foreign Direct Investment in International Technology Transfer in, DUTT, Amitava, ROS Jaime (eds), 2008, *International Handbook of Development Economics*, Cheltenham, London.

⁴⁰⁹ FRANK, Rüdiger, 2006, Classical Socialism in North Korea and its Transformation: the Role and the Future of Agriculture, *Harvard Asia Quarterly*, vol. X, N°2. See p.6.

⁴¹⁰ KIM Il-sung, 1983k. See bibliography.

⁴¹¹ KIM Il-sung, 1986d. See bibliography.

⁴¹² KIM Il-sung, 1984j. See bibliography.

Kangwon Province, less than one truck on two was working (48,6%, and 63,8% of tractors) due to the lack of repair stations and spare parts⁴¹³ and more globally, the issue of the quality of the infamous North Korean-made Seungri-58 trucks. The unstable production of electricity (mostly depending on weather and seasonal conditions) made it difficult for railway networks to function properly⁴¹⁴. Transportation networks issues had a major on the economy. Important amounts of resources were wasted, especially perishable goods, like food (fish and vegetables). As very few ports or farms had functioning refrigeration plants or refrigeration trucks, many food items perished before making their way to their customers, leading to *de facto* living standards inequalities (explicitly acknowledged by the Pyongyang leadership) between provinces. As a revealing sign of the sub-optimal characteristics of the DPRK economy, not only did mountainous provinces (like Jagang province⁴¹⁵) suffer from the undersupply of food, but also coastal provinces like Kangwon province, that were unable to use its maritime resources to obtain foreign currency and was thus lagging behind the rest of the country in terms of development (as of 1972, only two large cities of Kangwon province had running water⁴¹⁶).

The global slowing down and the chaotic aspect of the North Korean economy quickly became apparent to the planners of Pyongyang. Even if important technical and technological issues existed, Pyongyang seemed to consider the most important problem to be the lack of individual or collective initiative, the lack of “revolutionary zeal”. Interestingly, the North Korean leadership was well-aware that this lack of initiative was a collateral damage of the planned economy:

⁴¹³ KIM Il-sung, 1986, Conclusions énoncées lors de la session plénière élargie du comité du Parti de la province du Kangweun [23rd March 1972], *Œuvres*, vol.27, Éditions en langues Étrangères, Pyongyang.

⁴¹⁴ The railway running between the North Korean cities of Namyang (facing Tumen in China) and Rajin is, as of 2016, still not running because of power shortages. Functioning railways would however be a major asset for the development of the Rajin-Sonbong SEZ. See TSUJI Hisako, 2004, Tumen River Area Development Programme : its History and current Status as of 2004, *ERINA discussion paper n°0404*, p.12.

⁴¹⁵ KIM Il-sung, 1986e. See bibliography.

⁴¹⁶ KIM Il-sung, 1986, Conclusions énoncées lors de la session plénière élargie du comité du Parti de la province du Kangweun [23rd March 1972], *Œuvres*, vol.27, Éditions en langues Étrangères, Pyongyang.

“before, private sector traders did everything they could in order to sell their surpluses and avoid them to perish, including delivering them to the customers. Today, people lack dedication”⁴¹⁷.

Several measures were implemented in order to incent people to work harder, more creatively, and more generally speaking to go the extra mile in the economic sector. The first and most important measure was what North Koreans officials like to call “work towards humans”, or ideological incentives. This aspect of the North Korean economy is well-known and has been heavily documented and analyzed by scholars. Mass work campaigns are regularly launched in order to attain specific objectives, and allowed to kill two birds with one stone: not only does it temporarily raise productivity, it also strengthens the “national/revolutionary spirit” of the North Korean masses. During the 1960s and the 1970s, the North Korean leadership repeatedly called on the workers, planners and managers to work harder, better, faster, using different techniques like propaganda, merit awards, etc. Interestingly, according to Kim, one example of a legendary hard worker was Karl Marx himself, who showed enough revolutionary will to work and write *The Capital* without being paid⁴¹⁸ for it and thus being a model to be followed⁴¹⁹. Numerous work campaigns were launched, allegedly under the control of the rising star of North Korean politics at that time, Kim Jong-il⁴²⁰. Contrary to Chinese work campaigns, where basically almost unexhaustible manpower could be used to *replace* technology, North Korean voluntarism did not only aim at a quantitative transformation of the economy but also a qualitative one (produce more with less labor, produce better). Using more workforce in order to enhance production was actually explicitly considered as the counter-example⁴²¹ of a correct policy. A more “*Juche*-oriented” way of enhancing production would have been to use “scientific methods” promoted by the “technical revolution”. Especially during the 1970s, pressure from Pyongyang gradually built up on the North Korean scientists’ shoulders in order to overcome technical difficulties and to use Korean intelligence to erect an even more independent economy. Since academic exchanges were limited at that time, technicians and scientists were asked to learn to read Russian, English or Japanese in order to assimilate imported

⁴¹⁷ KIM Il-sung, 1984j. See bibliography.

⁴¹⁸ KIM Il-sung, 1984i. See bibliography.

⁴¹⁹ Ironically, Marx was dependant on Engels’s financial assistance for a substantial part of his life.

⁴²⁰ LIM, 2009, see p.75. Mass campaigns include, the Three Revolution Campaign, the 70-days battle,

⁴²¹ KIM Il-sung, 1984g. See bibliography.

technical manuals⁴²². They were also explained that they faced the particularly important task of mechanizing the countryside (in order to stop the rural exodus), creating a new kind of steel that would not need coking coal (that does not exist in the DPRK)⁴²³, using anthracite for example⁴²⁴, abundant in the northern half of the peninsula. In a few words, at that time, scientists and technicians had a particularly important role in the “technical revolution”, and were thus the target audience of ideological incentives. Their specific role lived up until today and “scientific voluntarism” still plays an important role⁴²⁵ in the North Korean economy and society.

Incentives to work in the DPRK were however not exclusively ideological. The question of material incentives in North Korean factories and other productions centers is being paid substantial attention by scholars and journalists as it is considered as a key aspect of economic reform in socialist countries and especially in the PRC⁴²⁶. The issue of material incentives has however been discussed by the political leadership since at least 1966⁴²⁷, and some measures were implemented in the 1960s⁴²⁸, although sources largely differ on the timing and implementation of such experiments⁴²⁹. What’s more, as repeatedly explained by the *Great Leader*⁴³⁰ and studied by scholars⁴³¹ local farmers’ markets (and small but existing

⁴²² KIM Il-sung, 1983h. See bibliography.

⁴²³ KIM Il-sung, 1986d. See bibliography.

⁴²⁴ KIM Il-sung, 1984g. See bibliography.

⁴²⁵ See for instance the following Rodong Sinmun editorial: *All People Should Be Trained as Scientific and Technological Talents*, 21st October 2014, Rodong Sinmun (online). Url:

http://www.rodong.rep.kp/en/index.php?strPageID=SF01_02_01&newsID=2014-10-21-0009&chAction=T.

⁴²⁶ NAUGHTON, Barry, A Political Economy of China’s Economic Transition, in BRANDT, Loren, RAWSKI, Thomas G. (eds), 2008, *China’s Great Economic Transformation*, Cambridge University Press, Cambridge.

⁴²⁷ KIM Il-sung, 1984j. See bibliography.

⁴²⁸ JEFFRIES, Ian, 2006, *North Korea : a guide to economic and political developments*, Routledge, London. See p.379.

⁴²⁹ AGOV (2010), notes for example that “North Korea never fully abandoned material incentives the way China under Mao did” during the second half of the 1960s (see p.458). JEFFRIES (2006), on the other hand, explains that before 1984, company managers could use 20% of excess profits for welfare, but does not provide any additional details (see p.379). He however notes that “the 1960s saw a strengthening of material incentives, especially in agriculture”.

⁴³⁰ KIM Il-Sung, 1981c. KIM Il-sung, 1986g. See bibliography.

⁴³¹ OH Gyeong-seob, Characteristics of Marketization in North Korea and Political Counter-measures, in

Vantage Point, Vol.36, n°12, December 2013 (online). URL:

http://img.yonhapnews.co.kr/basic/article/en/PDF/20140306/20140306113227_vp12.pdf. Last accessed 22/08/2015.

private plots of land) have always existed in North Korea⁴³², as they could supplement the often malfunctioning State distribution system (partly due to poor transportation infrastructure). Financial incentives are often believed to be efficient in raising productivity of labor as the Chinese example would prove it⁴³³. However, in the North Korean case, partly due to the strict limitation of farmer's market activities but also to the chaotic state of the North Korean economy, financial incentives seem to have had a very limited effect on production: since there were very few items available to be sold at non-subsidized prices; see later), obtaining extra cash had little interest for average North Korean workers, as admitted by Kim Il-sung himself:

*"Farmers demand many quality goods like watches, sewing machines, nylon sweating shirts and wool fabric. If we do not sell those in sufficient quantities, it is possible that they work only enough to afford what they need and do not make any effort to increase cereal production. It is only when we will be able to sell them a lot of interesting products that their production enthusiasm will rise and that they will go the extra mile in order to harvest more"*⁴³⁴.

2.2.4 Mixed results

Scholarly accounts of the 1960-1970 decades (albeit especially the 1970's) often depicts the North Korean economy in grey, and often dark grey. On paper, it is quite true that several aspects of the DPRK economic apparatus *de facto* limited prospects for economic growth, as understood by economists. It is also true that the economy did not reach a satisfactory level during that period, even if considered from a North Korean point of view: at the most general level, speeches made by Kim Il-sung (for domestic audience) dealing with economical issues clearly state that even if progresses had been made, several critical shortcomings were extremely hard to solve. For instance, the non-cereal food supply was

⁴³² Market activities were however extremely restricted, due to the existence of a rationing system and the limitation on individual travel inside the country. See LANKOV, Andrei, KIM Seok-hyang, 2008, North Korean Market Vendors: The Rise of Grassroots Capitalists in a Post-Stalinist Society, *Pacific Affairs*, Vol.81, n°1. See also LEE Doo-won, 1993, Assessing North Korea Economic Reform: Historical Trajectory, Opportunities and Constraints, *Pacific Focus*, Vol.8, N°2, p.20.

⁴³³ LANKOV, Andrei, *Industrial Reforms : What is North Korea waiting for ?*, *NK News (online)*, 02/06/2015. Url: <http://www.nknews.org/2015/06/industrial-reforms-what-is-north-korea-waiting-for/>. Last accessed 22nd of August 2015.

⁴³⁴ KIM Il-sung, 1986, Conclusions énoncées lors de la session plénière élargie du comité du Parti de la province du Kangweun [23rd March 1972], *Œuvres*, vol.27, Éditions en langues Étrangères, Pyongyang.

admittedly clearly better than during the previous decade: while in 1957 the objective was to feed the North Korean population with 10 kg. of fish per person per year⁴³⁵, around 1970 the objective was about 100 gr per person per day, about four times more⁴³⁶. However, objectives of the plan for these sectors were not reached.

On the other hand, it should be noted that the priorities of the DPRK were completely different if compared with the previous decades. Whereas in the postwar era Pyongyang had to struggle with undernourishment, as it could not easily produce enough staple food to feed its entire population, the issue during the 1960-1970s was more of a food diversity issue, a quality issue. Food rations were enough for the population to reproduce its labor power (if Kim Il-sung is to be believed on this, it is stated that in 1972, average workers would get about 700 grams of rice every day⁴³⁷) and the price of rice on state-controlled markets was so heavily subsidized that it was said by the Pyongyang leadership that with only one day at work, workers could buy enough rice for one month⁴³⁸. Although it may be exaggerated to some extent, this statement is not far from being true. Extra-ration rice was bought by the State at about 0,42-0,63 won a kilo (respectively peeled and not peeled), while sold on the State-controlled markets at about 0,05-0,09 won a kilo⁴³⁹. With the average wage in the countryside at that time being 30 won (twice more for an urban qualified worker), it seems that obtaining rice was not an issue in terms of purchasing power (availability might have been fluctuant though).

Besides food, other goods and services were heavily subsidized, as in any socialist economy: rents in the countryside were free, rents in important cities were symbolic (2 or 3 won a month). Education and medical care were also free, sick people were paid a substantial amount of their wages : full wages for women during pregnancy or on their 77 days maternity leave, 80% for disabled people and up to 100% for sick worker on sick leave⁴⁴⁰. Average workers could enjoy two to four weeks of paid vacation in state-managed holiday homes. Social welfare was aimed at improving the people's lives. Even at heavily subsidized

⁴³⁵ KIM Il-sung, 1982d. See bibliography.

⁴³⁶ KIM Il-sung, 1986, Conclusions énoncées lors de la session plénière élargie du comité du Parti de la province du Kangweun [23rd March 1972], *Œuvres*, vol.27, Éditions en langues Étrangères, Pyongyang.

⁴³⁷ KIM Il-sung, 1986l. See bibliography.

⁴³⁸ *Idem.*

⁴³⁹ AGOV (2010), see p.360.

⁴⁴⁰ *Idem.*

prices, it cannot however be said that the DPRK was an abundant society, and while living standards were definitely higher than in the 1950s, lack of availability of certain kinds of goods (including food items) and unreliable transportation systems made it quite difficult to actually achieve even higher living standards. In 1968, in order to stimulate consumption, the authorities decided to provide an additional monthly salary (“13th month”). Such initiatives, while certainly welcomed by workers, most likely missed their target for the very same reason financial incentives could not produce substantial productivity changes: the availability of consumer goods was unreliable and the quality of these goods quite poor.

Considering North Korea’s economic performance during the 1960-1970 decades from a Western orthodox economic point of view leaves many questions unanswered. First of all, as always with North Korea, data is extremely scarce and thus quantitative analysis can only be modest or, at best, limited. Qualitative analysis can provide a better insight into the economic performance of North Korea at that time, only after crucial epistemological issues are taken into account. From a strictly qualitative point of view, the DPRK economy, even at its peak during the 1950’s, would look suboptimal, inefficient, doomed to fail from the point of view of most observers. Several economists and political scientists outside the DPRK have repeatedly pointed out at the different shortcomings of the North Korean socio-economic system, based on different methods, different datasets, and different angles of approach. However, maybe due to a lack of epistemological and theoretical concerns in the field of North Korean studies⁴⁴¹, the notion of political economy successes *from the point of view of* the DPRK leadership (or from a Marxist/dependency theory perspective) is an almost untouched question.

The theoretical framework unfolded by Samir Amin can be useful in order to provide an alternative evaluation of North Korean economic performance. Among the important issues that the North Korean economy was facing was the general state of disorganization of the production apparatus, leading to important shortcomings in external trade. Paradoxically, the inability to implement the “necessary evil” of foreign trade was a major hurdle to Pyongyang’s attempts at disconnecting. As explained by Amin,

⁴⁴¹ FRANK, Rüdiger, 2007, Can Economic Theory Demystify North Korea?, *Asia-Pacific Journal* (online). Url: http://www.japanfocus.org/-R_diger-Frank/2341/article.html. Last accessed 07 June 2015.

*"[...] outdated technologies and difficulties in manufacturing sophisticated products on its own impose imports, and thus exports in order to pay for them. Strategic considerations make it a "necessary evil" and aims at reducing their consequences".*⁴⁴²

The policy that aimed at borrowing foreign technologies through imports in DPRK was short-lived, due to the inability to equilibrate its trade balance (but also due to the economic context of the post-1973 oil shock). North Korea, unable to become a reliable trade partner, was thus unable to "delink" from the "World-system". This element is particularly important to notice, since later attempts at "strategic reconnection" like the 1984 Joint Venture law or the opening of the Rajin-Sonbong Special Economic Zone (first mentioned by the Pyongyang leadership in 1983⁴⁴³) might be understood not necessarily as a one-way reform attempt, as they are often believed to be, but as a tactical setback, in order to fund and prepare *delinking* policies. In other words, North Korea's opening strategies could be seen more of a means than an end in itself.

Undoubtedly, North Korea, a peripheral country after the end of the Korean War, was still in the periphery in 1960-1970 (and still is today). The DPRK indeed was never able to fully "submit its external relations to the logic of national accumulation"; on the contrary, Pyongyang had to constantly adapt to external stimuli/pressures, for example implementing a "pragmatic" (opportunistic) foreign policy, *sine qua non* condition to modernize its internal production apparatus.

On the other hand, the DPRK's prestige around the world certainly grew, especially among Third-world countries and national liberation movements. Not only did it send development assistance packages to struggling socialist partners like Vietnam, it also became a "quite significant contributor" to Africa's development⁴⁴⁴, at least relatively to the small size of its economy. It was also able to provide funding, military equipments and training to guerrilla

⁴⁴² AMIN (1985), see p. 115.

⁴⁴³ KIM Il-sung, 1995b. See bibliography.

⁴⁴⁴ ARMSTRONG, K. Charles, 2009, *Juche and North Korea's Global Aspirations*, *North Korea International Documentation Project Working Paper Series N°1*, Woodrow Wilson International Center for Scholars. Url: http://www.wilsoncenter.org/sites/default/files/NKIDP_Working_Paper_1_Juche_and_North_Koreas_Global_Aspirations_web.pdf. Last accessed 11th of October 2014.

fighters in numerous countries⁴⁴⁵, sometimes indirectly opposing the USSR⁴⁴⁶. Even if aid was politically and commercially motivated, it should also be understood that the DPRK was able to unpack an autonomous diplomacy, according to its own interests, independently from Beijing or Moscow (even though the North Koreans were often following the Chinese, especially in Africa⁴⁴⁷), and this was welcomed and appreciated in Third-world countries. Even as a peripheral country, far from becoming a center, Pyongyang was able to obtain enough room to maneuver on the international stage. This Third-world and assistance diplomacy was also a mean to reach out new customers, as explained by Kim Il-sung himself⁴⁴⁸. Although Pyongyang was not economically robust enough to survive without close economic relations with Beijing or Moscow, it was nevertheless able to support economic development overseas.

From the *Delinking* perspective, the outcomes of the implementation of the *Juche* socio-economic system were not disappointing because of mixed economic results, but because they failed to reach its long-term objective: self-reliance. To put it in Amin's vocabulary, the consequences of the DPRK external economic cooperation greatly impacted the internal political situation of North Korea, a strategy that was consciously pursued by the Pyongyang leadership: the tactical setback of increased trade relations was paradoxically the only way out of economic and (thus) political dependence. For sure, after the scarce financial resources of the DPRK started to dry up, Pyongyang tried to "correct" trade policies as much as it could (*i.e.* the objective of using at least 70% of domestic raw materials to produce goods for exports was abandoned⁴⁴⁹), but as a matter of fact it actually *reconnected* with dominant criteria of capitalist rationality. Indeed, in order to export locally produced finished goods, North Korea had to "bandwagon" with dominant international powers and had to adjust to their norms and to dominant rationality criteria that were *de facto* ruling international trade. For instance, while the whole North Korean production apparatus was suffering from quality issues, Kim Il-sung advocated for giving a special care to goods to be

⁴⁴⁵ GILLS (1996). See p. 130.

⁴⁴⁶ ARMSTRONG (2013), see p. 181.

⁴⁴⁷ It should however be noted that the DPRK opposed Somalia's invasion of Ogaden in 1977, providing military training to Ethiopia's Derg. Mogadishu was backed by Beijing.

⁴⁴⁸ KIM Il-sung, 1984g. See bibliography.

⁴⁴⁹ KIM Il-sung, 1986n. See bibliography.

exported and not for domestic consumption⁴⁵⁰, a measure that can be considered as paradoxical for a socialist, allegedly inward-oriented country. On the one hand, the staunch nationalist rhetoric, the “differentialist” conception of “koreanness” (especially in the cultural and ideological spheres⁴⁵¹) were aimed at “protecting” the North Korean masses from “harmful ideologies” (including orthodox Marxism⁴⁵²!); on the other hand, DPRK norms increasingly tended to take example on foreign practices, especially in economic matters:

*“in order to solve the current domestic issues, we should not hesitate to build on foreign experiences as much as possible. The introduction of foreign techniques does not implies the infiltration of capitalism or revisionism. We should not be afraid to learn from capitalist countries[...] if we learn from foreign countries, it is neither to idolize them, nor to become subjugated, but in order to catch up most advanced countries and reinforce our own independence”*⁴⁵³

In a sense, while this evolutionist conception of development is neither surprising nor new coming from the *Great Leader* (or from any socialist thinker including Marx⁴⁵⁴ or especially Engels), during the 1950s, and especially around the 1956 events, cultural, ideological and political differentialism prevailed, but foreign currency, technology and know-how flew in. After the end of assistance programs, at the beginning of the 1960s, foreign sources of resources (assistance) gradually became limited, and North Korea had to *relink*. To do so, it (partially) adapted its socio-economic norms and practices (foreign trade policies, education policies) according to its position, if not directly in the international division of labor or in the chain of production, at least on the international chessboard. It is possible that the further opening of the DPRK, like the 1984 JV law or the successive opening of SEZs in every part of the country might be understood as a “first stage” of *delinking* (see part III, chap.1).

⁴⁵⁰ KIM Il-sung, 1984b. See bibliography.

⁴⁵¹ While in North Korean publications the idiosyncratic elements of Korean culture are often emphasized, we found numerous occurrences of the *Great Leader* urging DPRK artists to adapt or take inspiration from foreign countries’s works, including, for example, Soviet movies: KIM Il-sung, 1984^e. See bibliography.

⁴⁵² In a 1965 speech, Kim criticizes different ideologies as dogmatic, as they use foreign words translated in Korean ; among the words he quotes as examples one can find « proletariat » or « hegemony ». See KIM Il-sung, 1984i. See bibliography.

⁴⁵³ *Idem.*

⁴⁵⁴ RIST, Gilbert, 2007, *Le Développement, Histoire d’une Croyance Occidentale*, Presses de Sciences Po, Paris.

As counter-intuitively (and provocative) as it might seem, what is generally considered as the major cause for the general slowing down of the North Korean economy (by scholars in and out Korea and Kim Il-sung himself), namely the emphasis put on the building of an extremely large army, can be considered as the DPRK's biggest success, if considered from the *Delinking* perspective (although on this issue in particular, Amin might have a diverging point of view). After the Park Chung-hee coup in 1961, Kim Il-sung started to emphasize "*Juche* in the defense sector"⁴⁵⁵, and to divert enormous amounts of resources in the armament sector although it was clear to all that it would slow down economic development⁴⁵⁶. As acknowledged by North Korean officials, by 1970, the DPRK had the highest military expenditures per capita in the world⁴⁵⁷. During the 1961-1969 period, Pyongyang spent about 8 billion won to ramp up the military, it only spent 5 billion to further develop the industry⁴⁵⁸. As a result, the country suffered an even greater economic slowdown, and the 1961-1967 seven-year plan could not be finished before 1970, three years after scheduled. The diversion of resources to the build-up of the KPA during the 1960-1970 decades, which was frowned upon by the socialist brethren and considered as dangerous and threatening by most capitalist countries, can be considered as a political consequence of a socio-political process, *Delinking*. Pyongyang was in a position to implement (some of) the policies it wanted without relying too much on others, preventing them from interfering. The creation of an oversized army for such a small country, at such an early "stage of development" is certainly far away from any form of "capitalist rationality". In addition, the fact that the DPRK was sacrificing important resources to produce goods (weapons and military equipment in this case) according to its needs and not for exports, is a relevant sign of the (partial) neutralization of external exchange on the internal economic choices of the DPRK. It did not produce weapons or trucks because it had a comparative advantage in these sectors, nor because they were demanded abroad, but because the central government of the DPRK had the *will* and the *means* to partially redirect the economic architecture of the DPRK towards its political objectives. Later on, Pyongyang became a relatively important exporter of cheap but reliable weapons, but it is more the "collateral benefit" of a policy designed

⁴⁵⁵ KIM Il-sung, 1983i. See bibliography.

⁴⁵⁶ KIM Il-sung, 1986d. See bibliography.

⁴⁵⁷ AGOV (2010), see p.370.

⁴⁵⁸ *Idem*.

first and foremost to satisfy domestic demand. It turned out that the production of military equipment in the DPRK has interested foreign actors and has thus turned into a source of foreign currency. From there, two preliminary observations can be formulated, to be discussed in later developments:

-first, at such an early stage of *delinking*, this economic behavior, odd or even “irrational” from a foreign perspective, is of dual nature. On the “positive” side, the DPRK was able to invest tremendous amounts of capital in a controversial and (considered as) dangerous military program, a clear sign of political and economic emancipation from the Soviet Bloc. It can be safely assumed that such a military build-up would have been impossible during the 1950’s. On the “negative” side, these military programs were mostly funded by exports of unprocessed goods (mainly from the domestic extractive industry), showing that the DPRK failed to climb up the industrial ladder. From a standard dependency perspective, North Korea’s relative success was still a *compradore* success, although it managed to obtain substantial political room to maneuver internally.

-second, the *delinking* perspective might also be useful to decipher the current peculiar policies of the DPRK regarding the nuclear weapons/economic opening dilemma. Often considered as mutually incompatible, the objective of pursuing both the nuclear deterrence quest and, at the same time, economic opening (the so-called “parallel line” [평진, *pyŏngjin*], Pyongyang would be trying, nowadays, to unfold a policy similar to the one that prevailed in the 1960s-1970s. On the one hand, the DPRK might be trying to protect its very existence⁴⁵⁹ by deterring foreign powers seen as threatening. On the other hand, Pyongyang would still need to partially integrate the world-economy, which is at the same time a “necessary evil” but also a *sine qua non* condition to fund *delinking* policies. Same as there is an “initial stage of socialism” [社会主义初级阶段; *shehuizhuyi chuji jieduan*] in China (basically capitalism), the adaptation of North Korean economic policies to better integrate the world-economy could be seen as a “first stage of *delinking*”.

⁴⁵⁹ As Amin explains, peripheries are not necessarily Nation-States; colonized territories, for example, while often *de jure* parts of the most economically “advanced” countries, are located on the periphery.

2.2.5 Towards economic collapse?

The fact that the North Korean economy was, and still is, hindered by major structural weaknesses is certainly not new. Observers have long been pointing out the different shortcomings of the North Korean economy. While these assessments certainly are true to some extent, *Delinking theory* allows a different angle of approach when assessing the DPRK economic policies, with the ultimate goal of understanding Pyongyang's actual need for economic reform and identifying its strategies regarding economic policies.

Although the economic results of the 1960-1970s were mixed, historical perspective allows us to say that the economic choices made at that time did not lead to a substantial growth of the DPRK economy. Obviously, this view is supported by the general economic collapse of North Korea during the 1990's, due to both internal economic factors but also to the loss of important political allies. After the 1960-1970 decades, no term seems to better describe the results of the DPRK economy than "failure". Considering the international events that occurred in these years, with the socialist bloc suffering important blows and finally disappearing, the global meltdown of the DPRK economy did not come as a surprise to many observers around the globe (contrary to the survival of the DPRK as a State). More interesting for us is to understand that this failure was also a failure by North Korean standards, not only because the DPRK's people standards of living suddenly dropped, but also because, more than forty years after the creation the DPRK, self-reliance, or *Juche* in economics, did not stand the test of reality. Of course, DPRK official publications have explained that the causes of the Arduous March were mostly external, which is partially true. But even if the DPRK could hardly be prepared for the collapse of the Soviet Union, the least that can be said is that Pyongyang did not achieve its objective of economic independence. Its economy was still relying on key inputs from foreign donors, struggled (mostly in vain) to equilibrate its trade balance and was facing stagnation.

When *Delinking* was first published in 1985, Samir Amin was still enthusiastic about the DPRK's economic options (much less by its political trajectory). He however provides elements that can be used to explain North Korea's mixed results. According to Amin, there are three conditions for the successful implementation of *delinking*.

-First is the submission of external relations in every field (including trade) to internal political choices, without consideration of capitalist rationality.

-Second, the political capacity to implement broad social and economic reforms (political hegemony).

-Third, and most important, is

*“An absorption capacity and technological inventiveness, without whom the autonomy of decision remain only theoretical. Of course, such a capacity cannot be developed by a few educational tricks; it implies a genuine ideological pragmatism [ouverture]”*⁴⁶⁰

North Korea has been, and still is, taking internal decisions without much consideration for capitalist rationality, even if it might have for collateral damage to hurt its external economic and diplomatic relations (self-centered development policies, military build-up, nuclear weapons, etc.). It also goes without saying that the KWP was in a position to implement all the political and social reforms it needed. The third criteria, the absorptive capacity of the North Korean industry, is however likely to have been one of the weakest point of the DPRK's quest for self-reliance.

To some extent, the DPRK was and still is a pragmatic country, even if there are obviously political red lines that cannot be crossed. As seen earlier, Pyongyang several times made adaptations to its economic model, tried to introduce incremental reforms, and later even tried to implement policies that proved to be successful abroad. On the other hand, since the very beginning of the DPRK, North Korean political circles, preoccupied by the protection of the independence of their born-again country, implemented several policies aiming at protecting the Korean national identity. Given the political context of the 1950s (the recent decolonization of Korea, political interference) and the fact that genuine economic self-reliance was still decades ahead, it was considered that cultural nationalism (an idealistic, top-down, “artificial” approach of independence) could be useful, in the short term, in order to cultivate the spirit of political independence among the North Korean masses. While the State's monopoly on cultural exchanges with the outside world *de facto* limited links with developed countries, North Korea has always displayed extremely strong nationalist

⁴⁶⁰ AMIN, 1985, see p.105.

discourses and policies, which were politically useful in holding together the Northern half of the Korean Nation after the Japanese rule and the division of the country. Pyongyang never tried to completely sever ties with the “outside world”, even in the cultural sphere⁴⁶¹. It has however tried to adopt a very selective attitude regarding what could enter the country and what could not: foreign ideologies and political ideas were kept under maximum control (foreign embassies activities were limited, DPRK students abroad were recalled at the beginning of the 1960s), “neutral” technological and scientific knowledge, on the other hand, was welcome.

Such an attitude, in a context of declining foreign assistance, had obvious limitations that prevented the actual absorption (not to mention the diffusion) of foreign advanced technology and know-how. In order to climb up the industrial ladder, North Korean made further investment in human capital (9th and 10th year of compulsory education⁴⁶²), and reformed its education system (in 1974 were published Kim Il-sung’s *Theses on Education*, one of the most “famous” writings of the *Great Leader*, even in the DPRK) in order to create better linkages between universities/research centers and factories. While these measures might have had a profound effect on the North Korean society, they clearly fall into what Amin calls “educational tricks”, allegedly non-sufficient to trigger an actual modernization of the production apparatus. Pyongyang’s economic strategy was paradoxically inspired by an evolutionist conception of development (it was technologically “backward” and had to “catch up” with more “advanced” industrialized countries), and was based on intense borrowing, adaptation and absorption of foreign technology into the DPRK production apparatus. Centralized planning, limited or inefficient incentives, strict rules on travel in and outside the country (including students) as well as a lack of economic flexibility in general prevented quick, large-scale technology diffusions in the country, even if different government-sponsored programs (mass campaigns, study-while-working system) tried, with limited but existing success, to be catalyst for the “three revolutions”: Ideological, cultural and technical.

⁴⁶¹ KIM Il-sung, 1984e. See bibliography.

⁴⁶² As of today, the standard compulsory education period in the DPRK is 12 years.

Many critics have been addressed to the DPRK's preferred scheme of development, in the more global framework of the critic of planned economies, or based on more specific aspects. Epistemological tools offered by Samir Amin and more generally the Dependency School of IR allowed us to shed a different light on the results of the North Korean economy on the eve of the 1980 decade (before the start of what is considered to be the "real" North Korean economic "reform"). It should nevertheless be noted that while *delinking* theory can partly explain the DPRK economic difficulties at that time, Amin's theory is often imprecise, with the "excuse" that socialism "is still a future to be build". The aforementioned third condition for success of the implementation of delinking as a political process, is a good example. No hint or clue is given on how to boost the "absorptive capacity" of foreign technology, which seems especially difficult if considered in the framework of the first condition: one has to show "genuine ideological pragmatism", while still submitting external relations to internal political choices. Reforming, even at the margin, the economic, political and educational system of the DPRK in order to facilitate the absorption of technology into the North Korean production apparatus would clearly enshrine the primacy of external relations on internal choices; on the other hand, having no or very little consideration for capitalist rationality in internal choices would *de facto* limit technological diffusion into the economy (as it was basically North Korea's case).

There is a consensus among scholars and observers that the DPRK's economic policies needed to be altered, the bone of contention being obviously how. Since the 1960s at least, Pyongyang implemented different kinds of economic adaptations, and embarked on a much quicker paced (albeit not smooth) reform program during the 1980s (see next chapter). The Chinese economic reform, which followed a period of complete stagnation of the DPRK's economy (end of the 1970s, 1980s) certainly was a factor that facilitated the acceleration of the North Korean economic reform process.

Chapter III/ From Reluctant Comrades to Reluctant Partners

Given the lack of impetus of the DPRK economy and the omnipresent bottlenecks that occurred in various sectors, after 1980, it became clear to all that the DPRK's economic practices needed to be altered. Based on the success of its own economic reform, Beijing was obviously eager to influence North Korea into a Chinese-style economic opening, which would have benefited China on several levels: it would have increased its influence over the very independent DPRK, facilitated its emergence as a trade power and as a "responsible power" [负责任大国 ; *fuzeren daguo*] in the eye of the Western world and especially the United States. On a local level, a Chinese-style economic opening of the DPRK would have greatly facilitated the economic transition of the Chinese Northeast, the three provinces collectively known as *Dongbei* [东北 ; *dongbei*]: Heilongjiang, Jilin, Liaoning⁴⁶³. Chinese businessmen interviewed during fieldwork often argue that the only way to develop local territories would be to "open" [开放 ; *kaifang*] the DPRK. *Dongbei* provinces have indeed suffered several blows since the Sino-Soviet Split, and later the Chinese reform, and the fact that the Northeastern part of the Korean Peninsula "blocks" access to the sea still is a source of Chinese frustration.

Why did the DPRK not choose to follow the PRC's path? The standard answer is that in a time of political transition at the head of the North Korean State, the timing was ill-adapted to introduce new policies or reforms. This is certainly true, to some extent. This single explanation, however, should not hide the fact that the DPRK did implement some new policies aimed at obtaining more foreign currencies (with most of them still in place today). The fact that North Korea did choose to follow its own tortuous path took an important toll on the bilateral relation, and, in the context of the emergence of China as a major trade power, the bilateral relation mutated into an extremely complex and dynamic bound, based on historical facts and common "myths"⁴⁶⁴, self-interest from both sides, but also witnessing increasing contradictions on several key issues.

⁴⁶³ The Northeastern part of Inner Mongolia is also often considered to be part of *Dongbei*.

⁴⁶⁴ Chinese intellectuals, when dealing with the DPRK, can hardly spare a reference to the Korean War to explain to the Chinese opinion why North Korea still is an important ally of the PRC. When leading intellectuals want to stress the friendship between the DPRK and China, they often need to remind Chinese readers that the

3.1. A degrading international environment

3.1.1 Increasing isolation

Whereas the DPRK's economy in the 1960's and 1970's was able to muddle through important challenges, but its inability to absorb or create new technologies prevented the DPRK to capitalize on its solid previous economic successes and finally, its economic infrastructure reached the end of a cycle at the end of the century. The DPRK economy stagnated, as acknowledged by foreign observers⁴⁶⁵, but also, in other words, the DPRK leadership. In 1984, Kim Il-sung explained bluntly that the heavy industry could "do better" and that the light industry was "backwards"⁴⁶⁶. The 1980's were obviously not as difficult as the following decade for average North Koreans, but the DPRK became progressively more isolated, politically and economically, which caused Pyongyang to feel even more the pressure from the Western world and caused it engage into a relative economic opening as well as, at the very same time, desperate small-scale military attempts.

At the very beginning of the 1980's, the DPRK was paradoxically wooed by both its long-time supporters, Beijing and Moscow. The reformists in Moscow were eager to develop the Far East by increasing economic interaction in the Asia-Pacific region (this was the core message of Gorbachev's 1986 Vladivostok speech). As a result, Moscow sought to increase its ties with Pyongyang, and bilateral trade volumes increased about 50% between 1980 and 1986⁴⁶⁷. On the other hand, the USSR was already well-engaged in its political upheaval and began to apply more financial pressure on the North Koreans, including to double the rate of interest of Pyongyang's debt to Moscow⁴⁶⁸ or asking to "remonetize" USSR-DPRK

DPRK also helped the PRC by fighting on its side before 1949 or by providing technical help and technologies. For example, before Liu Yunshan's October 2015 visit to Pyongyang, many articles stressing the DPRK-PRC alliance were published, including one testimony of a Chinese researcher that explained how, after the Korean War, the DPRK made substantial contributions to China's industrial knowledge. FENG Baosheng, *jiaqiang kexue jiaoliu, fazhan zhongchao youyi* 加强科学交流, 发展中朝友谊 [Strengthen Scientific Exchange, Develop Sino-Korean Friendship], *Huanqiu Shibao*, 10th of October 2015], Url : http://opinion.huanqiu.com/opinion_world/2015-10/7721735.html. Last accessed 14th of January 2016.

⁴⁶⁵ PARK Soo-bin, 2003, The North Korean Economy: current issues and prospects, Presented at the conference of the Association of Korean Studies in Canada, Vancouver.

⁴⁶⁶ KIM Il-sung, 1995a. See bibliography.

⁴⁶⁷ ARMSTRONG, 2013. See p. 224.

⁴⁶⁸ *Idem*.

exchanges⁴⁶⁹. China was also increasingly putting financial and economic pressure on the DPRK, but at the same time was very careful in reassuring its neighbor, supported the Kim Il-sung-Kim Jong-il transition and even promised to the DPRK's leadership that, although trade ties were raising, Beijing would not recognize Seoul.

But these cautious moves could not hide the fact that the mood in Eastern Asia was generally towards appeasement between the USSR, China, the ROK or Japan. The question of the Korean reunification was postponed and it seems that every State was looking for stability and *status quo*, and when the US stepped up its military forces in South Korea no one except the DPRK was really willing to oppose it. From 1983, the Team Spirit US-led military exercise involved no less than 200 000 soldiers and mimicked invasions of the DPRK territory. What's more, after Ronald Reagan came to power, the number of nuclear tactical weapons deployed in South Korea dramatically increased.

The DPRK was (and still is) unsatisfied with status quo in the peninsula, especially since the "appeasement" led to increased interaction between its supporters and its enemies, out of interest. North Korea took steps that proved to be counter-productive and actually accentuated its isolation. The 1983 bombing in Rangoon, targeting the Prime Minister of South Korea on a State visit, was widely considered as a desperate attempt which seriously damaged the DPRK reputation as an internationalist peaceful country. Rumors about abductions of Japanese citizens, eventually acknowledged by Kim Jong-il in 2002, also did their share in weakening North Korea's ties with the international community.

In parallel, South Korea quickly emerged as an important economic actor, an Asian dragon, which definitely attracted more foreign partners than Pyongyang's peculiar conception of trade relations. As a result, trade ties between socialist countries and South Korea quickly soared, and were quickly followed by the establishment of full diplomatic relations, especially after the 1988 Seoul Olympics. Supreme humiliation for Pyongyang, its calls for the boycott of the Olympics were not followed by the socialist camp (only Cuba and Ethiopia refused to take part in the games), same as one year later, no important ally decided to attend Pyongyang's World Festival of Youth and Students, not even Fidel Castro, who lobbied intensively, a few years earlier for joint Seoul-Pyongyang Olympics. Four months after the World Festival of Youth and Students, the Berlin Wall fell, and more and more

⁴⁶⁹ CUMINGS, 1997. See p.463.

socialist countries established diplomatic relations with the ROK, including the USSR on September 30th, 1990.

3.1.2 *Walking on eggshells: Chinese peninsular diplomacy*

During the 1980 decade, China followed a multi-purpose diplomacy regarding the Korean peninsula and, beyond, the Asia-Pacific region. Beijing was expanding trade ties, especially with former foes like the ROK, Japan or Taiwan. This was especially tricky since Moscow-Beijing relations did not thaw until a few years, and only incrementally, thus enhancing the need to protect former alliance with Asian countries that were pro-China or at least not pro-Moscow. Pyongyang was one of them, but it was obviously not pleased with the idea of increased Japan- and ROK-China interaction.

What's more, China had its own agenda regarding the DPRK. Given that, as seen earlier, Kim Il-sung had reasons to pay attention to Deng's ideas, the Sichuanese proved eager to discuss and show the early results of the economic reform in China. After Deng and its most "liberal" colleague Hu Yaobang visited Pyongyang in 1982, the *Great Leader* made at least two trips to China between 1982 and 1985⁴⁷⁰, and Kim Jong-il was taken to see Shanghai and Shenzhen in 1983⁴⁷¹, the latter allegedly on Deng's personal recommendation. Given the lack of available detail on these visits, it is hard to say whether these trips only aimed at introducing the soon-to-be *Dear Leader* to the political spheres of China, or to raise the North Koreans awareness about the benefits of *reform and opening* [改革开放; *gaige kaifang*].

Chinese diplomacy certainly did not lack *finesse* but also made mistakes. In 1985, General Secretary Hu Yaobang made an official visit to the DPRK, where he met both Kim Il-sung and his son. Pyongyang expressed its concerns and frustration regarding China's policies towards South Korea. Indeed, in 1985, for the first time, China's trade with the ROK exceeded its exchanges with the DPRK, which could only preoccupy Pyongyang. In order to reassure its neighbor, Hu Yaobang made a promise he would not keep: that the PRC would never fully

⁴⁷⁰ Unfortunately, scholarly accounts of these extremely important trips widely differ on the timing, list of delegates, and level of the visits. The presence of Kim Il-sung and Kim Jong-il during the 1983 trip to Southern China is also debated.

⁴⁷¹ FUNABASHI Yoichi, 2007, *The Peninsula Question : a Chronicle of the second Korean nuclear crisis*, Brookings Institution Press, Washington. See p.439. Some have explained that this visit was a secret one and that Kim Jong-il was accompanied by Minister of Defense O Chin-u, other stated that he was accompanied by his father, or by businessmen.

recognize the ROK. When China betrayed its own promise, on the 24th of August 1992, it is very likely that it was felt as a *Dolstoß* by the DPRK leadership, and especially by Kim Jong-il who was about to seize supreme power in the DPRK, has been to China only twice, could not speak Chinese and was most likely not very familiar with Chinese leaders and politics (at least not as familiar as his father was). Speeches and texts written by Kim Jong-il at that time seem to largely reflect his opinion of current developments in the socialist world and most likely China in particular, although, for obvious reasons, he is not explicit:

*“Recently the imperialists are getting more and more frantic in their attempt to frustrate socialism. In step with their unprecedented intensification of anti-socialist machinations, various trends of thought, which distort and deny the ideal of socialism, are appearing. These anti-socialist trends have worn out the socialist system in some countries and made their societies capitalistic, giving rise to grave consequences in these countries. Such developments have been witnessed mainly in the countries which failed to maintain the revolutionary principles of the working class and which failed to formulate lines and policies creatively in conformity with changing situations, even though some have asserted that they were guided by Marxism-Leninism.”*⁴⁷²

A few years later, after the collapse of the socialist bloc, Kim Jong-il turned out to be even more explicit: *“Today, traitors to socialism harbor illusions about capitalism and raise their hopes high for economic assistance from imperialists”*⁴⁷³.

Political and diplomatic setbacks obviously deeply hurt the national pride of the DPRK, but there were even more serious troubles ahead. Until the very end, the USSR tried to maintain a good working relationship with the DPRK, even offering to build a nuclear reactor⁴⁷⁴ near Pyongyang. But on the other hand, the economic reform that occurred in the late Soviet Union had for collateral effect to call the end of barter trade with the DPRK. China also asked for cash payments instead of barter trade a few years later (in 1992⁴⁷⁵), which had a

⁴⁷² KIM Jong-il, 1990, *On some problems of the ideological foundations of socialism, Speech Delivered to the Senior Officials of the Central Committee of the Worker’s Party of Korea*, Foreign Languages Editions, Pyongyang.

⁴⁷³ KIM Jong-il, 1994, *Socialism Is Science*, Pyongyang, Foreign Languages Editions. See p.4.

⁴⁷⁴ ARMSTRONG, 2013. See p.246.

⁴⁷⁵ LIU Ming, 2011, China’s Role in the Course of North Korea’s Transition, in AHN Choong-yong, EBERSTADT, Nicholas, LEE Young-sun, *New International Engagement Framework for North Korea: Contending Perspectives*,

dramatic effect on North Korea's volume of trade: the value of external trade in general was cut in half: US\$ 5.42 billion of 1988 to US\$2.72 billion in 1991⁴⁷⁶. Although Beijing maintained a small assistance program in the DPRK, the effect of China's and the Soviet Union *volte-face* (and eventually collapse, for the latter) was dramatic and the DPRK's economy was unable to face the disaster that occurred in the mid-1990s.

3.2 In search of alternatives

3.2.1 Seeking new areas of economic cooperation

Chinese efforts at demonstrating the benefits of reform and opening were not useless. In several occasions, the DPRK leaderships explained that some aspects of Chinese economic experimentations in the 1980s (the word "reform" is however never used explicitly) had positive aspects, mostly inflows of cash, but also foreign technology. Given that the already limited FDI inflows of the 1970's had almost completely dried up, Pyongyang had to go a little further into "reform" in order to be more attractive for potential foreign partners.

Pyongyang also tried to boost its exports by any means necessary including engaging in grey or illegal trade. Intelligence agencies and international organizations have published various reports based on various sources (some open and reliable, some others much harder to triangulate) about alleged –or verified– smuggling of drugs by DPRK diplomats, money counterfeiting, etc. As seen earlier, the DPRK also used its industrial knowledge in weapon manufacturing to sell cheap but reliable weapons to different countries: Pyongyang was a major provider of weapons during the 1980-1988 Iran-Irak war, and it also provided weapons to Burma⁴⁷⁷, among many others.

More interesting within the scope of this study is the DPRK's interest in developing inbound tourism as a source of foreign currencies. In 1987, North Korea joined the World Tourism

Korea Economic Institute of America. Url: <http://www.keia.org/sites/default/files/publications/04Ming.pdf>. Last accessed 1st of September 2014.

⁴⁷⁶ GILLS, Barry, 1996, *Korea Versus Korea : a Case of Contested Legitimacy*, Routledge, New York. See p.230.

⁴⁷⁷ LINTNER, YOON, 2001.

Organization (UNWTO)⁴⁷⁸ and founded an *ad hoc* company (Korea International Travel Company, KITC) to manage tourists visiting the DPRK. Welcoming international tourists during highly-controlled organized tours of the country has become an important source of foreign currency (although, once again, statistics are missing) for the North Korean State, and the current government of the DPRK seems to consider tourism as a national priority (as will be detailed in part II and III). Controlled tourism is indeed politically safe, can improve the image of the country for foreigners and is less likely to be impacted by financial sanctions. This “opening” to foreign tourists (tourism-related programs targeting socialist countries had existed before) was relatively successful, as in 1990, about 115 000 foreign visitors crossed the border⁴⁷⁹, the overwhelming majority of them (84,5%) being Asians.

It is interesting to notice that minor texts of Kim Il-sung dealing with tourism have been republished recently. Especially, *On Developing Kangwon Province as a Good Tourism Resort*, a speech from 1989⁴⁸⁰, can be found in every single bookstore of the DPRK since the Wonsan-Kumgangsan International Tourism Zone project is on the rails. As Kim explained, he had important ambitions for tourism, trying to attract as much as one million foreign tourists in the upcoming years, and then progressively develop infrastructure so that millions of foreigners could visit the DPRK. The plan was to create new commercial air lanes, first with fellow socialist countries (from Sofia to Moscow to Pyongyang), then, surprisingly, with Africa (via Sofia) and eventually with Western Europe (Paris). Kim also mentions that it could be profitable to cooperate with China, in order to attract foreign tourists coming to visit Dandong on the other side of the border. It seems that the most important target was not Chinese citizens, however, but rather “rich men from capitalist countries”⁴⁸¹, which is why workers of the tourism sector in North Korea (but also the whole population of Kangwon province!) had to learn foreign languages, “especially English”. It is interesting to see that Kim Il-sung actually mentions most of the spots that are now well-known touristic resorts of the DPRK, including Pyongyang (Taesongsan), Kaesong (Tombs of King Kongmin, Gingseng

⁴⁷⁸ East Asia and Pacific Member States, United Nations World Tourism Organization (online). Url: <http://asiapacific.unwto.org/en/members/eastasiapacific?op=4&subop=11>. Last accessed 15th of 2016.

⁴⁷⁹ *North Korea Handbook*, 2002, Yonhap News Agency, Seoul. See p.449.

⁴⁸⁰ KIM Il-sung, 1989, *On Developing Kangwon Province as a Good Tourism Resort, Speech Delivered at the 31th Session of the Eighth Central People's Committee of the Democratic People's Republic of Korea*. Foreign Languages Publishing House, Pyongyang.

⁴⁸¹ Idem, p.2.

fields), Panmunjom, Myohyansan, Kumgangsan, Wonsan, etc. In 1984, Kim Il-sung also called for the construction of an “excellent hotel on Yanggak island” in central Pyongyang, which nowadays hosts the bulk of foreign tourists visiting Pyongyang and was designed by French architects. While references to Chinese language, culture and politics are ubiquitous in Kim Il-sung’s work, the 1989 speech on tourism in Kangwon strikes out as it does not only highlights differences between China and Korea, but rather calls for the borrowing of Chinese tourism-related policies. In the very first paragraphs, Kim explicitly lauds the PRC’s opening to foreign tourists, and especially focuses on the Chinese city of Hangzhou (near Shanghai), which is known for its West lake, and makes a parallel with mt. Kumgang’s Samil lagoon. Adding that the latter is more beautiful than West Lake, it should attract more tourists, and thus suggest that policies which “worked” in China would be even more successful in the DPRK. With a historical perspective, it is also interesting to note that Kim also relies on the example of Tianjin to make a point: tourism and light industry are interrelated, and foreign tourists would be easy targets for locally manufactured goods, especially souvenirs. 25 years later, the DPRK announced the opening of Wonsan-Kumgangsan SEZ and later the Hyondong SEZ, trying to finally turn these potential synergies into realities: while Wonsan-Kumgangsan is planned to attract more foreigners, the associated Hyondong SEZ (see part II) is open for investment, especially in the souvenir industry of the DPRK⁴⁸².

As will be seen later, the tourism industry, especially at the Chinese border, is a key sector in China-DPRK economic relations: visitors to Dandong can see that travel agencies proliferated in the city, although only one state-run agency is allowed to take tourists to the other side of the border. What’s more, the proliferation of tourism-focused SEZs inside the country and in the borderlands strongly suggests that developing tourism in the DPRK is a priority of the central authorities. A fascinating early study on DPRK tourism published in 1990 by Derek Hall⁴⁸³ tends to support the idea that the opening to foreign tourists was modeled based on *delinking* policies. Opening politically safe sectors to foreigners would not only result in higher hard currency income but also in “infrastructural improvement” that would “benefit

⁴⁸² MIMURA Mitsuhiro, 2015, The Newly Created Economic Development Zones in the Democratic People’s Republic of Korea: In relation to the new economic policy under the Kim Jong Un government, *The Northeast Asian Economic Review* Vol. 3, No. 1. pp.27-37.

⁴⁸³ HALL, Derek, R., 1990, Stalinism and Tourism; A Study of Albania and North Korea, *Annals of Tourism Research*, vol.17, pp.36-54.

the indigenous population as well as, if not to a greater degree than, foreign tourists". While this new economic policy does not (or marginally) impact the internal political conditions of the DPRK, it could potentially participate to national accumulation (through revenue and foreign investment). In other words, the effect of external exchange on the internal situation of the DPRK is neutralized and the tourism sector can only bring benefits to the local economy. As will be showed later, it also explains the lack of domestic investment in the tourism sector of the DPRK in general (and in tourism-focused SEZs in particular): investing in tourism would be taking the problem "upside down" and offering capital to foreign partners (a neocolonial paradigm). It could be acceptable if, and only if, these investment would first and foremost benefit the DPRK population, while also being available for foreign partners and companies.

Kim Il-sung did acknowledge, in the 1980's, that the DPRK economy was in a very bad shape⁴⁸⁴. He also clearly explained that modifications needed to be done to the economic policies of the DPRK. One possible solution would have been increasing liberalization, which was obviously out of the question, as "using capitalist methods to manage a socialist economy is actually substituting the socialist economic system by a capitalist one"⁴⁸⁵. However, as many socialist States leaders opportunely explained⁴⁸⁶, according to orthodox Marxist theory, a socialist society still is a transitioning society (from capitalism to a classless society). Hence, capitalist features still persist in a socialist society and the must be taken into account, at least according to Kim Il-sung. These ideological tricks opened the way for increased material production incentives and beyond, an increased monetization of the DPRK economy. Giving workers opportunities to spend their wages on leisure activities (hence the development of tourism), goods or services (games, toys, restaurants, etc.) would provide a clear incentive to work harder/better⁴⁸⁷. In 1984, the DPRK implemented the "August Third" Program, which allowed workers to either keep or sell (on markets) some consumer goods that exceeded the plan's objectives⁴⁸⁸, a policy that can also be seen as transplanted from China, which had implemented the same kind of reforms a few years

⁴⁸⁴ KIM Il-sung, 1995e. See bibliography.

⁴⁸⁵ KIM Il-sung, 1995f. See bibliography.

⁴⁸⁶ See for instance LENIN, 1920, *Left-wing Communism: an Infantile Disorder* (many eds.).

⁴⁸⁷ KIM Il-sung, 1995d. See bibliography.

⁴⁸⁸ LEE Doo-won, 1993. See p.12

before. This was also designed to push local actors to take the initiative and adapt central stimuli to local conditions, as they became responsible for finding sufficient inputs to produce more than the plan's standards required, and could no longer rely solely on the central government⁴⁸⁹. Finally, another important economic experimentation that was introduced in 1984 is the "*Provisions on Independent Accounting Systems in State Enterprises*" that allegedly increased the role of costs, prices and profits in the management of State companies, mechanically increasing local responsibility. State-owned companies were asked to cover their expenses with their own revenues and not uniquely with subventions. These were rather pragmatic choices and implicit acknowledgments that ideological incentives were not enough, and that financial and material incentives could not properly work in a demonetized society.

3.2.2 Foreign Direct Investment

As seen earlier, the DPRK was never formally "closed" to foreign investment. Given the political context (domestic and external) as well as the lack of domestic policies or institutions aimed at facilitating the inflow of FDI into the country, the least that can be said is that the DPRK's attempts at hosting more FDI from non-socialist countries had limited and short-lived successes.

Because of the 1973 crisis, the rising prices of raw materials and the resulting North Korean default on its debt, Pyongyang's credit ratings were disastrous, and so was the reputation of the country in the business spheres, especially during the "adventurist" 1980 decade. In order to provide a safer environment to potential foreign investors, central authorities in Pyongyang decided to establish an *ad hoc* legal regime in order to appear more appealing to foreigners. Once again, the DPRK sought to adapt the Chinese example to the local conditions. According to South Korean lawyer Lee Yong-joong, the North Korea Joint-Venture Law, which was published on September 8th, 1984, was modeled on the Chinese equivalent, the *Law on Joint Venture Using Chinese and Foreign Investments*, adopted in 1979⁴⁹⁰. Obviously, minor differences existed⁴⁹¹, but most of the articles were just

⁴⁸⁹ Idem. On the 1984 decentralization, see also KIM Il-sung, 1995f. See bibliography.

⁴⁹⁰ LEE, Yong-joong, 2000, Development of North Korea's Legal Regime Governing Foreign Business Cooperation: A Revisit under the New Socialist Constitution of 1998, *Northwestern Journal of International Law & Business*.

transplanted into DPRK law. However, it should be pointed out that in terms of legal security, the legal framework of both laws was extremely weak. For instance, it only recognizes the competency of domestic courts, not international ones in case of legal dispute between foreign and domestic parties⁴⁹². Eight years later, other legal dispositions were introduced in the DPRK, including the *Foreign Investment Law*, the *Equity Joint-Venture Law* and the *DPRK Law on Taxes on Foreign-invested Enterprises and Foreigners*, all three in 1992. While their content also seems to be inspired from Chinese practices (increasingly converging with international standards) it is however important to note that these laws were only adopted after the DPRK amended its Constitution in April 1992, with the addition of the art.37, stating that

"The State shall encourage institutions, enterprises and organizations in our country to create joint ventures and cooperation of enterprise with foreign corporations and individuals".

This amendment suggests that the central authorities in Pyongyang were concerned with potential contradictions in the North Korea legal regime, thus showing increased interests for the development of a coherent legal regime to attract investors. DPRK officials in charge of attracting FDI in the country, or North Korean Investment Promotion Agencies materials, systematically refer to this art.37, in an attempt to reassure potential investors. The "performance" of the DPRK in terms of inbound FDI will be detailed in the following part.

More than the contents of these legal developments, which are left to lawyers⁴⁹³, the fact that these laws were transplanted from foreign countries (allegedly with the help of foreign lawyers⁴⁹⁴), and China in particular, into DPRK law is very interesting, especially through the lens of *delinking*. Do the 1984-1992 period, by almost plainly copying foreign experiences, constitutes a rupture with former economic policies of the DPRK? In a sense, they do, as the adoption of foreign-inspired investment laws constitute a perfect example of how the DPRK

⁴⁹¹ LEE, 2000. See pp.204-205.

⁴⁹² See article 15 of the Chinese Joint Venture Law, art.26 for the DPRK one.

⁴⁹³ We will, however, study in further details some specific investment-related laws in the next chapter.

⁴⁹⁴ GOEDDE, Patricia, 2003, Law "Of Our Own Style": The Evolution and Challenges of the North Korean Legal System, *Fordham International Law Journal*, Vol.27, N°4. pp.1265-1288.

tried to “re-link” with international practices⁴⁹⁵ that are clearly based on foreign capitalist rationality, as will be detailed in part III. As evidenced by these laws, the DPRK was unable to create the trade environment it wanted (and needed) for the construction of its economy; Pyongyang thus partially gave foreign partners what they wanted: a (more) business-friendly environment. From a *delinking* point of view, this clearly is a “setback”, or an ideological detour, even if North Korean scholars pointed out the convergences between the DPRK State and foreign actors⁴⁹⁶. Instead of implementing a “strict submission of external relations in every aspect to the logic of internal choices, without any consideration of capitalist rationality⁴⁹⁷”, the DPRK did the exact opposite: it modified its internal norms in reference to international (capitalist) practices. The PRC, which was at that time trying to bridge the gap between capitalism and socialism, and a close ally of the DPRK, clearly became a key element in this upheaval of the DPRK’s praxis.

On the other hand, even if the DPRK tried to woo foreign investors, it should also be said that its efforts were limited and compartmentalized. Obviously, the DPRK did not instantly turn into an investor’s paradise, the State remained firmly in control of economic matters. Due the typical vagueness and lack of details of North Korean investment-related laws, their actual implementation obviously raises important questions. These legal developments only encompass economic cooperation with foreign powers, but internal economic reform, was only marginally on the agenda. What’s more, the issues that might impair foreign investors go well beyond legal issues and cannot be resolved by the adoption of one single law. With the 1984 JVL, Pyongyang’s move was quite subtle; technically, it did not *alter* its traditional economic policies. What it did, however, was to *open* a new channel into the existing DPRK national economy. External relations were still submitted to the process of national accumulation (FDI was an additional way to fuel the country’s development), and the local economic apparatus, led by the DPRK State, was not altered to benefit from more foreign investment. In 1984, China was already down the path of reform and opening. What the DPRK did, in 1984, was (further) opening without reform.

⁴⁹⁵ This « *reconnexion* » has become explicit in the 2011 Rason Law. See next chapter.

⁴⁹⁶ LEE Chan-Woo, 2001, *The History of Foreign Capital Introduction in the DPRK*, ERINA Report vol.41. See p.2: “the subjective development process of the national economy and the objective conditions of international cooperation have combined”.

⁴⁹⁷ AMIN, 1985. See p.105.

3.2.3 Further opening without reform

The PRC and the DPRK did different reforms to begin with, with both countries having different political objectives that cannot be simply summarized as “economic development”. Admittedly, it did not prevent Chinese and North Korean opening policies from intersecting at some point, with Pyongyang drawing inspiration from what was (or still is) implemented in China. But both processes bear fundamental differences, some due to the specific features of North Korean and Chinese socio-economic complexes, some other due to subjective political choices by their respective leaderships.

It is often assumed that the DPRK reform was ill-timed due to the Kim Il-sung succession issue. While showing signs of economic openness, the political emergence of Kim Jong-il as Kim Il-sung’s successor, in a quasi-dynastic fashion, would have prevented Pyongyang to go further into reform. This might be partially true, but since the emergence of Kim Jong-il as a potential successor to its father became obvious to all observers (inside or outside the country) well before the 1980s⁴⁹⁸, this monocausal explanation seems too limited. It is true that the emergence of this “Paektu bloodline” [백두 의 혈통; *paektu ŭi hyŏlt’ong*], which was unseen (and frowned upon) in the socialist bloc, necessitated stability and Kim Jong-il’s legitimacy was based on his ability to carry his father’s legacy. But Kim Jong-il was already his father’s designated successor when the 1984 reforms were implemented, but also when the Rajin-Sonbong Special Economic Zone was established, the 1992 investment-related laws adopted and the art.37 added to the DPRK Constitution. Also the father-son transition was backed by China, and Beijing was obviously ready to support a more comprehensive economic reform in the DPRK.

This is also true for the Chinese side: it is often argued that the Chinese economic reform was facilitated by the emergence of a more liberal Deng Xiaoping, in contrast to a more conservative Mao. Yet, the revolutionary “old guard” of the PCC played a key role in liberalizing the country, and Deng made important efforts to appear as Mao legitimate successor to obtain enough room to maneuver politically. Contrary to a popular belief, the

⁴⁹⁸ LIM, 2009. See chapter 4, pp.59-104.

earlier generation of Special Economic Zones in China was *not* launched by reformist Deng Xiaoping, but by “conservative” Hua Guofeng, Mao’s handpicked successor⁴⁹⁹. What’s more, conservatives inside the PCC, like Chen Yun or Li Xiannian were actually in favor of Special Economic Zones⁵⁰⁰ and certainly had as much power in economic policy-making (until the 1980s) as Deng did. In such a context, given the opacity of the DPRK’s political system, it is quite difficult if Kim Jong-il did or did not support the North Korean opening policies at that time. It is however clear that the DPRK and China both implemented opening policies with very different political objectives. Even though Pyongyang has been drawing inspiration from what was (or still is) implemented in China, both countries’ processes bear fundamental differences, some due to the specific features of North Korean and Chinese socio-economic complexes, some other due to subjective political choices by their respective leaderships.

There is an extremely large number of potential reasons why the DPRK did choose to follow its own path and only selectively adapted Chinese policies. As very few archives funds related with the matter have been declassified in North Korea or in China, there are no definite means to know for sure. However, it is necessary, for later analysis and development to point out at the structural differences that existed between the PRC and the DPRK during this crucial period, as they partially explain the current contradictions and ambiguities of the Beijing-Pyongyang relation. Reasons why North Korea’s and China’s opening policies were so different are too numerous to be comprehensively listed, but can be broken down into three main categories:

➔ The Chinese “reform and opening” process did not suit the existing conditions of the DPRK

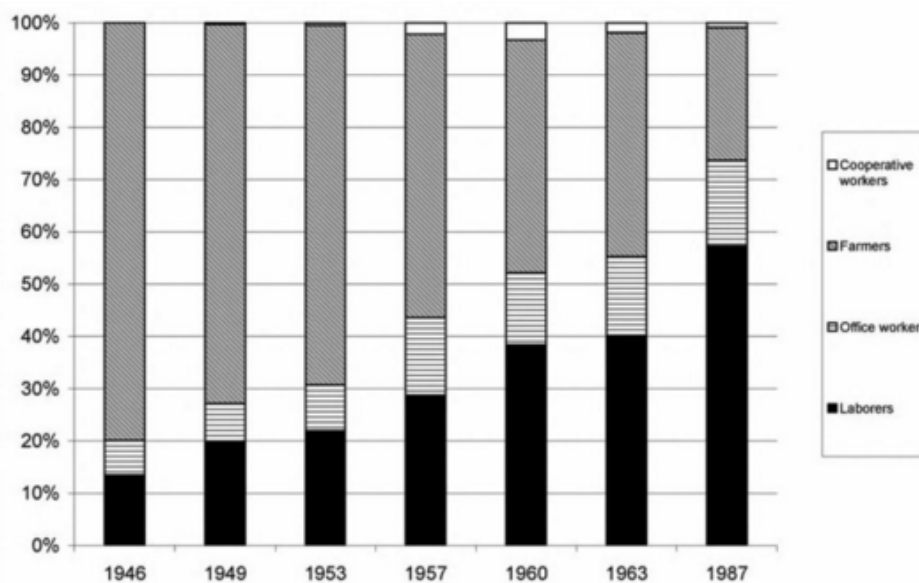
China and the DPRK, both socialist countries, had important similarities on the eve of the Chinese reform, especially in the political sphere. However given their respective sizes and demographics, but also the international context, China and North Korea clearly had to make different choices regarding the management of their economies. While the DPRK benefited

⁴⁹⁹ VOGEL, Ezra, 2011, *Deng Xiaoping and the Transformation of China*, Belknap Press of Harvard University Press, Cambridge. See p.185.

⁵⁰⁰ As for the anecdote, the original appellation of the “Special Zones” [特区; *tequ*] comes from the communist base in the Sichuan-Gansu-Ningxia region before PCC settled in Yan’an during the civil war. See VOGEL, 2011.

from important technology transfers from the Soviet Union and other socialist countries since 1945, Beijing had to struggle on its own from the whole 1960 decade and most of the 1970s. As a result, the industrialization of North Korea was much faster and widespread than that of the PRC. As figure 1 shows, in 1970, between 20 to 40% of the North Korean workforce was employed in the agricultural sector against no less than 81% in China⁵⁰¹.

Figure 1: Classification of North Korean Workforce



Source: SCHWEKENDIEK, Daniel, 2011, *A Socioeconomic history of North Korea*, McFarland and Co., Jefferson. (p.124).

Hence, contrary to China who was able to draw from its almost unlimited reserve of agricultural labor to meet the needs of its expanding industry, the DPRK had already made the transition and was even facing a shortage of labor in rural areas. Unlimited Chinese labor was obviously very attracting to foreign companies that wanted to outsource their labor-intensive activities, but the DPRK, on the contrary, was looking for foreign investments in more added-value sectors. What's more, given China's size (80 times North Korea's) and its ethnic plurality, decentralization processes almost necessarily had to appear much earlier than they (partially) did in the DPRK. This trend began in the early 1960's in China, and it is

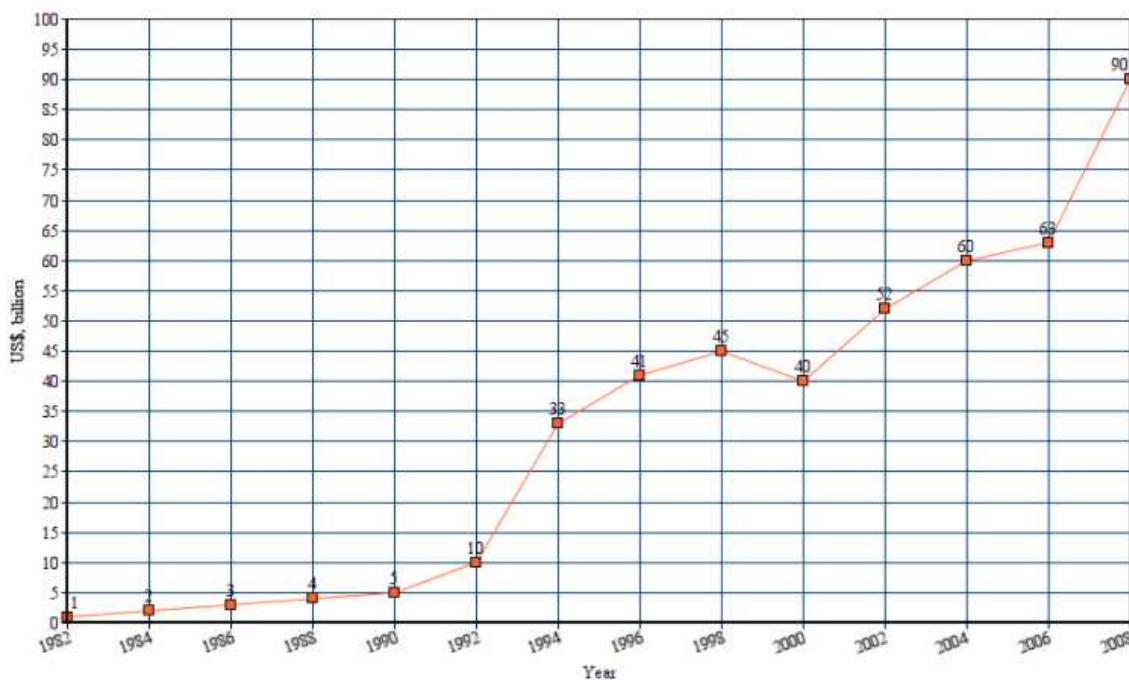
⁵⁰¹ HUANG Jikun, OTSUKA Keijiro, ROZELLE Scott, Agriculture in China's Development, Past disappointments, recent successes, and future challenges, in BRANDT, Loren, RAWSKI, Thomas G. (eds), 2008, *China's Great Economic Transformation*, Cambridge University Press, Cambridge.

estimated that when the reform started, less than half of the industrial output was under the direct control of Beijing⁵⁰².

→ Beijing benefited from wide international support and a friendlier environment

Needless to say, North Korea is one of the world's most isolated countries, partially because of the practical consequences of *delinking* and other internal decisions, but also because of the international context inherited from the division of the Korean Peninsula and the Korean War. The PRC, until 1971, also faced important diplomatic and geopolitical challenges, including the partition of the country, but given the historical, cultural and demographic importance of China (and, later, its economic potential) it was able to benefit from a much more pragmatic approach from developed countries. Sweden, Norway, Denmark and Switzerland sent ambassadors to Beijing as early as 1950-1951. France fully recognized the PRC in 1964 while still not having diplomatic relations with the DPRK. This process accelerated after the PRC replaced the Republic of China at the United Nations, established diplomatic relations with the Federal Republic of Germany in 1972 and, eventually, after Nixon's visit in 1972, when Washington fully recognized the PRC. Controversies on the Chinese nuclear program, human rights and minority issues or other potential bones of contentions between the West and China have sometimes been considerable, but it is undisputable that the PRC has become a major political, commercial, and military power all at once. The fact that the Chinese and the North Korean political systems bear striking resemblances did not prevent the former to become a major partner of the West, while the second still remains the most sanctioned economy in the world. Even after the Tiananmen riots in 1989, which greatly damaged China's image among Western audiences, the PRC could not be politically isolated for long, given the country's strategic importance. For instance, FDI inflows in China actually started to take off in the beginning of the 1990 decade, as can be seen on figure 2.

⁵⁰² BRANDT, Loren, RAWSKI, Thomas G., SUTTON, John, China's Industrial Development in BRANDT, Loren, RAWSKI, Thomas G. (eds), 2008, *China's Great Economic Transformation*, Cambridge University Press, Cambridge. Voir p. 572.

Figure 2: Foreign Direct Investment stocks in China, 1982-2008 (US dollars, billions)

Data from: CHEN Chunlai, 2010, *Asian Foreign Direct Investment and the "China effect"*, in GARNAUT, Ross, GOLLEY, Jane and SONG Ligang (eds), *China: the Next Twenty Years of Reform and Development*, Australia National University Press, Canberra.

During the 1980's, territories that had strong cultural and historical links to the PRC (especially Hong Kong, Taiwan or, to a lesser extent, Singapore) played a key role in "testing" the Chinese business environment by constituting the most important sources of FDI in the country⁵⁰³. But this is not the DPRK's case, given that the only potential important source of foreign investment is South Korea, a country with which Pyongyang is still technically at war with. At some point, in the middle of the 1980's, Pyongyang and Seoul did engage in some economic cooperation, as South Korean *chaebols* were eager to benefit from the DPRK cheap, educated and reliable workforce. In 1991, two-way trade even reached \$190 million⁵⁰⁴. In 1992, DPRK Prime minister Kim Dal-hyon visited Seoul and made the case for South Korea outward investment to the DPRK as opposed to "abroad" (like in Yanbian for example). However, due to the political context, unstable relations prevented this early economic cooperation from turning into a symbiotic relation like it did in Hong Kong/Shenzhen or Taiwan/Fujian for instance. When the Rajin-Sonbong Special Economic

⁵⁰³ BRANSTETTER, Lee; LARDY, Nicholas, China's Embrace of Globalization, in BRANDT, Loren, RAWSKI, Thomas G. (eds), 2008, *China's Great Economic Transformation*, Cambridge University Press, Cambridge.

⁵⁰⁴ GILLS, 1996. See p.231.

Zone of the DPRK hosted its first investment forum, in 1996, attracting delegates from 27 countries, the South Korean government chose not to send any delegates, given the tensed bilateral ties at that time.

Yet, while this might have, to some extent, played a role the failure of the DPRK's economic experimentations, the latter cannot be blamed solely on the hostile attitude of foreign powers. If, to some extent, the DPRK indisputably suffers from economic sanctions and politico-diplomatic isolation, Pyongyang of course is also responsible for the deterioration of its reputation as a commercial, economic and political partner. China, for various reasons, did benefit from a much friendlier international environment, not only because foreign powers, especially Western or "Westernized" ones, had political, economic, diplomatic interests in establish stronger ties with the PRC, but also because Beijing was willing and able to offer foreign partners what they wanted or needed, at least to a certain extend. To sum up, even if potential foreign partners obviously have far less interest in developing strong trade ties with the DPRK than with China, paradoxically, Beijing made more political and economic compromises to entice them.

➔ **Pyongyang was not convinced by the results of the Chinese reform**

As several schools of thought in political science or economics have argued, a uniquely quantitative, evolutionist perspective on economic development constitutes a methodological bias leading researcher to assume that national socio-economic systems aim at the same objectives, measurable by different indicators (GDP, NMP, inequalities, rate of poverty, life expectancy, etc.). The astonishing economic results of the Chinese *gaige kaifang* have understandably made the case for the potential benefits of economic transition from plan to a combination of plan and markets. They should not, however, hide the fact that the reform and opening processes have fundamentally changed the Chinese society, generating "side-effects" and externalities that might potentially contradict a given country's own development objectives. This appears especially true when one tries to compare the "side-effects" of the Chinese reform to the objectives of a country like the DPRK. Obviously as both countries' socio-economic structures are extremely different, the same policies can lead to different results and given the degree of opaqueness of the DPRK political system, it is hard

to say for sure what Pyongyang's development objectives are. But given the long-lasting socialist and independent features of the DPRK, one can easily see how some aspects of the Chinese reform would deter Pyongyang from drawing too much inspiration from it.

In the first decade of reform and opening in China, when important protectionist barriers to imported good existed, only very small private companies were allowed (mostly *getihu* [个体户] or individually-owned enterprises) and when transfers of populations from the countryside to the cities existed but were still limited, the DPRK leadership might have been seduced by Deng's reformist arguments. Indeed, at that time, there was no "chaos" in China, and contrary to a popular belief, the lowest social strata of China benefited more from the reform during the 1980's than the elite, leading social inequalities to actually resorb⁵⁰⁵. In a nutshell, the Chinese reform, or at least some aspects of it, might have been very attractive to the DPRK in the course of the 1980 decade.

On the other hand, early signs of contradictions between particular interests and the "scientific and rational management" of the economy by central powers, so important to the leadership of the DPRK, appeared early in China. During the early years of the reform, "collateral damages" were not obvious, but China did nonetheless cross what were considered redlines in the DPRK, but also in other socialist countries: for example, in 1986, labor contracts were introduced (initially as a temporary measure) in the Chinese law, a measure that *de facto* called for the end of permanent employment in Chinese State-Owned Enterprises (SOEs). While this measure was actually beneficial for employment in China (companies hired more than they fired until the beginning of the 1990's)⁵⁰⁶, it clearly was a step "backwards" (at least according to the standard Marxist/socialist perspective) regarding welfare and the socialist social contract. As it is well-known today, even though reliable data is lacking, this first measure led to nowadays' China critical unemployment issue, especially after the beginning of small and medium-sized SOE's privatization in 1994. What's more, unemployment was obviously not distributed equally among the Chinese territory, but also not among the population: weaker social groups suffered the heaviest blow, as the

⁵⁰⁵ NAUGHTON, 2008. See p.109.

⁵⁰⁶ CAI Fang, PARK, Albert, ZHAO Yaohui, Chinese Labor Market in the Reform Era, in BRANDT, Loren, RAWSKI, Thomas G. (eds), 2008, *China's Great Economic Transformation*, Cambridge University Press, Cambridge. See p.172.

privatization of Chinese companies had for collateral effect to widen the gap not only between rich and poor but also between male and female wages, at the expense of the latter⁵⁰⁷.

Economic opening created opportunities for the ruling group of China, and especially Party members and officials, even at the local level. While before 1978 the elite in China was mostly rewarded in political power or social prestige, opening policies positioned PCC officials at the frontline of the interaction with the “outside world”, and bribes or alternative legitimate sources of income did play a part in shaking the social structure of the PRC as well as the loyalty to the Party’s hierarchy and directions⁵⁰⁸. A substantial difference between the DPRK and China to be taken into account here is the necessity of increased decentralization that applies to the PRC, but not necessarily to North Korea. While Pyongyang had to decentralize decisions to some extent, the size and socio-economic structure of the PRC implied to go much further into decentralization processes, including notably the decentralization of fiscal revenues at the provincial level in 1984. As a result, the financial extraction capacity of the State decreased, making it harder for politicians to manage the economy at the central level⁵⁰⁹. In 1978, fiscal revenues of the State amounted to 34% of the GDP, but only 12% in 1995⁵¹⁰. Local authorities in the DPRK were encouraged to take initiative to adapt to central decisions, as they often had a better knowledge of the local situation that could potentially improve the centrally-decided policies’ results⁵¹¹, but these decentralization attempts never reached the same magnitude as on the other side of the border.

Almost automatically, the convergence of lessened loyalty towards the political hierarchy and the increased economic opportunities for socially dominant (but relatively poor) groups, led to widespread corruption, although this phenomenon among CCP officials largely predate the opening of SEZs in China: initial projects to open SEZs in Jiangsu were called off

⁵⁰⁷ CAI, PARK, ZHAO, 2008. See p. 188.

⁵⁰⁸ NAUGHTON, 2008. On this particular issue, see, among many others, NEE, Victor, LIAN Peng, 1994, *Sleeping with the Enemy: A Dynamic Model of Declining Political Commitment in State Socialism.*, *Theory and Society*, Vol. 23, N°2. pp.253-296.

⁵⁰⁹ GOODMAN, Merle, MACFARQUAR, Roderick, *Dynamic Economy, Declining Party-State*, in GOODMAN, Merle, MACFARQUAR, Roderick (eds), 1999, *The Paradox China’s Post-Mao Reforms*, Harvard University Press, Cambridge.

⁵¹⁰ Idem. See figure 4.1.

⁵¹¹ KIM Il-sung, 1995d. See bibliography.

given rumors of corruption among the local Party⁵¹². It quickly turned out that corruption was spinning out of control, even if officials in charge of Party discipline (most notably the conservative Chen Yun) advocated death sentences against corrupted official accepting bribes from foreign partners⁵¹³. One should not be too naïve and say that isolation prevents from corruption; it should however be noted that the economic reform played its part in worsening the situation, and the North Koreans seem to be aware of this issue. As the Rodong Sinmun, the KWP mouthpiece, explained in 2005: “A cat cannot catch mice after knowing the taste of beef, and a revolutionary cannot engage in revolution after knowing the taste of money”⁵¹⁴.

Another aspect of the Chinese reform and opening that certainly seemed unappealing to Pyongyang was that by decentralizing and opening to foreign investors and partners, it damaged the PCC’s ability to control flows of informations. The government monopoly on information was never as comprehensive in the PRC as in the DPRK, but FDI and SEZs opened gateways for ideological, political and cultural influences from foreign territories into China, generating increased “cognitive dissonance” and fostering “anti-party activities”. During the 1980’s, countless popular eruptions occurred in China⁵¹⁵, sometimes in order to obtain more individual political rights or oppose local projects, sometimes in order to protest against the detrimental effects of the Chinese reform and especially inflation. After the gradual liberalization of prices in 1988, prices of common goods like alcohol or tobacco skyrocketed at a rate of 200%⁵¹⁶, triggering mass contestation in the whole country, which damaged Deng’s aura among the Party but also the population.

Finally, the most striking feature of the Chinese post-1978 development is the explosion of social inequalities and especially the widening gap between Chinese territories. While the first decade of the economic reform was a “reform without losers”, this clearly is no longer the case today, and the Chinese mainland suffers from major imbalances in economic and infrastructure development, due to a wide variety of factors, including political will. Instead

⁵¹² PANTSOV, Alexander V., LEVINE, Steven I., 2015, *Deng Xiaoping, A Revolutionary Life*, Oxford University Press, Oxford. See p.379.

⁵¹³ *Idem*.

⁵¹⁴ FUNABASHI Yoichi, 2007, *The Peninsula Question: a Chronicle of the second Korean nuclear crisis*, Brookings Institution Press, Washington. See p.450.

⁵¹⁵ BERNSTEIN, P. Thomas, Farmer Discontent and Regime Responses, in GOODMAN, Merle, MACFARQUAR, Roderick (eds), 1999, *The Paradox China’s Post-Mao Reforms*, Harvard University Press, Cambridge.

⁵¹⁶ PANTSOV, LEVINE, 2015. See p.405.

of a rigid “top-down” approach of territorial development driven from Beijing, the marketization of the Chinese economy provided great opportunities for provinces and regions that had locational advantages, with the rest of the country, mechanically, lagging behind. This phenomenon was acknowledged by the Chinese leadership and considered a necessary evil, as Deng famously puts it : “let some get rich, others will follow until common prosperity” [先富后富共同富裕 ; *xianfu houfu gongtongfuyu*].

In this regard, it is especially interesting to study *Dongbei* provinces because contrary to Central or Western provinces of China which have basically always been lagging behind the rest of the Chinese economy in the modern era, the Northeastern territories used to be China’s engine during both the Republican era and the pre-reform times. What’s more, given that Liaoning and Jilin provinces border the DPRK and have “facilitated” relations with North Korea⁵¹⁷, the effect of the reform in *Dongbei* is especially important to understand here. While the Eastern coast (including Port-Arthur, nowadays Dalian) benefited from Western investments during the late Qing dynasty, in the context of the semi-colonization of the Chinese Empire, *Dongbei* became an industrial stronghold due to its close links with the Russian Far East and, later, the creation of the Japanese-controlled Manchukuo. After 1949, due to the close ties between Beijing and Moscow at that time, Soviet assistance programs and investments targeted this area in particular. Moreover, in 1958, the largest oilfield in China was discovered in Daqing, Heilongjiang province, which further increased the industrialization of *Dongbei*. Liaoning province, for example, came first in terms of profit remission to Beijing’s coffers, hosted about 10% of the country’s large and medium-sized SOEs and contributed to respectively 71 and 63 % of the total production of iron and steel in China⁵¹⁸. However, since the golden age of heavy industry in the PRC, during the 1950-1960’s, Northeast China has been suffering consecutive blows and the local economy dramatically slowed down, giving birth to what Chinese social scientists call the Northeast syndrome [东北现象 ; *dongbei xianxiang*] to describe the peculiarity of the current economic situation in Northeast China. At the beginning of the 1960’s, the USSR and China broke ties, cutting off this quasi-landlocked region of China from a major supplier of capital

⁵¹⁷ The DPRK has a consulate in Shenyang and trade delegations in Yanbian and Dandong.

⁵¹⁸ LEE Chin Kwan, 2007, *Against the law : labor protests in China's rustbelt and sunbelt*, University of California Press, Berkeley. See p.69.

and technology. Two decades later, the Chinese reform had a major impact on the local economic situation: the economic development strategy based on government-owned heavy industry shifted to one based on export-oriented processing of consumer goods. In 1991, the USSR finally collapsed and SOEs in China began to be privatized and reorganized, resulting in lay-offs on a massive scale: according to Barry Naughton, about 30 million workers were fired, as well as 20 million employees of urban collectives. *Dongbei* provinces were struck by “the most severe unemployment problem of the nation”. The detrimental effect of the economic reform in *Dongbei* provinces should not be underestimated: between 1980 and 1990, life expectancy levels actually *declined* in the three Northeastern provinces (only marginally in Liaoning)⁵¹⁹. Jilin Province, for example, saw its already tiny participation to the Chinese GDP decline from 2,6 to 2% between 1979 and 1993⁵²⁰. In the context of a massive scale corruption affair in Liaoning Province, provincial officials had to admit that in the first quarter of 2016, for the first time in China since the economic reform, an average negative economic growth had been recorded⁵²¹. The Chinese economy became increasingly privatized and export-oriented, providing southern coastal provinces opportunities to exploit their locational advantages⁵²². Landlocked *Dongbei*, on the other hand, clearly appeared as the loser of the reforms, with the territory of the DPRK functioning as a physical “barrier” for Chinese commodities. As the Chinese put it, cities bordering the DPRK can sometimes “see the seagulls but not the sea” [只见海鸥不见海 ; *zhijian haiou bujian hai*] as they are very close to the ocean but cannot directly access it. This “barrier” needs to be either bypassed or crossed, which is easier said than done and generates frustration for both sides of the border as will be explained in part II.

In a few words, the effects of the reform in the Chinese provinces bordering or neighboring the DPRK were quite the opposite of what one would expect from a socialist country. The idea that Deng’s ideological “detour” from socialism left Pyongyang perplex, especially after

⁵¹⁹ WANG, Feng, MASON, Andrew, The Demographic Factor in China’s Transition, in BRANDT, Loren, RAWSKI, Thomas G. (eds), 2008, *China’s Great Economic Transformation*, Cambridge University Press, Cambridge.

⁵²⁰ COTTON, James, Jilin’s Coastal Development Strategy, *Asian Survey*, Vol. 36, No. 11. See p.1089.

⁵²¹ Chine: une province falsifie ses statistiques, Le Figaro, 18 Janvier 2017. Url : <http://www.lefigaro.fr/flash-eco/2017/01/18/97002-20170118FILWWW00058-chine-une-province-falsifie-ses-statistiques.php>

⁵²² LARDY, Nicholas, 1992, *Foreign Trade and Economic Reform in China, 1978-1990*, Cambridge University Press, Cambridge. See p.129-130.

the 1980's, can be debated. However, from our perspective, even if it is difficult to know for sure Pyongyang's point of view on the ideological aspects of economic reform in China⁵²³ (especially given its peculiar interpretation of Marxism) its social and societal implications seem less open to debate. In a country with strict political control like the DPRK, the emergence of social contradictions, cognitive dissonance and relative relaxing of Party authority, which were all the more tolerated by Beijing (until a certain point), are more than likely to have upset Pyongyang.

3.3 A new China-DPRK Partnership: looking for common interests

Deng Xiaoping, and later DPRK ideologues⁵²⁴, liked to use the metaphor of a mosquito net to describe the opening policies that would "let the breeze in, but keep the mosquitoes out". In other words, one can benefit from the positive aspects of the economic opening while keeping influences seen as negative out. How Pyongyang tried to implement a "mosquito net" in its external relations, including with socialist countries, has been discussed at length. But the Chinese reform, the 1989 Tiananmen demonstrations, the fall of the Berlin Wall and the subsequent collapse of the Soviet Union in December 1991 (the very same month of the opening of the Rajin-Sonbong Special Economic Zone) while inducing terrible blows to the economy of the DPRK (eventually culminating into the *Arduous March*), proved that this mosquito net allowed to muddle through very difficult times, as Bruce Cumings puts it:

*"[...]one can imagine Kim Il Sung looking at his politburo friends in 1989 when the Berlin Wall fell, or in 1991 when the USSR collapsed, and asking them where North Korea would be had it integrated with the Soviet bloc and participated in the international division of labor that Moscow fostered in Eastern Europe"*⁵²⁵.

The Soviet Union and the PRC were already mosquitoes, but when their economies became (either suddenly or incrementally) capitalist economies, the cooperation was made much

⁵²³ On the reassessment of socialism in China during the Reform era, see SUN Yan, 1995, *The Reassessment of Socialism in China, 1976-1992*, Princeton University Press, Princeton.

⁵²⁴ CUMINGS, Bruce, Why did so Many Influential North Korean Thinkers Believe that North Korea would Collapse?, in, KIM Suh-ki, ROEHRIG Terence, SELIGER, Bernhard, 2011, *The Survival of North Korea, Essays on Strategy, Economics and International Relations*, McFarland & Co, Jefferson.

⁵²⁵ CUMINGS, 2011. See p.55.

more difficult, and the relation between the DPRK and Beijing went through a complete qualitative transformation.

After the disruption of the USSR, the DPRK's most important trade partner at that time, bilateral trade volumes nosedived: Eltsin's Russia had little economic interest in engaging in "aid in form of trade" with the DPRK, and no political interest in pleasing Pyongyang. Between 1988 and 1992, trade between the USSR/Russia and the DPRK was cut by half⁵²⁶, and Russian shipments of oil collapsed from one year to the other (from 444 000 tons in 1990 to 100 000 the following year)⁵²⁷. Since then, China has mechanically emerged as the DPRK's most important trade partner, far above all the others, despite the fact that Beijing refused, from 1992 on, to engage in barter trade⁵²⁸.

The DPRK was "trapped" in a dialogue with China, its sole important economic partner. The Beijing-Pyongyang relation had clearly evolved into a type of bilateral link that worked at the DPRK's expense. After 40 years of *Juche* and policies aimed at self-reliance, North Korea was more than ever dependent on China, whose political interests were clearly antagonizing the DPRK's. China's rise as an economic and commercial power required stability in the region, and increased ties with emerging powers, including South Korea. While Beijing would never support North Korea's self-centered behavior, Beijing and Pyongyang still had enough converging interests to maintain a working relation, albeit both sides experience frustration in front of the partner's behavior. As will be explained later, in the context of China's rise, the U.S. "pivot" towards East Asia and the DPRK's controversial nuclear program, Beijing-Pyongyang relations have become extremely complex to study. Therefore, the "bilateral approach" is not necessarily the most adequate angle of approach to examine them. As for now, only the basic convergence that still exists between China's and North Korea's strategic interests in the region will be highlighted.

⁵²⁶ GILLS, 1996. See p.230.

⁵²⁷ CUMINGS, Bruce, 2003, *North Korea : Another Country* , The New Press, New York.

⁵²⁸ CHEN Jian, 2003, Limits of the 'Lips and Teeth' Alliance: An Historical Review of Chinese-North Korean Relations, *Asia Program Special Report*, N°115. Url: http://www.wilsoncenter.org/sites/default/files/asia_rpt115b.pdf

3.3.1 *Maintaining the North Korean State*

While it goes without saying that the Pyongyang leadership wants to remain in power, China is first and foremost looking for stability in East Asia, including in the Korean Peninsula, and has interest in keeping the DPRK afloat. Beijing, competing with the U.S. and its allies in Asia as the leading regional power, is reassured by the very existence of the DPRK as a “buffer State” [战略屏障 ; *zhanlüe pingzhang*] that mediates between the sphere of U.S. influence and China, and mitigates the risk of potential confrontations between both entities. Moreover, given the importance of the military in the DPRK, a collapse of this “buffer State” would make the proliferation of different kind of weapons (including nuclear material) quite difficult to control, not to mention potential flows of refugees in China. For all these reasons, Beijing maintains an assistance program to the DPRK in order to prevent brutal economic crises, like the Arduous March, that could destabilize the whole region. While details on this assistance program are a well-kept secret, this assistance cannot be compared with what was implemented by the USSR, the PRC or other socialist countries in previous decades. As will be explained, China is not involved in major infrastructural build-up in the DPRK anymore. The PRC provides oil, food, and technical training to North Koreans, in order to “keep the machine running”.

3.3.2 *Fostering economic interaction*

After a decade that was particularly harsh, the DPRK’s economy has shown signs of improvement since the early 2000’s. North Korea’s trade volume, declining in the 1990’s (from \$4,1 in 1991 to \$1,5 billion in 1999), started to rise again in 2000, reaching an all-time high of \$7,6 billion in 2014⁵²⁹. However, if compared with other neighboring countries of China, especially South East Asia, these figures are still very low, meaning that if, for China, the DPRK almost is a *captive* market (in 2014, 85% of North Korea’s external trade was made with China⁵³⁰) bilateral trade ties remain difficult and fragile. Increased trade with China means increased economic dependence and the DPRK’s leadership is openly trying to reduce this dependence (see chapter 8).

⁵²⁹ FRANK, Rüdiger, 2015, *North Korea’s Foreign Trade*, 38th North. Url: <http://38north.org/2015/10/rfrank102215/>. Last accessed 28th of January 2016.

⁵³⁰ *Idem*.

Pyongyang has interest in an increased economic cooperation with China, as it always had. The DPRK is only careful about the terms of the exchange, and if it cannot really be as “picky” as it used to be during the Cold War, due to the absence of an alternative backer, it certainly does not mean that it has abandoned *Juche* and self-reliance as its guiding policy. China’s interest in engaging into more economic interaction is two-fold: it seeks to reach out to the DPRK as a new market to conquer, but also as an economic corridor leading to Northeastern and Southeastern Asian markets.

The Chinese economy has become predominantly export-oriented, and landlocked regions of the *Dongbei*, have been experiencing chronic economic difficulties since the economic reform. North Korea happens to be an obstacle for further export-led economic development in two different ways. First, the DPRK market is hard to penetrate, due to the political context and Pyongyang’s chosen path of development. Officials or businessmen (including quite successful ones) interviewed at the border, especially in the city of Dandong, almost systematically hold the DPRK responsible for the current bleak economic situation of the city and the Province: “when the DPRK will “open and reform”, everything will be better and we need to prepare for this”⁵³¹. Second, North Korea also is a territorial obstacle, as it blocks access to the Sea of Japan (Eastern Sea): the closest Chinese city to the sea, Fangchuan, lies only 15km upstream of the Tumen river mouth. Creating an economic corridor through the DPRK would have tremendous interest for China and its overcapable, export-oriented economy. It would not only link the remote territories of the PRC with foreign markets like Japan or South Korea (which is, quite paradoxically, considered by some Chinese experts as an objective in the context of OBOR⁵³²), but also to southern China, as the quickest route from Northeast China to Shanghai or Guangzhou runs through the DPRK, a strategy called “inside trade, outside transport” [内贸外运 ; *neimao waiyun*] by officials in the Yanbian prefecture⁵³³.

In order to fight economic stagnation in the *Dongbei*, the central government decided to implement different development strategies for the Region: the “Northeast Area

⁵³¹ Quote from an interview with a Chinese businessman in Dandong. Interviewee has four different import-export companies and makes about 80% of its business activities with the DPRK.

⁵³² DA Zhigang, Can Beijing Shape the New Northeast Asia Order, *Global Times*, 23rd of February 2017. Url: <http://www.globaltimes.cn/content/1034561.shtml>. Last accessed 27th of February 2017.

⁵³³ Interview with Hunchun Border Trade Zone civil servant, February 2016.

Revitalization Plan” [振兴东北老工业基地 ; *zhenxing dongbei laogongye jidi*], in 2003, and later, at the Jilin province level, the “Changjitu” plan.

The Northeast Area Revitalization Plan (“NARP”), launched in 2003, is a multi-faceted plan aiming at bolstering economic growth in an ailing region. Its objectives are to diversify the industry of the Northeast, and develop local high-tech industry through an emphasis on education (“talent development programs”⁵³⁴) and other means. The guiding ideology behind the NARP is the same one that proved successful on the Chinese coast (Deng Xiaoping and the Three Represents are mentioned in the NARP plan’s guideline): transforming the SOE-dominated, domestic market-oriented economy of the *Dongbei* into a private-led export-oriented one; hence the need for increased diversification, competitiveness and high technology. But to overcome the unfavorable geographic location of Jilin and Heilongjiang provinces, massive infrastructure development has to be implemented, in order to develop North-South (Heilongjiang/Inner Mongolia – Liaoning/Jilin) and East-West economic corridors (Beijing-Shenyang-Changchun-Yanbian). On this particular aspect, the objectives of the plan are double: in addition to the development of the existing Chinese infrastructure (especially railroads and ports on the Bo Sea and Korean Bay like Dalian, Yingkou, Bayuquan or Dandong), the objective would be to link Chinese transportation networks with the Russian and North Korean ones, and especially with the ports of Chongjin (North Hamgyong Province) and Rajin-Sonbong.

The more recent Changjitu plan, launched in 2009 is almost entirely focused on this very aspect of the NARP. Known officially as Changjitu Pilot Area for Opening and Development [长吉图开发开放先导区 ; *changjitu kaifa kaifang xiandaoqu*], “Changjitu” is the Chinese acronym for Changchun (Jilin provincial capital), Jilin, Tumen. The Changjitu plan is based on a local subdivision of labor inside Jilin province, with high-added value activities being conducted in Changchun and Jilin city, while manufacturing and processing activities would be located in a hypothetical Yanji-Tumen-Longjin conurbation, just near the border with the DPRK’s North Hamgyong province. Commodities produced in Yanbian would thus be exported (to Niigata in Japan or Sokcho in South Korea) or sent to southern China not via the existing ports in Liaoning province but through Russia, or potentially, the DPRK.

⁵³⁴ Plan of Revitalizing Northeast China Released, *Xinhua* (online), 2007, Url: http://news.xinhuanet.com/english/2007-12/19/content_7279455.htm. Last accessed 29th of January 2016.

As of 2016, these initiatives have been met with limited enthusiasm, as will be seen in Part II. Indeed, even if Sino-North Korean economic cooperation has greatly improved since the end of the famine (especially in terms of investment), ties remain limited in scope, especially if compared with the extremely dynamic Chinese outward investment in other countries. Although the DPRK and the PRC do share common objectives and characteristics in terms of economic development and integration, they still struggle to find a cooperation pattern that would suit both sides.

Part Two: Failed Attempts at Bilateral Economic Cooperation

More than thirty years after the 1984 law, the DPRK still is widely considered to be one of the most closed countries on the globe. Economic cooperation was already made quite “difficult” with socialist partners during the Cold War era, the disappearance of the socialist bloc and its favourable trade policies pushed Pyongyang to bolden its economic experimentations in order to restart a stalled economy. Efforts at facilitating economic cooperation with the “outside world” have been numerous and diverse in nature, although, one can identify common patterns and common characteristics in Pyongyang’s attempts to “relink” with the outside world. China, for example is the common denominator of the vast majority of North Korea’s opening projects, and while the DPRK’s economy currently is clearly performing much better than in the previous decade, its economic dependence on China has dramatically increased. Political ties and shared strategic interests with Beijing can only partially explain this overreliance on China: as the following chapter will show, Chinese economic engagement of the DPRK is mostly private and profit-seeking. The emphasis put on economic cooperation with the PRC is all the more surprising given that the overall majority of bilateral economic integration mechanisms have all showed very limited results: among the most blatant examples of this almost impossible institutionalized bilateral economic cooperation are the DPRK’s Special Economic Zones (SEZs), which have proliferated all over the country in recent years. These SEZs are especially important to study here as they embody two important trends. First, they clearly show that Pyongyang is increasing the boldness of its economic policy experimentations while trying to find a successful cooperation pattern with China. Second, their limited success suggests that China and the DPRK are still struggling to find a “mutually beneficial” cooperation pattern. This part will thus also deal with the description (as well as some contextualized analysis) of a selection of relevant SEZs and the cooperation patterns with China they aim at establishing. What these limited successes (or failures) say about the current Chinese economic engagement of the DPRK will however only be discussed in part III.

Chapter 4: China-DPRK Recent Trade and Investment Patterns

Qualitative research in economic policy or international relations with a special focus on economics can hardly spare a critical analysis of available statistical data. This chapter will thus try to depict the current trend in China-DPRK economic ties using figures from different statistical databanks. The objective here is to set a frame that would allow a better understanding of current trade and investment patterns and provide a useful background for upcoming developments.

When it comes to statistics on the DPRK economy and foreign trade, several issues need to be addressed. North Korea stopped publishing statistics on a regularly basis since the 1960s⁵³⁵, and economists have been trying to reconstruct an approaching figure of most commonly used economic indicators such as GDP by various means. Even when Pyongyang used to publish statistics on its economic growth, it used the most common indicator in the Socialist bloc, Net Material Product (NMP- which excludes services as “unproductive labour”) instead of GDP (which includes services). Most often, the DPRK’s historical GDP is reconstructed using the difference between NMP and GDP in other socialist countries (most often the USSR), applied to available DPRK statistics. Several scholars have tried to use different calculation techniques and various (often uncomplete) datasets, but their results unsurprisingly widely differ, as explained by Hamm⁵³⁶. More recent research on historical economic growth rates also showed that estimates can vary to a rather extreme level (see table 5).

⁵³⁵ KIM Byung-yeon, KIM, Suk-jin, LEE Keun, 2007, Assessing the economic performance of North Korea, 1954–1989: Estimates and growth accounting analysis, *Journal of Comparative Economics* N°35, p.564–582.

⁵³⁶ HAMM Taik-young, 1999, *Arming the Two Koreas : State, Capital and Military Power*, Routledge, London. See p.128.

Table 5: Estimates of North Korean Growth Rates

Source:	DPRK official estimates (NMP)	South Korean official estimates (GNP)	Institute of North Korea Studies	Hwang (GNP)	Cho (GNP)	Yoon (GNP)
1953-1956	30.1					
1956-1960	21.0			32.3		
1960-1965	9.9		9.4	11.4		
1965-1970	5.4		7.4	12.8	10.2	
1970-1975	14.2		6.1	25.0	10.1	8.5
1975-1980	4.0		5.3	9.2	10.2	-2.0
1980-1985	n/a	3.6		7.2	8.5	-1.5
1985-1990	n/a	1.4		2.4	5.1	

Source: KIM Byung-yeon, KIM, Suk-jin, LEE Keun, 2007, Assessing the economic performance of North Korea, 1954–1989: Estimates and growth accounting analysis, Journal of Comparative Economics N°35, p.564–582.

The quantitative debate on the evaluation of the DPRK's GDP intersects with another qualitative issue. The latter is twofold: first, the relevance of GDP to measure economic performance in general; second, the relevance of GDP to measure the economic performance of the DPRK in particular. Obviously, the first half of this long-lasting intellectual controversy will not be addressed here as it goes well beyond the scope of this study. Given the weak reliability of statistics on the DPRK and our particular angle of approach, the use of GDP to assess North Korea's economic performance is only tangent to our research, especially if considered through the prism of dependency theory. But it is part of an important epistemological debate on the use of generally-accepted criteria to discuss development in and around the DPRK. Dependency theorists and especially their Marxist-leaning wing⁵³⁷ have little deference for what they consider to be (vulgar) "economism", or attempts to "assess" an economic performance without addressing the political *nature* of the economic system: capitalist or socialist. More orthodox scholars, on the contrary, have

⁵³⁷ Amin, once again, criticized "economism" in almost all of his books, but more particularly in AMIN, Samir, 1977, *Imperialism and Unequal Development*, Monthly Review Press, London.

made a case for the use of most-commonly accepted economic indicators in order to deal with North Korea's economy. Nicholas Eberstadt, for example, argued against the so-called "North Korean exceptionalism"⁵³⁸ and applied to the DPRK concepts and indicators like the Heritage Foundation's "Economic Freedom Index"⁵³⁹, the GDP or import/exports volume per capita. Eberstadt unsurprisingly concludes that the North Korean economy constitutes an "epic fail". The DPRK's trade performance, as well as its economic cooperation with the outside world, indeed has little to show for itself (by any standards), especially in the current context. Eberstadt makes interesting arguments when he argues that "the notion of "DPRK exceptionalism" is too easy to accept"⁵⁴⁰, and that it should not prevent researchers from doing comparisons involving the DPRK and critical assessments of North Korea's trade performance, however patchy datasets might be. However, as explained in the general introduction, the refusal of exceptionalism cannot justify the opposite bias: using ill-suited epistemological tools or so-called "objective laws of the economy" (a concept harshly criticized by Amin⁵⁴¹, but that surprisingly appears in North Korean literature⁵⁴²) that could mechanically be applied to any situation. As Frank points out:

*"the unique and specific characteristics of North Korea, which doubtlessly exist, are not examined without the attempt of integrating them into one of the many available standard frameworks of analysis"*⁵⁴³

Using Dependency Theory here provides with an alternative understanding of the DPRK's economic and trade performance, if not from Pyongyang's perspective, at least using a similar approach. Concretely speaking, Eberstadt's argument that the DPRK's "epic fail" can

⁵³⁸ EBERSTADT, Nicholas, 2015, North Korea's "Epic Economic Fail" in International Perspective, *Asan Research Report* (online). Url: <http://en.asaninst.org/wp-content/themes/twentythirteen/action/dl.php?id=35046>. Last accessed 10th of May 2016.

⁵³⁹ On « economic freedom » and DPRK economic policies, see part III.

⁵⁴⁰ Idem. See p.22.

⁵⁴¹ AMIN, Samir, 1980, *Class and Nation, Historically and in the Current Crisis*, Heinemann Educational Books, London. See p. 22. AMIN, Samir, 1977, *Imperialism and Unequal Development*, Monthly Review Press, New York. See p.160.

⁵⁴² Securing Economic Profit "fundamental to economic management", *Institute for Far-Eastern Studies NK Briefs*, 31th of October 2014. Url:

http://ifes.kyungnam.ac.kr/eng/FRM/FRM_0101V.aspx?code=FRM141031_0001. Last accessed 27th of February 2017.

⁵⁴³ FRANK, Rüdiger, 2007, Can Economic Theory Demystify North Korea?, *Asia-Pacific Journal* (online). Url: http://www.japanfocus.org/-R_diger-Frank/2341/article.html. Last accessed 07 June 2015.

be witnessed -in the country's especially limited trade performance (compared with Zimbabwe's in Eberstadt's report)⁵⁴⁴ makes little sense through the prism of "Delinking" theory. In a country that considers external exchange to be "necessary evil" and tries to limit it, low trade performance could constitute both an "epic fail" or quite the contrary a blatant success. The comparison with Zimbabwe made by Eberstat paradoxically seems to support Amin's view:

"Zimbabwe's working age adult (15-64) population in 2010 had roughly 7.9 mean years of schooling. To go by the 2008 DPRK census, the adult population in North Korea would have had nearly three more mean years of schooling at that slightly earlier date. In 2010, by World Bank estimates, life expectancy in North Korea was more than a decade longer than in Zimbabwe (69 years at birth vs. 54 years). And in 2010, by the UN Population Division's assessment, North Korea was far more urbanized than Zimbabwe (60 percent vs. 33 percent). All of these advantages, other things being equal, should have weighed toward North Korea out-performing Zimbabwe in trade output. Making the performance gap even clearer is the fact that Zimbabwe's population is much smaller than North Korea's: if the World Bank's World Development Indicators are correct, Zimbabwe's 2010 population was about 13 million, while DPRK's was over 24 million. North Korea is ostensibly a healthier, more educated, more urbanized and more populous society, and yet it only barely manages to match Zimbabwe's estimated merchandise import and export volumes: a stunning sign of just how far "below its weight" the DPRK economy is punching".⁵⁴⁵

Based on Delinking theory, if North Korea managed to become a "healthier, more educated more urbanized" society with only very limited volumes of imports and exports, then it can only be considered a success: while minimizing exchanges with other countries (and thus its dependence), it was able to raise its people's standards of living (health, education and maybe urbanization). Obviously, outranking the standards of living of a country like Zimbabwe can hardly count as an unqualified success.

⁵⁴⁴ EBERSTADT, 2015. See p.18.

⁵⁴⁵ Idem. Emphasis added by the author.

Data on the DPRK's foreign trade are most often mirror statistics published by Pyongyang's trade partners. Important reliability issues of these statistics need to be addressed before moving forward. As explained already, after the 1991 collapse of the USSR and the socialist camp, but even more especially since 2008 (see below), China became the DPRK's most import trade partner. That means that the PRC is the most reliable source of detailed data on the DPRK's foreign trade. However, several analysts⁵⁴⁶ or political leaders (including Chinese Premier Li Keqiang himself⁵⁴⁷) have cast their doubts on the reliability of Chinese statistics and maybe especially the ones dealing with DPRK trade, as they have become an important issue at stake in the context of the UN-sponsored economic sanctions against Pyongyang's nuclear program. The growing pressure of the economic sanctions as well as the declining position of the DPRK as a trade power since the 1980s created the conditions for the development of illegal (drug smuggling, for instance) or "grey" trade which by nature does not appear in statistics (or appears under inadequate labels). As many observers explained, the DPRK being the most sanctioned economy in the world, Pyongyang has become an expert in circumventing sanctions on its international trade, not to mention the numerous legal loopholes of multi- and unilateral measures against the DPRK. Last, but not least, Chinese statistics on trade with North Korea do not include aid and assistance programs, which are a well-kept secret and could potentially cover a wide range of goods, services and know-how/technological transfers, either through official state channels as development aid [援助 ; *yuanzhu*] or through the private sector. During fieldwork interviews in Dandong, at least two long-term executives of relatively large trade companies dealing with the DPRK explained that they often send Chinese personnel to install machinery and train Korean workers for free (as a commercial gesture)⁵⁴⁸. Statistics on bilateral investment suffer from the same biases.

⁵⁴⁶ KOCH-WESER, Jacob, 2013, The Reliability of China's Economic Data: An Analysis of National Output, *U.S.-China Economic and Security Review Commission Staff Research Project* (online). Url: <http://www.uscc.gov/sites/default/files/Research/TheReliabilityofChina'sEconomicData.pdf>. Last accessed 9th of May 2013.

⁵⁴⁷ China's Li Doesn't Believe His Own Numbers, *Bloomberg* (online), 5th of March 2014. Url: <http://www.bloomberg.com/view/articles/2014-03-05/china-s-li-doesn-t-believe-his-own-numbers>. Last accessed 2016.

⁵⁴⁸ This appears to be done only by relatively important companies with substantial financial means (the DPRK is charging Chinese personnel for accommodation and meals in the country).

Because of all these elements, it is clear that Chinese statistics of trade and investment in the DPRK need to be taken with caution. That being said, they still give an approximate shape of current patterns.

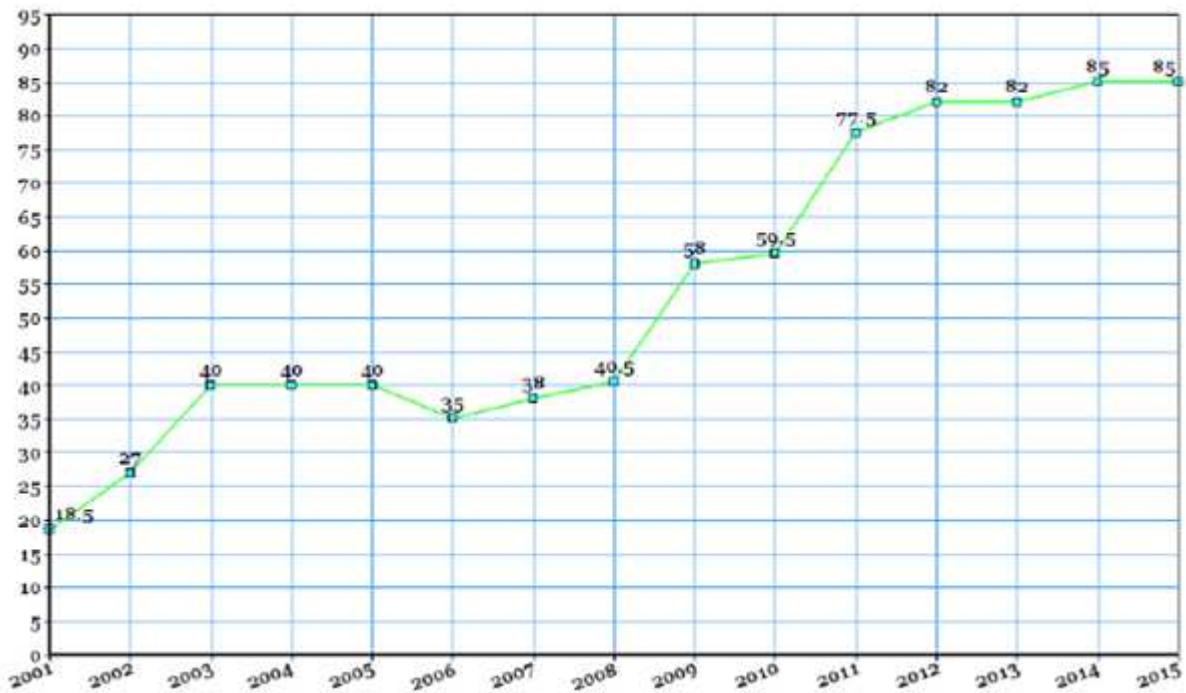
4.1 China-DPRK Trade: Current patterns

North Korea historically had a relatively large diversity of trade partners, from both blocs, but the bulk of the DPRK's trade was made with its socialist neighbors, the USSR and China. After the 1970s, Pyongyang gradually lost its relative attractiveness as a trade partner for most profit-seeking actors, leaving the DPRK to trade mostly with the PRC, the Soviet Union and Japan. The collapse of the Soviet Union amputated slightly more than half of North Korea's foreign trade and was followed by the (official) complete stop of barter trade with China in 1992. This geoeconomic earthquake was one reason, among others, that led to the *Arduous March* later in the 1990's. When the North Korean economy started to recover, in the 2000 decade, China gradually became, by far, the DPRK's most important trade partner, leading to an undisputable trade dependence on Beijing, its most important supplier and client.

4.1.1 Bilateral trade and trading companies profile

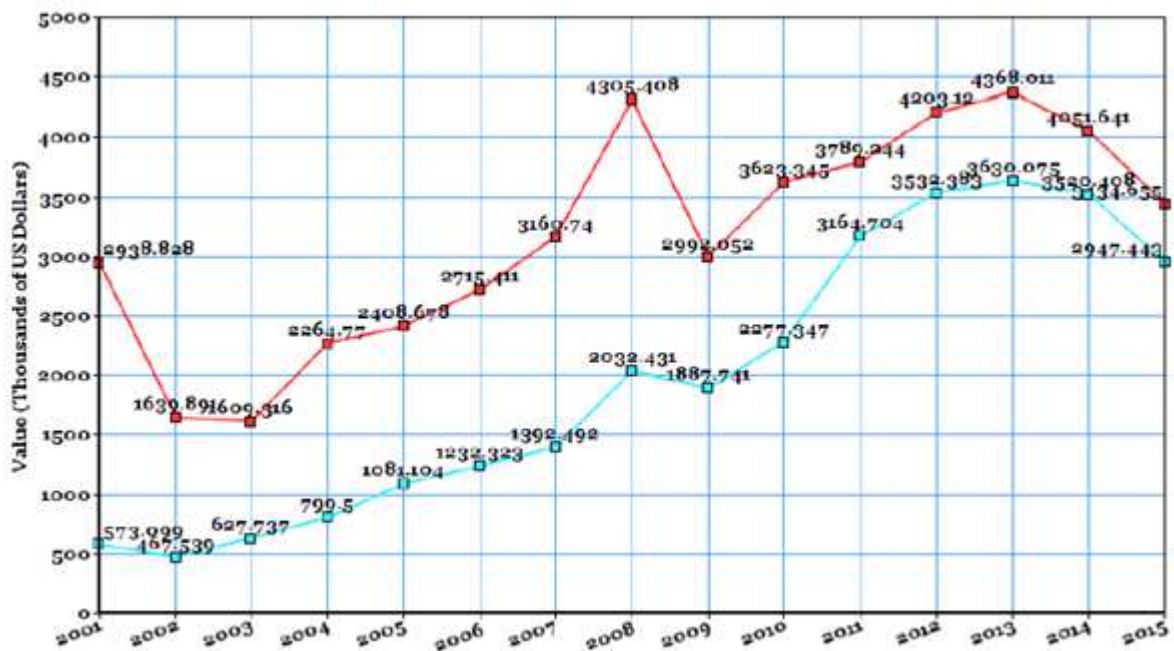
According to the UN's statistic database (UN Comtrade) and the Chinese customs, in 2002, China⁵⁴⁹ accounted for less than 20% of the DPRK's total foreign trade, a figure that has steadily been rising to almost 85% in 2015 (see figure 3). In 2002, Japan was the DPRK's most important trading partner, thanks to an active Korean diaspora in the archipelago. However, in 2015, China-DPRK bilateral trade value rose up to about \$5,4 billion (see figures 4 and 5), more than seven times its 2001 level, while its ties with Japan quickly dropped, from about \$1,3 billion in 2001 to less than \$100 000 in 2008.

⁵⁴⁹ "China" here refers to the Chinese mainland, excluding Hong Kong, Macau and Taiwan.

Figure 3: Trade with China as Percentage of total DPRK Trade (%)

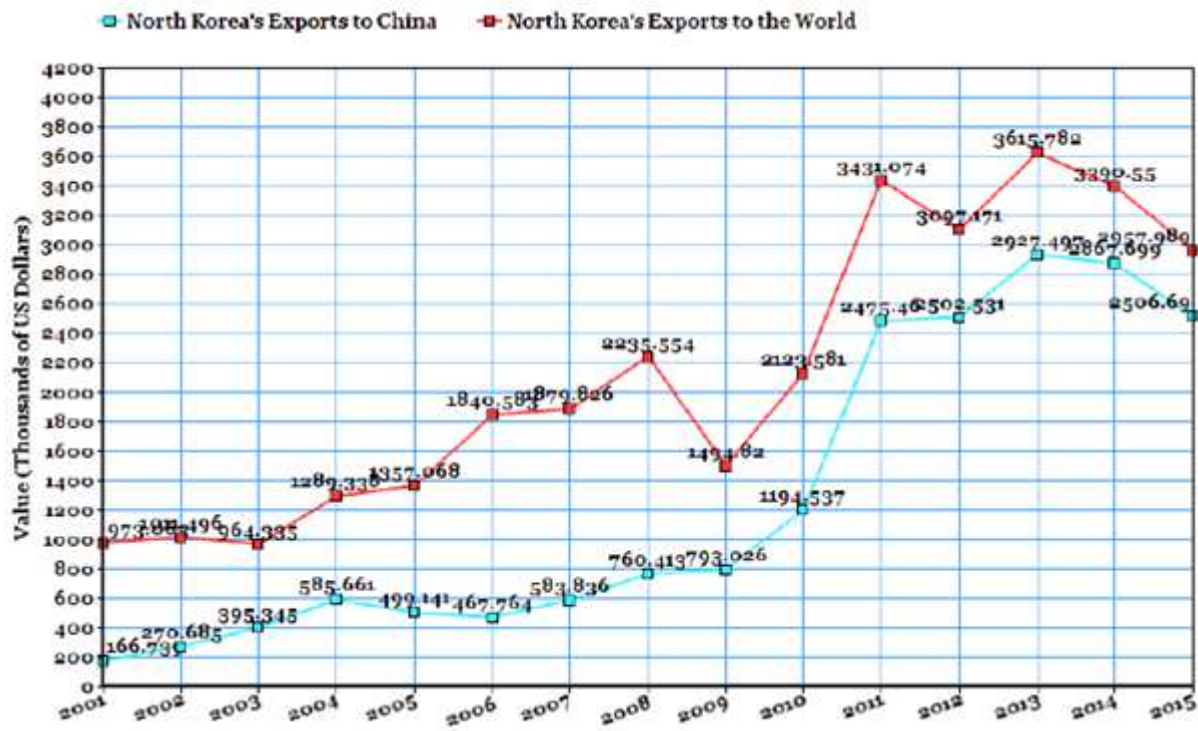
Source: based on UNCOMTRADE statistical data. Url: <https://comtrade.un.org/data>.

Since then, the gap between imports and exports from/to China versus the rest of the world has been narrowing, leaving North Korea in an almost exclusive trade *tête à tête* with Beijing.

Figure 4: North Korea's Imports from China and the World (US dollars, thousands)

Source: based on UNCOMTRADE statistical data. Url: <https://comtrade.un.org/data>

Figure 5: North Korea's Export to China and the World (US dollars, thousands)



Source: based on UNCOMTRADE statistical data. Url: <https://comtrade.un.org/data>

Obviously, this trade dependence on China is an important issue for the North Korean economy, but also quite obviously a source of anxiety for the North Korean leadership as it could potentially provide an important leverage to China on the DPRK (see part III). This figure might be inflated by the fact that North Korean traders buy non-Chinese foreign goods via China (thus appearing as Chinese exports in statistics) in order to circumvent sanctions. Moreover, some commodities exported by the DPRK are labeled “made in China” (garment is the most well-known example⁵⁵⁰).

Another striking feature of the North Korea-China trade is the historical trade surplus in favour of the PRC since at least the 1990⁵⁵¹ (but also during most of the Cold War as explained in chapter I⁵⁵²). The fact that the DPRK has been able to buy more than it sells for such a long time while being almost cut off from the international financial system says long

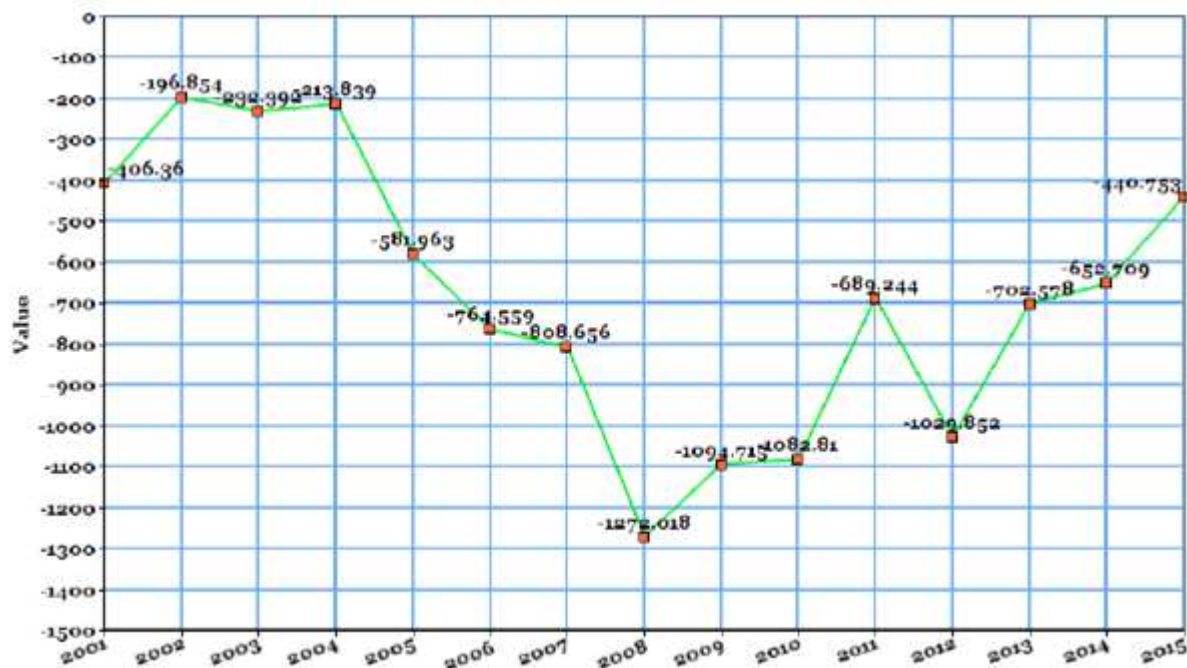
⁵⁵⁰ Rip Curl's use of North Korean factories leads to call for industry transparency, *The Guardian* (online), 22nd of February 2016. Url: <http://www.theguardian.com/australia-news/2016/feb/22/rip-curls-use-of-north-korean-factories-leads-to-calls-for-industry-transparency>. Last accessed 13th of May 2016. The author personally witnessed goods manufactured in Rason being labeled “made in China”, which was assumed by DPRK officials.

⁵⁵¹ FRANK, Rüdiger, 2015, *North Korea's Foreign Trade*, 38th North. Url: <http://38north.org/2015/10/rfrank102215/>. Last accessed 28th of January 2016.

⁵⁵² AGOV, 2010.

about the reliability of trade data involving the DPRK. Obviously, Pyongyang has additional sources of income that do not appear in the statistics, or has reached some kind of arrangement with the PRC regarding this long-lasting trade deficit. However, after a vertiginous dip between 2004 and 2008 (seafood exports to China were inexplicably divided by ten during this period) the North's trade deficit has been gradually reduced to its 2001 level in 2015 (see figure 6), mostly due to a sharp increase of ores and coal exports.

Figure 6: Trade balance between the DPRK and the PRC (US dollars, thousands)



Source: based on UNCOMTRADE statistical data. Url: <https://comtrade.un.org/data>

4.1.2 Composition of bilateral trade

The DPRK's former economic policies had a relative success until the 1970s, the situation quickly deteriorated due to both internal (lack of innovation, bottlenecks, waste of raw materials) and external developments (Chinese and USSR reforms). Since the end of the famine, the composition of the DPRK's external trade sharply contrasted with these initial successes. Instead of "submitting its external relations to the logic of internal choices without consideration of capitalist rationality", the DPRK seems to have based its post-famine economic recovery on globally-accepted economic practices and strived to find its place on the international division of labor, by increasingly relying on its "comparative advantages": mostly natural resources (see table 6).

➔ *Exports to the PRC:*

Until 2005, the category of products that the DPRK exported the most to the PRC was seafood, and more precisely mollusks and crustaceans which abound in Korea's coastal waters. In 2004, Pyongyang exported \$261 millions worth of seafood to China, about 78% of its total exports of the same category of products. Quite mysteriously, after 2005, exports of North Korean seafood dropped (in 2015, they still had not reached their 2001 levels), and were replaced by exports of raw minerals, like coal, and different kinds of ores (iron, gold, lead, zinc etc.). Before the 2016 multi- and unilateral trade sanctions against the DPRK were implemented, coal alone made about 42% of the DPRK's total exports, and exports of mining products altogether add up to more than half of total exports to China (1,2 billion dollars in 2016). In a few words, the DPRK's economy heavily relies on natural unprocessed resources exports to China. As will be seen later, this state of fact has important (political) consequences for the DPRK and its relation with China.

As can be seen in table 6, the DPRK also exports semi-processed and simple finished goods to the PRC, albeit to a lesser extent. In addition to coal, ores and other raw materials, the DPRK also exports important amounts of steel⁵⁵³ (43 million dollars in 2016, electronics (wire, transformers, integrated circuits; 22 million dollars in 2016), chemicals (magnesium oxide) and construction materials. What's more, the share of garment and textile in the DPRK's exports to China has skyrocketed since 2010-2011, from almost \$62 millions in 2005 to no less than \$800 millions in 2015 (around 31% of total exports). In 2015, the DPRK became the most important supplier of textile products to China, outranking both Vietnam and Italy⁵⁵⁴.

➔ *Imports from the PRC:*

Unsurprisingly, the goods most commonly imported from China consist in higher value-added goods which the DPRK is unable to produce by itself: electronic equipment, machines,

⁵⁵³ KIM Jaechol, 2006, The Political Economy of Chinese Investment in North Korea, A Preliminary Assessment, *Asian Survey* vol. XLVI, n°6.

⁵⁵⁴ *shouci chengwei zhongguo zuida fuzhuang gongyingguo qunian chukou chao 6 yi meiyuan* 朝鲜首次成为中国最大服装供应国 去年出口超 6 亿美元 [North Korea becomes for the first time China's most important textile supplier, last year exports cross the \$600 million bar], *TNC*, 5th of February 2016. Url: <http://www.tnc.com.cn/info/c-012001-d-3560909.html>. Last accessed 22nd of November 2016.

vehicles and plastic top the list of DPRK imports from the PRC, and constitute about one tier of total imports since 2010-2011. In a nutshell, the DPRK imports an extremely wide range of products from (and via) China. Although it is an important exporter of iron ore and pig iron (and intermediate product of iron ore smelting) to the PRC, the DPRK nonetheless still massively imports iron finished goods (flat-rolled iron), strongly suggesting that even in the heavy industry sector, the DPRK only partially masters production processes and depends on Chinese inputs.

To top it off, North Korea also massively depends on China for strategic resources like oil, which it almost only imports from China, at least according to official statistics. From 2008 to 2013, Pyongyang imported between \$585 and \$748 millions worth of oils (mostly crude petroleum, as well as, marginally, other mineral fuels), a figure that mysteriously dropped to less than \$200 millions in 2014⁵⁵⁵. This enigma paradoxically is quite revealing of the unreliable nature of PRC-DPRK trade statistics. Since there are no currently exploitable oil resources in North Korea, the fact that the country's economy is still able to function with its oil imports amputated by two thirds is extremely puzzling. Scholars and experts who tried to make sense out of this statistical enigma often argue that instead of an actual freeze of oil deliveries to the DPRK, they might be considered as aid and thus disappeared from trade statistics⁵⁵⁶. However, one should keep in mind that the DPRK has friendly ties with numerous oil-exporting countries (Venezuela, Equatorial Guinea, Iran) and has had a long-term economic involvement (especially in the construction sector) in various Middle Eastern countries. While a complete freezing of Chinese oil exports to the DPRK is unlikely, it is also possible that the DPRK could have been able to diversify its sources of oil import.

⁵⁵⁵ Interestingly, a report from the US Congressional research service explains that Chinese oil is not supplied to the DPRK at friendly prices, but instead is relatively expensive (\$0.78 per kilogram) compared to exports to other countries like the US (\$0.71), South Korea (\$0.66) or Thailand (\$0.50). See NANTO, K. Dick, MANYIN, Mark, 2010, China-North Korea Relations, *Congress Congressional Research Service Report*.

⁵⁵⁶ The mystery of China's 'zero' oil exports to N. Korea, *The Hankyoreh* (online), 4th of August 2014. Last accessed 27th of May 2016.

Table 6: Most traded items between the DPRK and China (US dollars, thousands)

DPRK's most Imported Products from China (value, thousands of US dollars)								
	2001	2005	2010	2011	2012	2013	2014	2015
Total	573099	1081104	2277347	3164704	3532383	3630075	3520408	2947443
Electrical, electronic equipments	23339	56598	190044	251629	266970	253828	419462	332361
Machinery	23139	76709	245393	277634	293186	263184	310257	252095
Vehicles	18681	28310	159687	220408	232410	239650	210516	196189
Plastics	23313	52403	84692	110798	131488	142091	193208	168045
Woven Fabric	6131	28944	78859	109698	128944	145570	166278	151664
Petroleum, oils, fuels	161793	285715	478845	771046	784450	740578	191446	147294
Iron and steel	22133	34900	70927	84420	82254	92194	108909	111790

DPRK's most Exported Products to China (value, thousands of US dollars)								
	2001	2005	2010	2011	2012	2013	2014	2015
Total	166739	499141	1194537	2475460	2502531	2927497	2867699	2506690
Mineral fuels (coal)	4318	111856	402001	1162113	1222286	1404484	1153857	1058229
Apparel and garment	26839	62929	186417	414294	439594	587073	741009	799301
Ores	6365	95066	252365	405261	358493	414951	338631	204667
Seafood	47977	92433	59282	82664	100565	116315	142581	108300
Electronic Equipment (transformers, circuits, wires)	19372	1794	20927	30409	43472	41850	55671	57235
Pig Iron and alloys	23670	72596	108680	154828	124597	95004	89482	52996
Nuts	3828	4900	9480	27392	19122	32417	111346	43033

Source: UNCOMTRADE

4.2 Mainland Chinese investment in the DPRK

Although there are documented cases of North Korean investments in the PRC (especially in hotels/restaurants and import-export businesses), only the far more meaningful phenomenon of Chinese investment in the DPRK will be addressed here. Different categories of Chinese actors have invested in North Korea under diverse forms, including assistance programs as well as profit-seeking ventures. Since the 1980s, the DPRK has more actively tried to attract FDI, a policy that has gathered limited but existing success, especially since the mid-2000s.

4.2.1 Available data and limitations

Once again, there is little publicly available data on Chinese investment in the DPRK. North Korea, itself, has released little information on inbound Chinese FDI, but periodically, mostly during events aiming at promoting investment opportunities in the DPRK, Korean officials leak a few figures on the number of on-going foreign-invested projects. These figures are likely to be inflated, hard to cross-check and offer few details. The Chinese Ministry of Commerce (MOFCOM) offers the most complete dataset on Chinese investment in the DPRK, although it only provides data for the 2003-2014 period⁵⁵⁷. MOFCOM data is precious: in addition to providing a ballpark figure of the number of Chinese-invested projects in the DPRK it also discloses their Korean counterparts and their sector of activity. However, as scholars have already pointed out⁵⁵⁸, MOFCOM data does not provide any clue on the scale of the venture: a minor Chinese trade company's affiliate registered in the DPRK appears as important as a major central government-supported mining venture. It should also be said that, as any statistics dealing with China-DPRK relations, it is considered as sensitive (especially in the context of the debate on Chinese implementation of UNSC sanctions, see part III) and thus very likely to be subjected to manipulation from all parties involved. Anecdotal evidence also strongly suggests that some Chinese companies also invest in the

⁵⁵⁷ For unknown reasons, post-2014 data on Chinese investment in North Korea seems to be unavailable.

⁵⁵⁸ HAGGARD, Stephan, SHI Weiyi, 2014, Chinese Investment in North Korea: Some Data, *Peterson Institute for International Economics* (online.) Url: <https://piie.com/blogs/north-korea-witness-transformation/chinese-investment-north-korea-some-data-part-i>. (part I). Last accessed 2nd of June 2016.

DPRK without going through time-consuming registration processes. MOFCOM data furthermore does not encompass Macau and Hong Kong.

4.2.2 Chinese investment abroad: a recent and peculiar phenomenon

Before zooming in on Chinese investment in the DPRK, it is important to note that Chinese outbound investment in itself is a quite recent phenomenon. In 2014, China's outbound FDI (FDI) reach an all-time high of about \$530 billions, a huge leap forward from its initial \$33 billions in 2002. In 2014, for the first time, FDI flows reached the Chinese inbound FDI's levels⁵⁵⁹. This development of Chinese FDI is a direct result of China's entry into the World Trade Organization in 2001 and the subsequent Beijing-led "going abroad" [走出去; *zouchuqu*] policy, which encouraged Chinese companies to invest abroad. As of 2015, China was the third most important investor abroad (behind the US and Japan)⁵⁶⁰, although it still has low levels of FDI relative to its GDP, if compared with other major economic actors. However, data on Chinese FDI is tricky to handle, since statistical figures (most often obtained from MOFCOM) are biased by two phenomena:

- 1) Off-shoring: based on MOFCOM statistics, no less than 70% of Chinese FDI is made in three tax heavens, namely Hong Kong, the British Virgin Islands and Grand Cayman.
- 2) Round-tripping: given the PRC's preferential policies⁵⁶¹ designed at attracting FDI, a large part of "foreign" investment actually originates from the mainland, transiting through the above-mentioned tax heavens (especially Hong Kong⁵⁶²).

As a result, while according to MOFCOM no less than 70% of Chinese FDI is bound to Asia,

⁵⁵⁹ China's Outbound FDI set to Eclipse Inbound for the First Time, *Financial Times* (online), 22nd of October 2014. Url: <http://www.ft.com/intl/cms/s/0/28f6b8d4-59cd-11e4-9787-00144feab7de.html>. Last accessed 3rd of June 2016.

⁵⁶⁰ GARCIA-HERRERO, Alicia, LE Xia, CASANOVA, Carlos, 2015, Chinese outbound foreign direct investment: How much goes where after round-tripping and offshoring?, *Banco Bilbao Vizcaya Argentaria Research Branch papers* (online). Url: https://www.bbvaresearch.com/wp-content/uploads/2015/06/15_17_Working-Paper_ODI.pdf. Last accessed 7th of June 2016.

⁵⁶¹ TSENG, Wanda, ZEBREGS, Harm, 2002, Foreign Direct Investment in China: Some Lessons for Other Countries, *IMF Policy Discussion paper* (online). Url: <https://www.imf.org/external/pubs/ft/pdp/2002/pdp03.pdf>. Last accessed on the 7th of June 2016.

⁵⁶² GAULARD, Mylène, 2014, *Karl Marx à Pékin, Les Racines de la Crise en Chine Capitaliste*, Demopolis, Paris. See p.176.

this share might actually be closer to 50% (\$245 billions) after deducting round-tripping in Hong Kong (Asia still remains the preferred destination of Chinese investors), while Latin America's share would also drop from 13% to 5%⁵⁶³ (\$23 billions; mostly due to tax evasion practices in Great Cayman). Europe is the second destination for Chinese FDI (19%; \$14 billions), followed by North America (13%, \$11,4 billions). Although there is a sharp increase in Chinese FDI flows towards Africa, stocks are still lagging behind compared to other continents (8%; \$39 billions). In other words, as it is often the case with nations that are beginning with FDI, China invests mostly in its close periphery. Chinese FDI in Asia appeared much earlier (in the late 1970s, mostly in Hong Kong Macau, Japan⁵⁶⁴) than anywhere else in the world: Chinese capital only started to make its way to Africa, Europe and both Americas in the beginning of the 2000 decade.

Chinese FDI's sectorial distribution widely differs among continents and countries. For a resource-hungry country like China, the "workshop of the world", the mining sector unsurprisingly ranks high in the most invested sectors' list: in 2009, for exemple, 24% of Chinese FDI flows were targeting the mining sector on a global scale⁵⁶⁵. Manufacturing, construction, as well as the tertiary sector follow, with sharp contrasts in sectorial distribution among continents: Chinese FDI stocks in Africa are for example heavily concentrated in mining (31% in 2012, against 14% on a global scale⁵⁶⁶); but, the tertiary sector, finance, and R&D sectors are favored in OECD and more developed countries. There seems to be a consensus among scholars about the main objectives of Chinese FDI: securing access to natural resources (in least-developed countries mostly), reaching out to new markets and borrowing technology and know-how from advanced developed economies.

Another striking feature of Chinese FDI is its close ties with the Chinese government and the CCP. As explained by Sauvant and Nolan,

⁵⁶³ GARCIA-HERRERO *et al*, 2015.

⁵⁶⁴ MARUKAWA Tomoo, ITO Aei, ZHANG Yongqi (eds), 2014, China's Outward Foreign Direct Investment Data, *Institute of Social Science Contemporary Chinese Research Studies* N°15 (online). Url: http://web.iss.u-tokyo.ac.jp/kyoten/research/ISS_China_series_No.15.pdf. Last accessed 9th of June 2016.

⁵⁶⁵ LIAN, Lina, MA Hanyin, 2011, Overview of Outward FDI Flows of China, *International Business Research* Vol.4, N°3. pp.103-107.

⁵⁶⁶ ZHOU Lihuan, LEUNG, Denise, 2015, China's Overseas Investments explained in ten graphics, *World Resources Institute* (online). Url: <http://www.wri.org/blog/2015/01/china%E2%80%99s-overseas-investments-explained-10-graphics>. Last accessed 9th of June 2016.

*“state-owned enterprises (SOEs) account for a substantial share of the country’s outward FDI flows and stock. In addition, many non-SOEs (especially the bigger ones) are linked to China’s government in one way or another, including because top executives and board member are members of the Chinese Communist Party, sometimes in high positions. Although, as of the end of 2011, some 13,500 Chinese financial and non-financial enterprises had established about 18,000 foreign affiliates in 177 host economies, the 113 central SOEs controlled by the State-owned Assets Supervision and Administration Commission alone accounted for 66% of China’s non-financial FDI outflows and 76% of the country’s non-financial outward FDI stock in 2011.”*⁵⁶⁷

The new wave of Chinese investment, as opposed to the assistance programs implemented in different countries including the DPRK during the Mao-Deng era, has the following characteristics: it is mostly an Asian, government or public sector-led phenomenon, which obviously seems appealing for North Korea, given its historical, geographical and political ties with China. However, Chinese investment patterns in the DPRK largely differ from FDI patterns to the rest of Asia or the world.

4.2.3 Current Chinese investment patterns

As already mentioned, even if Chinese FDI is much less debated than inbound investment, scholars have come to agree on some typical characteristics of Chinese FDI, especially in Least Developed Countries (LDCs) or developing countries (typically South America, Africa and South or Southeast Asia⁵⁶⁸). Obviously, there are important differences regarding patterns of Chinese investments depending on the destination country or territory, but there

⁵⁶⁷ SAUVANT, Karl P., NOLAN, Michael D., 2015, China’s Outward Foreign Direct Investment and International Investment Law, *Journal of International Economic Law*, pp.1-42.

⁵⁶⁸ Since 2010, many studies have been focusing on Chinese FDI patterns on these continents. See, among many others, CHEN Taotao, LUDENA Miguel Perez, BARCENA Alicia, 2013, Chinese Foreign Direct Investment in Latin America and the Caribbean, *Economic Commission for Latin America and the Caribbean Working Document* (online). Url: http://repositorio.cepal.org/bitstream/handle/11362/35927/1/S2013956_en.pdf. Last accessed 14th of June 2016. SCHIERE, Richard, RUGAMBA, Alex, 2011, Chinese Infrastructure Investments and African Integration, *African Development Bank Group Working Paper*. Retrievable here: <http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/WPS%20No%20127%20Chinese%20Infrastructure%20Investments%20.pdf>. Last accessed 14th of June 2016.

are also some common characteristics. Among others, Chinese investment is considered to be:

- ➔ *Government-led*: In terms of value, the largest investors in developing countries are Chinese SOEs. On a global scale, no less than 63% of the PRC's non-financial FDI stocks originate from the public sector, a figure that rises to more than 84% in developing countries such as in Africa⁵⁶⁹. These massive Chinese SOEs, most often in charge of large investments, spearhead and lead the way for countless smaller-scale, private initiatives.
- ➔ *Asian-focused*: the overwhelming majority of Chinese FDI targets Asian countries, especially in China's direct periphery. Strategically-located countries like Myanmar (a LDC, according to the UN⁵⁷⁰), for example, attracted about the same amounts of FDI stocks as Germany⁵⁷¹.
- ➔ *Resource-seeking*: as an emerging power whose economic growth is mostly export-led, China needs rising amounts of raw materials and natural resources in order to keep its economic engine running. As a result, a substantial amount of Chinese FDI targets the mining and extractive industries: in Latin America, for example, 25%⁵⁷² of total investment goes to the mining industry, while this figure rises to 31% in the case of Africa. What's more, it seems that, in Africa at least, some of these mineral resources can be partially processed in the host country: according to Chen, Dollar and Tang, the overwhelming majority of contracts involving Chinese companies in the manufacturing sector deals with mineral products⁵⁷³.
- ➔ *Infrastructure-building*: Contrary to a widespread idea, infrastructure investment only

⁵⁶⁹ AJAKAIYE Olu, 2006, China and Africa, Opportunities and Challenges, African Union Task Force on Strategic Partnership Between Africa and the Emerging Countries of the South presentation, Addis-Ababa, 11-13th of September. Retrievable here:

http://dspace.africaportal.org/jspui/bitstream/123456789/32069/1/Opportunities_and_Challenges%20Olu.pdf?1. Last accessed 10th of March 2017.

⁵⁷⁰ List of Least Developed Countries, United Nations Committee for Development Policy Development Policy and Analysis Division Department of Economic and Social Affairs (online). Url: http://www.un.org/en/development/desa/policy/cdp/ldc/ldc_list.pdf. Last accessed 14th of June 2016.

⁵⁷¹ UNCTAD Bilateral Investment Statistics. Hereafter UNCTAD.

⁵⁷² CHEN *et al*, 2013.

⁵⁷³ CHEN Wenjie, DOLLAR, David and TANG Heiwai, 2015, Why is China investing in Africa? Evidence from the firm level, *Brookings Research Paper* (online). Url: <http://www.brookings.edu/~media/research/files/papers/2015/08/why-china-is-investing-in-africa/why-is-china-investing-in-africa.pdf>. Last accessed 14th of June 2016.

constitutes a fraction of Chinese FDI, even in Africa. Beijing is however known to be a “great infrastructure developer”⁵⁷⁴ in Africa and the Middle East due to the close ties between the Chinese government and investing companies: Beijing develops infrastructure as aid and assistance which (sometimes literally) paves the way for Chinese investment. This type of combination of Chinese aid, and SOE and private FDI involving infrastructure development has become quite successful especially in Africa’s extractive industry⁵⁷⁵, but also for market-seeking (like in Laos, for example⁵⁷⁶) and strategic purposes.

In the context of the “one belt, one road initiative”, unveiled by Chinese President Xi Jinping in 2013, the role of infrastructure building in Chinese FDI seems to be, more than ever, a critical component of the Chinese *zouchuqu* strategy. The Pakistani port of Gwadar, for example, the southern extremity of the highly strategic China-Pakistan Economic Corridor (CPEC), is currently operated and expanded by a Chinese SOE, the China Overseas Port Holding Company, which is developing the whole Gwadar area into a Chinese-modeled SEZ. The CPEC, a \$50 billion dollar project (roughly Croatia’s GDP) is planned to be developed into a transportation corridor for Chinese oversupplied goods to foreign markets.

➔ *Trail-blazing*: Last but not least, China has a record of large investment projects in countries and territories that have attracted little attention from “traditional” investors. China has long-standing relations with weak peripheral countries and even “failed States”, and used its former networks in these countries to unfold an aggressive FDI policy. As Drew Thompson pointed out, China is used to deal with countries that are often actively or passively boycotted by Western developed countries. China, for example, is the first foreign investor in Afghanistan, Chad, Democratic Congo, Eritrea and Myanmar⁵⁷⁷.

⁵⁷⁴ China – The Great Infrastructure Developer, *China Briefing* (online), 23rd of March 2013. Url: <http://www.china-briefing.com/news/2013/03/27/china-the-great-infrastructure-developer.html>. Last accessed 15th of June 2016.

⁵⁷⁵ SCHIERE, RUGAMBA, 2011. See p.15.

⁵⁷⁶ TAN, Danielle, 2012, “Small Is Beautiful”: Lessons from Laos for the Study of Chinese Overseas, *Journal of Current Chinese Affairs*, vol.41, N° 2, pp. 61-94.

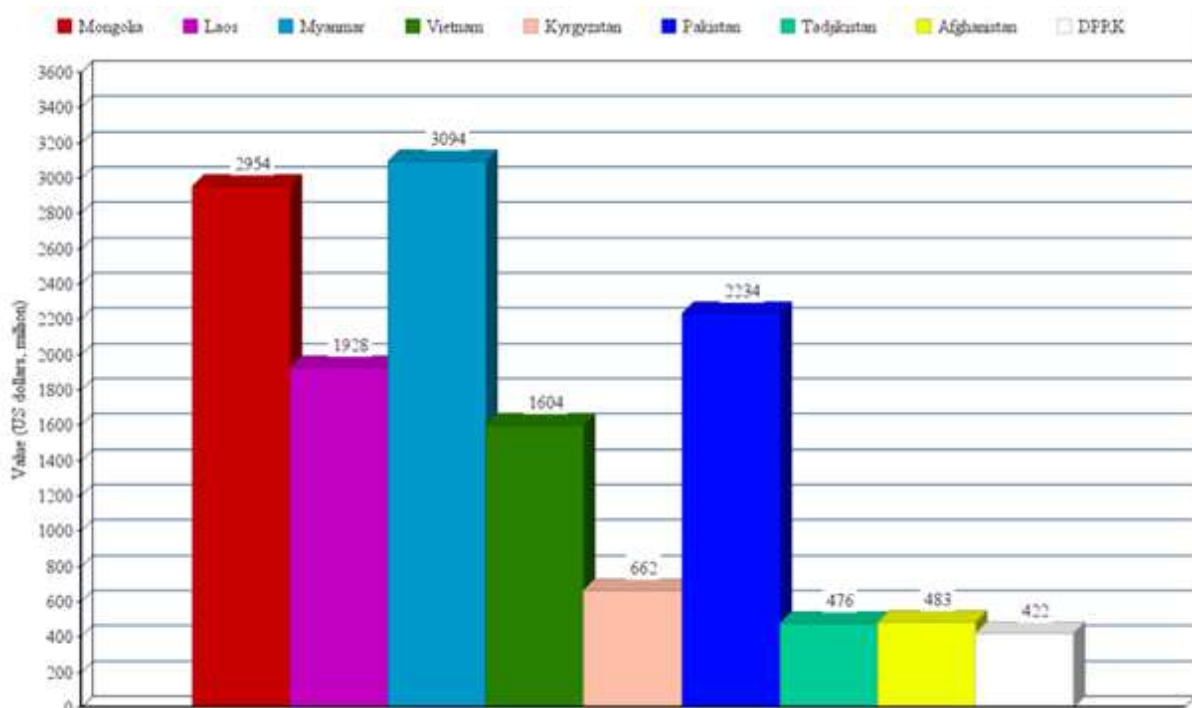
⁵⁷⁷ UNCTAD.

One would expect Chinese capital to be a perfect match for the DPRK's economy, and *vice-versa*: Pyongyang is a Northeast Asian country that has a long experience in dealing with Government-sponsored economic cooperation (especially with China), has plenty of mineral resources, needs infrastructures and is strategically-located for Chinese companies. As a matter of fact, technically, China is the biggest investor in the DPRK, with investments stocks reaching \$611 millions in 2014 according to the UN Comtrade and Chinese data (see figure 8)⁵⁷⁸. However, a closer look at Chinese FDI statistics reveals that China actually invests very little in the DPRK (in relative terms), especially in comparison to other countries. What's more, qualitatively speaking, Chinese investment patterns in the DPRK sharply contrasts with FDI patterns in other developing countries.

Chinese FDI stocks abroad, especially in Asian countries, can reach vertiginous heights. In the context of the "one belt, one road" initiative, these FDI stocks are likely to keep rising in the next decade. Among countries neighboring China, however, there seem to be three exceptions: the first one is Bhutan (which does not have diplomatic relations with China and generally refuses Chinese investment proposals), the second one is mountainous and landlocked Nepal, the third one is North Korea. Revealingly, China invests more in a conflict-ridden, unstable, dangerous and landlocked country like Afghanistan than in the DPRK (see figure 7). In East and South Asia as a whole, only very few countries/territories underperform the DPRK in attracting Chinese investment (Bangladesh, Nepal). These exceptions can often be explained by political issues, like in Taiwan, or by structural ones (Brunei, whose population is below the 350 000 inhabitants bar). China also invests much more in a few African countries than in its socialist neighbor, like Sudan, Zambia, Zimbabwe, both Congos, Angola etc.

⁵⁷⁸ HAGGARD, Stephan, SHI Weiyi, 2014, Chinese Investment in North Korea: Some Data, *Peterson Institute for International Economics* (online.) Url: <https://piie.com/blogs/north-korea-witness-transformation/chinese-investment-north-korea-some-data-part-i.> (part I). Last accessed 2nd of June 2016.

Figure 7: Chinese investment stocks in a selection of Asian countries, 2012 (US dollars, million)



Source: based on UNCTAD data.

Url: <http://unctad.org/en/Pages/DIAE/FDI%20Statistics/FDI-Statistics-Bilateral.aspx>.

At the beginning of the 2000 decade, following Chinese and North Korean initiatives aimed at fostering economic interaction, Chinese investments restarted to head for the DPRK. From 2004 on, Chinese investments levels were multiplied by more than ten as compared to one year earlier (from \$1,2 millions to \$14,2 millions)⁵⁷⁹. Although there had been several waves of Chinese investment in the DPRK, Chinese capital had been fleeing North Korea in the late 1990's: according to Liu, the number of Chinese companies active in the DPRK dropped from 13 in 1997 to 2 in 2001⁵⁸⁰. Estimates of the number of Chinese-invested projects in North Korea during the 2001-2006 period vary widely: in 2005, DPRK officials explained that no less than 120 Chinese companies had already invested in the northern half of the peninsula, which is likely to be an exaggeration. However, MOFCOM data only

⁵⁷⁹ KIM Jae-chol, 2006, The Political Economy of Chinese Investment in North Korea, A Preliminary Assessment, *Asian Survey* vol. XLVI, n°6. These figures do not encompass Rason.

⁵⁸⁰ LIU Ming, 2011, China's Role in the Course of North Korea's Transition, in AHN Choong-yong, EBERSTADT, Nicholas, LEE Young-sun, *New International Engagement Framework for North Korea: Contending Perspectives*, Korea Economic Institute. Url: <http://www.keia.org/sites/default/files/publications/04Ming.pdf>. Last accessed 1st of September 2014.

accounts for one single investment project in 2002⁵⁸¹, which is quite unlikely. It seems that this “first wave” of investment (2004-2007, with a peak at 31 projects in 2006 alone⁵⁸²) was most likely trade-related, as this modest FDI inflows was accompanied by sudden “bump” in bilateral trade (see figure 9). Indeed, at that time, China-DPRK trade sharply rose, from a total value of \$737 million in 2002 to \$2792 million in 2008. After what seems to be a gap year in 2009-2010 (both regarding trade and investment figures), investment re-started to flow in the DPRK, and trade levels (especially DPRK exports to China) went through the roof (from \$2,7 billion in 2009 to a maximum of \$6,5 billion in 2013). A key factor to explain this two-phase structure is the DPRK’s trade deficit to China, which reached \$1,2 billion dollars in 2008 (from \$213 millions, in 2004, when Chinese capital started to flow in)⁵⁸³. Indeed, it seems that this first trade-related wave of Chinese investment was closely linked with the bump in Chinese exports to the DPRK (from \$467 million in 2002 to \$2032 millions in 2008), as Haggard and Shi already pointed out: “Investment broadly tracks total bilateral trade and is perhaps partly if not largely responsible for it”⁵⁸⁴. As Jae explained, the main motive behind the surge in Chinese FDI on a global scale (“going out” policy) was the near saturation of domestic markets and looming overproduction (especially in the light industrial sector), creating the need to secure new markets⁵⁸⁵. The DPRK, at that time, was a small but almost captive market, and China’s long-lasting commercial foothold in North Korea could have potentially been jeopardized by the extremely successful Kaesong complex opened in 2003-2004⁵⁸⁶. What’s more, the DPRK had important needs in terms of light industrial goods and was thus a strategic market to secure for Chinese businesses.

Qualitatively speaking, Chinese investment patterns in the DPRK also do not match global trends. First of all, large Chinese SOEs have shown little interest in the North Korean economy. According to MOFCOM data, between 2003 and 2014, there were 187 Chinese

⁵⁸¹ HAGGARD, SHI, 2014. This is broadly consistent with LIU (2011). MARUKAWA *et al.* considers that Chinese investment “restarted” in 2003, with no project in 2002.

⁵⁸² *Idem.*

⁵⁸³ See table n°11.

⁵⁸⁴ HAGGARD, SHI, 2014.

⁵⁸⁵ On this particular issue regarding to North Korea, see Part III, chapter 3.

⁵⁸⁶ Goods manufactured in Kaesong were to be sold on South Korean markets, but a further thawing of North-South relations might have played against Chinese companies in the DPRK.

invested-projects in the DPRK⁵⁸⁷, which is roughly consistent with other earlier reports⁵⁸⁸. Among the Chinese companies active in the DPRK, only two are central-level SOEs, both involved in mining deals. According to Haggard and Shi, there might be up to a dozen small-scale joint-ventures that involve, to some extent, municipal-level public companies⁵⁸⁹, most likely for tourism-related purposes⁵⁹⁰. One of the two Chinese central-level SOE is China Minmetals, a corporation mostly involved in mineral trade and investment activities. It currently operates the gigantic Yongtung coal mine in South Hwanghae province, which is said to produce no less than 1 million tons of anthracite per year⁵⁹¹. Unsurprisingly, China Minmetals also heavily invested in some strategically-located port area of Liaoning province (Yingkou) in March 2007, in the context of the “*Zhenxing dongbei*” and “*Yidai wudian*” initiatives. The second central-level Chinese SOE active in the DPRK is the Hebei Iron and Steel Group (which was still the Tangshan Iron and Steel Company when it entered the DPRK market), which runs a Chongjin-based smelting plant using local iron ore deposits⁵⁹². It should however be said that the Musan iron mine, located at the Chinese border, is also operated by a public but already partially privatized group, the Tonghua Iron and Steel Group. Interestingly, based on firm-levels studies, none of these SOEs states to benefit from any help or support from the Chinese government⁵⁹³.

In the mining sector, there are a few large private Chinese groups involved in business with the DPRK, like the Wanxiang Group or Nanjing Panda. However, only two of China’s top 100 companies are active in the DPRK, and the bulk of Chinese investors is constituted by small-scale, privately-owned companies. Interestingly, firm-level studies reveal that the overwhelming majority of these companies (90%) are able to secure a profit from their activities in the DPRK, which is generally consistent with information gathered during

⁵⁸⁷ HAGGARD, SHI, 2014.

⁵⁸⁸ THOMPSON, Drew, 2011, Silent Partners, Chinese Joint Ventures in North Korea, U.S.-Korea Institute at SAIS report. Url: <http://uskoreainstitute.org/research/special-reports/silent-partners-chinese-joint-ventures-in-north-korea/>. YOON Seung-hyun, LEE Seung-ook, 2013, From old comrades to new partnerships: dynamic development of economic relations between China and North Korea, *The Geographic Journal*, vol.179, pp.19-31.

⁵⁸⁹ HAGGARD, Stephan, LEE, Jennifer, NOLAND, Marcus, 2011, Integration in the Absence of Institutions: China-North Korea Cross-Border Exchange, *Peterson Institute for International Economics*, Working Paper Series (online). Url: <https://piie.com/publications/wp/wp11-13.pdf>. Last accessed 7th of June 2016.

⁵⁹⁰ Interviews with Dandong-based travel agencies managers, November 2015, April 2016.

⁵⁹¹ GEARIN, 2010.

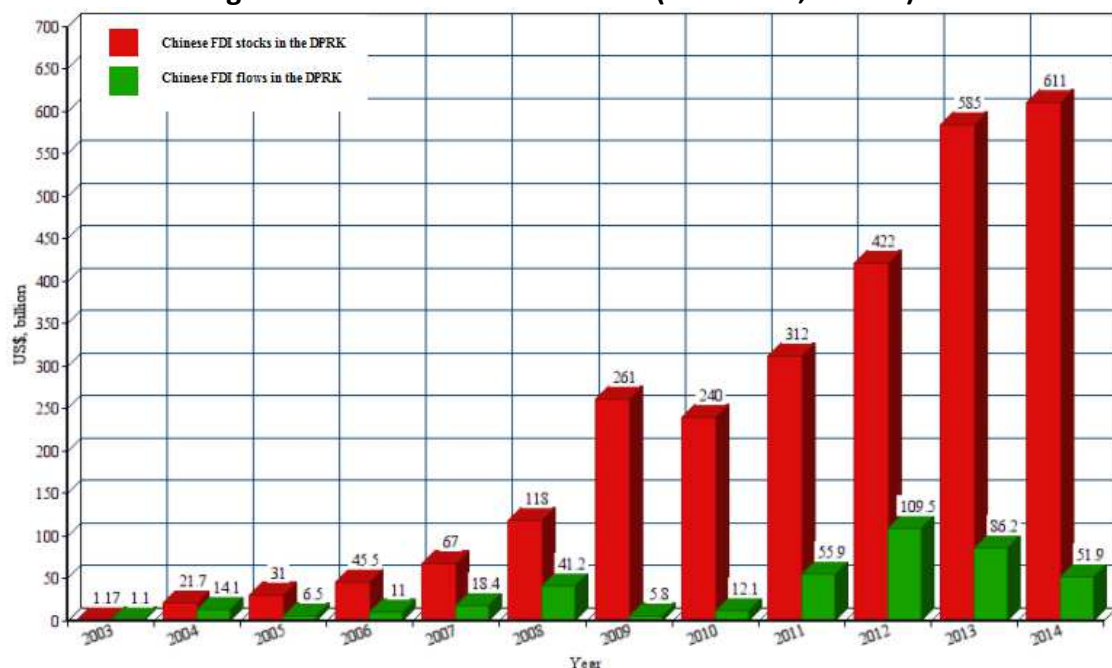
⁵⁹² NANTO, MANYIN, 2010.

⁵⁹³ HAGGARD *et al.*, 2011.

fieldwork interviews as well as other studies. In their survey of Chinese companies investing in North Korea, Haggard and Shi show that no less than 60% of these companies are private companies, a figure that jumps to 85% if individual businessmen or joint-cooperatives (which de facto work as private companies) are included⁵⁹⁴. Some small Chinese companies, like the Jilin Jiesong Group, have even publicized their good financial results from their cooperation with the DPRK⁵⁹⁵. Obviously, the DPRK's business environment hardly is an investor's paradise, but it turns out that most of the Chinese ventures in the DPRK are profitable.

The spatial distribution of Chinese companies investing in the DPRK is also interesting to consider, since no less than 69% of the 187 Chinese companies active in North Korea identified by Haggard and Shi⁵⁹⁶ originate from Jilin (67) and Liaoning (62) provinces. This percentage is roughly consistent with Thompson (2011), although different datasets are used. As will be shown later, this particular geographic distribution of the sources of Chinese FDI to North Korea creates a quite unique pattern of investment and thus a very peculiar economic relation between both sides of the border.

Figure 8: Chinese FDI to the DPRK (US dollars, million)



Source: HAGGARD, SHI, 2014. Data from Chinese Ministry of Commerce.

⁵⁹⁴ HAGGARD, LEE, 2014.

⁵⁹⁵ *Jilin tiesong jituan tumenxinhuangongsi tiqian wancheng quannian jingying renwu* 吉林铁淞集团图们鑫环公司提前完成全年经营任务 [*Jilin Jiesong Group Tumen Xinhuan Company fulfills in advance its operational plan*], *Xinhua* (online), 11th of December 2014. Url : http://www.ln.xinhuanet.com/ztj/sytlj/2014-12/11/c_1113609021.htm. Last accessed 16th of June 2016.

⁵⁹⁶ HAGGARD, SHI, 2014.

Figure 9: North Korea's external trade with China (US dollars, thousand)

Source: based on UNCOMTRADE statistical data. Url: <https://comtrade.un.org/data>

1.2.4 Sectorial distribution of Chinese investment in North Korea

Unsurprisingly, Chinese investment first focused on the light industrial sector, often producing semi-finished goods. While targeting both domestic and foreign markets, the trade amount generated by these investments suggests that they are mostly cases of export platform FDI⁵⁹⁷. The post-2002 years made analysts very optimistic about the opportunities provided by the DPRK for Chinese companies and the Chinese press even mentioned the “hot tide” [热潮; *rechao*] of Chinese investment in the DPRK⁵⁹⁸, due to a few successful flagship projects that attracted media attention. Among these much publicized projects are the Nanjing Panda electronics Joint-Venture in Pyongyang, which was agreed on in 2002 and produces integrate circuits and computer parts. This joint venture alone could explain the

⁵⁹⁷ *Chaoxian shangji xinyin le zhongguo touzhe qunianmaoyi chaoguo 10 yi meiyuan* 朝鲜商机吸引中国投资者 去年贸易超过 10 亿美元 [North Korean business opportunities attract Chinese investors, last year trade levels surpassed one billion US Dollars], *Sohu Business* (online), 24th of August 2014. Url: <http://business.sohu.com/20040824/n221707505.shtml>. Last accessed 13th of June 2016.

⁵⁹⁸ *Chaoxian jingji zhubianzhongguo qiye bawo touzi jiyu* 朝鲜经济渐变 中国企业把握投资机遇 [North Korean economy is changing, Chinese businesses seize opportunities], *Xinhua* (online), 14th of August 2014.

“bump” in electronic equipment exports to the PRC from 2003. One can also mention the Daesong Market in Pyongyang, wholly-owned by a Chinese retail company, and the motor oil producing plant, a JV involving the Shenyang Wujin group from China. According to Marukawa *et al*, between 2003 and 2014, no less than 84 Chinese-invested projects in manufacturing and light industry were implemented, representing roughly half of all Chinese-invested projects in the DPRK at that time⁵⁹⁹.

The second most invested sector, in terms of number of projects, was mining. The PRC itself also enjoys a near-monopoly in the production of some strategic mineral resources, including rare earths. Beijing imposed export quotas on a fraction of these strategic resources, which confers it an important geoeconomic leverage towards developed economies like Europe, Japan, and the US⁶⁰⁰. On a number of these precious minerals, it seems that one of the PRC’s main competitor might well be the DPRK⁶⁰¹, which has tremendous mineral reserves of iron, lead, zinc, copper and gold, substantial deposits of magnesite, tungstene and molybdenum and is also rumored to sit on the world’s biggest reserve of rare earths⁶⁰². Obviously, this was really attracting for Chinese mining companies: North Korean mineral resources are very close to the PRC’s heavy industry belt (literally across the border in some cases) and are most often sold at below-market prices (especially since the 2016 UNSC economic sanctions)⁶⁰³. Moreover, Chinese companies have very few competitors in the DPRK. As a result, Chinese investment in the DPRK mining sector closely followed world-scale trends, and from 2005-2006 on, Chinese capital started to seize opportunities in North Korea’s mines. Given the sensitive nature of Chinese FDI in the DPRK’s mines, especially since the UN-supported ban on some mineral exports on March 2016, information on this subject is sketchy. As explained in a US Congress report⁶⁰⁴, between

⁵⁹⁹ MARUKAWA *et al*, 2014.

⁶⁰⁰ THOMPSON, 2011.

⁶⁰¹ North Korea could rival China on rare earth reserves, *RT* (online), 9th of August 2012. Url: <https://www.rt.com/business/north-china-korea-248/>. Last accessed 13th of June 2016.

⁶⁰² *Largest known rare earth deposit discovered in North Korea*, *Mining* (online), 5th of December 2013. Url: <http://www.mining.com/largest-known-rare-earth-deposit-discovered-in-north-korea-86139/>. Last accessed 13th of June 2016.

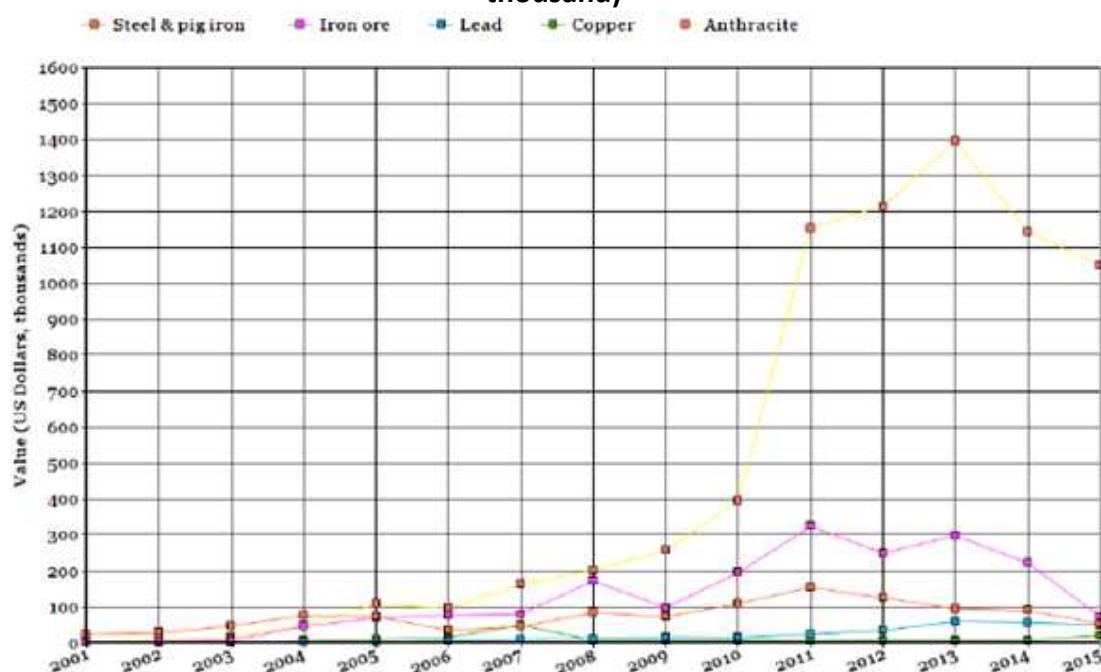
⁶⁰³ Discussions with DPRK officials inside the country clearly revealed that foreign investors are especially keen in dealing with sanctions-hit North Korea as economic and financial measures make prices tumble.

⁶⁰⁴ NANTO, K. Dick, MANYIN, Mark, 2010, *China-North Korea Relations, CRS Report for Congress Congressional Research Service*.

2003 and 2010⁶⁰⁵, Chinese companies have reportedly been investing in mines in Manpho (lead and zinc), Hyesan (copper), Hoeryong (gold)⁶⁰⁶, all located almost directly at the border with Jilin province. Chinese investors have also been heavily investing in other minerals like anthracite (especially a large mine in Ryongdung) but also molybdenum, since no less than six projects targeting molybdenum extraction had already begun to operate in 2016, at the border (Hoeryong) but also inside the country (Kangwon, South Phyongan)⁶⁰⁷.

The DPRK minerals and ores exports data strongly suggests, once again, a very strong correlation between Chinese FDI and Chinese imports. There has been reports of Chinese investments in the steel-making industry: for instance the Tansghan Iron and Ore Company is reported to operate a steel smelting plant near Chongjin, using locally extracted ore⁶⁰⁸. Yet it seems that Chinese investors are more interested in importing raw material than processed resources. As figure 10 shows, since 2002-2007 (when the bulk of mining related projects were signed), mineral and ores exports to China have been sharply rising (much more, comparatively, than steel and pig iron exports for example).

Figure 10: Chinese imports of selected minerals, ores and metals from the DPRK (US dollars, thousand)



Source: based on UNCOMTRADE statistical data. Url: <https://comtrade.un.org/data>

⁶⁰⁵ According to Haggard and Shi (2014), no less than 15 mining deals were inked in 2006.

⁶⁰⁶ NANTO, MANYIN, 2010.

⁶⁰⁷ THOMPSON, 2011.

⁶⁰⁸ GEARIN, Daniel, 2010, Chinese Infrastructure and Natural Resources Investments in North Korea, *U.S.-China Economic and Security Review Commission Staff Background Report*. Last accessed 7th of June 2016.

In 2015, before the 2016 sanctions were implemented, coal exports represented no less than 38% of the DPRK's total exports, and 42% of North Korea's exports to China. If all exports of mining resources are considered together, they constitute more than half of total exports to China (against 8% in 2003⁶⁰⁹) and slightly less than 43% of total exports to the world. Not only largely depending on Chinese imports, it seems that, since the 2000's wave of Chinese inbound FDI until the 2016 sanctions, the DPRK actually depended on exports of a few mineral resources to China. This dependence on the Chinese client is a recent phenomenon (it appeared in 2008-2009). However, it should also be said that in 2008, while the DPRK's trade dependence on China jumped and anthracite exports started to rise, North Korea's trade deficit also started to shrink, after a deep dive in the 2004-2008 period.

To sum up, Chinese investment patterns in the DPRK do not match global trends and the least that can be said is that bilateral economic cooperation between the PRC and North Korea is still limited and, in a sense, difficult. Beijing clearly is not able to unfold its successful commercial strategy in the DPRK as it does almost anywhere else, although, as seen earlier, both sides of the border have strong interests and willingness in working together. Beijing and Pyongyang indeed seem unable to agree with a win-win system of economic cooperation. Blatant examples of this difficult dialogue is the DPRK's Special Economic Zone (SEZ) policy, which aims at receiving larger inflows of (mostly Chinese) FDI in specific sectors (and territories) that would be particularly beneficial for the North Korean economy (services, manufacturing or high-technology). SEZs have been implemented in several waves in North Korea, following bilateral and multi-lateral negotiations or unilateral decisions from Pyongyang. With the notable exception of Kaesong, which was a North-South cooperation project that did not directly involve China and thus will not be studied in details, most of these SEZs have gathered limited success. The following chapter will review in detail these policies and their results.

⁶⁰⁹ Fish and seafood exports did, however take the lion's share of exported goods to the PRC with 50%.

Chapter 5: The Yanbian Interface and the Rajin-Sonbong Special Economic Zone

Besides Dandong, the Yanbian Prefecture is a major trade and exchange hub between China and the DPRK. Remotely located from Pyongyang but benefiting from a promising environment, the Rajin-Sonbong area was the very first zone that attracted the attention of North Korean authorities but also major regional partners.

5.1 Rason in the regional framework of the Tumen River Area Development Plan

The Rajin-sonbong Special Economic Zone (« Rason »)⁶¹⁰ opened its doors to foreign investment in 1991. While the Rason SEZ is often believed to be one of the first breakthroughs of Pyongyang's initial reform attempts, the history of the project is actually much more complex. Contrary to the numerous SEZs that have flourished in the DPRK during the XXIth century (especially the Kaesong Interkorean Complex –KIC- or Hwanggumpyong-Wiwha islands), the location of the DPRK's first SEZ was chosen, among other things, because of the historical legacy of the Rason region as commercial hub. The port infrastructures in Rajin actually date back to 1938⁶¹¹, and were built by the Japanese occupiers in the context of the invasion of the Chinese North-east and the creation of the Manchukuo puppet State [滿洲国 or 滿洲國; *manzhouguo*] in 1932. Since Qing Empire China had lost access to the Sea of Japan (Western Sea for Koreans) when the “unequal treaties” [不平等条约 ; *bupingdeng tiaoyue*] of 1858 and 1860 were signed, the most direct access from the Japanese archipelago was through its Korean colony (see map 1⁶¹²). In what currently is part of the Rason SEZ, three ports were designed in order to better link the Japanese Empire and its Manchurian puppet State: one in Rajin (the biggest one), one in Sonbong, and another one in Ungsang (from West to East). In the context of the colonial

⁶¹⁰ The official name of the Zone was initially Rason Free Economic and Trade Zone, but it changed several times (the “Free” was dropped in 1998) afterwards. See TSUJI Hisako, 2004, The Tumen River Area Development Programme: Its History and Current Status as of 2004, *Economic Research Institute for North East Asia discussion Papers* N°0404.

⁶¹¹ *Idem.*

⁶¹² All maps can be found at the end of the dissertation.

economic pattern discussed in chapter 1, cargo routes were opened between these three ports and the strategically located ports in the Niigata prefecture.

After the Korean peninsula was liberated and divided, the Rason area quickly attracted the attention of the central authorities in Pyongyang⁶¹³, in the context of the early diversification of foreign trade partners in the 1950s. When the DPRK began to achieve significant successes in its diplomatic extension, Pyongyang decided to turn Rajin port into a trade-focused port⁶¹⁴ (it used to host ship-building facilities), and eventually, in 1983, its role as a hub for international trade and interaction with foreigners in general was explicitly mentioned by Kim Il-sung⁶¹⁵ (emphasis added):

“Nowadays, these two cities [Chongjin and Rajin] are not different than open cities. Given that foreigners trade with other foreigners through [Chongjin] port, they come in numbers. Rajin harbor also sees large crowds of foreigners who engage into trade with our country. [...] [Chongjin] and Rajin have to build numerous residential hotels, create an international hotel and modern restaurants in order to serve foreigners the best we can”⁶¹⁶.

The reference to “open cities” is almost transparent here. Even if North Korea has always trumpeted its idiosyncratic development path, the mention of “open cities”, only six months after the Kim Il-sung – Kim Jong-il visit to Shenzhen (and to the soon-to-be Open Coastal City of Shanghai) in February 1983⁶¹⁷ can only be considered as more than a coincidence. As a matter of fact, after the opening of Rason, in the context of a promotion campaign led by the Rason authorities, the Chinese inspiration of the project was partially acknowledged⁶¹⁸. On the other hand, the early interest in opening Rason to foreigners, as well as the fact that

⁶¹³ KIM Il-sung, 1982e. KIM Il-sung, 1983e. See bibliography.

⁶¹⁴ KIM Il-sung, 1986k. See bibliography.

⁶¹⁵ Contrary to what James Cotton explained in a 1996 working paper, the *Great Leader* did actually comment on Rason (and Chongjin) before 1983. COTTON, James, 1996, The Rajin-sonbong Free Trade Zone Experiment: North Korea in Pursuit of New International Linkages, *Working Paper* 1996/9, Australia National University. See p.6 : “*Though the managers of the Rajin zone may be engaging in a little hyperbole when they claim that the site was chosen and the scheme developed by Kim Il Sung personally, nevertheless his support for the 1984 innovations is a matter of record.*”

⁶¹⁶ KIM Il-sung, 1995b. See bibliography.

⁶¹⁷ FUNABASHI Yoichi, 2007, *The Peninsula Question : a Chronicle of the second Korean nuclear crisis*, Brookings Institution Press, Washington. See p.439.

⁶¹⁸ Q&A: Kim Jong-u: North Korea’s bids for Investment, *New York Times*, 12th of August 1996.

the zone was opened *before* neighboring cities in China (Hunchun) or Russia clearly diminishes the theory of a forced opening under Chinese pressure⁶¹⁹.

The fact that among all North Korean cities, Rason has been the first SEZ in the DPRK can be explained in several ways. The zone is indeed strategically located for export-processing and transshipping activities, linking together not only China, the USSR/Russia (Pyongyang's most important trade partners), but also the most important non-socialist partner (Japan), and the South Korean export-led economy⁶²⁰. Sharing a border with both China and Russia, it can benefit from the cultural proximity with strong Korean diaspora communities in both countries. From Pyongyang's perspective, this was also a politically safe choice. The fact that the Rason SEZ was mostly supposed to boost exchanges with political allies only partially explains Pyongyang's choice: the DPRK has always tried to keep political allies at bay while allowing investments to be made by businessmen from any country, including ideological "foes" (as it had been doing since the 1970s at least). If Pyongyang was politically safe, it was because of its relative "unconnectedness"⁶²¹ to the rest of the country: remotely located from the political and economic heart of the country, the Rason area is an "exception" in the DPRK economy as it largely depends on port-related activities (especially transshipping activities or exports of raw materials) but did not have an important industrial basis. Chongjin, in the neighboring North Hamgyong province, was chosen as a stronghold of heavy industry because of its proximity to raw materials⁶²² (the gigantic Musan coal mine). Rason, for its part, can hardly bear the comparison. Scarcely populated (less than 140 000 inhabitants for the whole 726 km² Zone in 1993⁶²³), with little industry and limited agriculture (exploited lands constituted only 13% of the zone, while 67% of the Rason ZES were unexploited forests in 1998), the area's unique economic interest was its ideally located port facilities. As a revealing sign, in 1972, Kim Il-sung personally advised against the

⁶¹⁹ ZOOK, Darren C., 2012, Reforming North Korea: Law, Politics, and the Market Economy, *Stanford Journal of International Law*, Vol.48, n°1. See p.151.

⁶²⁰ Deliveries of South Korean goods to Europe through Rason could be 50% shorter and 30% less expensive. JIN Cheol-jo, DUCRUET, César, 2007, Rajin-Seongbong, New Gateway of Northeast Asia, in *Annals of Regional Science* n°41, vol.4, p927-950.

⁶²¹ *Idem*.

⁶²² KIM Il-Sung, 1981f. See bibliography.

⁶²³ United Nations Development Program, 1998, *D.P.R. Korea's Rajin-Sonbong Economic Trade Zone, Investment and Business Guide*.

expansion of urban areas in Rason, and instead the area to be redesigned in order to accelerate the transition to a trade-focused harbor city⁶²⁴.

The opening of the Rajin-sonbong Free Economic and Trade Zone⁶²⁵ (FETZ) in December 1991 was not a spontaneous unilateral decision from the DPRK, but rather an opportunity seized by Pyongyang in the context of the UNDP-supported Tumen River Area Development Plan (TRADP).

In July 1990, at the conference on Northeast China Economic and Technical Cooperation in Changchun (Jilin), a delegate of the Jilin provincial government raised the issue of economic development in continental Northeast Asia (NEA) and unveiled his vision on how to turn the Tumen River Area (TRA, that encompasses the Yanbian Autonomous Korean Prefecture in the PRC, North Hamgyong province and Rason in the DPRK, and the southern part of Primorsky Krai in the Russian Federation) into an international industrial, trade and transport hub⁶²⁶. The fact that a Jilin representative first raised the idea of a better economic integration in the TRA is seemingly revealing of China's *Dongbei* regional authorities awareness of their economic slowdown in the context of the reorientation of the Chinese economy (towards export-led growth). In order to fully embrace the transformation of the Chinese economy, landlocked Chinese provinces like Jilin or Heilongjiang had to sharpen their competitiveness on foreign markets and thus find a quicker, cheaper, access to the sea than through ports facilities in or around Dalian (Yingkou, Baiyuquan) in Liaoning Province. It also means that in order to follow the export-led model of economic growth that made the economic success of administrative divisions like Guangdong or Shanghai, *Dongbei* provinces depended on the goodwill of the DPRK (and Russia).

The Chinese vision was unveiled in a context of increasing demand for enhanced regional economic integration in NEA, with the concomitant opening of different Russia port cities in Primorsky Krai (Nakhodka Free Trade Zone in November 1990), but outside the TRA. However, little known is the fact that at that time, most important cities of the region were banned not only to foreign investment but also to foreigners in general, and were only

⁶²⁴ KIM Il-sung, 1986k. See bibliography

⁶²⁵ This was the initial name of the zone, but the "free" was dropped in 1998. The zone thus goes by the official name of Rason Economic and Trade Zone [*Rasŏn'gyŏngjemuyŏkchidae*; 라선경제무역지대].

⁶²⁶ TSUJI, 2004.

opened at the beginning of the 1990s: Vladivostok, due to its strategic importance, was mostly closed to foreigners (especially from outside the bloc) during the Soviet Era; Hunchun city, bordering both the DPRK and Russia in Yanbian, was opened to foreigners only in 1992⁶²⁷, after Rason⁶²⁸.

The United Nations Development Program (UNDP) quickly saw potential in this project and announced its full support to the TRADP at its Northeast Asia Subregional Program Conference in Ulanbataar in July 1991⁶²⁹. The UN agency ordered an expertise mission on the implementation of the TRADP, the so-called “Miller mission”⁶³⁰, and presented its enthusiastic and “grandiose”⁶³¹ vision for the future of the TRA. Thanks to about 20 billion dollars⁶³² in infrastructure investment (that was, and still is, the Achilles’ heel of the TRA⁶³³) the primary objective was to turn the TRA into “NEA’s Hong-Kong”. The findings of the Miller mission were introduced to officials from different countries involved in the project in October 1991, in Pyongyang, and were followed by an official announcement during a press conference at the UNDP headquarters in New York the same month⁶³⁴. Two months later, in December 1991, the Rajin-sonbong FETZ opened its doors.

The TRADP involved countries that were outsiders to the TRA *stricto sensu*, including for example Mongolia or South Korea. The Program Management Committee (PMC), the executive institution of the plan, thus encompassed the PRC, the DPRK, the ROK, the Russian

⁶²⁷ In 1991, at the very beginning of the TRADP, even foreign diplomats had difficulties to access Hunchun city. See HOARE, James, *Old Stories Told Anew*, in CATHCART, Adam, GREEN, Christopher, 2013, *the Tumen Triangle Documentation Project, Sourcing the Chinese-North Korean Border*, Sino-NK. See p.10.

⁶²⁸ Hunchun became an “open city” before Rason, in November 1991, but it was only turned into an “open border city” (allowing border crossings) in March 1992. COTTON, 1996.

⁶²⁹ *Idem*.

⁶³⁰ ZHU Yuchao, 1995, *The Tumen River Delta Project and Northeast Asian Regional Economic Cooperation*, conference talk at the International Studies Association, Chicago. See p. 99. The Miller Mission report is, according to the UNDP offices in New York, unavailable.

⁶³¹ HOARE, 2013. See p.9.

⁶³² Chinese scholars sometimes provide an even much higher figure: \$30 billion. See CHEN Hsi-I Angel, 2009, *Transnational Sub-regional Cooperation in Practice: Dynamics of Micro-regionalism and Micro-regionalisation in the East Asia Pacific*, PhD thesis (unpublished yet), University of York, p.180.

⁶³³ CLÉMENT, Théo, 2015, *How Not to Invest in a DPRK Special Economic Zone: the Case of Rason*, *Sino-NK* (online). URL: <http://sinonk.com/2015/07/15/how-not-to-invest-in-a-dprk-special-economic-zone-the-case-of-rason/>. Last accessed 25th of October 2015.

⁶³⁴ ZHU, 1995.

Federation, Mongolia and Japan. The latter only held an observer status⁶³⁵, but was hoped to be the most important supplier of technology and capital in the zone⁶³⁶. The complementarities of the economic profiles of countries involved in the project was one aspect that triggered the TRADP, but the very heterogeneous socio-political nature of NEA at that time also certainly constituted a hurdle to the economic development of the TRA. The fragile equilibrium between national interest and regional cooperation was hard to maintain in this context, as actors often pursued different objectives. Mongolia was mostly trying to diminish its economic dependence on the Tianjin port in China, South Korea was eager to establish a foothold in the Yanbian prefecture⁶³⁷, while the PRC was first and foremost trying to find a direct access to the sea. Beijing, for instance, stubbornly tried to impose to other partners its “Fangchuan plan”⁶³⁸, which aimed at creating river port facilities in Fangchuan, 15km up the Tumen river mouth, and to open the river to Chinese, DPRK and Russian ships. Not only this plan posed extreme technical difficulties, especially the constant dredging of the river, but it would also have necessitated an agreement on navigation rights on the Tumen river that would basically directly provide China with access to the Western Sea/Sea of Japan, with few benefits from a Russian or North Korean perspective. As will be seen later, this attitude from the Chinese partner has not completely disappeared.

The profound political evolutions that shook the region at the beginning of the 1990s also did their part in obstructing the UNDP’s plan for enhanced economic integration. For example, in the global context of the perestroika, Mikhail Gorbachev visited the Primorsky Krai in 1986, and announced its intention of opening a Special Economic Zone, a move confirmed by Boris Eltsin in a visit to Nakhodka in 1989. The Russian Supreme Council approved the law on the Development of Nakhodka Free Trade Zone one year later⁶³⁹. However, in the early years of the Russian Federation, Moscow’s attitude changed: a SEZ project in Vladivostok was dropped in 1991, and two years later, in the context of the global economic slowdown following the fall of the USSR, the Russia *Duma* estimated that SEZs

⁶³⁵ *Idem.*

⁶³⁶ HOARE, 2013. See p.9. ZHU, 1995, see p.108.

⁶³⁷ COLLIN, 2003, La préfecture autonome des Coréens de Yanbian : une ouverture frontalière aux multiples enjeux géopolitiques, *Perspectives Chinoises* n°77 (en ligne). Url : <http://perspectiveschinoises.revues.org/104>. Last accessed 26th of October 2015.

⁶³⁸ ZHU, 1995, see p.108. TSUJI, 2004, see p.6.

⁶³⁹ TSUJI, 2004.

provided preferential regulations were detrimental to domestic industries and *de facto* put a term to the existence of the Nakhodka SEZ. In 1999, the *Duma* also killed hopes for the establishment of a 330 hectares Russian-Korean Industrial Complex in southern Primorsky Krai.

Indeed, the enthusiasm for the project peaked in 1993, at the Pyongyang PMC meeting. The next PMC meeting, hold in July 1994 in Moscow, actually witnessed a spectacular leap backwards, as the UNDP withdrew its 20 billion dollar plan (but not its support to the project), as the TRADP lacked political momentum. As a matter of fact, the common management of the whole project under the auspices of the UNDP turned out to be a failure and after 1994, the development-focused agency only tried to harmonize foreign direct investment (FDI) in the area, the initiatives being taken by individual member countries. Revealingly, the TRADP office in New York closed its doors in 1994, and a new Tumen River secretariat office (a lower level than the former TRADP HQ in New York) opened in Beijing in 1998. The UNDP, however, did not withdraw its support to the TRADP and kept on funding some key projects in the area, including a \$ 4,4 million dollars technology transfer project to the DPRK and a \$1,3 billion investment in roads near Hunchun in China (Yanbian)⁶⁴⁰. A Tumen trust fund was also created (with Seoul providing about \$1 million) in order to coordinate the implementation of the TRADP. The UNDP also published an investor's guide to Rajin-sonbong at the end of the 1990s⁶⁴¹, which is likely the most detailed source available on Rason's business environment at that time. Since the mid 2000s, the UNDP's activities in TRA have been quiet, and China has taken the lead (through the *Changjitu* program) in developing (its part of) the area. The fact that the UNDP delegation in Pyongyang is not allowed, because of political pressure to implement development programs in the DPRK's SEZs⁶⁴² also prevents the creation of better conditions (infrastructure, trust) for increased economic integration in the area.

5.2 A High potential SEZ...

⁶⁴⁰ CHEN, 2009. See p.185.

⁶⁴¹ United Nations Development Program, 1998, *D.P.R. Korea's Rajin-Sonbong Economic Trade Zone, Investment and Business Guide*.

⁶⁴² Interview with a former UN agencies coordinator in Pyongyang, Paris, September 2014. According to him, Western countries and some of their allies have collectively vetoed all capacity-building activities in the DPRK, especially SEZs. Revealingly, Japan is among them.

There is a large consensus among scholars and DPRK observers that Rajin-sonbong is among the DPRK's high potential SEZs⁶⁴³. This section will try to show that Rajin-sonbong has indeed several cards to play in order to attract investment and to bolster trade (and trade-related) activities.

5.2.1 Infrastructural and locational advantages

Rajin-sonbong is often considered to have high potential because of its locational advantages⁶⁴⁴. The latter are threefold: first, Rason is a borderland SEZ; second, it is located on the coast; and third, it is (or could be) located near major trade routes.

Rajin-sonbong is located on the Northeastern tip of the Korean peninsula, and is the only part of Korea that borders two different countries: north, the PRC; east, the Russian Federation. At the beginning of the 1990s, when the zone was opened, both countries constituted the most important trade partners of the DPRK, even though Moscow was on the eve of a major historical mutation (Rason opened one month before the official collapse of the USSR). With the newborn Russia federation having no interest in engaging into "aid in form of trade" with the DPRK, the least that can be said is that the opening of Rason was ill-timed: "the fall in imports from Russia in 1991 was equivalent to 40 percent of all imports, and by 1993 imports from Russia were only 10 percent of their 1987–90 average"⁶⁴⁵. As a result of the collapse of the USSR, during the 1990s, Rason saw little Russian involvement⁶⁴⁶. With the Russian-DPRK ties warming up during the 2000's, and especially after the cancellation of an important part of the DPRK's debt in 2014, the perspectives of Rason regarding the Russian Federation seemed brighter.

⁶⁴³ ABRAHAMIAN, Andray, SEE, Geoffrey K., WANG Xinyu, 2014, ABC of North Korea's SEZ, *United States Korea Institute Report*. Url: <http://uskoreainstitute.org/wp-content/uploads/2014/11/Abrahamian-SEZs-14-1118-HQ-Print.pdf>. Last accessed 3rd of May 2015.

⁶⁴⁴ DUNNING, John H, 2001, The Eclectic (OLI) Paradigm of International Production: Past, Present and Future, *International Journal of the Economics of Business*, 8:2, 173-190.

⁶⁴⁵ NOLAND, Marcus, 2011, The Political Economy of North Korea: Historical Background and Present Situation, in *New International Engagement Framework for North Korea: Contending Perspectives*, Korea Economic Institute. Url: <http://www.keia.org/sites/default/files/publications/04Noland.pdf>. Last accessed 31th of August 2014.

⁶⁴⁶ UNDP, 1998.

The other neighbor of Rason is the PRC, North Korea's most important economic partner. Rason and the north of North Hamgyong province actually share a border with the Yanbian Korean Autonomous Prefecture [延边朝鲜族自治州, *yanbian chaoxianzu zizhizhou*; 연변조선족자치주, *yŏnbyŏn josŏnjok chach'iju*] an administrative subdivision of Jilin province whose official language is Korean. Jilin province, and Yanbian in particular, is suffering from its remoteness from the mainstream of the Chinese economy and especially from the fact that it lacks access to the sea. The Chinese industrial rustbelt does indeed depend mostly on the very busy port facilities in Dalian (Liaoning province, about 900 km from Yanji) in order to reach domestic or foreign markets (especially South Korea, given the common cultural background).

Yanbian borders the Korean Peninsula, but locally-manufactured commodities cannot directly access some of their target markets, both domestic and foreign (South Korea, Japan, Europe). On this particular point, port facilities in Rajin-sonbong provide important opportunities for Chinese companies based in Yanbian, Jilin or Heilongjiang as they would open a much faster trade route: the road from Yanji to Rajin harbor is only 150 km. The estimates of the time and money saved that would result from preferring the Rason route widely differ from one expert to another⁶⁴⁷. But there is a consensus that, if this "new" trade route is established, it would provide a major advantage to Chinese companies⁶⁴⁸.

As said above, the Rajin-Sonbong SEZ has numerous ports, but only three of them can host foreign ships⁶⁴⁹ (see map 3). The biggest one is located in Rajin. This three-pier port was built by the Japanese colonial power in 1938, and can handle ships that weigh between 30.000

⁶⁴⁷The route from Rajin (instead of Vladivostok) to Pohang, in South Korea, lasts about 36 hours, and saves up about 15% of time and costs. See First Shipment of Russian Coal to be Transported through Rajin to Pohang, 2014, *NK Briefs* (online). URL: http://ifes.kyungnam.ac.kr/eng/FRM/FRM_0101V.aspx?code=FRM141201_0002. Last accessed 28th of October 2015. The route from South Korea to Europe via Rajin is said to divide shipping time by two and to cut costs by 30%. JIN *et al*, 2007. Lin and Hao explain that the Hunchun-Niigata route via Rason (instead of Dalian) divides terrestrial travel time by ten and maritime travel time by two. See LIN Jinshu, HAO Fanglong, 2011, *changjitu xianlingqu yu chaoxian luoxianshi de jingmao hezuo* 长吉图先导区与朝鲜罗先市的经贸合作 [Economic cooperation between Changjitu Pilot Zone and the DPRK's city of Rason], *Yanbian University Journal of Social Science*, vol.44, N°2, pp.14-18.

⁶⁴⁸ UNDP, 1998. See p.20.

⁶⁴⁹ Law of the Democratic People's Republic of Korea on the Rason Economic and Trade Zone, in *Laws and Regulations of the Democratic People's Republic of Korea Governing External Economic Matters*, 2012, Legislation Press, Pyongyang. See article 78.

and 40.000 tons⁶⁵⁰, on nine different berths. Total port capacity is around 5 million tons a year⁶⁵¹, but the port is in fact mostly idle, since at its busiest time, in 1979, it only handled 800 000 tons a year⁶⁵², and only 200 000 tons in 2011⁶⁵³. Nevertheless, in 2014, a DPRK-Russia joint venture (RasonKon Trans) and a Russian State-owned company (JSC Trading House RZD) created a new wharf in Rajin⁶⁵⁴, especially designed in order to transship Russian coal (coming through the Tumangang-Khasan railroad) to boats leaving for foreign markets, including South Korea⁶⁵⁵. The southernmost pier has been leased by a Russian company for 49 years, starting in 2008⁶⁵⁶. The middle pier is used by North Koreans, and the northernmost one has a somewhat confused nature. This pier has been leased for ten years (starting in 2010)⁶⁵⁷ and renovated (for 3,6 million dollars⁶⁵⁸) by a Chinese company (Chuangli Group in Dalian⁶⁵⁹), but the initial deal also included the construction of additional (bigger) piers in Rajin, which were canceled in 2012⁶⁶⁰. The port is mainly accessible by road, even if railroad tracks leading to the port exist (see *infra*). The port is equipped with relatively modern cranes, supplied by Yanbian Hyuntong Shipping Group Co, but is only able

⁶⁵⁰ ABRAHAMIAN, Andray, 2011, Report on Rason Special Economic Zone, Democratic People's Republic of Korea, *Choson Exchange Report*. Url: <http://static.squarespace.com/static/52dd9f05e4b0089d6701446a/53064026e4b086a219c80ff3/53064034e4b086a219c810de/1392918580555/Choson-Exchange-Rason-Report-August.pdf?format=original>. Last accessed June 2013.

⁶⁵¹ Six million tons according to recent DPRK sources. Rason Economic and Trade Zone, Naenara (online). URL: <http://www.naenara.com.kp/en/trade/rason/>. See "nature and geography".

⁶⁵² ABRAHAMIAN, Andray, 2012, The Honeymoon Period is over, Short Report on Rason Special Economic Zone, Democratic People's Republic of Korea, *Choson Exchange*. See p.3.

⁶⁵³ *Idem*.

⁶⁵⁴ N. Korea opens Russia-backed wharf in Rajin, *NKnews*, 2014.

⁶⁵⁵ N. Korea improves coal shipment capacity at Rajin port, 2015, *Yonhap News online*. Url: <http://english.yonhapnews.co.kr/northkorea/2015/04/27/58/0401000000AEN20150427006600315F.html>. Last accessed 28th of October 2015.

⁶⁵⁶ ABRAHAMIAN, 2011. See p.3. In this report, it is written that the Russian company invested 1 billion US dollars (quoting a DPRK official).

⁶⁵⁷ China's Jilin Wins Use of N.Korean Sea Port, *Chosun Ilbo* (online), 9th of March 2010. URL: http://english.chosun.com/site/data/html_dir/2010/03/09/2010030900360.html. Last accessed 28th of October 2010.

⁶⁵⁸ No Chinese Naval Base in N. Korea, Experts Say, 2010, *Defense News* (online).URL: <http://archive.defensenews.com/article/20100317/DEFSECT03/3170302/No-Chinese-Naval-Base-in-N-Korea-Experts-Say>. Last accessed 28th of October 2015.

⁶⁵⁹ LIN, HAO, 2011.

⁶⁶⁰ ABRAHAMIAN, 2012. See p.2.

to load or unload about 6 containers per hour, meaning that if Rajin harbor wants to live up to the zone's potential important infrastructure works will be needed.

The second port in Rason is the one located in Sonbong, and is an oil-specialized port. It has a handling capacity of about 250 000 tons a year and is located close to the Sonbong thermal power plant and to the biggest oil refinery in the DPRK, the Seungri Chemical Plant⁶⁶¹. This chemical plant was built in 1968-1973 thanks to Soviet investments⁶⁶² in this strategic zone: the DPRK could refine Siberian heavy oil to be either re-exported to the USSR or foreign markets, or even used domestically.

Finally, the third relatively important port of the area is Ungsang, formerly a timber specialized port, which was used extensively during the Japanese colonization and the Cold War (North Korean timber was exported to the USSR in the context of friendlier trade policies). Timber handling capacity of Ungsang port is evaluated at 6 million cubic meters⁶⁶³. In addition, the zone has a certain number (about half a dozen) of smaller ports (most likely fishing ports).

While ports in Rajin-sonbong are certainly small in scale, especially compared to other world-famous facilities in NEA (Vladivostok, Dalian, Tokyo), they have a strategic importance that goes much beyond providing access to the sea to the Chinese hinterland. Rajin-sonbong is said to have the northernmost year-round ice free ports in continental Asia. It means that contrary to other ports, especially Russian ports in the Primorsky Krai, port facilities in Rason can be used any time of the year, providing with a definite comparative advantage to the North Korean SEZ. This is especially significant because it might be much more practical for China to seek access to the sea via Russia instead of Rason, with DPRK-PRC dialogue being often complicated. However, not only are the Russian ports already quite busy and potentially unusable in winter, they also have additional disadvantages for the Chinese: first of all, railway linkages (and thus commodities transfers) are complicated, since China and

⁶⁶¹ UNDP, 1998.

⁶⁶² DORMELS, Rainer, 2014, Profiles of the Cities of DPR Korea – Rason, *Universität Wien Research Report* (online). Url:

http://www.univie.ac.at/koreanologie/fileadmin/user_upload/DigitalNK/Forschungsarbeit/Rason.pdf. Last accessed 4th of January 2016.

⁶⁶³ FERRIES, Alan, 2012, Introduction to Rason Special Economic Zone, *Sino-NK* (online). Last accessed 11th of November 2015

Russia use different gauges; Port infrastructures in Zarubino and Posyet are inadequate and can only deal with very small volumes of cargo⁶⁶⁴ (until recently at least⁶⁶⁵) and they suffer from the competition of bigger and more modern ports (Vladivostok, Nakhodka), that have all the infrastructure needed, contrary to Zarubino and Posyet, remotely located.

Rajin-sonbong is also located on the fastest route from South Korea to Europe via rail (through the transsiberian railway or the announced “Eurasian landbridge”⁶⁶⁶), with the “old” South Korean project⁶⁶⁷ of creating an “Iron Silk Road” running from Busan to Moscow being often lobbied by important political figures, including, recently, Russian President Vladimir Putin⁶⁶⁸. In addition, in the more general framework of the Chinese “one belt, one road” initiative (一带一路 ; *yidai yilu*) Rason would also be China’s most logic pick when trying to connect the economically depressed Yanbian prefecture to South Korea⁶⁶⁹. Last, but no least, being the northernmost year-round ice-free port in continental Asia also puts Rason at the forefront for the opening of Arctic routes. Indeed, while port facilities in Rason can certainly not, for the moment, accommodate icebreakers that are able to cross the Bering Strait and the Arctic ocean, the PRC, most important exporter to Europe, is getting ready for the opening of Arctic routes⁶⁷⁰, being for example the first non-polar actor to build an icebreaker, the Xuelong (Snow Dragon). South Korea, a major player in the shipbuilding sector, is also looking for important opportunities in the Great North, and built one of the most modern

⁶⁶⁴ In 2004, for example, Zarubino could only handle 1,2 million tons of cargo, and slightly more for Posyet (1,5 million). TSUJI, 2004.

⁶⁶⁵ China, Russia, to build port near North Korea, *ECNS* (online), 11th of September 2014. URL: <http://www.ecns.cn/cns-wire/2014/09-11/133978.shtml>. Last accessed 29th of October 2015. The renovation and upgrading of port facilities in Zarubino has been announced with the (over)optimistic objective of multiplying cargo handling capacity by almost 50. To our knowledge, nothing suggests that actual construction is on the way.

⁶⁶⁶ BURNS, Katherine B., Undated (1994?), Subregional Power and Regional Integration: the case of Tumen River Development, *The Massachusetts Institute of Technology Japan Program Report*.

⁶⁶⁷ FUNABASHI, 2007. See p.460.

⁶⁶⁸ Putin lobbies for ‘Iron Silk Road’ via N. Korea, hopes political problems solved shortly, *RT* (online), 13th of November 2013. Url: <https://www.rt.com/business/putin-lobbies-iron-silk-seoul-677/>. Last accessed 29th of October 2015.

⁶⁶⁹ *Hunchunshi yu dongbeiya geguojian de“hulianhutong” zaijishen* 珲春市与东北亚各国间的“互联互通”再升级 [Hunchun city upgrades again its connexions with other countries in Northeast Asia], *Xinhua Wang* (online).

URL : <http://www.hybrb.com/show/?idx=85717>. Last accessed 29th of October 2015.

⁶⁷⁰ PELAUDEIX Cécile, 2016, “China’s interests in the Arctic and the EU Arctic policy: towards a proactive EU foreign policy?”, *The Yearbook of Polar Law*. Vol. 7.

icebreaker in the world, the RV Araon. If Arctic routes were actually opened for freight someday, it will be a major shift for China (whose exporting industries are traditionally located on the southern coast), and will give a definite impetus to the *Dongbei's* economic development, as well as the entire NEA area, and thus increase the need to find a window on the Eastern sea. As a matter of fact, test-runs have already been made in 2013⁶⁷¹ (leaving from Ust-luga in Russia to Rajin), raising even more the expectations on Rajin-sonbong. Jin *et al*, in 2007, explain that shipping goods from Hunchun to Europe via the Arctic instead of via the Suez canal would cut in half both time and distance⁶⁷².

In spite of these important locational advantages, Rajin-sonbong still remains scarcely populated area. The zone itself counts less than 200 000 inhabitants⁶⁷³, with about half of the population considered as active. While this constitute an important increase if compared with the demographics at the time of the opening of the SEZ (with the total population in Rason being 150 000 in 1993), it remains far behind the announced objectives of 350 000 inhabitants in 2010, not to mention the more vague ultimate purpose of creating a new one million people growth pole in NEA. As mentioned before, Rason is an exception in the North Korean economic landscape, with little linkages with the rest of the country, but growing linkages with neighboring countries. It seems that the DPRK authorities have been trying to keep it that way, going as far as physically fencing off the SEZ⁶⁷⁴. The acceleration of the transformation of the Chinese economy after 1992-1993⁶⁷⁵ raised the stakes for Rajin-sonbong as a SEZ (hence the opening of Hunchun at that time), leading to increased interest in raising the area's connectivity.

5.2.2 Additional advantages

Besides locational advantages, the Rason SEZ has also additional cards to play in order to attract foreign investments. Indeed, the Rason local authorities have been implementing

⁶⁷¹ BENETT, Mia, North Korea and the Northern Sea Routes, *Cryopolitics* (online), 5th of August 2014. Url: <http://cryopolitics.com/2014/05/08/north-korea-and-the-northern-sea-route/>. Last accessed 29th of October 2015.

⁶⁷² Jin *et al*, 2007.

⁶⁷³ ABRAHAMIAN, 2012. According to Alan Ferries, population of the zone is about 170 000 inhabitants. FERRIES, 2012. See p.1.

⁶⁷⁴ LANKOV *et al*, 2008.

⁶⁷⁵ NAUGHTON, Barry, A Political Economy of China's Economic Transition, in BRANDT, Loren, RAWSKI, Thomas G. (eds), 2008, *China's Great Economic Transformation*, Cambridge University Press, Cambridge.

different preferential policies in order to attract foreign companies in Rason (with limited but existing success). As of 2016, the law on Rason has been amended no less than six times⁶⁷⁶ since the opening of the SEZ.

First of all, as anywhere in the DPRK, Rason has a pool of cheap and high-quality labor, educated in the quite numerous education centers of the area (Rajin University for Maritime Transport, Rajin Business School, etc.). Contrary to most other Asian countries, unskilled workers in Rason work on a 6 days/48h⁶⁷⁷ per week basis for \$80 dollars a month⁶⁷⁸, plus potential benefits⁶⁷⁹. These figures only represent the amount that is transferred from companies to the DPRK authorities, with the share of the wage that is not “socialized” (retained by the State) remaining a mystery. On the other side of the border, wages are rising and businessmen sometimes have difficulties to hire workers⁶⁸⁰, especially for unqualified jobs (maybe given the cultural importance of education among Korean Chinese in Yanbian). Minimum wage in Yanji and Hunchun is currently around \$210 a month⁶⁸¹, 2,5 times more than inside Rason.

Rajin-sonbong also has quite substantial natural resources, even if the zone is definitely not the most resourceful part of the country. The zone has important potential for timber, (with the forest cover encompassing 67% of the zone, which is quite rare in the DPRK), construction materials like sand, granite or gravel, and, most notably, sea food. As mentioned at length by the *Great Leader* as well as foreign experts, the DPRK territorial waters have great potential for fishing, but the productivity of the North Korean fishing industry is quite low. Rason seafood is actually so plebiscited by local trading companies⁶⁸²

⁶⁷⁶ In 1999, 2002, 2005, 2006, 2010 and 2011.

⁶⁷⁷ UNDP, 1998. See p.

⁶⁷⁸ ABRAHAMIAN, 2012.

⁶⁷⁹ Contrary to Kaesong, we could not find any detailed information on wage benefits such as overtime pay, potential incentives, etc.

⁶⁸⁰ See LIN and HAO, 2011, p.15. Businessmen in the zone confirmed that it was sometimes hard to enroll workers in Yanbian, some of them even thinking about closing all their businesses in Yanbian and to focus on Rason.

⁶⁸¹ *Yanji hunchun zuidi gongzi biao zhun 1380 yuan/yue* 延吉珲春最低工资标准 1380 元/月 [Minimum wage in Yanji and Hunchun set at 1380 yuan a month], *Yanbian Ribao* (online), 2nd of December 2015. Url: <http://www.hybrb.com/show/?idx=95794>. Last accessed 11th of January 2016.

⁶⁸² During our fieldwork in Yanbian, we have met numerous Chinese entrepreneurs that were satisfied with the quality of the seafood in Rason, and some even tried, unsuccessfully, to increase their purchases. Only one trader had bad experiences with the delivery of North Korean seafood.

that the bordering city of Hunchun bet a lot on seafood processing industries for its future development model⁶⁸³, although the Chinese city does not have access to the sea. In addition to Rajin, Sonbong, Ungsang, Rason has eight small fishing ports with most likely a quite small output but definitely room for improvement (see figure 11).

Figure 11: fishing port in Rason



Source: Théo Clément, 2014.

As explained by the UNDP, there are important deposits of more “strategic” resources like coal, ores, magnesite, or ceramic clay, in areas neighboring the zone, which can be “exported” to and processed in Rason. However, the latest version of the Rason ETZ law (2011) states that “imports” of raw materials from the DPRK to Rajin-sonbong have to be negotiated not with local partners but directly with Pyongyang (art.47), whereas raw materials from abroad can be imported without any tax duties (art.50), surprisingly providing an incentive to import raw materials instead of using local resources.

⁶⁸³ *Hunchunshiyituo youshi dazao “dongbeiya haishanpin tuan sandi”* 珲春市依托优势打造“东北亚海产品集散地” [Hunchun city relies on the transformation into a Northeast Asian seafood distribution center], *Yanbian Ribao* (online). Url: <http://www.hybrb.com/show/?idx=86201>. Last accessed 3rd of November 2015.

5.3... but with mixed results

Although the Rason SEZ appears to have several promising features, it has attracted limited attention so far. Indeed, most assessments of the Rajin-sonbong SEZ vary between failure and mixed success at best.

5.3.1 Initial successes?

If considered from international standards, there is indeed much room for improvement. If compared with other SEZs in the DPRK, or with levels of investment and transborder economic integration of North Korea in general, Rason has made substantial breakthroughs. As often with the DPRK, investment and trade figures are scarce and not necessarily reliable, but since (legal) interaction with foreign actors in Rason is much more frequent and “institutionalized” than anywhere else in the country (with the notable exceptions of Kaesong and Pyongyang), statistics of economic activities in Rason are relatively “easier” to gather. It does not, however, mean that the assessment of the Rason SEZ is simpler to do, first of all because the objectives of SEZs in the DPRK seem to be much different than in other economic zones, especially the ones in China; second, because key objectives of SEZs in general, like technology transfers, are not measurable and do not appear in statistics. It is thus needed to consider what the initial objectives of the zone were before trying to understand to what extent it succeeded.

Originally, when Rason was still part of the TRADP, the objectives were to use FDI in the zone in order to turn Rajin-sonbong into an international and transit trade, manufacturing and tourism hub⁶⁸⁴. Of course, the DPRK needed hard currency and the zone is ideally located for the development of logistics-related activities and transit trade. But on the other hand, Rason was opened as a 621 km² zone (746km² now⁶⁸⁵), and encompasses much more than port facilities: development of the local industrial sector was also on the agenda. Local industry, as anywhere else in the DPRK, needed two kinds of investment: capital and technology. Earlier versions of the Rason law actually allowed investment in the zone under

⁶⁸⁴ UNDP, 1998. See p.2.

⁶⁸⁵ COTTON, James, 1996, *The Rajin-sonbong Free Trade Zone Experiment: North Korea in Pursuit of New International Linkages*, *Working Paper* 1996/9, Australia National University. Parts of Undok county and Wonjong village were included in the zone in 1993, in preparation for the establishment of the visa-free zone. Including Wonjong in Rason allows direct access from China via Wonjong bridge.

extreme constraints regarding technology transfers, not only by screening investment projects based on their technological status⁶⁸⁶, but also because investment projects applications had to provide the “details of industrial property rights, technological know-how to be contributed”⁶⁸⁷ to the local economy. In other words, not only foreign investors had to “contribute” technology to local companies, but they actually had to do it even *before* that FDI actually took shape. More recent legal norms of the DPRK, like the Regulations on the Implementation of the Law on Foreign-Owned Enterprises, go even further, stating that

*“a wholly foreign-owned enterprise may be established in certain economic sectors only if it fulfills at least one of the following conditions: (i) it supplies high-technology or other up-to-date technology; (2) it produces internationally competitive goods; or (3) it will improve the quality of existing DPRK products up to international standards.”*⁶⁸⁸

The development of Rason has known several different stages, cycled with either domestic or foreign developments. The collapse of the USSR, the progressive withdrawal of the UNDP, played their parts in preventing the Rason SEZ from taking off. The outbreak of the *Arduous March* in the middle of the 1990 decade also was a detrimental factor to the success of the SEZ. In the end of the 1990 decade, Rajin-Sonbong was paradoxically enjoying the most strategic locational advantage of the region but received only very limited investment if compared with other parts of the TRA (see table7).

The fact that Rason, in the 1990 decade, received only about a sixth of the investment in both Yanbian and Primorsky Krai can however be explained by several factors (besides the DPRK’s often unappealing policies towards investors⁶⁸⁹). First of all, the Rason region is a much smaller, less densely populated than both the Chinese and the Russian part of the TRA. Indeed, in the 1990s, the population of the Primorsky Krai peaked to 3,2 million inhabitants, while Yanbian’s, even if quickly decreasing, was still more 20 times the total population of

⁶⁸⁶ Article 6 of the 2011 Rason Law explains that project that are “economically and technically outdated” shall be prohibited or restricted in the zone. See Rason law, 2011, art.6.

⁶⁸⁷ UNDP, 1998.

⁶⁸⁸ ZOOK, 2012. See p.162.

⁶⁸⁹ On the DPRK’s business environment as a whole, see part III.

Table 7: FDI in the Tumen River Area (actually implemented), US\$ millions.

	1985-93	1994	1995	1996	1997	1998	1999	2000	2001	Cumulative
Yanbian pref.	42	61	78	134	95	47	33	29	32	551
Rajin-Sonbong	1	1	4	31	26	25	n/a	n/a	n/a	88
Primorsky Krai	141	2	53	97	95	56	54	78	66	642
Total	184	64	135	262	216	128	87	107	98	1.281

Source: TSUJI Hisako, 2004, The Tumen River Area Development Programme: Its History and Current Status as of 2004, Economic Research Institute for North East Asia discussion Papers, N°0404.

Rajin-sonbong at that time⁶⁹⁰. What's more, Rason's total area represents only a fraction of the Yanbian Prefecture or the Primorsky krai. What's more, China and Russia already benefited from a much "business-friendly" environment than in Rason, not only regarding legal provisions but also regarding wages. Investments in China, especially at the beginning of the 1990 decade (second part of the Chinese reform) were attracted by extremely low wages. Wages differences between the PRC (especially in *Dongbei*) and the DPRK at that time were not sufficiently important so that investors would take additional risks by investing in North Korea. China had clearly shown its political willingness to host more foreign investment and was already considered a relatively safe and lucrative choice. The Korean-speaking Yanbian autonomous prefecture was an interesting target for South Korean investors, due to the complementarities of the Chinese and South Korean economy at that time, in the context of rising wages and economic development in the ROK. As a matter of fact, following the establishment of Chinese-ROK economic relations at the end of the 1980s, and especially after the full mutual diplomatic recognition in 1992, South Korean investment started to pour in Yanbian.

⁶⁹⁰ As we have seen, Rason had less than 200 000 inhabitants in the 1990s (UNDP, 1998), while Yanbian's population was about 2,2 million in 2000. See COLLIN, 2003.

In the 1990s, Rason actually made substantial progresses, including a few projects that, with today's historical perspective, can be considered as breakthroughs. First of all, reliable connections with neighboring countries were established, including a highly strategic direct maritime route from Rason to Busan in South Korea (in 1995⁶⁹¹) with an annual output of 4000 to 5000 TEU (twenty-foot equivalent unit)⁶⁹², a realization that local authorities in Yanbian and South Korean companies were actively trying to revive today until recent South Korean sanctions in 2016⁶⁹³. In 1999, an additional route from Rajin to Niigata was opened, mostly due to increased pro-Pyongyang Japanese Koreans activity in the Zone. Levels of investment, in the 1990s, were below what was expected on the North Korean side, with only one fifth of Pyongyang's initial target achieved in 1996⁶⁹⁴. But DPRK planners have a tradition of setting unrealistic goals as a production incentive, and, in fact, investment projects in the zone were much more dynamic in the 1990s than in the following decade. Following the publication of the first Rason law in 1993 and the establishment of the visa-free zone⁶⁹⁵, investment activities started to "take off". According to the UNDP report, in 1995, there were small projects of about \$ 6 million in value⁶⁹⁶, but it jumped to \$37 million (cumulative) the following year, with 28 foreign-invested enterprises active in the zone. 1996 is an important year in the history of Rason because at that time the zone authorities did not only open the door but reached out to the world, actively publicizing investment opportunities in the DPRK. To our knowledge, this was the first time that the DPRK organized not only investment briefings for foreigners but also a public relation campaign reaching out to China and the Western world. During this campaign, Kim Jong-u, the chairman of the DPRK's Committee for the Promotion of External Economic Cooperation⁶⁹⁷ was facing the difficult task of convincing foreign investors that the DPRK's Rason was a safe investment

⁶⁹¹ JIN *et al*, 2007

⁶⁹² Twenty foot equivalent unit.

⁶⁹³ *Hunchunshi yu dongbeiya geguojian de "hulianhutong" zaijishen* 珲春市与东北亚各国间的“互联互通”再升级 [Hunchun city increases again its « mutual connections » with every single country in Northeast Asia], *Xinhua Wang* (online), 6th of June 2015. Url: <http://www.jl.chinanews.com/news1-126240.html>.

⁶⁹⁴ BABSON, Bradley, 2003, *Economic Cooperation on the Korean Peninsula, Northeast Asia Peace and Security Network Special Report*, Nautilus (online). URL: <http://www.nautilus.org/napsnet/sr/index.html>.

⁶⁹⁵ ZHU, 1995.

⁶⁹⁶ TSUJI (2004), is less enthusiastic and mentions only \$4 million.

⁶⁹⁷ The Committee became later the State Economic Development Commission, which itself was merged with the Joint Venture Committee in 2014 to become the Ministry of External Economic Relations.

and profitable choice, even if the political situation in Pyongyang was difficult to assess⁶⁹⁸, and that the North Korea State was only opened to “what was good for the country”⁶⁹⁹. Kim Jong-u’s advertisement of the zone certainly was a bit naïve and awkward, explaining for instance that Rason was modeled not after Shenzhen, but after Singapore, due to “similar potential”. Kim Jong-u was able to gather about 440 potential investors in Rason, coming from 27 countries, in order to attend the zone’s first investment forum in September 1996, with the help of the UNIDO (see box 2)⁷⁰⁰.

Box 2: Rajin-sonbong September 1996 International Investment and Business Forum

On the 13th-15th of September 1996, Rajin-sonbong held its very first on-site investment forum, which took place after a certain number of trade missions and other investment briefings held abroad. The first investment forum took place in Yanji, in 1995. At this event, South Korean companies could not attend, due to tensed ties between the two Koreas at that time. Numerous agreements and letters of intent were however signed, for a total value of about \$600 million dollars⁷⁰¹, and the event was attended by delegates from 27 countries⁷⁰². As we mentioned, Rason delegations also toured Japan, in July 1996 with similar preliminary success. Less known is that DPRK zone managers also made a trip to Taiwan⁷⁰³, this time with limited success, in order to show that the DPRK was open to business outside of political issues, and, maybe, to put pressure on Beijing.

The 1996 investment forum was held at a time when infrastructures in the zone were not only limited but inexistent. The 170-member delegation from Japan, mostly pro-Pyongyang Koreans, had to stay on a cruise ship for the entire conference due to lack of

⁶⁹⁸ Kim Il-sung passed away in 1994 and his son Kim Jong-il only officially came to power in 1997, after three years of mourning period.

⁶⁹⁹ Q&A Kim Jong-u : North Korea’s bid for Investment, *New York Times*, 12th of August 1996. Retrievable here: http://www.nytimes.com/1996/08/12/news/12iht-qanda.t_0.html.

⁷⁰⁰ COTTON, 1996. See p.3. The forum was held under the following name: Rajin-Sonbong Zone International Business and Investment Forum.

⁷⁰¹ KIM Ick-soo, 1999, The Rajin-sonbong Free Economic and Trade Zone (RSFETZ): Transport Expansion Needs and Financing Perspectives, Association for Northeastern Regional Studies, working paper.

⁷⁰² Rason Economic and Trade Zone; Today and Tomorrow, *Naenara* (online), 20th of March 2014. Retrievable here: <http://www.nkeconwatch.com/nk-uploads/Rason-SEDC-2014-3.pdf>. Last accessed 29th of November 2015.

⁷⁰³ NOLAND, Marcus, GORDON FLAKE, L., 1997, Opening Attempt : North Korea and the Rajin-Sonbong Free Trade and Economic Zone, *Journal of Asian Business*, Vol.13, N°2. See p.107.

accommodation in the zone. However, by every standard, and not only North Korean ones, the forum was a success. About 440 guests attended the forum, plus one hundred DPRK people, either from Pyongyang or North Hamgyong province. The largest delegation was coming from Japan, with the Chinese (including Hong Kong) being a close second. Surprisingly, the third largest delegation was from a country that is not in Asia and was diametrically opposed to the DPRK: the United States. As a matter of fact, diplomats from the Embassy in Beijing and from the consulate in Shenzhen made the trip to Rason, but, according to our knowledge, no investment projects saw the light of day⁷⁰⁴. There had been discussions between Pyongyang and Seoul to send a South Korean governmental delegation to the forum, but, because of the tensed ties and the presence of important political leaders from the DPRK, plans to attend the forum were cancelled by the South. This last minute cancellation had a dissuasive effect in potential investment from Japan, Taiwan, and the ROK, reminding that political issues largely impacted the business atmosphere.

If most sources on the 1996 forum agree that the event was a success, there is no consensus on the number of contracts actually signed and their value. There is also no reliable figure on investment pledged, in total. However, all sources agree that the rate of actual implementation of contracts, agreements and letter of intent was extremely low. Kim explains that less than 7% of investments pledged in the zone were actually implemented⁷⁰⁵. The biggest investment in the zone was for the Emperor Casino Hotel (\$180 million), which necessitated for Kim Jong-u to explain that even if projects detrimental to “the DPRK morals” had been rejected, opening a Casino (closed to most locals) would not be a problem. Other important investment projects signed during the forum included a hospital funded by the Chongryon⁷⁰⁶. Particularly interesting to know is that the DPRK is said to have spent about \$300 000 on the organization of this seminar⁷⁰⁷, hinting that the Rajin-sonbong SEZ was actively supported by central power. Even if this sum, in itself, is not huge, it shows that DPRK resources were *invested* to attract foreign investors, and that the DPRK had a long-term perspective on Rason.

⁷⁰⁴ As of 2015, there is a business/humanitarian agricultural project led by Americans in Rason, basically a goat farm which also welcomes foreign tourists.

⁷⁰⁵ KIM Ick-soo, 1999.

⁷⁰⁶ The Chongryon Korean leading this project was Kim Man-yu, who already ran a hospital in Pyongyang at that time. The author does not know if Rason’s Chongryon hospital was actually built and opened.

⁷⁰⁷ NOLAND, GORDON FLAKE, 1997.

As a result of this pioneering investors' briefing, the level of investment in Rason doubled⁷⁰⁸ in one year, and the number of investment projects actually implemented in the zone was multiplied by 2.5, from 28 to 75⁷⁰⁹. In 1998, the number of foreign invested ventures kept growing, to 113, for a total value of 25 million dollars⁷¹⁰. Interestingly, during the 1996 briefing, eight important investment contracts were inked, for a total value of \$285 million, and more than \$800 million of further investment were agreed upon⁷¹¹.

The overwhelming majority of investments were from Asia, with, unsurprisingly, more than half of the ventures established with Chinese companies. But as they still are today, Chinese investments in Rason were mostly small-scale projects, with very low level of technology. While China accounted for 56% of all projects implemented in Rason until 1998, but the value of Chinese investment was only one quarter of the total investment in the zone. Yanji-based Hyuntong group was the only company to make substantial investments, especially in Rajin's port facilities, some small-scale factories and Rajin's market, which opened in 1998. But Hyuntong Group's participation ended abruptly, jeopardizing the future of the zone (see later). Investment from British-then-Chinese Hong-Kong, on the other hand, had opposite characteristics, with few projects (10% of all foreign invested ventures in the zone) but massive investments (more than one third of total investment): the most well-known example, the Emperor Casino Hotel near Pipa-do, was publicized as \$180 million project even if the exact amount invested is not known for sure⁷¹². This project was a bet by Hong Kong tycoon Albert Yeung to attract Northern Chinese (gambling is forbidden in mainland China) and Russian clientele, a strategy which sometimes crisped sino-korean relations, as we will see. It opened its doors to foreign tourists in 1999 (see figure 12).

⁷⁰⁸ According to TSUJI (2004), it nearly doubled, according to the UNDP report (1998), and COTTON (1996) it more than doubled. Differences in calculations are due to the difference between figures of investment pledged and project actually implanted.

⁷⁰⁹ UNDP, 1998.

⁷¹⁰ Idem.

⁷¹¹ TSUJI, 2004.

⁷¹² Rumors of an initial plan to build a 30-stories building, mentioned by South Korean outlets like the Daily NK, are false, as the initial plans, published in the UNPD Report, reveal. See An Employee from the Emperor Hotel in Rajin Out to Do Business in a Market Place, *Daily NK* (online), 14th of November 2005. URL: <http://www.dailynk.com/english/read.php?catId=nk01500&num=371>. Last accessed 17th of November 2015.

Figure 12: The Emperor Hotel under construction



Source: United Nations Development Program, 1998, D.P.R. Korea's Rajin-Sonbong Economic Trade Zone, Investment and Business Guide.

Other Hong Kong investments include a Joint-venture bank, known as the Peregrine Daesong Bank, which was renamed Daedong Credit Bank⁷¹³ after Peregrine collapsed in 1998⁷¹⁴. Russia pledged minor investments (\$7 million) in the port of Rajin (designed to facilitate chemicals and alumina transit through the port⁷¹⁵), a little less than Japan.

One major success of Rajin-sonbong, in the early year, was the highly lucrative⁷¹⁶ deal made with the Thailand-based Loxley Pacific Group, through the medium of Singaporean entrepreneur Richard Savage. Loxley Pacific invested about \$28 million in the zone's telecommunication networks, most likely benefiting from a special cut in enterprise taxes (10% instead of 14% of net profit) due to the relatively high-tech nature of the project, including, among others, an international link via Pyongyang and an optical fiber connection to Hunchun, China.

Given the fact that the DPRK can hardly be described as an investor's paradise and was only beginning to juggle with global capitalism-inspired policies, early achievements of the zone

⁷¹³ MARTIN, Bradley K., North Korea's Kim Allows Tentative Stirrings of Profit Motive, *Bloomberg* (online), 28th of December 2005. Retrievable here: <http://www.nkeconwatch.com/2005/12/28/north-koreas-kim-allows-tentative-stirrings-of-profit-motive/>.

⁷¹⁴ Visitors to the Yanggakdo Hotel in Pyongyang can see the Daedong office in the lobby.

⁷¹⁵ KIM Ick-soo, 1999, The Rajin-sonbong Free Economic and Trade Zone (RSFETZ): Transport Expansion Needs and Financing Perspectives, Association for Northeastern Regional Studies, working paper.

⁷¹⁶ MARTIN, 2005.

are not negligible. On the other hand, Rason certainly never lived up to its potential, never met its overenthusiastic quantitative objectives. Regarding the distribution of investment by sector, it was also a disappointment: most important investments were made in the tourism sector (Emperor hotel) or in Rajin's port facilities. One of the zone's objectives was to attract investment in the manufacturing sector, and this has been, until now, a failure. In 1998, only 5% of FDI targeted export-processing industries (including a seafood-processing factory)⁷¹⁷, which was, as explained by the head of the TRADP, a major disappointment: "we would have liked to have seen more contracts signed in the manufacturing sector"⁷¹⁸. As seen earlier, the DPRK's economy was unable to export its unreliable, low-quality, expensive domestically-manufactured products and had thus to rely on imports. Attracting investment in the manufacturing sector might have resulted in technology, know-how and management techniques transfers that could have potentially upgraded the whole DPRK production apparatus⁷¹⁹ (of course depending on the authorities' capacity to diffuse technology inside the country). In other words, using the Fleming-Hayuth model of transportation hubs⁷²⁰, Rason was unable to add *centrality* to *intermediacy*: it had a relative success in *mediating* goods produced or raw materials extracted in China or Russia, but was not able to *generate* any traffic on its own.

5.3.2 Rason's winter

The initial project of the TRADP was to increase economic integration on the TRA, and to create a new "golden triangle", or three closely linked economic corridors, with Rason as its southern tip. In the early years of the project, Russia stayed in the background, due to the severe economic recession in the post-USSR context and tensed ties with Pyongyang. In addition, Russia was reluctant to open the economically-depressed Far-east (*de facto* closure of the Nakhodka SEZ in 1992) fearing China's expanding export capacities⁷²¹. Geopolitical concerns, in the wake of the Sino-Soviet split, turned into (geo)economic ones, and Russia

⁷¹⁷ UNDP, 1998.

⁷¹⁸ Jin et al, 2007.

⁷¹⁹ COTTON, 1996. See p.4.

⁷²⁰ FLEMING, D., HAYUTH Y., 1994, Spatial characteristics of transportation hubs: centrality and intermediacy, *Journal of Transport Geography* vol.2, pp. 3-18. This model was first applied to Rason by Jin et al.

⁷²¹ ABRAHAMIAN, Andray, 2015, Tumen Triangle Tribulations , The Unfulfilled Promise of Chinese, Russian and North Korean Cooperation, *US-Korea Institute at SAIS Report* (online). URL: <http://uskoreainstitute.org/wp-content/uploads/2015/11/Abrahamian-Tumen-Triangle.pdf>.

did not agree to allow Chinese ships on the mouth of the Tumen River until 1991⁷²². In the 1990s context, the Russian federation was not necessarily a better window than Rason for Chinese *Dongbei*-manufactured products: the port of Zarubino was privatized, several SEZ projects were cancelled, and several voices in Russian economic and government circles pointed out that the Primorsky Krai already had huge ports with excessive handling capacities and thus no need for an additional port used by China that would furthermore threaten the domestic economy. As early as 1992, Russia and the PRC inked an agreement for the renovation and lease of the Zarubino port, but construction work was not finished until the beginning of the XXIth century, and handling of small volumes of Chinese cargo started only in 2003⁷²³. Khasan city, bordering China and the DPRK is a very small, remote, village with poor access to the bigger cities of Primorsky Kraï, while Zarubino or Pozyet ports are also sparsely populated cities. China thus focused on investment in the southern economic corridor, towards Rason: as part of the *Changjitu* plan, China invested twice as much in its transportation linkages towards the DPRK (on the Chinese side) than towards Russia⁷²⁴.

Whereas Russian involvement in the project was minimal from the beginning, Chinese enthusiasm was also quickly dropped, due to several factors. Political developments might have played their parts: three years after Kim Il-sung passed away, in 1997, Kim Jong-il officially took power. At that time, the new leader had only been once in China (since politically active), 15 years before. The *Dear Leader* did not speak any Chinese, and several times expressed disappointments at the Chinese ideological and economic *volte-face*⁷²⁵. Mistrust towards economic experimentations in Rajin-sonbong might have been a genuine feeling or a way to secure the support of conservatives during the political transition.

⁷²² BURNS, Katherine B., Undated (1994?), Subregional Power and Regional Integration: the case of Tumen River Development, *The Massachusetts Institute of Technology Japan Program Report*. See p.5.

⁷²³ TSUJI, 2004.

⁷²⁴ LEE Yeon-ho, KANG Jeong-shim, 2011, The Changjitu Project and China-North Korea Economic Cooperation: Beijing's and Pyongyang's intentions, BISA Annual Conference presentation, session 1.8.

⁷²⁵ One of Kim Jong-il's most well-known text, *Socialism is Science*, conveys a transparent message to the Chinese comrades: "*Today, traitors to socialism harbor illusions about capitalism and raise their hopes high for economic assistance from imperialists*". KIM Jong-il, 1994, *Socialism Is Science*, Foreign Language Editions, Pyongyang.

Anyway, in 1998, the “free” in “Rason Free Economic and Trade Zone” was dropped⁷²⁶ and the border market in Wonjong was closed⁷²⁷. Investors were also repelled by what they interpreted as a lack of commitment from Pyongyang, if not politically, at least financially. Infrastructures in the zone existed, but most of them were old and needed to be renovated, including the most basic ones (roads, power plants, etc.). The DPRK government was well-aware of this problem and offered to pitch in about one million dollar⁷²⁸ in the zone’s infrastructure, a sum that is only a very tiny portion of the total investment needed to create the “Singapore of Northeast Asia”. As a matter of fact, local authorities are almost entirely relying on foreign investment to develop the zone: literally anything that needs to be refurbished, rebuilt or renovated is left to foreign investors. During Kim Jong-u’s pre-1996 investment briefing tour of Japan, local businessmen were intrigued by the optimistic statement of one DPRK delegation official, who believed that “foreign investors will pay for infrastructure development”⁷²⁹. This rather surprising overreliance on foreign FDI for the development of the zone will be studied in the next part.

As quickly mentioned, South Korean involvement in the project was also quite limited, mostly over political concerns, but also because the strategic importance of Rason for the ROK decreased after the opening of a Zarubino-Sokcho direct maritime route in 2000, cutting Rason short. Japanese interest in the zone was also quite limited in Rason, first of all because of tensed political ties, second because Japanese Koreans (at least the pro-Pyongyang ones) could probably benefit from officious friendly policies in different parts of the country and not only Rajin-sonbong. Strongly supporting the view that Japanese investment in the zone was mostly driven by ideological/nationalist considerations (basically Chongryon-affiliated companies), the Japanese-funded companies lasted longer than other

⁷²⁶ For the anecdote, the same phenomenon happened in China after the pioneering SEZs were opened : originally named « Special Zones » [特区 ; *tequ*], conservatives inside the CPC, led by Chen Yun, lobbied for the addition of the adjective “economic” so that reformist ideas would not spread to politics. VOGEL, 2011. See p.402.

⁷²⁷ TSUJI, 2004. Wonjong market was however replaced by the current market in Rajin. UNDP, 1998.

⁷²⁸ TSUJI, 2004. As a matter of fact, the exact amount is 200 million won, which, according to Tsuji equals to \$1 million based on the exchange rate in Rason at that time. But exchange rates of the Won in Rason are known to be much closer to the “black market” rate than to the official one: in 1998, for example, one US dollar in Rason was worth 220 won (UNDP, 1998).

⁷²⁹ Hwan Jong Nam, Director of the External Economic Cooperation Promotion Committee, at the Rajin-Sonbong Zone Business Promotion Seminar held in Japan in July 1996. Quoted in TSUJI, 2004.

projects in the zone: while in 1998, 20 of the 113 ventures active in the zone were Japanese⁷³⁰ (small scale ventures), in 2000, when business activity in Rajin-sonbong had already seriously slowed down, only 67 deals were still implemented, but none of the Japanese-supported projects had closed its doors.

To sum up, Rason began to blossom in a fragile internal and external context: inside the DPRK, the political transition between Kim Il-sung and Kim Jong-il was not a well-suited time for economic experimentations, especially not during the *Arduous March*. On the other hand, foreign powers that were thought –maybe prematurely- to take an important role in the TRADP sat on the sidelines and MIT researcher Katherine Burns’ typologies of actors in the zone turned out to be correct: Japan, Russia and South Korea showed little interest in the zone⁷³¹. As a result, Rason was “trapped” in an almost exclusive dialogue with China, but both sides had divergent interests in the development of Rason: the DPRK was looking first and foremost for foreign “advanced” technologies, or, in the context of the famine, foreign currencies that could be used to alleviate the food shortages. With South Korea and Japan out of the picture, the infusion of modern technology in the zone’s manufacturing sector was less likely to happen. Beijing had no interest in investing in the manufacturing sector of the zone since wages in China were not sufficiently high to make it worth the risk of throwing capital into Rajin-sonbong. China was interested in Rason’s port facilities, and could have been an important provider of foreign currency to the zone, if, and only if, there were sufficient reliable infrastructure to take benefit from the Rason ideal geographic location. Already hard to conciliate with the DPRK political economic thinking, infrastructure investment in Rason was even more unlikely during the food crisis⁷³². Trapped in this situation, Rason entered its “winter”, which lasted throughout the 2000s. Infrastructure development has made important progresses in the region, especially on the Chinese and Russian side, but also in Rason itself.

⁷³⁰ UNDP, 1998.

⁷³¹ BURNS, Katherine B., Undated (1994?), Subregional Power and Regional Integration: the case of Tumen River Development, *Massachusetts Institute of Technology Japan Program Report*.

⁷³² It could be argued that the use of domestic labour and materials by the DPRK government to build infrastructure makes it really cheap, but, as we will see, several key items for infrastructure renovation has to be imported from abroad.

5.4 Infrastructure needs and developments in Rajin-Sonbong

Infrastructures in Rason exist, and are used on a daily basis by locals and foreign companies implanted in the zone. Visitors to the zone can see roads, a power plant, ports facilities, etc. However, most of the existing infrastructure dates back from either the Japanese colonization or from the early days of the DPRK; since there has been quite limited infrastructure investment in the zone since 1991 (either from foreign partners or local authorities) the least that can be said is that most of the infrastructure is in a quite bad shape. Local authorities (the economic cooperation bureau of the RPC), on several occasions, have published more or less detailed calls for investments in the zone's infrastructures. Revealingly, until very recently, it was much easier to find calls for investments in the zone's infrastructures than for industrial ventures. Foreign partners (especially China) more interested in Rason as an economic corridor than as export-processing zone, but the development of a fully-functioning economic corridor is a *sine qua non* condition for the "take off" of other sectors in the zone. As explained by scholars and the UNDP in the early years of the project, roads and railroads linkages were called to play an extremely important part in the success of Rason. Investments projects in transportation and communication infrastructures are interesting to study in the context of this research as they somehow constitute a "contextualized allegory" of the difficult China-DPRK economic cooperation.

5.4.1 Railroad linkages

Rajin-sonbong can be accessed by railroad from other parts of the DPRK as well as China and Russia. From Pyongyang, the railroad heads to Hamhung and follows the coastline up to Rason and beyond, and split in the different branches in the town of Hongui near Ungsang. The eastern branch of the railroad goes through the town of Tumangang (bordering the Chinese city of Fangchuan) and a cross-border bridge to Khasan, Primorsky Krai, Russia, 51 km away from Rajin port. The north branch of the railroad leaves Hongui to follow the Tumen river⁷³³, crossing Kyongwon (which is since 2015 a SEZ) and then turns West after

⁷³³ Visitors coming to Rason from China via Wonjong cross the railroad near the Ch'ohak train station about 15 km after Wonjong.

Hunyang (facing Shuaiwanzi in China) to reach Namyang via Onsong (which also is a SEZ since 2013). Namyang city in the DPRK faces the Chinese town of Tumen in the Yanbian Korean Autonomous Region, and is located 158 km away from Rajin (see map 5).

The Namyang-Rajin railway was built by the Japanese in 1930 and is believed, since the very beginning of the SEZ, to be a very crucial piece of infrastructure for the development of the zone. The UNDP, in 1998, based its extremely optimistic prospects on the output of the Rajin port on the renovation of the railway. While only three thousands containers were shipped from Rajin in 1997, the number was expected to nearly double in 1998 (7000) and finally skyrocket to no less than 100 000 containers per year in 2005⁷³⁴. As the 1998 UNDP report explains, in 1997, only 20% of the containers were delivered to Rason by rail, a figure that was suppose to surge to 80% after the Namyang-Rajin railway was renovated. As it turns out, the railway was never refurbished, and cargo transit through Rajin port stayed dormant since then. As a result, the only direct way to Rason from China is the Wonjong-Sonbong road, which is a four hours detour from Yanji. If renovated and fully reliable, the Rajin-Namyang railway would make cargo transportation both faster and cheaper than the Wonjong-Namyang road: as the UNDP explained in 1998, sending cargo to Rajin's port by road can cost between \$0,085 and \$0,23 per km per ton (depending of the nature of the cargo)⁷³⁵, against \$0,011 by rail.

Unsurprisingly, the renovation of the Rajin-Namyang railroad seems to be high on the agenda of the local authorities of the zone. The Economic Cooperation Bureau of the RPC published calls for investment in both Chinese and English (at least⁷³⁶) for the renovation of the whole railway. Besides internal political and financial issues, there might also be a technological hurdle behind the delays in the renovation of this highly strategic railway. Construction works are very cheap for the DPRK authorities which basically do not pay for labor, but only for construction material, especially if they come from abroad. To build a reliable railway that could be used safely by foreign partners (to transport heavy cargoes) would however also require quite advanced technology, given the topological features of the zone: there are no less than 11 tunnels and 70 bridges on the 158 km of the planned railroad.

⁷³⁴ UNDP, 1998.

⁷³⁵ It is however likely to be much less expensive since the Sonbong-Wonjong road was renovated (see later).

⁷³⁶ There might be other versions in Korean or Japanese but we were unable to obtain them.

In the early days of the DPRK, important extensions and developments of the local railway network were made, using sometimes low-quality materials⁷³⁷. The railway network needs constant repair works especially in an extreme climate and flood-prone region like North Hamgyong province⁷³⁸. Total investment needed for the renovation of the railroad, as stated in the call for investment, is close to \$55 millions⁷³⁹. While this is definitely an important sum of money, it is likely to be underestimated, especially if compared with the estimate of the renovation of the much shorter Khasan-Rajin route (see next paragraph). The renovation of this Rajin-Namyang railway, from the DPRK point of view, is also a pressing issue: since China and Russia have made great efforts since 2010 to increase their transportation linkages (opening, for instance, a new Hunchun-Makhalino railway in 2014⁷⁴⁰), it seems that Beijing is having second thoughts on its favorite potential window on the Pacific Ocean. As developments in Rason are extremely slow, cycled with international political issues and often necessitate lengthy negotiations, China is tempted to increase its cooperation with the Primorsky Krai: authorities of Jilin Province recently inked an agreement with the Russian Company Summa group, aiming at improving port facilities of Zarubino, 18 km away from Hunchun⁷⁴¹. What's more, it seems that the Chinese side is preparing for the possibility of an extension of the Changchun-Hunchun high-speed train to Vladivostok, in the context of the Chinese "one belt one road" initiative⁷⁴².

The other branch of the Rason railway, heading to Russia, is in a much better shape and regularly used by Russian trains since it was fully renovated in 2013 (see map 4). The project

⁷³⁷ Interview with Humanitarian worker in Pyongyang, 14th of July 2016. Apparently, during summer, metal components of railways tend to dilate, necessitating for trains to run at limited speed.

⁷³⁸ Humanitarian and UN agencies workers in Pyongyang explained to the author that the railways of the DPRK are very sensitive to changes of temperature: they dilate in summer and the concrete cracks in winter.

⁷³⁹ ECRPC, 2010 Railway Report. The Hyuntong group initially planned to invest \$43 million: UNDP, 1998.

⁷⁴⁰ *Hun ma tielu chengwei zhong'e hezuo yunshu xindongmai* 珲马铁路成为中俄合作运输新动脉 [*Hunchun-Makhalino Railway becomes the new transport artery of Chinese-Russian Cooperation*], *Yanbian Ribao* (online), 29th of December 2014. Url: <http://www.hybrb.com/index.php?m=Article&a=show&id=70160>. Last accessed 2nd of December 2015.

⁷⁴¹ ABRAHAMIAN, Andray, 2015, Tumen Triangle Tribulations, The Unfulfilled Promise of Chinese, Russian and North Korean Cooperation, *US-Korea Institute at SAIS Report* (online). URL: <http://uskoreainstitute.org/wp-content/uploads/2015/11/Abrahamian-Tumen-Triangle.pdf>.

⁷⁴² *Jilin shen fagai weijiaoyan hunchun zhie haishenwaigaotie xiangmu* 吉林省发改委调研珲春至俄海参崴高铁项目 [Jilin Provinces sends official to study Hunchun-Vladivostok High-speed Railway project], *Yanbian Ribao* (online), 25th of November 2015. Url : <http://www.hybrb.com/show/?idx=95339>. Last accessed 2nd of December 2015.

of enhancing Russia-DPRK railway linkage is to be considered in the more regional and global framework of the well-worn “Iron Silk Road project”. While primary contacts were made in 2006, construction began in 2008 and regular service was implemented on October 2012⁷⁴³. The renovation of the Rajin-Khasan railway was made by a Joint-venture company, RasonKonTrans, created by the Russian Company RZD and the North Korean Donghae company (which is led by the DPRK Ministry of Railway). Total investment is said to reach about \$250 million dollars, which means that the renovation works for the 51 km railroad to Russia is five times more expensive than the expected total cost for the renovation of the 158 km railroad to China. These figures obviously strongly suggest that the expected cost of the Rajin-Namyang is underestimated. It should however be noted that since Russia uses a gauge broader (1520 mm) than China or the DPRK (1435mm), there was a need to build a railway that could bear both Korean and Russian wagons, rising up the costs. What’s more, the derelict Ungsang tunnel is located before the Hongui split, meaning that Russia had to repair the whole tunnel as well. The RasonKonTrans project also encompasses the creation of a container shipment terminal on the pier n°3 of Rajin’s port (opened in July 2014⁷⁴⁴), which also translates into an increase of more than one third of the total budget⁷⁴⁵. Even if the budget of the Rajin-Namyang railroad is very likely to have been underestimated, since about one third of the total railway has already been renovated by Russia. There have been much-publicized test-runs of Russian coal or timber being sent to Rason to be exported toward South Korea or southern China (Shanghai). As of 2016, the project still is not profitable, with the cumulative value of Russian coal exports to southern China being only about 1,4 million tons in 2015⁷⁴⁶, and projects of exporting Russian coal to South Korea via Rason have been nipped in the bud by various uni-and multilateral sanctions against North

⁷⁴³ The history of the project has been compiled by Curtis Melvin at North Korea Economy Watch. URL: <http://www.nkeconwatch.com/2013/09/24/russian-delegation-in-nkorea-to-discuss-rail-project/>.

⁷⁴⁴ N.Korea opens New Russia-back Wharf in Rajin, *NK News* (online), 24th of July 2014. Url: http://www.nknews.org/2014/07/n-korea-opens-russia-backed-wharf-in-rajin/?utm_source=dlvr.it&utm_medium=twitter. Last accessed 1st of December 2015.

⁷⁴⁵ Rail Freight Networks Intend to Speed Eurasian Cargo Carriage, *Handy Shipping Guide* (online), 28th of September 2013. Url: www.handyshippingguide.com/shipping-news/rail-freight-networks-intend-to-speed-eurasian-cargo-carriage_4974.

⁷⁴⁶ It was estimated that a cumulative output of at least 3 million tons per year is necessary to make it profitable. ABRAHAMIAN, Andray, 2015, Tumen Triangle Tribulations , The Unfulfilled Promise of Chinese, Russian and North Korean Cooperation, *US-Korea Institute at SAIS Report* (online). URL: <http://uskoreainstitute.org/wp-content/uploads/2015/11/Abrahamian-Tumen-Triangle.pdf>. See p.13.

Korean ports and ships. Revealing the state of infrastructures in the zone, the third test-run, which was supposed to deliver 120 000 tons of coal to the ROK (following a previous shipment of 40 500 tons in December 2014⁷⁴⁷), was delayed because of heavy snowing in Rason: due to the bad shape of the roads leading from China to Rajin's harbor, shipments of Chinese goods were delayed, resulting in bottlenecks in the port⁷⁴⁸.

5.4.2 Road linkages

In 1993 Rason was declared the first visa-free zone of the DPRK. In order to turn this move into practical reality, large areas of Wonjong county were added to the zone, allowing visitors coming from China to directly enter the DPRK in Rason. As of 2016, the Wonjong bridge (see map 6) still is the only direct road linkage of the Rason SEZ with China and Russia. Of course, there are other roads leading to Rajin-sonbong from China⁷⁴⁹ (a new bridge in Tumen/Namyang has been announced by the Chinese Embassy in Pyongyang⁷⁵⁰ and is currently being built), but since they cross North Hamgyong province, visitors have to apply for a visa first. The bridge had remained in a very poor shape until it was renovated in 2010 (with Chinese money), following a visit to the zone by Kim Jong-il that sparked renewed interest in the zone. However, likely due to an increase in traffic, the existing bridge was

⁷⁴⁷ Moscow-Seoul-Pyongyang Coal Project to Spur "Eurasia Initiative": S. Korea, *Sputnik News* (online), 1st of December 2015. Url: <http://sputniknews.com/business/20141201/1015338489.html?>. Last accessed 1st of December 2015.

⁷⁴⁸ Koreans see partial delay for test-run in 3-way logistic projects, *Yonhap* (online), 24th of November 2015. Url: <http://english.yonhapnews.co.kr/northkorea/2015/11/23/0401000000AEN20151123004100315.html>. Last accessed 1st of December 2015.

⁷⁴⁹ Among the 15 cross-border bridges in the DPRK (plus additional cross-border roads on mount Paektu/Changbai), the ones in Musan, Hoeryong, Sanbong, Tumen, Hunyung, Kyongwon (Ryudasom) and Wonjong are strategically located to access Rason.

⁷⁵⁰ *Zhongchao jianshu "zhongchaotumen-nanyang kouquan xinjiehe gonglu qiaoqianqiao xieding"* 中朝签署《中朝图们—南阳口岸新界河公路桥建桥协定》 [China and the DPRK ink the « Agreement on the Construction of the New Cross-border Bridge in Tumen Namyang], *Chinese Embassy in Beijing*, 15th of October 2015. Url: <http://kp.china-embassy.org/chn/zxxx/t1296815.htm>. Last accessed 2nd of December 2015. The shipment made its way to South Korea anyway and this trial was hailed as promising by the Chinese press: *hanguo dui chaoxian zhicai wu nian lai shoupi shanghuojing chao di han* 韩国对朝鲜制裁 5 年来首批商货经朝抵韩 [After 5 years of South Korean Sanctions against North Korean, First Batch of Goods from North Korea Reach the South], *Cankan Xiaoxi* (online), 7th of December 2015. Url: <http://news.163.com/15/1207/17/BA8IFEI500014AEE.html>. Last accessed 7th of December 2015.

recently doubled by a new four-lanes bridge, the total cost (approx. 20 million dollars or 140 millions RMB) being once again shouldered by China⁷⁵¹.

Beyond the Wonjong bridge is a 50 km road leading to Rajin via Sonbong (see map 7). This road was hardly usable during most of the 2000 decade, but it was also fully renovated in 2011-2012⁷⁵². As for the Rajin-Namyang railway, the RPC published call for offers for the Wonjong-Rajin road, seemingly with more success this time⁷⁵³. The call for offer is highly interesting because it tries to justify, with economic arguments, the need for a new road to be built: based on statistics on transport in the Chinese Northeast, it tries to show that at least in two sectors (coal and grain) the “export” routes from the Northeast to Southern China (through Dalian port) are ill-adapted and that the renovation of Rajin port would be a much better-suited option. It also provides data gathered during a field research study at the border bridge, and draws analytical conclusions to convince potential investors that there is not only a need, but also an interest for the renovation of the road. Even if the methodology and the results of the report are definitely debatable⁷⁵⁴, it fulfilled its objective and the Wonjong-Rajin road was finally renovated by a Chinese company. It seems that the Korean side showed “pragmatism” in the negotiations, since the initial plan encompassed a 670 m tunnel that never saw the light of day.

This call for offer is quite interesting to consider since, contrary to the Rajin-Namyang railway, there are no particular technical difficulties in building a 50km road. It exemplifies the fact that while self-reliance is the norm in every part of the country (including Rason), it

⁷⁵¹ *Xin tumenjiang daqiao youwang mingnian jungong jiang cheng zhongchao maoyi xin tongdao* 新图们江大桥有望明年竣工 将成中朝贸易新通道 [New Tumen River Bridge Expected to be Finished Next Year ; Will Become New Way for China-Korean Trade], *Yanbian Ribao*, 11th of December 2014. Url: <http://www.hybrb.com/show/?idx=67196>. Last accessed 3rd of December 2015.

⁷⁵² Rajin-Wonjong Road opened to traffic, *KCNA* (online), 26th of October 2012. Retrievable here: <http://www.nkeconwatch.com/2014/06/28/bridge-on-china-north-korea-border-being-renovated/>. Last accessed 3rd of December 2015.

⁷⁵³ Economic Corporation Bureau of the Rason People’s Committee of the DPR of Korea, 2010, Investment feasibility Report of Rajin-Wonjong Road Renovation. Hereafter ECBRPC, 2010 Road Report.

⁷⁵⁴ The data was gathered on a single day, five years before the publication of the report. What’s more, based on “increasion of neighboring region and countries of concerned partner and location” [*sic*], the author of the report plans that the number of vehicle taking the road will soar from 341,100 in 2005 to no less that 2, 394, 000 in 2027.

bears a different meaning in the SEZ as basic infrastructure needs are expected to be filled by foreign partners.

This attitude from the DPRK can be considered as surprising for investors that are not used to the business environment of North Korea. It is however coherent with previous economic policies of the DPRK and if it definitely makes things harder, it does not prevent them from happening, even if the zone does not live up to its potential. With SEZs as with everything else, it seems that Pyongyang is first and foremost concerned with the fact that exchanges with foreign countries should be submitted to the principle of national accumulation, and not the other way round. Paying for infrastructures used by foreigners just does not make sense from the DPRK point of view. Even if the implementation of Special Economic Zones was completely new to the North Korean economy, it is interesting to note that older patterns of development have survived, even in the context of bold economic experimentation like Rason.

China has strived to develop its infrastructure network to Hunchun in order to “unlock” its landlocked territories of Northeast China, which is basically the issue the *Changjitu* project is dealing with. Since it might have only limited returns to develop infrastructures on the Chinese side of the border without having reliable access to the ocean, the Rason authorities might be tempted to believe that China, at some point, would go the extra mile and make massive investments in the infrastructure of the zone. To some extent, this is understandable, especially since the *Chanjitu* project that initially planned to first enhance infrastructure (especially roads) in China and then, during a second phase, in Rason⁷⁵⁵. This optimistic scenario, however, might have been delayed by the nuclear crisis and Beijing’s growing discontent vis-à-vis the DPRK: investing in the zone’s infrastructure, even if it would certainly partially relieve the economy of the *Dongbei*, would be sending the “wrong” signal to the DPRK. Indeed, the infrastructural build-up that the DPRK is expecting from China might never come, and Beijing could plan to short-cut the DPRK by targeting a Russian window on the Pacific Ocean (Pozyet, Zarubino, etc.). But, in turn, the Federation of Russia, especially after the Ukraine crisis, has showed acute interest in the DPRK, and especially in Rason, which is the only way into the DPRK (and the ROK) for Russia. On infrastructure

⁷⁵⁵ LIN, HAO, 2011. See p.17.

development in the zone, the DPRK might be tempted to play Russia and China against each other as it did during the Cold War. But given the very different context, Rason needs to actually provide opportunities for profit-seeking actors and not alliance-seeking ones.

5.4.3 Power and electricity generation

As any visitor to the DPRK, including Rason, can witness, one of the most important challenge that the DPRK economy is facing is insufficient power generation. Increasing power generation capacity is a priority for the DPRK government and the local press often praises workers who participated in the construction of new power stations⁷⁵⁶. Rason is no exception to the rule, quite the contrary: if the zone wants to attract more investment and especially investment in more “advanced” technologies, the frequent power shortages of the zone are a crucial issue to be solved. Regarding transit trade and logistics, power shortages obviously also drastically limit the reliability of port facilities and could prevent goods to come in and from Rason, as the railways in the zone are all electrified⁷⁵⁷. For sure, it is likely that the resolution of power shortages in the zone (like anywhere in the country) is a *sine qua non* condition for further development of economic and trade activities.

There is currently only one important power source in the zone⁷⁵⁸, the 200 000 kilowatts capable Sonbong thermal power plant⁷⁵⁹, which also distributes power to the neighboring North Hamgyong province⁷⁶⁰. This power plant is struggling with limited available resources (especially oil) and aging equipment (see figure 13).

There are several ways to deal with the issue of power shortages. The first one would be to connect the DPRK power grid with the ones in China or Russia and buy electricity from abroad. Several projects were said to be under review, either with China companies⁷⁶¹ or

⁷⁵⁶ During a visit to Pyongyang in October 2015, the author had the chance to meet workers and managers from Ryanggang province on Mansu Hill who were offered three weeks off in Pyongyang to thank them for a new power plant in their home province.

⁷⁵⁷ TSUJI, 2004. See p.12.

⁷⁵⁸ Several DPRK publications refer to smaller hydroelectric power plants, which indeed appear on satellite imagery. However, it is hard to know if they significantly contribute to power generation in the zone. ECBRPC, 2010, *Invest feasibility report of water-supply and sewerage system in Rajin area*. See p.2.

⁷⁵⁹ FERRIE, 2012.

⁷⁶⁰ UNDP, 1998.

⁷⁶¹ ABRAHAMIAN, 2011, see p.4.

with Russia's RAO Energy Systems⁷⁶², but until today none of them has been turned into reality. While the details on these projects were obviously not published, the most likely hurdle might be the pricing of electricity in the DPRK, which is extremely low: whereas in SEZs in China the kilowatt per hour is priced at about 0,68 yuan (about one euro), almost twice as much as in Rason (0,063 euro per kwh)⁷⁶³. This is of course quite attractive for potential businessmen, except the ones interested in investing precisely in the energy sector of the zone: low prices mean delayed returns, and long-term investment is particularly risky in the DPRK. Since the very beginning of the SEZ, scholars have pointed out the problem that low prices could prevent long-term investment, especially in the transport sector⁷⁶⁴, where infrastructures are expensive and built to last.

The second way to deal with power shortages is to boost local electricity production. In parallel to negotiations with neighboring countries, the government of the DPRK has also tried to attract investment in the existing infrastructure, namely the Sonbong thermal power plant. Build in 1972, this coal and oil-powered power plant had a capacity of about 200 000 kwh, but it is obsolete today. As explained in a call for investment by the RPC, crucial equipment like the boiler largely exceeded its normal lifespan (built for an operation standard of 100 000 hours, it was already used 178 000 hours in 2010⁷⁶⁵); hence, steam pressure largely decreased (from 140kg/cm² to 92kg/cm²) while oil consumption dramatically increased (250g/kw to 340g/kw), which is particularly problematic in a oil-dependent country like the DPRK. Most of the equipment was made in former socialist countries (USSR, GDR, Czechoslovakia; only the chimney was made in the DPRK), and the cost to replace them is estimated at about 19 million dollars⁷⁶⁶, a figure that is most likely far below reality: alternative estimate by the UNDP adds up to \$67 million⁷⁶⁷. There are also plans to expand the power plant by building a new heavy oil power plant (by importing

⁷⁶² Wired up : North Korea looks to Russia for Electricity, *NK News* (online), 2nd of February 2015. Url: <http://www.nknews.org/2015/02/wired-up-north-korea-looks-to-russia-for-electricity/>. Last accessed 4th of December 2015.

⁷⁶³ Economic Corporation Bureau of Rason People's Committee of the DPR of Korea, 2010, *Invest Feasibility Report for Reconstruction and Modernization of Sonbong Thermal Power Plant*. Hereafter ECBRPC, 2010 Power Plant Report.

⁷⁶⁴ KIM Ick-soo, 1999.

⁷⁶⁵ ECBRPC, 2010, Power Plant Report.

⁷⁶⁶ *Idem*.

⁷⁶⁷ UNDP, 1998.

equipment from the Netherlands), but since the –optimistic- calculations published by the RPC estimate the investment return period to be slightly less than 33 years, there might not be takers anytime soon.

Figure 13: The Songbong power plant (2013)



Source: *The Last Frontier, a Review of Our Recent Site Tour in the DPRK*, 2013, BDsec.mn (online). Url: <http://www.bdsec.mn/files/HBO - The Last Frontier, a Review of Our Recent Site Tour in the DPRK.pdf>. Last accessed 4th of January 2016.

Even if power-generating facilities seem to be in a quite bad shape, there might be important potential synergies between the oil-focused port of Sonbong, the Seungri Refinery (see figure 14) nearby surrounding coal mines and the power plant. But as many pieces of infrastructures in the area, there are urgent needs to make kick-off investments before reaping the potential benefits of these synergies. Transit of Russian natural gas and oil to Japan or South Korea through Rajin also seems promising, but would once again necessitate infrastructure work: in order to berth, an oil tanker needs at least a 13 meter deep port, while the Sonbong port is only 8 meters deep⁷⁶⁸. Mongolian companies have already shown

⁷⁶⁸ HAO, LONG, 2011. See p.16.

interest in the refinery⁷⁶⁹ and the port: in 2013, the Mongolian group HBoil bought 20% of the Seungri refinery⁷⁷⁰, with total investments amounting to about \$10 million dollars⁷⁷¹. Currently still on a trial phase (Mongolian crude oil from Russia or China is exported to Sonbong, refined and then re-exported to Ulanbator), the port of Sonbong would allow Mongolia to lessen its energy dependency on Moscow or Beijing by importing oil from other countries through Rason.

Figure 14: The Seungri Chemical Complex (2013)



Source: *Mongolia Taps North Korea Oil Potential to Ease Russian Grip*, Bloomberg (online), 18th of June 2013.
Retrievable here: <http://www.nkeconwatch.com/2013/06/18/mongolians-invest-in-rason-petroleum-reginery/>.

There are also plans to develop wind and solar power in the zone. As a matter of fact, at the national level, there is clearly a strong interest for renewable energies, both solar and wind, as they have the tremendous advantage of replacing the DPRK dependence on coal and especially oil, which the DPRK lacks. Efforts have been focused on wind energy given the few

⁷⁶⁹ *Mongolia Taps North Korea Oil Potential to Ease Russian Grip*, Bloomberg (online), 18th of June 2013.
Retrievable here: <http://www.nkeconwatch.com/2013/06/18/mongolians-invest-in-rason-petroleum-reginery/>.

⁷⁷⁰ *meiti: chaoxian huichengweixiayige nengyuanchaoji daguo ma* 美媒：朝鲜会成为下一个能源超级大国吗？
[US media: Is the DPRK going to be the next energy power?], Cankanxiaoxi (online), 6th of December 2015. Url:
<http://www.cankanxiaoxi.com/world/20151206/1017586.shtml>. Last accessed 4th of January 2016.

⁷⁷¹ DORMELS, 2014. See p. 296.

sunshine hours per year and the strong wind blowing in the area, and call for investment were published by local authorities. According to these documents, measurements were made at the top of the 260m high Uam Mountain on the eastern part of Rason (north of the Uam peninsula)⁷⁷², and total investment needed for the generation of a 10 000 kwh capable power plant is estimated at 20 million dollars⁷⁷³. To our knowledge, there are still no takers, and interviews conducted with DPRK diplomats familiar with developments in Rason revealed that the hopes were not too high on the Korean side⁷⁷⁴. However, in 2015, the official DPRK website Naenara mentioned the “Uam Wind Power Plant” as an already existing facility, perpetuating the confusion.

5.5 Chinese interests and frustration

Regarding infrastructure development, the contrast with the Chinese side could not be stronger. Since at least 2003, with the “Northeast Old Industrial bases Revitalization Plan” [振兴东北老工业基地 ; *zhenxing dongbei laogongye jidi*] and especially with the *Changjitu* plan in 2009, central and provincial governments in China had been pushing for the construction of infrastructure towards the Northeast in order to “unlock” territories that can “see seagulls but not the sea” [只见海鸥不见海 ; *zhi jian haiou bu jian hai*]. Rason could provide with important opportunities for Chinese companies from Jilin or Heilongjiang (as a market, a resource supplier or a window on the ocean), but the relative passivity of DPRK authorities regarding infrastructure development in the zone (with roads and railways in Rason being the crucial but missing last piece of the China-DPRK economic corridor) is interpreted as a lack of commitment from the Korean side.

The railway that used to end up in Tumen was extended to Hunchun in 1994⁷⁷⁵, and then to Makhhalino on the Russian border between 1998 and 2003⁷⁷⁶. As of today, the Jilin-Yanji section of the railway was upgraded into a high-speed line (the 350km journey between the

⁷⁷² Given the information provided in the call for investment, it is possible that the 50m high measurement station still can be seen in satellite imagery using the following coordinates: 42°18'21.10; 130°37'23.44.

⁷⁷³ ECRPC, 2010, *Invest Feasibility Report for Wind Power Plant Investment*.

⁷⁷⁴ Interview with DPRK diplomat in Switzerland, January 2013.

⁷⁷⁵ ZHU, 1995.

⁷⁷⁶ TSUJI, 2003.

two cities now takes 1 hour and 43 minutes⁷⁷⁷), the Yanji-Hunchun part of the very same railway being also currently upgraded⁷⁷⁸. In a more long-term perspective, the idea would be to join Russian railroad networks (and eventually ports like Vladivostok⁷⁷⁹).

Regarding road infrastructures, progresses on the Chinese side have been even more spectacular. Since the late 1990s and especially the 2000s, efforts made by the government of Jilin province have been quite impressive, even if they stop at the border (with the notable exception of the refurbishment of the Wonjong-Rajin road). With the help of the UNDP, the Quanhe-Wonjong bridge was renovated in 1997, and another one is currently being built to allow more important traffic. The UN development-focused organization also funded the construction of two tunnels between Hunchun and Quanhe in 1998. Highways leaving Changchun to Yanji and then Tumen were renovated in 2002, as well as the road from Hunchun to Quanhe later in 2005.

As mentioned earlier, the economy of Northeast China has suffered several blows and the remotely located Yanbian prefecture has been especially challenged by the regional economic slowdown⁷⁸⁰. South Korean investments provided Yanbian new opportunities, and local authorities decided to benefit from this trend, in addition to increased cooperation with Russia. In 2012, Yanbian decided to create an Economic Development Park of its own, located in Hunchun, in order to bolster potential synergies between China, Russia, South and North Korea. Officially established under the name of “China Tumen River Area (Hunchun) International Model Cooperation District”[“中国图们江区域（珲春）国际合作示范区”]; *zhongguo*

⁷⁷⁷ *Jizhe shouci banyan “gaotie” janji-jilin duan yongshi 1 shi 43 fen* 记者首次体验“高铁”延吉—吉林段 用时 1 时 43 分 [Journalist for the first time experiences high speed railway from Yanji to Jilin city, takes 1h43 minutes], *Yanbian Ribao* (online), 31th of August 2015. Url : <http://www.hybrb.com/show/?idx=90289>. Last accessed 5th of January 2016.

⁷⁷⁸ *Jihungaotie hunchunzhan shegong jinru dao jishi zhanming anzhuang wanbi* 吉珲高铁珲春站施工进入倒计时站名安装完毕 [Jilin-Hunchun high speed train station works to be completed on time], *Yanbian Ribao* (online), 3rd of July 2015. Url : <http://www.hybrb.com/show/?idx=86252>. Last accessed 22nd of November 2016.

⁷⁷⁹ *Jilin shen fagai weijiaoyan hunchun zhie haishenwaigaotie xiangmu* 吉林省发改委调研珲春至俄海参崴高铁项目 [Jilin Provinces sends official to study Hunchun-Vladivostok High-speed Railway project], *Yanbian Ribao* (online), 25th of November 2015. Url : <http://www.hybrb.com/show/?idx=95339>. Last accessed 2nd of December 2015.

⁷⁸⁰ COLIN, 2003.

*tumenjiang quyu (hunchun) guoji hezuo shifanqu*⁷⁸¹, this economic development park was born from the ashes of the TRADP and in the wake of the 2009 *Changjitu* project⁷⁸² but with a more “local” and “low-key”⁷⁸³ approach as it technically only involves the DPRK, Russia and China, with Japan, South Korea and Mongolia playing only a background, indirect role in the project. The basic idea is to create a “Golden Triangle in the Northeast”[东北亚金三角; *dongbeiya jin sanjiao*], with a local, business-focused approach. The success of this multi-faceted initiative, involving different sectors (agriculture, industry, tourism, applied R&D and innovation, etc.) is quite hard to assess today given the relatively young age of the project. For sure, the economic situation of the prefecture, if measured by commonly accepted indicators, is getting better, as reflected by official statistics: in 2014, for example, the total value of the production in the zone was up by 13,8% if compared with one year before, 35 new projects began their activities⁷⁸⁴ in the area, and the tourism sector is making sharp progresses. Yanji’s small airport, for example, saw about 16% more passengers in 2014 than in 2013, and bi-or tri-lateral tourism-related projects are currently being designed. At the very end of 2015, Beijing greenlighted a trilateral transborder tourism project in Fangchuan, where the three riparian countries meet.

However, the current Chinese attitude regarding the development of a fully functioning and integrated economic corridor linking the DPRK and Yanbian tends to be rather self-interested, with little deference to the DPRK’s peculiar but coherent inputs. At the very beginning of the

⁷⁸¹ *Zhongguo zai zhong’echao bianjing sheli tumenjiang quyu (hunchun) guoji hezuo shifanqu* 中国在中俄朝边境设立图们江区域(珲春)国际合作示范区 [China opens China Tumen River Area (Hunchun) International Model Cooperation District in China-Russia-Korea borderlands], *Guoji zaixian* (online), 21th of May 2012. Url: <http://gb.cri.cn/27824/2012/05/21/5951s3692122.htm>. Last accessed 8th of January 2016.

⁷⁸² *Woguo jiangyu echao hanmeng gongjian hunchun guojishefanqu* 我国将与俄朝韩蒙共建珲春国际合作示范区 [China, Russia, Mongolia and North and South Korea will open a common international model cooperation district in Hunchun], *Sina News* (online), 21th of May 2012. Url : <http://news.sina.com.cn/c/2012-05-21/124024450922.shtml/> Last accessed. 8th of January.

⁷⁸³ *Shen changjituban zhichi hunchunguoji hezuo shifanqu de jianshi* 省长吉图办支持珲春国际合作示范区的建设 [Jilin’s Changjitu office supports the establishment of Hunchun international cooperation model district], *Yanbian Ribao* (online), 8th of December 2014. Url: <http://www.hybrb.com/show/?idx=68856>. Last accessed 8th of January 2016.

⁷⁸⁴ *Hunchun bianjing jingji hezuoku jingji shehui shixian da fazhan* 珲春边境经济合作区经济社会实现大发展 [Business community of Hunchun borderland economic cooperation district realizes big breakthroughs], *Yanbian Ribao* (online), 27th of February 2015. Url: <http://www.hybrb.com/show/?idx=76564>. Last accessed 8th of January 2016.

TRADP project, Beijing already tried to “free-ride” by insisting on creating river ports facilities in Fangchuan (the closest Chinese city to the East Sea), which would have required constant dragging of the remaining 15km of the Tumen river to be used by Chinese ships, but could have offered the PRC a direct access to the sea, by-passing both the Russian Federation and the DPRK. While such an uncooperative attitude is off the table nowadays, one should however be aware that the region’s development plans designed by the Chinese side offer only a background role for Rason, based on a quite unfair division of labour (a concept with which the DPRK is already ill-at-ease). The seafood industry is a blatant example of this Chinese sino-centric division of labor: recently, local authorities in Hunchun decided to implement a new development strategy for the local sea food industry, based on the “foreign resources, local processing, sales everywhere” [国外取材、国内加工、国内外销售 ; *guowai qucai, guonei jiagong, guoneiwai xiaoshou*] principle⁷⁸⁵. Hunchun’s idea of becoming a seafood processing center is understandable, but it would entirely rely on resources from either the DPRK or Russia. These would then be processed, and eventually exported through Rason to either foreign (South Korea, Japan, South East Asia) or domestic markets, according to the principle “domestic business, foreign transport” [内贸外运; *neimao waiyun*]. In this pattern, Rason is “trapped” as a natural resources supplier, and the DPRK’s economy would thus only marginally benefit from additional capital inflows (from both the sale of seafood and export-related services). Value-added activities would thus be located on the Chinese side of the border, and the DPRK would not benefit from technology transfers or managerial know-how that could greatly benefit its economy. Establishing a 746km² Special Economic Zone with preferential policies to attract investments is almost useless in this perspective. On the other hand, creating a processing center in Rason using both DPRK labor and Chinese capital and technology (a Kaesong-like project, which was recommended by Chinese scholars⁷⁸⁶) would be much more interesting for the local economy; it would however be seen from Hunchun as a job-destroying initiative, something that Yanbian and the Northeast in general definitely does not need. This is obviously not an issue specific to the China-DPRK relations or to Rason’s regional environment; however, given Pyongyang’s traditional

⁷⁸⁵ *Hunchunshiyituo youshi dazao “dongbeiya haishanpin tuan sandi 珲春市依托优势打造“东北亚海产品集散地”* [Hunchun city relies on the transformation into a Northeast Asian seafood distribution center], Yanbian Ribao (online). Url: <http://www.hybrb.com/show/?idx=86201>. Last accessed 3rd of November 2015.

⁷⁸⁶ LIN, HAO, 2011, see p.17.

attitude regarding cooperation with foreign partners and the *Dongbei's* current economic difficulties, the limited success of Rason could partly be explained by this issue, although a middle ground is certainly possible to reach: as explained by Jilin scholars Lin Jinshu and Hao Fanglong, the basic idea of the *Changjitu* plan was to benefit from economic complementarities between both sides of the border so that *both sides* could climb up the industrial ladder and create more added-value goods⁷⁸⁷; it seems that the initial “win-win” deal [互利共赢 ; *huli gongying*] is in reality designed to be to the PRC's advantage which generates frustration on the Korean side of the border.

Timing will most likely be a key issue: in the medium term Chinese involvement in the Russian Far East and more especially in the ports of Posyet and Zarubino could put Rason in a very difficult position: even if the ports of the North Korean special city enjoy a better location than the Russian harbors of Primorski Krai, the attitude of DPRK central and local authorities might push Chinese frustrated actors to by-pass Rason through Russia. And, as Andray Abrahamian puts it, “one wonders if the North Koreans are planning for how to compete”⁷⁸⁸ versus Russian renewed interest in its Pacific coast. The fact that the Russian local and central governments are preoccupied by China's commercial embrace in the Far East might work in favor of Rason, but if Russian ports developed with Chinese capital, it would not only limit Yanbian/Rason cooperation, but also push Chinese businesses to favor Russian ports.

⁷⁸⁷ *Idem.*

⁷⁸⁸ *Idem.*

Chapter 6: The Dandong/Sinuiju Interface

At the end of the 1990 decade, the DPRK slowly came out the *Arduous March*, a terrible famine that threatened the North Korean State and underlined the need for the national economy to take a fresh start. At the beginning of the 2000's, three major orientations were decided. The first one was to improve ties with the South, which led to the 2000 and 2007 North-South Summits in Pyongyang and the opening of the Kaesong Special Administrative Region in 2004. Another way was to implement incremental economic reforms, including 1st of July 2002 economic reforms that triggered a short but nonetheless existing surge in bilateral trade and investment from China⁷⁸⁹. The third mean to kickstart the economy was to boost economic cooperation with China through another Special Economic Zone, this time not located in remote areas but plugged to the mainstream of China-DPRK economic cooperation: the city of Sinuiju, facing the Chinese town of Dandong across the Yalu river (see map 8)⁷⁹⁰.

Dandong is the eighth largest agglomeration in Liaoning province, with a total population of about 2.4 million inhabitants for the whole Dandong prefecture, although the city itself (the metropolitan area constituted by Zhenxing, Yuanbao and Zhen'an districts) is inhabited by less than one million people. The metropolitan area lies 35 km upstream from the Yalu river's mouth, but, on the Chinese side of the Yalu River's mouth, there is a small Chinese city, Donggang, which is part of the Dandong prefecture and has a small port. The city of Dandong is currently spreading southwards, towards Donggang, and the recently built « new area » [新区; *xinqu*], a typical Chinese “ghost city” [鬼城; *guicheng*]⁷⁹¹ actually reaches the

⁷⁸⁹ *Chaoxian shangji xinyin le zhongguo touzhe qunianmaoyi chaoguo 10 yi meiyuan* 朝鲜商机吸引中国投资者 去年贸易超过 10 亿美元 [North Korean business opportunities attract investors, last year trade surpasses 1 billion USD], *Sohu Business* (online), 24th of August 2014. Url: <http://business.sohu.com/20040824/n221707505.shtml>. Last accessed 4th of February 2016. On the 1st of July reforms, see Part III.

⁷⁹⁰ Yalu River [鸭绿江; *yalu jiang*] is known as Amrok river [압록강; *amrokkang*]. In order to facilitate comprehension, we will only use the Chinese term.

⁷⁹¹ Initially built to accommodate 500 000 people, but the occupation rate is at less than 10% of this capacity. Ghostly N.Korea-China Border Trade Zone Opens, *Chosun Ilbo*, 16th of October 2015. Url: http://english.chosun.com/site/data/html_dir/2015/10/16/2015101601632.html/ last accessed 18th of March 2016.

Hwanggumpyong islet [황금평; *hwanggumpyong* / 黄金坪; *huangjinping*], which is a North Korean enclave on the “Chinese side” of the River. The progressive merger of Dandong and Donggang would make the former city the easternmost spot of the “one line, five dots” [一线五点; *yixian wudian*] plan, a 2006 Liaoning government development initiative that aims at better linking ports on the Liaoning coast and create synergies with the Dalian harbor, one of the busiest port in Northeast Asia.

On the other side of the Yalu river is the North Korean city of Sinuiju, a much smaller city in absolute terms (according to the 2008 UN census, Sinuiju’s population is under 360 thousands inhabitants), but an important urban area in the DPRK, where it ranks fifth in terms of population. The city itself is divided into two parts, Sinuiju North (located on the banks of the River), and Sinuiju-South. Both districts are separated by a two-kilometer wide green belt. Plans to merge both parts of the city have been announced recently⁷⁹².

Contrary to Dandong, Sinuiju is a very recent city, and was created when the first Yalu River bridge was built at the beginning of the 20th century, initially as an “extension” of the most important city of the area: Uiju. Hence the name of the city, Sinuiju, or “New Uiju”.

The city that is now known as “Dandong” was actually named “Andong” (“pacify the East”) until 1954, when the *Dongbei* was administratively reorganized into three provinces. Dandong and Sinuiju are located on the banks of the Yalu/Amrok River, serving as “natural” frontier between Korea and China but also on the shortest land route from Beijing to the Korean Peninsula. As a result, Dandong and Sinuiju have had a legacy of interacting with foreign powers, either the one across the border but also colonizers (Japan) or, later socialist brethren.

After Korea was progressively made part of Japan, the peninsula played a key part in the economy of the Empire, as a rice producer, a natural resources supplier, but also, increasingly, as an industrial stronghold. Tokyo had thus to invest massively in the transportation infrastructure of the peninsula, and, even if the economy of the Empire was centered on the archipelago, a bridge linking Dandong and Sinuiju was built in 1911, the very first iron bridge on the Yalu river, and doubled by another one in 1937. The first bridge was

⁷⁹² CLEMENT, Théo, 2016, One More for the Road : New Masterplan for the Sinuiju SEZ, *Sino-NK* (online). Url: <http://sinonk.com/2016/02/11/one-more-for-the-road-new-masterplan-for-the-sinuiju-special-economic-zone/>. Last accessed 16th of March 2016.

actually the very last missing piece of a railway project implemented by the Japanese aiming at linking Seoul to Shenyang (construction began in 1904)⁷⁹³. Sinuiju was mostly used as an industrial center for the production of light-industry (especially garment production⁷⁹⁴), and the city is still considered today as an important light industry production center in the DPRK. The city hosts, for example, at least three garments factories, a chemical fiber complex, a paper manufacturing company, a medicine and drugs research and production center as well as a cosmetics factory which produces the “famous” Pomhyanggi cosmetics, through a China-DPRK Joint Venture.

6.1 The strategic importance of the Dandong/Sinuiju Axis

As it was the case for North Hamgyong Province or Rajin-Sonbong, the Sinuiju-Dandong location gives the area’s cross-border transportation and communication infrastructure a particular importance in the general framework of China-DPRK economic cooperation.

The bridges on the Yalu river were bombed at the very beginning of the Korean War, in November 1950, which says much about their strategic importance. One of them, renamed “Friendship Bridge” after the War, was rebuilt to handle both trains and cars, but has only one lane for both, meaning that cargo can only cross the bridge one way at a time. With Yanbian and Ji’an, Dandong and its Friendship Bridge is the only place where both trains and cars can cross the river. However, given the remoteness of Yanbian and Rason as well as the very recent and slow development of cross border transportation infrastructures in Ji’an and Manpho, the Dandong-Sinuiju axis constitutes by far the most important trade artery between the DPRK and the PRC. Given that 85% of North Korea’s external trade is made with the PRC, it is often estimated that this bridge sees about 75% of the DPRK’s total trade volume go through. Besides the captive but reluctant market of North Korea, Dandong would enjoy a prime geographic location to access the South Korean market, if, and only if, the well-worn project of a trans-DPRK railroad, connecting Beijing to Seoul (and beyond, Busan) eventually sees the light of day. While Dandong became an open city for trade and

⁷⁹³ LANKOV, Andrei, 2015, Over the Border : What Dandong Means to North Korea, *NK News* (online). Url: <http://www.nknews.org/2015/08/over-the-border-what-dandong-means-to-n-korea/>?. Last accessed 5th of February 2016.

⁷⁹⁴ KIM Il-sung, 1983a. See bibliography.

investment as early as 1985⁷⁹⁵, the idea of linking Chinese and South Koreans railways via the DPRK was put on the table during the 1996 summit of the Asia-Europe Meeting in Bangkok⁷⁹⁶, and regularly reappears (just like the Russian/South Korean-led “Iron Silk road” project) in the news, including recently⁷⁹⁷.

As of recently, there is now a second bridge linking Dandong and Sinuiju, which crosses the border 15 km south of the existing Friendship bridge, in Dandong’s “new district” (see map 9). This particular piece of infrastructure has gathered attention from media and analysts, as it abruptly ends right in the middle of a North Korean field west of Sinuiju South. While construction began at the very end of 2010, the four-lane bridge was finished in 2014 and cost the PRC slightly less than 2 billion RMB (\$300 million)⁷⁹⁸ and is absolutely useless as of today, although plans to connect it with the announced Sinuiju International Economic Zone⁷⁹⁹ exist. As will be explained, this peculiar landmark of Dandong bears a particular significance to grasp the essence of the difficult bilateral economic cooperation between China and the DPRK (as cross-order economic corridors do in Rason and Yanbian).

Less known is the fact that Dandong and Sinuiju are linked by a highly strategic pipeline, the “Friendship oil pipeline” which is very likely to be the main source of oil for the DPRK. This pipeline was built in collaboration with the Chinese in 1974 and 1976, and links Dandong with the Pyongwa Chemical Factory located in Paengma-ri (20 km Southeast of Sinuiju), also

⁷⁹⁵ DONG Fujun, 2004, *Chaoxian xinyizhou jingji tequ jiedu* 朝鲜新义州经济特区解读 [an introduction to Sinuiju Special Economic Zone], *International Economics and Trade Research*, vol.20, n°2. See pp.43-45.

⁷⁹⁶ Idem.

⁷⁹⁷ *Hanguo shexiang bandao tielu quantong shou'er dao Beijing jinxu 4 ge xiaoshi* 韩国设想半岛铁路贯通 首尔到北京仅需 4 个小时 [South Korea to link together the whole Peninsula, From Beijing to Seoul in 4 hours], *Zhongguo Wang*, 9th of January 2014. Url: http://news.china.com.cn/world/2014-01/09/content_31139063.htm. Last accessed 8th of February 2016.

⁷⁹⁸ *Zhongchao xian yalujiang daqiao kaitong yanhouchaoxian wei jiangonglu duijie* 中朝新鸭绿江大桥开通延后 朝鲜未建公路对接 [opening of the new Yalu River big bridge postponed, Korean side did not link road networks], *Xinhua* (online), 29th of October 2014. Url: <http://mil.news.sina.com.cn/2014-10-29/1245808152.html>. Last accessed 9th of February 2016.

⁷⁹⁹ CLEMENT, Théo, 2016, One More for the Road : New Masterplan for the Sinuiju SEZ, *Sino-NK* (online). Url: <http://sinonk.com/2016/02/11/one-more-for-the-road-new-masterplan-for-the-sinuiju-special-economic-zone/>. Last accessed 16th of March 2016.

built with Chinese support⁸⁰⁰. This oil-refining plant, which doubles as a national research center for oil and petroleum products, is believed to play a crucial part in the DPRK's economy since the slowdown in Rajin-Sonbong's Sungri Chemical factory. It somehow symbolizes the DPRK's post-1991 economic cooperation general pattern: while the USSR almost completely stopped to supply oil to Pyongyang, China still supports its neighbor, although the volume and terms of exchange regarding oil trade between the DPRK and the PRC is shrouded in secrecy. Chinese trade statistics for 2014 and 2015 do not keep tracks of any oil exports to North Korea⁸⁰¹, although the Chinese press later "leaked"⁸⁰² the figure of about 500 000 tons of oil exported to the DPRK every year⁸⁰³ (before the UNSC resolutions n°2375 and 2379, targeting oil imports, were passed in 2017).

6.2 An ill-conceived attempt: the Sinuiju Special Administrative Region

In the context of an active China-North Korea bilateral economic diplomacy, North Korea made rushed and botched attempts to open its economy. Besides the lack of experience and the poor management choices, the absence of coordination with the Chinese side led otherwise bold projects to fail.

6.2.1 *The Dear Leader visits Shanghai*

In January 2001, Kim Jong-il visited southern China. This was his third reported trip to the PRC, following the 1983 official visit, accompanying Kim Il-sung, but his second in a year since, in March 2000, he visited Beijing and the Zhongguancun high-tech and research district. The 2001 visit was also focused on economy-related spots of interests, and the

⁸⁰⁰ BERMUDEZ, S. Joseph SUN Young-ahn, 2015, North Korea's Ponghwa Chemical Factory, 38th North (online). Url: <http://38north.org/2015/07/jbermudez071015/>. Last accessed 08th February 2016.

⁸⁰¹ China's crude exports to N. Korea seem to continue: officials, *Korea Times* (online), 14th of November 2014. Url: http://koreatimes.co.kr/www/news/nation/2014/11/113_168140.html. Last accessed 8th of February 2016.

⁸⁰² As this important information appeared in the midst of the early 2016's nuclear test and satellite launch by the DPRK and the resulting debate on the implementation of economic sanctions by China, this might have been an "organized leak".

⁸⁰³ *Zhongchao maoyi lianxu liangnian jiangdi chaoxian duihua chukou jianshao she zhuyin* 中朝贸易连续两年降低 朝鲜对华出口减少是主因 [Sino-DPRK trade keeps decreasing, main cause is decline of Korean exports to China], *Cankun Xiaoxi* (online). Url : <http://world.cankaoxiaoxi.com/bd/20160209/1072360.shtml>. Last accessed 9th of February 2016.

general timeframe of these two journeys to China strongly suggests that *the General* was fishing for ideas in order to restart the economy: the famine was over, plans for economic cooperation with South Korea in Kaesong were being designed, and Pyongyang was about to announce some important, multi-faceted economic reforms in the DPRK. Beijing was eager to show the North Koreans the positive aspects of its *gaige kaifang* and took Kim Jong-il to visit the showcase city of the Chinese reform: Shanghai. Kim visited the Pudong skyscraper jungle, some flagship joint-ventures companies (including one between General Motors and a Chinese partner⁸⁰⁴), as well as a factory he already visited 18 years before, the Baoshan Steel Mill⁸⁰⁵ (built in 1978 with Japanese assistance after Deng Xiaoping's famous 1978 trip to Tokyo). This factory had since then become part of a gigantic SOE, the Shanghai Baosteel Group Corporation that had just merged with other money-losing SOEs of China and was actively expanding cooperation with other iron and steel heavyweights such as ThyssenKrupp⁸⁰⁶. He also visited (allegedly twice) the Shanghai Stock Exchange. When Kim visited Shanghai, the Pudong "New Area" [新区; *xinqu*], was *de facto* a very successful SEZ⁸⁰⁷, and the *Dear Leader* could not refrain from explaining to its Chinese hosts that a "similar" project was planned in the South of the DPRK⁸⁰⁸: indeed, following the 2000 North-South summit, the Kaesong Interkorean Complex (KIC) was underway.

In the countryside near Shanghai, in the Sunqiao Modern Agriculture Development Zone, Kim also visited a model green house farm that was managed by a subsidiary of Euro-Asia Agricultural Holding, a company registered in the Netherlands and headed by Yang Bin⁸⁰⁹. This Chinese-born Dutch citizen was, in 2001, the second richest man in China, according to Forbes, and made a name for himself in the flower and real estate businesses. A few months

⁸⁰⁴ KIM Il-pyong, *Historical Dictionary to North Korea*, Asian-Oceanian Historical Dictionaries n°40, Scarecrow Press, Oxford.

⁸⁰⁵ FUNABASHI Yoichi, 2007, *The Peninsula Question : a Chronicle of the second Korean nuclear crisis*, Brookings Institution Press, Washington. See p.442.

⁸⁰⁶ ThyssenKrupp and China, Shaping Growth Together, undated, *ThyssenKrupp* (online). Url: https://www.thyssenkrupp.com/documents/Publikationen/Sonderveroeffentl/ThyssenKrupp_and_China_en.pdf. Last accessed 10th of February 2016.

⁸⁰⁷ SANG Binxue, 1993, Pudong: Another Special Economic Zone in China? An Analysis of the Special Regulations and Policy for Shanghai's Pudong New Area, *Northwestern Journal of International Law & Business*, Vol.14, n°1.

⁸⁰⁸ FUNABASHI, 2007. See p.442.

⁸⁰⁹ Not to be confused with Yan Bin [严彬], head of the Reignwood group, who often appears in Forbes' rankings.

after Kim Jong-il's visit to Shanghai, Yang Bin was appointed by Pyongyang as the head of what still is the DPRK's boldest attempt at reform.

Given the traditional opacity of the DPRK and the relative taboo that still exists on the person of Yang Bin in China⁸¹⁰, there are lots of rumors regarding the developments following Kim's visit to Sunqiao and the official announcement of the Sinuiju Special Administrative Region [신의주 특별 행정구; *sinŭiju t'ŭkpyŏl haengjŏnggu*, hereafter "Sinuiju SAR"], with Yang Bin appointed as governor, on the 19th of September 2002. While the big picture story of Yang Bin's involvement with the DPRK and Sinuiju is well-known, there are very few available details on the events that followed the 2001 official visit until the arrest of the Dutch businessman on the 4th of October 2002 by the Shenyang police. The only detailed source on Yang's involvement with the DPRK also is a heavily biased one: a hagiography ordered by Yang himself, which obviously depicts him in the most favorable light, sometimes to an absurd degree⁸¹¹. But this biography, titled *Kim Jong-il's Godson: from Orphan to Sinuiju SAR Chief*, although it clearly not provides trustworthy answers to the questions raised by the "Yang Bin incident" [杨斌事件; *Yang Bin shijian*], is the only detailed account of what happened before the establishment of the Sinuiju SAR. Not only heavily apologetic of Yang Bin's personal feats, the account also has a distinct sino-centered perspective, often regarding the North Koreans as backwards or "lagging behind", sinicizing most Korean names and lavishly praising the PCC's leaders and their ideologies⁸¹².

6.2.2 Yang Bin in the DPRK

According to this biography, Yang was first invited to Pyongyang to invest in a Joint Venture between Euro-Asia and the Pyongyang General Horticulture Company, with 70% of the shares belonging to Yang. As this venture proved to be a success, according to Yang's biographer at least, the DPRK authorities, represented by Kim Dongryu⁸¹³ decided to move

⁸¹⁰ Businessmen in Dandong quite often mention Yang Bin to explain the failure of the Sinuiju Special Economic Zone, but are reluctant to do guesswork or give their own perspective on this particular issue.

⁸¹¹ GUAN Shan, 2009, *Kim Jong-il's Godson: From Orphan to Sinuiju SAR Chief*, Fortune Gate (Far East), Hong Kong. Parts of this very laudatory book can be read online : <http://www.ybpeace.com/english/about.asp>.

⁸¹² The book, ironically, was eventually banned in mainland China.

⁸¹³ Kim Dongkyu was the head of the Pyongyang General Horticulture Company, and later turned out to be the chief negotiator on the Sinuiju SAR project.

“forward” and create a “special zone” near the Sinuiju area. In order to deal with this proposal, Yang Bin assembled a team of experts, exclusively Chinese, to work on the establishment of the Sinuiju “Special Zone”; among them were two lawyers, Li Yingzhou and Luo Wenjian. The former had previously worked on the introduction of Euro-Asia Agricultural Holding (hereafter Euro-Asia) to the stock market, the latter, a professor at the University of Macau, had worked on the draft of both the Hong Kong and the Macau basic laws. They were later joined by Tong Lianfa, a professor at the University of Liaoning’s Law Department who specialized in International Law. The composition of this team is quite interesting, because it clearly reflects Yang’s (and maybe, to some extent, the DPRK’s) objective: create a zone with legal system that sharply contrasted the DPRK’s and was more in line with international standards. The North Koreans, at least according to Guan Shan, did not necessarily disagree with the Chinese proposal⁸¹⁴, but were disturbed by the strong resemblance of the Sinuiju basic law early drafts with Hong Kong’s own basic law. The problem was not the content of the law itself, but rather the symbol: Hong Kong and Macau had been former colonies, and their legal systems had been heavily influenced by European law. On the other hand, Sinuiju was a city of a sovereign socialist country and could thus not be compared with Hong Kong or Macau, at least not according to the Koreans.

The final version of the Basic Law was agreed upon in June 2002 in Pyongyang. Besides managing its other businesses in China and Europe, Yang Bin and its team kept themselves busy by touring Sinuiju and Dandong in order to start designing plans for the development of the zone. The idea was to turn the 132km² Sinuiju SAR into a logistics hub for Northeast Asia by developing transportation infrastructure (airport and ports) and creating a tariff-free zone to turn the city into a trade center. Yang Bin, who had experience in recreating European cities in China, planned to create a completely new city, and was, as investment tycoons sometimes are, overly optimistic: drawing inspiration from France, England and Geneva⁸¹⁵ he was planning to raise no less than \$400 billion in total investment for the development of the zone. In addition to Yang’s personal contribution and other potential investors, the

⁸¹⁴ This particular point is actually credible given that, as we will see, the Sinuiju Basic Law was indeed a very liberal Law, in some regard much more liberal than Hong Kong’s. See GOEDDE, Patricia, 2003, *The Basic Law of the Sinuiju Special Administrative Region: A Happy Medium Between the DPRK Constitution and Hong Kong Basic Law?*, *Journal of Korean Law*, Vol.3, n°2.

⁸¹⁵ GUAN, 2009. See chapter 5.

foreign members of the team⁸¹⁶ hoped to fund the complete makeover of Sinuiju by borrowing capital from the World Bank and the Asian Development Bank, which is revealing of the ill-prepared aspect of the SAR: even China, which was directly concerned by the project, had limited knowledge of the developments in Sinuiju until the official announcement to the Chinese ambassador in the DPRK on June 10th of 2002⁸¹⁷. While this idea was maybe not as unlikely in 2002 as it would be nowadays (after the DPRK nuclear tests and its resulting diplomatic isolation), it still shows that Yang Bin's team had a very blurry idea of the DPRK's position on the international chessboard. Reflecting what was explained before, the pattern of development proposed by the Chinese negotiators (and ultimately accepted by the North Koreans) proved to be almost entirely copied on Chinese experiences, notwithstanding the peculiarities of the DPRK, especially on the international level. Clearly, as the future would prove, Pyongyang had no international support for the establishment of the Sinuiju SAR.

6.2.3 *"Northeast Asia's Hong Kong": a failed attempt at a bold experimentation*

The Sinuiju SAR project cannot be compared with the preferential policies implemented in Rajin-Sonbong. Rason was, from the very beginning, a Special Economic Zone, an economic project focused on international trade, export-processing and tourism. The Sinuiju SAR, as the name says it, was supposed to be a political project, modeled after China's "one country, two systems" [一国两制; *yiguoliangzhi*] policy: if Rajin-Sonbong wanted to become Shenzhen, Sinuiju was to be Hong Kong. The Basic Law of the Sinuiju SAR⁸¹⁸ clearly mimics Hong Kong's own basic law, and, as already mentioned, several advisors to Yang Bin had first-hand experience in the drafting of the former British colony's fundamental law. Tong Lianfa pushed for the introduction of Hong Kong commercial law into the Sinuiju Basic Law, and some other advisors on the Chinese side allegedly argued that Sinuiju would benefit

⁸¹⁶ As explained, Yang Bin was a Dutch national.

⁸¹⁷ Idem. See chapter 8. Authorities in Dandong however had been explained the master plan of the Sinuiju SAR before.

⁸¹⁸ The English version of the 2002 Basic Law can be found here:

http://www.ybpeace.com/english/article_show.asp?id=50. Patricia Goedde also has published her own translation as an appendix to her 2003 article. See GOEDDE, Patricia, 2003, The Basic Law of the Sinuiju Special Administrative Region: A Happy Medium Between the DPRK Constitution and Hong Kong Basic Law?, *Journal of Korean Law*, Vol.3, n°2. We were not able to find the Korean version in the DPRK.

from the guidance of Hong Kong in order to develop its investment environment⁸¹⁹. The comparison between the Hong Kong and Sinuiju “basic laws” has already been made by law specialists⁸²⁰, and there is no need to go into further details on this particular aspect. The objective of the Basic Law was nothing but to create a political enclave within the DPRK, with as little interaction as possible with the Central State. The main objective of the Law was to introduce “extreme decentralization measures”, to an unprecedented degree in the DPRK: Central government in Pyongyang would only be responsible for military affairs in case of emergency (war or rebellion)⁸²¹, and partially for foreign affairs. Pyongyang guaranteed that the SAR’s Basic Law would not be altered before 50 years⁸²², which directly draws inspiration from Hong Kong’s Law. But the local government of Sinuiju, according to the law had full authority on customs duties, taxes, foreign currencies and other financial issues, and even on the approval of all investment projects (in sharp contrast with Rason, see part III), except, for national security reasons, the ones in port and airport infrastructures. Regarding business, trade and investment incentives, the Sinuiju SAR was closely following the legal framework used for Rason, itself inspired by other SEZs in China (see par III).

The most interesting aspect of the Sinuiju Basic Law, however, are the articles dealing with local powers within the SAR. Political power was separated between judicial, executive and legislative branches, just like in most Western democracies (and, of course, in Hong Kong). The legislative power was given to an *ad hoc* specific body of the SAR, the legislative session, whose members were elected by secret ballot⁸²³. The regional Court was given judiciary power, although it is not clear which organ was in charge of appointing the Head of Court. A Chief Executive, appointed directly by the SPA, was supposed to represent executive power in the zone. This Chief Executive, the Governor of the Sinuiju SAR, was to be granted extensive powers, being in charge of the Police, appointing the director of the Procuratorate⁸²⁴ but also local government officials, and promulgate bills approved by the legislative organ. This clearly is an important aspect given that, in an unprecedented move in

⁸¹⁹ GUAN, 2009. See chapter 8.

⁸²⁰ Besides GOEDDE (2003), interested readers can check KIM Joongi, 2003, The Challenges of Attracting Foreign Investment into North Korea: The Legal Regimes of Sinuiju and Gaeseong, *Fordham International Law Journal*, Volume 27, n° 4.

⁸²¹ Basic Law of the Sinuiju Special Administrative Region, see art. 6,7,8.

⁸²² Basic Law of the Sinuiju Special Administrative Region, see art. 3.

⁸²³ *Idem*. See art.61.

⁸²⁴ This particular aspect shows that the separation of power was relative in Sinuiju.

North Korean history, the Governor to be appointed was no one else than Yang Bin, which means that for the very first time, *Juche* Korea was willing to transfer actual political power to a foreigner. Elections were to be held in the SAR, and residents of Sinuiju (DPR Koreans *and* foreigners) could vote and be elected in several key positions. In his very last interview, on the eve of his arrest, Yang Bin explained to a Hong Kong journalist that even South Koreans would be eligible in the SAR⁸²⁵, as long as they have legal residency in the SAR (which could be obtained by foreigners if they have run a legal business in the zone for more than seven years or are handpicked by the Governor).

What's more, a meaningful detail was that the Governor was granted diplomatic status and the title of Ambassador and Envoy outside the zone, which automatically provides him diplomatic immunity⁸²⁶. This particular point matters because when the Basic Law was adopted, on the 12th of September 2002 (made public on the 19th of the same month⁸²⁷), Yang Bin had already attracted attention from Chinese authorities which suspected him of tax evasion and misuse of land leased by the Liaoning government.

Last, but not least, the SAR was to use its own flag, coat of arms (both in addition to the DPRK's, see figure 15) and issue its own passports. This was not only symbolical, but was also a pragmatic choice to circumvent sanctions and travel limitations imposed on DPRK passports holders by foreign countries: companies registered in Sinuiju would not be considered as North Korean companies.

In March 2002, Yang Bin's Euro-Asia group became the subject of an investigation by the Chinese authorities, that suspected the State-owned land on which Yang Bin's "Holland Village" was built had been leased for a different purpose. In July, press articles speculating on Yang Bin's potentially fraudulent activities started to emerge, and since he was often in Pyongyang or Sinuiju for business purposes, his prolonged disappearance started to raise questions, while Euro-Asia Stock listed in Hong Kong started to plummet. The State Taxation Administration and its Liaoning branch started to study in details Holland Village accounting

⁸²⁵ One should however know that Yang, on several occasions, made very optimistic comments on South Koreans in the SAR without to ask for Pyongyang's opinion first, and was later proved wrong.

⁸²⁶ See Vienna Convention on Diplomatic Relations, 1961, art.31.

⁸²⁷ Xin Shi, 2002, 朝鲜宣布设立新义州特区 [North Korea Announces the establishment of Sinuiju Special Zone], *Sixiang Zhengzhi Kejiaoxue*, N°11. See pp.48-49.

records. In this context, on the 12th of September 2002, the SPA passed the Sinuiju Special Administrative Basic Law, and, on the 24th of the same month, Yang Bin was appointed Chief Executive of the SAR by the President of the Presidium of the DPRK Supreme People's Assembly, Kim Yong-nam (see figure 16).

Figure 15: Sinuiju SAR flag and coat of arms



Source: Sinuiju Special Administrative Region (North Korea), *Flags of the World* (online). Url: <http://www.crwflags.com/fotw/flags/kp-sinui.html>. Last accessed 24th of February 2016.

Figure 16: Kim Yong-nam officially appointing Yang Bin as chief executive of the Sinuiju SAR



Source : 历史 : 朝鲜怎样抗议中国抓杨斌 ? [History: how did the DPRK protest Yang Bin's arrest by China?], Fenghuang History Blog (online). Url : <http://bloghistory.news.ifeng.com/article/43850227.html>.

Yang was arrested by the Shenyang Police in the early morning of the 4th of October, 2002, trialed, declared guilty for six different criminal charges⁸²⁸ and finally sentenced to spend 18 years in Shenyang's n°1 prison one year later. Less than two weeks later, Yang Yong-sop, a senior DPRK politician, visited the PRC⁸²⁹, most likely to address the Yang Bin situation⁸³⁰. Several reasons can explain China's decision of putting Yang behind bars, all legal issues set aside⁸³¹. These different elements will be mentioned in Part III, as they say long about the complex and contradictory nature of China's attitude regarding the DPRK's most recent economic policies. When the Sinuiju SAR project was announced, China was extremely cautious until it arrested Yang Bin. Beijing could not give the cold shoulder to Pyongyang's most ambitious reform attempt, but at the same time was unhappy of being sidelined by Kim Jong-il's sudden and unilateral move. Less than ten days before Yang Bin was put in jail, Chinese MOFA spokesperson Zhang Qiyue told journalists that Beijing

*"welcomes and supports this economic construction measure, China and North Korea being friendly states and neighbors, China hopes to engage into mutually beneficial cooperation and to enter into an era of economic development for borderland territories."*⁸³²

At the very same time, Beijing subtly stated that

⁸²⁸ According to Guan, 2009, chapter 13: "1) Fictitious investment; 2) Illegal usage of agricultural-use land (farmland); 3) Contractual fraud; 4) Forgery of financial documents; 5) Bribery of a government body, and 6) Bribery of staff within a government body."

⁸²⁹ *Li Peng huijian chaoxianguojia daibiaotuan tuanchang yanghengxie* 李鹏会见朝鲜国家代表团团长杨亨燮 [Li Peng meets the Head of the DPRK's National Delegation Yang Yong-sop], *National People's Congress* (online), 16th of October 2002. Url: http://www.npc.gov.cn/npc/oldarchives/ljwyz/common/group_photo_zw.jsp@label=wxzlk&id=300846&pdm=010409&dm=01040901.htm. Last accessed 25th of February 2016.

⁸³⁰ *Lishi: chaoxian zenyang kangyi zhongguo gua yangbin* 历史：朝鲜怎样抗议中国抓杨斌？ [History: how did the DPRK protest Yang Bin's arrest by China?], *Fenghuang History Blog* (online). Url: <http://bloghistory.news.ifeng.com/article/43850227.html>. Last accessed 25th of February 2016.

⁸³¹ According to Guan, since Yang Bin was a Dutch citizen, a diplomat from the Embassy of the Netherlands in Beijing (as well as an American diplomat) attended the trial sessions. To our knowledge, no official complaint from Amsterdam was made. In his account, Guan unequivocally explains that Yang was guilty, but this would be a *sine qua non* condition to have the book published in the PRC, Hong Kong included.

⁸³² *Xinyizhou geming* 新义州革命 [The Sinuiju Revolution], Shangye Shidai, 25th of October 2002. See p.42-43.

*“China developed its own “Socialist market economy with Chinese characteristics” based on its very own situation, and this model might not necessarily be suitable for other countries.”*⁸³³

The message was clear: while Beijing was pleased to see that economic thinking in the DPRK was evolving, it did not support the way this “reform” was implemented. This blunt hit by Beijing was among the few events that, although most likely unrelated, completely altered North Korea’s diplomatic environment at that time: on the 17th of September, Junichiro Koizumi made his historical visit to the DPRK, on the 19th, the Sinuiju SAR was declared open. Few days later, on the 3rd of October, American Assistant Secretary of State James Kelly landed in Pyongyang for high-level talks, which marked the acme of Pyongyang’s “charm offensive” towards the world. 24 hours later, Yang Bin had been arrested by China and would never come back to the DPRK, and Kang Sok-ju, North Korea’s Foreign Affairs vice-minister, bluntly declared to Kelly that Pyongyang had restarted its uranium enrichment program.

Even if early investors in the Sinuiju SAR lost everything they bet after Yang’s arrest⁸³⁴, contrary to a common belief, the disappearance of Yang did not put an immediate end to the SAR project. Finding an alternative to Yang Bin as head of the Sinuiju SAR was considered, with his second in command, Ma Ning, naturally ranking first among potential candidates. But, according to Guan, Ma was not close enough to the North Koreans and was not successful enough to constitute an adequate replacement. As if Pyongyang chose not to take note of Beijing’s message, the only potential alternative to Yang Bin’s whose name is known publicly was an even worse pick than the Dutch businessman. On September 2004, the name of Julie Sa started to surface in a few press articles. This Chinese-born American national (her original name being Sha Rixiang [沙日香]) had cards to play for the development of Sinuiju,

⁸³³ HUA Lei, 2003, *Chaoxian shezhi xinyizhou tebie xingzhengqu de shengceng yuanyin* 朝鲜设置新义州特别行政区的深层原因 [the deep reasons explaining the establishment of North Korea’s Sinuiju Special Administrative Zone], *Shehui Guancha*, vol.1. See pp.22-23.

⁸³⁴ Chinese Entrepreneurs Poised to Pounce on North Korean Border, *Bloomberg*, 3rd of June 2006. Retrievable here: <http://www.nkeconwatch.com/2007/03/08/chinese-entrepreneurs-poised-to-pounce-on-north-korean-border/>. Last accessed 15th of March 2016.

and her profile bore striking resemblances with Yang's. They both had a Chinese ethnic background, and had encountered major economic success in China and other countries (Sa was a development advisor to her home city, Rizhao in Shandong Province) and made a name for herself in the real estate business in California. Sa also had the advantage of having grown up in South Korea (she graduated from Busan's East Asia University⁸³⁵), was able to speak several languages including English, Chinese and Korean, and had experience as a politician in California as she had previously been elected mayor of Fullerton city. The fact that she is described by Barbara Demick as an "avid church-goer"⁸³⁶ might not have caused a big headache to the North Koreans, given the DPRK's long practice of interacting with Western church-supported groups. However, being at the same time a convinced Republican who explicitly supports the US economic embargo against the DPRK⁸³⁷ and the head of North Korea's boldest economic experimentation might have been too much to take for the North Koreans as well as for Beijing. As a result, while technically still existing on paper, the Sinuiju SAR remained dormant for almost ten years until it was awakened by a new much more carefully planned project in 2013: the Sinuiju International Economic Zone.

6.3 The Hwanggumpyong - Whiwa Special Economic Zone

The second opening attempt in the Dandong-Sinuiju area could not be more different than the Sinuiju SAR. The 2002 project was a bold, unilateral economic opening initiative in the DPRK 5th most important city. On the other hand, when the Hwanggumpyong [황금평, *hwanggŭmp'yŏng*; 黄金坪, *huangjinping*] and Wiwha [위화, *wiwha*; 威化, *weihua*] islands were turned into one SEZ, this was under a low-key joint PRC-DPRK agreement, in scarcely populated North Korean islands on the Chinese side of the Yalu River. Contrary to the Sinuiju SAR, which was nipped in the bud by Beijing, Hwanggumpyong or especially Wiwha were actually established and are still open to investment. But business activity in these zones

⁸³⁵ *Chaoxian xinyizhou xinteshou suoding huayi nüshang shaorixiang* 朝鲜新义州新特首锁定华裔女商沙日香 [Chinese diaspora businesswoman Julie Sa to head Sinuiju Special Administrative Region], *China Hubei* (online), 1st of September 2004. Url : <http://www.cnhubei.com/200408/ca552676.htm>. Last accessed 1st of March 2016.

⁸³⁶ Californian May Oversee N. Korea Economic Zone, *Los Angeles Times* (online), 8th of September 2004. Url: <http://articles.latimes.com/2004/sep/08/world/fg-koreaczar8>. Last accessed 1st of April 2016.

⁸³⁷ *Idem*.

never actually took off and visitors to Dandong can still witness these well sealed-off desert pieces of land in the vicinity of Dandong city (see map 10).

6.3.1 A China-DPRK joint initiative

Rumors of potential joint development of Wiwha and other islands south of the Dandong-Sinuiju axis emerged in 2007 in the South Korean press⁸³⁸. The idea was to develop Wiwha, the closest DPRK island to Dandong, and Bindan islands, the northern part which is part of Sindo county⁸³⁹ (*gun*), the southernmost island of the Yalu river (facing Donggang). This report turned out to be not accurate, but it is worth to say that ten years before, in 1997, the project of a tourism-focused SEZ in Sindo county had already been discussed by North Korean authorities, Dandong politicians and foreign companies⁸⁴⁰ but later abandoned⁸⁴¹. According to the Chinese press, the project was designed by a bilateral “Joint Steering Committee for Developing China-DPRK Two Economic Zones”, whose first meeting was held in Pyongyang in November 2010⁸⁴². But the project apparently took shape a few months earlier, when Kim Jong-il toured the Rajin-Sonbong economic and trade zone in December 2009, his very first visit since the beginning of the project. As we mentioned in the previous chapter, in 2009, Rason had been dormant for about ten years, and Kim Jong-il’s visit was aimed at giving some impetus to the SEZ: a few days after his visit, in January 2010, Rason was renamed as a “Special City” and laws to provide local authorities with larger powers were approved by Pyongyang. But it seems that the DPRK wanted to go further: in May 2010, Kim Jong-il visited Beijing and met with his Chinese counterpart Hu Jintao. While China-DPRK observers were focused on detecting potential signals regarding the nuclear issue or others

⁸³⁸ N. Korea considering building special economic zone on two islands, *Yonhap* (online), 23rd of March 2007. Url: <http://english.yna.co.kr/Engnews/20070323/630000000020070323162223E8.html>. Last accessed 4th of September 2015.

⁸³⁹ WINSTANLEY-CHESTERS, 2012, Integrated Reed Farms and SEZ’s: Revolutionary Landscape meets Economic Urgency, The Case of Sindo County, *Sino-NK* (online). Url: <http://sinonk.com/2012/06/20/integrated-reed-farms-and-sezs-revolutionary-landscape-meets-economic-urgency-the-case-of-sindo-county/>. Last accessed 3rd of November 2015.

⁸⁴⁰ The company appointed by DPRK authorities was Kumgangsan International Commercial Group, which is also known for its involvement in the Pyongwha motors Joint Venture.

⁸⁴¹ Guan (2009). See chapter 4.

⁸⁴² China, DPRK reach consensus on developing two economic zones in DPRK, *Xinhua* (online), 9th of June 2011. Url: http://news.xinhuanet.com/english2010/china/2011-06/09/c_13920175.html. Last accessed 2nd of December 2015.

security problems⁸⁴³, the most important item of the negotiations was in fact bilateral economic matters⁸⁴⁴. Hu and Kim came to an agreement regarding Rason and the joint management of two islets near Dandong, Wiwha and Hwanggumpyong. In August, special joint committees designed for the development of Hwanggumpyong/Wiwha and Rason were established, under the official name of “China-DPRK joint development and management of Hwanggumpyong Economic Zone committee” [中朝共同开发和共同管理黄金坪经济区管委会; *zhongchao gongtong kaifa he gongtong guanli huangjinping jingji qu weihui*], hereafter “steering committee”, as the official Chinese press names them. As it is well-known today, one member of these committees, on the Korean side, was a famous politician named Jang Song-taek, Kim Jong-il’s brother-in-law and husband of the then-Light Industry Minister, Kim Kyong-hui.

In sharp contrast with the aborted Sinuiju SAR, Hwanggumpyong and Wiwha were to be designed and developed with heavy involvement of the Chinese government, with Chinese Minister of Commerce Chen Deming flying to Pyongyang in November 2010 to preside over the very first meeting of the steering committee⁸⁴⁵. A Chinese company, China International Engineering Consulting Corporation, was also tasked with creating suitable development plans for both islands. But political involvement of the project did not mean that Beijing was to “offer” investments to the DPRK on a silver platter, quite the contrary: Hwanggumpyong and Wiwha were a political project led by two governments (the head of the Hwanggumpyong management committee was then Dandong’s Mayor, Pu Bingyu), and the States were to provide guidance, but the objective was to attract business, based on a market principles-based management of the zone. As Dandong’s mayor explained to the Chinese press, the zones were to be “government-led, business-oriented, market-based and mutually beneficial” [*zhengfu yindao, qiye weizhu, shichang yunzuo, huli shuangying*; 政府引导，企业为主，市场运作，互利双赢].

⁸⁴³ Especially potential clues on the sinking of the Cheonan, a South Korean corvette that was apparently hit by a torpedo on the 26th of March 2010.

⁸⁴⁴ LAM, Willy, 2010, Kim Jong-il's Secret Visit to Beijing, *China Brief* Vol.10, issue 10. Retrievable here: [http://www.jamestown.org/single/?tx_ttnews\[tt_news\]=36370&no_cache=1#.Vt0vefnJzIU](http://www.jamestown.org/single/?tx_ttnews[tt_news]=36370&no_cache=1#.Vt0vefnJzIU). Last accessed 4th of January 2016.

⁸⁴⁵ *Zhongchao huangjinping jingji qu tanmi* 中朝黄金坪经济区探秘 [Sino-DPRK Hwanggumpyong Economic Zone takes shape], *Zhongguo Jingji Zhoukan*, 26th of November 2012.

In 2011, the Chinese and DPRK governments publicized their projects of opening Special Economic Zones in Dandong, following the second round of meetings of the steering committee in June 2011 in Liaoning and Jilin provinces (still presided by Chen Deming and Jang). During this round of negotiations, efforts were focused on the development of legal regimes regarding both Rason and Hwanggumpyong-Wiwha. On the 3rd of December 2011, the DPRK SPA published two distinct laws: the first one dealing with Rason (a complete makeover as will be seen below), the second one dealing with Hwanggumpyong and Wiwha.

6.3.2 Laws and development policies

Given that the development of SEZs in the DPRK spans over more than twenty years, it is true that the legal framework has become relatively complex, since North Korea's SEZs have different statuses and thus different legal backgrounds. On the other hand, following the development of Hwanggumpyong and Wiwha, preferential policies and investment-related laws have been increasingly harmonized: the latest version of the Rason Law (chapter 8), is for example extremely close to the one dealing with investment in Hwanggumpyong and Wiwha, in terms of structure, content and even wording. In particular, legal dispositions dealing with incentives, preferential policies, settlement of disputes, establishment and operation of companies or principles of management of the zone are basically the same. Hwanggumpyong and Wiwha form one and only one SEZ, but are divided into two "areas", and these areas do not follow the same development plan as the article 3 of the Hwanggumpyong law explains.

Contrary to Rason, Hwanggumpyong's development plan envisages the 14,km² islet to be entirely leased, developed and managed by one unique company (named "developer enterprise" in the North Korean law)⁸⁴⁶. This company has to be approved directly by the Central Guidance Authority in Pyongyang (CGA); The law does not specify if the "developer enterprise" has to be a foreign company or a joint-venture but it seems that the objective of the Hwanggumpyong area was not to create a "Hong-Kong" or a "Shenzhen of the North" but rather a second Kaesong, with a Chinese company playing the role of Hyundai Asan in the Kaesong Interkorean Complex (KIC). As already explained, one of the weakest points of the Rason ETZ is obsolete infrastructure, an issue that does not apply to the KIC's case, since

⁸⁴⁶ Hwanggumpyong Law, 2012, see art.13.

it was virtually built from nothing by a subsidiary of the South Korean *chaebol* Hyundai, Hyundai Asan, and that power, management and technology is entirely provided by the South. In Hwanggumpyong, it seems that the objective was the same: mandate a company to lease the area, build infrastructure and run the SEZ. Of course, the “developer enterprise” is allowed to sub-lease parts of the area to other companies so that they could conduct their businesses in the zone, just like in Kaesong. As for Wiwha Island, the wording of the law is intentionally vague and since the Hwanggumpyong area has been a failure until now, it is unlikely that development plans for Wiwha are being seriously considered. It is however quite possible that the development masterplan would have been quite similar to Hwanggumpyong’s, should the latter have obtained any substantial success. The “Kaesong model” was not necessarily a bad pick for Hwanggumpyong: contrary to the remotely located Rason, Hwanggumpyong is directly connected to the mainstream of Sino-Korean economic cooperation, ideally located for a visa-free zone (from a practical, but also a security perspective: the area is cut off from the rest of the DPRK by the Yalu River) and could have found its place in Dandong’s southward development towards Donggang’s port.

Figure 17: Board promoting Hwanggumpyong Development plan



Source: Théo Clément, November 2015.

What's more, the Dandong harbor is located nearby and the zone would have constituted an essentially riskless experimentation for Pyongyang: given the language barrier, exposure of North Koreans to Chinese culture is less prone to "ideological contamination" than cohabitation with their southern compatriots. In addition, since infrastructure construction work was to be undertaken by Chinese businesses, the DPRK had virtually nothing to lose. As a matter of fact, a development plan was published by China (see figure 17), which might suggest that at least some companies have shown interest in developing the zone.

6.3.3 Another failure

Given the absence of reliable statistics and important theoretical or epistemological issues, evaluating the "success" of the DPRK's economic policies often is a very tricky venture, as seen previously. Left-leaning political scientists have for example provided alternative (critical) assessment of Kaesong⁸⁴⁷ otherwise widely considered as an important success⁸⁴⁸. If so, Hwanggumpyong and Wiwha are an exception to this rule: by any standards, the SEZ has failed. Given its immediate proximity to China, there is no need for precise data or statistics concerning investment in the zone: visitors to Dandong can easily witness that the zones are entirely desert (especially Wiwha), and that no construction activity has been witnessed or seen on satellite imagery since the construction of one single building in front of the main entrance (in 2012), potentially a "finance center" as mentioned on the map, or an administrative building as some have argued (see figure 18)⁸⁴⁹.

⁸⁴⁷ DOUCETTE, Jamie, LEE, Seung-ook, 2015, Experimental territoriality: Assembling the Kaesong Industrial Complex in North Korea, *Political Geography* n°47, pp.53-63.

⁸⁴⁸ Gaeseong joint complex reaches \$3 bln in accumulated production volume, 11 yrs after opening", *Korea Herald* (online), 4th of October 2015. Url: <http://www.koreaherald.com/view.php?ud=20151004000050>. Last accessed 2nd of March 2016.

⁸⁴⁹ HANSEN, Nick, LEWIS, Jeffrey, 2013, New Construction Activity at the Hwanggumpyong Economic Zone, *38th North* (online). Url: <http://38north.org/2013/06/hgp061713/>. Last accessed 10th of March 2013.

Figure 18: Hwanggumpyong's main administrative building



Source: Théo Clément, November 2015.

The zone is still quite recent, and, as seen with the example of Rason, economic activity may take time to take-off after the official opening of an SEZ. But if taking into account that, contrary to Rason and Sinuiju, the Hwanggumpyong and Wiwha SEZ was a bilateral government-led project, it is surprising that nothing actually happened immediately after the SEZ launching. Kaesong, a joint project led by both South and Korean governments, was an instant success after its trial run in 2005. There is little information available regarding the causes of Hwanggumpyong's failure, but research interviews conducted in Dandong and in Liaoning province as well as academic research papers published by Chinese scholars allow reviewing several non-contradictory hypotheses:

- ➔ The first, and most likely, hypothesis is that basic investments that are needed to kick-start economic activity in the zone are too important to make it worth the risk. Contrary to Rason, since Hwanggumpyong was a government-led project, the most important issue might not be power supply or road refurbishment, but rather basic infrastructure construction work that is needed to turn the swampy Hwanggumpyong into a piece of land that can accommodate sustainable economic activity. Besides the fact that the entire islet is desert and that almost everything needs to be built, this part of the Yalu river is very prone to massive floodings every

year in spring⁸⁵⁰. While the Chinese city of Dandong made investments in order to protect its banks from the floods⁸⁵¹, Sinuiju and more generally the North Korean bank of the river does not seem to be sufficiently protected and heavily suffer from these floods.

When asked, local businessmen involved into trade or economic cooperation with the DPRK often cite flooding as the most important reason why Hwanggumpyong has not yet attracted investors' attention⁸⁵². Before actually building necessary infrastructure in the zone, there seems to be a need to first dig draining canals and maybe even to build dykes in order to prevent flooding damage.

- ➔ The second hypothesis that is most often mentioned by Chinese businessmen regarding the Hwanggumpyong failure is the new Yalu bridge. Hwanggumpyong has a very small artificial bay that can accommodate small boats but certainly cannot be used as a reliable transportation means for goods and people from or to the SEZ. The best option to commute between the DPRK mainland and the islet is to go through China and Dandong via the Friendship bridge, and then reach Hwanggumpyong's main entrance 25 kilometers south. But when the zone was being designed, the idea also was to open a new transportation corridor linking the developing southern part of Dandong to the DPRK, the infamous new Yalu Bridge that abruptly ends in the middle of a field on the North Korea bank of the river. In February 2010, nine month before the first meeting of the Hwanggumpyong-Rason Steering Committee, Chinese Deputy Foreign Minister Wu Hailong signed an agreement with his DPRK counterpart Pak Gil-yon regarding the construction of a new, much bigger bridge on the Yalu, the infamous "bridge to nowhere". According to many local businessmen, Hwanggumpyong's success is conditioned by a chain of events that closely follows the city's development program. Once the bridge will to be linked with the DPRK's

⁸⁵⁰ CATHCART, 2012, Hwanggumpyong, Thy Name is Mud, *Sino-NK* (online). Url:

<http://sinonk.com/2012/06/28/hwanggumpyong-mud/>. Last accessed 14th of March 2016.

⁸⁵¹ Northeast China regularly suffers from flooding, and building anti-floodings infrastructure was considered as a priority by the central government when releasing the *Zhenxing Dongbei* Plan. See Plan of Revitalizing Northeast China, Xinhua (online), 19th of December 2007. Url: http://news.xinhuanet.com/english/2007-12/19/content_7279455.htm. Last accessed 14th of March 2015.

⁸⁵² Interviews with Dandong traders in Dandong (November 2015) and Pyongyang (May 2015 and 2016).

road network, trade will soar, which will benefit Dandong (and especially its “New City”), and then, eventually, kick-start economic cooperation in Hwanggumpyeong and Wiwha. Chinese economists have even depicted the bridge and the Hwanggumpyeong-Wiwha SEZ as “mutually generating themselves” or rather “being mutual cause and consequences” [互为因果; *huwei yinguo*]: one is a condition for the other to exist⁸⁵³. These calculations are made based on two assumptions. First, in the context of the ubiquitously trumpeted “one belt, one road” initiative, the idea that increased transportation network connections mechanically increase trade and Chinese exports. Second is the standard and widespread sino-centric belief that Pyongyang, someday somehow, will become “reasonable” and engage into a Chinese-style “reform and opening” process that will mechanically result in trade ties to soar.

- ➔ The third and last hypothesis is a political one closely mirroring the Yang Bin story in 2002. After the official opening of the Hwanggumpyeong-Wiwha SEZ, Pyongyang followed a similar path: on the 13th of December 2013, the lead DPRK interlocutor on the Hwanggumpyeong-Whiwa joint project, Jang Song-taek, was arrested and allegedly executed by Pyongyang (chapter 8). Although it might indeed have scared investors off, this hypothesis is not sufficient in itself to explain Hwanggumpyeong and Whiwa’s actual “epic fail” in attracting investments. First, the Jang Song-taek affair surfaced two years after the SEZ formal opening in 2011. Second, Jang Song-taek was also deeply involved in the Rason Economic and Trade Zone, which has seen relatively important business-related activity (especially in the real estate business) since 2013. Third, and last, as will be shown in the next sections, several other development projects have gradually seen the light of day in the Sinuiju area, notwithstanding “the Jang affair”.

⁸⁵³ BIAN Jin, 2013, *Huangjinping jingji qu kaifa kaifang yu dongbei ya ci quyu jingji hezuo yanjiu* 黄金坪经济区开发开放与东北亚次区域经济合作研究 [Research on Hwanggumpyeong economic development zone and economic cooperation with North-east Asia], *Journal of Zhengzhou Institute of Aeronautical Industry Management*, Vol.31, n°6. pp.22-26.

6.4 Sinuiju v.2: International Economic Zone

On the 16-17th of October 2013, in the Yanggakdo Hotel in downtown Pyongyang was held the International Conference on Special Economic Zone Development. This conference was organized by the State Economic Development Commission (SEDC) of the DPRK, with support from the DPRK-Canada Knowledge Partnership Program. Covering the event, a Rodong Sinmun journalist interviewed Kang Jong-nam, a law professor from Kim Il-sung University, who explained that many additional SEZs had been officially opened to FDI earlier the same year⁸⁵⁴. Officially publicized one month later, in November 2013, this new batch of SEZs surprised analysts for a variety of reasons. One striking feature of these new SEZs was their increased economic specialization, and the fact that some of them were “provincial-level zones” (often referred to as “economic development zone” –EDZ- in the DPRK literature) while one of them was considered to be a “central-level zone”: the Sinuiju Special Economic Zone, eventually renamed Sinuiju International Economic Zone (“Sinuiju IEZ” or “Sinuiju SEZ”⁸⁵⁵) in 2014⁸⁵⁶.

This news became public before the “Jang story” hit the headlines, in the context of cross-border “euphoria” in Dandong: the new bridge was near completion, construction work had finally started in Hwanggumpyong, and the China-Korea Cross-Border Trade Zone of Dandong (the “Guomenwan Zone”, see *infra*) was almost finished⁸⁵⁷. What’s more, another “provincial level” SEZ was announced at the same time, the Amrok River Economic Development Zone, a few kilometers north of Sinuiju. The brutal public ousting of Jang Song-taek might have taken its toll on all of these projects, which were significantly delayed: the

⁸⁵⁴ North Korea Opens Fourteen Special Economic Zones Nationwide, *NK Briefs*, Institute for Far Eastern Studies (online). Url: http://ifes.kyungnam.ac.kr/eng/FRM/FRM_0101V.aspx?code=FRM131031_0001. Last accessed 15th of March 2016.

⁸⁵⁵ “Sinuiju International Economic Zone” is the latest “branding name” of this particular SEZ. Both acronyms refer tot the same entity.

⁸⁵⁶ New Economic Zones are Under Development at Provincial Levels – Development of Sinuiju Special Zone Officially Announced, 2013, *NK Briefs*, Institute for Far Eastern Studies (online). Url: http://ifes.kyungnam.ac.kr/eng/FRM/FRM_0101V.aspx?code=FRM131129_0001. Last accessed 15th of March 2016.

⁸⁵⁷ ABRAHAMIAN, Andray, MELVIN, Curtis, 2015, Sinuiju International Economic Zone, 38th North (online). Url: http://38north.org/sezupdate112315_section2/. Last accessed 15th of March 2016.

Guomenwan trade zone was not opened until Dandong's China-Korea Exhibition in October 2015, the Amrok River EDZ was inaugurated in December the same year⁸⁵⁸, while the new Sinuiju Special Economic Zone's development plan was not made public before about the same time. However, the much-publicized official visit of CCP CC Standing committee member Liu Yunshan in Pyongyang in October 2015, who met several times with the *respected comrade* Kim Jong-un, might have triggered a wave of political enthusiasm on both sides of the border⁸⁵⁹ which eventually led for the reopening of the Sinuiju case.

6.4.1 An ambitious plan

The Sinuiju IEZ's development plan was first leaked by the South Korean press⁸⁶⁰ in October 2015, few days after Liu's visit in the context of the 70th anniversary of the Korean People's Army. The new version of the Sinuiju SEZ was introduced by South Korean media as a joint initiative by both the DPRK and Liaoning authorities and introduced the SEZ's blueprint as the result of negotiations between both sides of the border, as confirmed by Chinese press reports (the DPRK institution behind the Sinuiju SEZ is still unclear⁸⁶¹). The fact that potentially sensitive activities like casinos or golf courses (in the context of a brisk anti-corruption campaign inside the CCP) were allegedly scrapped from the earlier versions of the development plan strongly suggest that the Chinese side is indeed involved in this newer attempt at opening Sinuiju, although nothing points out at direct involvement from the central government or SOEs.

Until the DPRK business-focused magazine *Foreign Trade* published a map (see map 11), the development plan's objectives remained sketchy, as some of the leaked elements were extremely unsettling given Sinuiju's history of failed projects. Details on the zone's objectives progressively surfaced, revealing a project which mainly stems from the Sinuiju SAR plans,

⁸⁵⁸ Sinuiju-River Amrok Tourist Zone of DPRK Opened to Visitors, *KCNA* (online), 22th of December 2015. Url: <http://www.kcna.kp/kcna.user.article.retrieveNewsViewInfoList.kcmsf>. Last accessed 16th of March 2016.

⁸⁵⁹ Interviewees from the private sector in Dandong almost unanimously explained that bilateral political cycles had a quite limited impact on trade ties with the DPRK. The overwhelming majority of trading companies in Dandong are privately-owned.

⁸⁶⁰ Pyongyang moves ahead with plans for economic zone, *Korea Joongang Daily* (online), 26th of October 2015. Url: <http://koreajoongangdaily.joins.com/news/article/article.aspx?aid=3010735>. Last accessed 16th of March 2016.

⁸⁶¹ Since Sinuiju is a central level SEZ, it might be the CGA in Pyongyang.

but also takes into account the Chinese partner's attitude and concrete material hurdles that undermined the Hwanggumpyeong-Wiwha project.

The Sinuiju International Economic Zone is based on an economic model which is very close to what was planned for the SAR (namely a comprehensive, multi-faceted economic zone), but without the political boldness: this time, there is no plan to create a "capitalist enclave" inside the DPRK, but rather a Shenzhen-type SEZ in Sinuiju. To The author's knowledge, there is currently no specific law dealing with the Sinuiju International Economic Zone, official DPRK publications dealing with the SEZ most often refer to the chapter 37 of the North Korean constitution⁸⁶². Investment guides available in Chinese language, however, show that preferential policies aimed at encouraging investment in the zone are basically the same as in any other central- or provincial-level SEZ: tax cuts on priority sectors (10% against 14% in non-priority sectors), reductions of corporate income tax on reinvestment of profit made in the zone, etc.

The zone blueprint aims at developing numerous sectors including finance, trade, logistics like in the Sinuiju SAR, but also agriculture (especially in the "green belt" dividing Sinuiju-North and Sinuiju-South) and information technologies. The following map and the Chinese language investment guide⁸⁶³ also show that the mysterious canal that was mentioned in several press articles would allow the diversion of about 10% of the Yalu's stream⁸⁶⁴ (see map 11), which could potentially lower the risks and damages of floodings in Sinuiju and the area (notably in Wiwha)⁸⁶⁵.

⁸⁶² "The State shall encourage institutions, enterprises or associations of the DPRK to establish and operate equity and contractual joint venture of foreign countries within a special economic zone". *Constitution of the Democratic People's Republic of Korea*, 1996, Legislation Press, Pyongyang.

⁸⁶³ *Chaoxian minzhu zhuyi renmin gongheguo xinyizhou guoji jingji diqu touzi shuomingshu* 朝鲜民主主义人民共和国 新义州国际经济地区 投资说明书, Xici (online), 19th of January 2016. Url : <http://www.xici.net/d227236201.html>. Last accessed 16th of March 2016.

⁸⁶⁴ *Chaoxian yi zai xinyizhou tequjianshe guoji doushi* 朝鲜拟在新义州特区建设国际都市, *Cankan Xiaoxi* (online), 31st of January 2016. Retrievable here : <http://news.163.com/16/0131/00/BEK9CCA000014AEE.html>. Last accessed 31st of January 2016.

⁸⁶⁵ CLEMENT, Théo, 2016, One More for the Road : New Masterplan for the Sinuiju SEZ, *Sino-NK* (online). Url: <http://sinonk.com/2016/02/11/one-more-for-the-road-new-masterplan-for-the-sinuiju-special-economic-zone/>. Last accessed 16th of March 2016.

6.4.2 *The inconvenient of being on the Sino-Korean border*

As official DPRK literature explains, the Sinuiju IEZ has several cards to play in order to attract investment. Besides its clear locational advantages, natural resources and human capital potential, the DPRK also tries to put forward the coherence of its SEZ-specific policies, which might be ill-advised since the legal background of Sinuiju is still blurry. The reference to the superiority of the socialist political system and its stability might also be seen as paradoxical when it comes to FDI promotion and attractiveness. Interestingly, the DPRK's official literature also lists the zone's geographic proximity with other SEZs in North Phyongan Province (Hwanggumpyong-Wiwha, Amrok River, Chongsu), although none of them has seen significant economic activity or investment projects happen yet.

As scholars already noticed, construction work already began in Sinuiju⁸⁶⁶, with the creation of a tourism complex located at the foot of the Sino-DPRK Friendship Bridge in 2015. This new complex is very likely to have been funded by a Chinese company (the Dandong International Traveling Company), as it coincided with the signature of a bilateral agreement on short-term tourism in Sinuiju. According to the local press, the Dandong company did in fact invest no less than 50 million RMB (7.7 million USD)⁸⁶⁷ in Sinuiju's tourism facilities, but this project's relation with the SEZ is blurry and it might well be a wholly different project (the new tourism complex does not appear on the development plan).

The Sinuiju area often appears as a high-priority in North Korea official literature, since both Hwanggumpyong-Wiwha and the Sinuiju IEZ are considered central-level SEZ, a concentration that exists nowhere else in the DPRK. The area sometimes is highlighted as an "opening hub" on DPRK maps (see map 12).

The actual degree of priority of the Sinuiju SEZ for the DPRK government is a key clue to understand its relation with China. As seen with Rason, the Central Government does not usually invest in infrastructure in SEZs. Therefore, one way to assess this degree of priority on Pyongyang's agenda would be to monitor the Central Government financial commitment to the development of the zone. Sinuiju would definitely benefit from investments from the

⁸⁶⁶ ABRAHAMIAN, MELVIN, 2012.

⁸⁶⁷ *Gangti: zhongchaobianjing chaoxianjingnei de youyuanqujijiang kaiyuan* 港媒：中朝边境朝鲜境内的游园
区即将开园, *Cankan Xiaoxi* (online), 1st of January 2016. Url :
http://www.cankaoxiaoxi.com/china/20160101/1042864.shtml?sg_news. Last accessed 17th of March 2016.

Central Government given that, as often in the DPRK, local basic infrastructure needs important repair: as available investment guides explain, the zone needs a new sewage and water distribution system as well as a central heating system, but also a new 400 000 KWh power plant (as often in the DPRK, inadequate power supply is considered a key issue⁸⁶⁸). About ten “telecommunication centers” need to be built in the area, and the future foreigners residential districts would be permanently linked via satellite to the “outside world”. To put it in few words, the development plan is extremely optimistic and basically consists in a complete makeover of the city: currently, about 69% of the 38km² SEZ is made of rural lands (about 26km²), mostly located in the “green belt”, which is expected to entirely disappear according to the plan. At the same time, lands devoted to industry would soar from 8 to 29 % (3 to 11km²).

Obviously, even if Sinuiju already has a fairly developed industrial basis, this very optimistic plan will necessitate tremendous inputs of capital. Obviously, Pyongyang will not entirely assume the financial burden and, given what we have seen on Rason, but also former versions of Sinuiju, it is very likely that North Korea will make very limited investment in the zone itself. Even if the Kim Jong-un government has clearly showed commitment to the SEZ strategy, it still is reluctant to investment in infrastructures that might, in the short-term benefit more foreigners than locals. In addition, given Sinuiju’s history of failed projects, the Chinese partner has proved to be sometimes quite “unreliable” (from a North Korean point of view), and Beijing’s ambiguous attitude regarding financial and economic sanctions does not push the Central Government to focus on Sinuiju. As will be explained later, a counter-example recently appeared: the Wonsan-Kumgansan International Tourism Zone, which indisputably gathers the most attention from Pyongyang, both in terms of financial commitment but also in political support (see next chapter).

6.4.3 Strategic adaptations and missed opportunities

There were numerous attempts at fostering potential synergies in the Dandong/Sinuiju area, all of them have failed, at least for the time being. North Korea’s insistence on trying to “open” and develop the Sinuiju area, and the apparent impossibility for both sides to find a

⁸⁶⁸*Chaoxian yi zai xinyizhou tequjianshe guoji doushi* 朝鲜拟在新义州特区建设国际都市, Cankan Xiaoxi (online), 31st of January 2016. Retrievable here : <http://news.163.com/16/0131/00/BEK9CCA000014AEE.html>. Last accessed 31st of January 2016.

mutually satisfactory cooperation pattern is however quite interesting to keep in mind for later developments. The only recent “breakthrough” regarding economic cooperation between both sides of the Yalu is the Guomenwan trade zone, opened during the October 2015 China-DPRK exhibition in Dandong. As the name says it, this local government-supported zone is entirely focused on trade, and is built in Dandong’s “New City”, a few hundred meters south of the New Yalu Bridge. The objective of the zone is to boost bilateral trade by better organizing “small trade” flows: as interviews with Dandong businessmen revealed, DPRK traders often prefer to purchase goods in small batches. Given the profusion of trading companies in Dandong (there are more than six hundred of them in the Chinese city⁸⁶⁹) and the fact that North Koreans almost systematically play them against each other in order to obtain the lowest prices possible⁸⁷⁰, the Guomenwan trade zone offers traders from both sides a platform to engage more efficiently into business. Residents living inside a 20km radius can benefit from tax cuts on orders below 8000 RMB (1250 USD) per day. Interestingly, this project, claimed to be a joint initiative, was entirely funded by Dandong and Liaoning Province. Located on the Chinese side of the river, this project suggests that China (or at least local authorities in China) is committed to seizing opportunities offered by the proximity with the DPRK, mostly seen as a market. While joint initiatives taking place in North Korea have all failed, it seems that the Chinese side wants to take the lead and minimize risks, adopting a low-key approach and focusing on projects that are more likely to succeed. These relatively low-risks sectors include trade (like in the Guomenwan trade zone) and tourism (as with the Dandong International Traveling Company deal with Sinuiju). This “safe” approach is especially so for the Chinese side: the DPRK runs a chronic trade deficit with China, and the organization of the zone itself seems to somehow be an allegory of this unbalanced cooperation. As can be seen on the image below (figure 19), about two-thirds of the zone are dedicated to Chinese sellers, while the remaining one third is for “imported products”, only partially dedicated to DPRK imported goods. As explained to the author by an official of the zone⁸⁷¹, the “imported products” bloc actually is to be shared between

⁸⁶⁹ China unveils border trade zone with DPRK, *Xinhua* (online), 25th of August 2015. Url: http://news.xinhuanet.com/english/2015-08/25/c_134554116.htm. Last accessed 17th of March 2016.

⁸⁷⁰ The overwhelming majority of trading companies owners and employees interviewed in Dandong, Beijing or Pyongyang explained that they are systematically played off against other companies and have to engage into sometimes intense bargaining to secure markets.

⁸⁷¹ Interview with Guomenwan Zone mid-level manager, November 2016.

North Korean and other foreign sellers (only one “street” of the bloc is entirely dedicated to DPRK businessmen⁸⁷², see figure 19).

Figure 19: Picture of the Guomenwan Trade Zone map



Source: Théo Clément, November 2015⁸⁷³

It is too early to make a definite assessment of the Guomenwan trade zone, but it suggests an increased willingness from the Chinese side to attract cooperation projects in China instead of the DPRK, which seems to be a bad omen for the Sinuiju SEZ and DPRK zones in general. While initiatives like the Guomenwan Trade Zone are welcome by the DPRK because they marginally allow the North Koreans to save on foreign exchange (due to tax cuts provided in the zone and better organization of trade flows) and are unlikely to be heavily impacted by UN-sanctions. However, they mostly benefit Chinese sellers and provide limited or no opportunities for the development of the DPRK economy in terms of training, technology and know-how transfers, infrastructure development etc.

⁸⁷² This “street” is actually almost entirely empty, as of November 2016.

⁸⁷³ Zones A and B are for Chinese goods to export, while significantly smaller zone C is for import.

The opening of the Guomenwan Trade Zone in Dandong is quite paradoxical. Since 2011, when Kim Jong-un came to power, the DPRK never seemed more open to FDI and SEZs spread out to every province of the country, as will be explained in the next chapter. On the other hand, even in a strategically-located city like Sinuiju, it seems extraordinarily difficult to create a mutually beneficial pattern of economic cooperation. Tensed relations with the PRC have certainly taken their toll on cooperation potential in the area and can explain the numerous failed attempts at economic integration. If compared with other SEZs that have recently appeared in the DPRK, the Sinuiju-Dandong axis, an important economic stronghold of North Korea and the principal gateway to its most important trade partner, paradoxically does not seem high on the government's list of priorities.

Chapter 7: Wonsan International Tourism Zone and the latest generations of North Korean SEZs

Kim Jong-il passed away on the 17th of December 2011, and was replaced by the current North Korean leader, Kim Jong-un. Since then, the number of Special Economic Zones in the DPRK has surged. Since Kim Jong-un took power, there has been several waves of SEZs opening, in addition to the already existing Rason, Hwanggumpyong-Wiwha, Kaesong and the Kumgang mountains SAR, Pyongyang announced 13 new zones as well as the International Economic Zone of Sinuiju in 2013 (the 4th generation of ZES or G4), followed by 6 more in 2014 (G5) plus two in 2015 (G6). What's more, in parallel to these new zones the Kumgangsan area was progressively transformed into a large SEZ encompassing both the Kumgang Mountains and some areas of Wonsan district.

Given their young age, most of these zones have once again received limited attention from foreign investors, and the DPRK government itself has released little information about these SEZs⁸⁷⁴. Collectively, however, some of them seem to reveal current trends of the DPRK's new economic policies, including decentralization processes, geographical specialization, or more generally the priorities of North Korea's economy and its prospects for increased regional integration. Among these new SEZs, one seems to be sticking out as a priority of the DPRK government and display substantially different features than previous central-level SEZs: the Wonsan-Kumgangsan International Tourist Zone. Given the lack of available information, G4, G5 and G6 SEZs will be studied as a whole and only the most relevant ones will be discussed, based on their "sinotropism" and the fact that they might incarnate new trends in North Korean economic policy-making. Special attention will be dedicated to Wonsan-Kumgangsan International Tourist Zone, as it bears important differences with previous opening attempts.

7.1 Economic Development Zones and provincial-level SEZs

As mentioned in the previous chapter, in the wake of the Yanggakdo hotel conference on Special Economic Zone Development in October 2013, new SEZs were unofficially announced

⁸⁷⁴ Conversations with DPRK scholars, students and officials in Pyongyang (April-May-October 2015; May-July 2016), Hamhung or Yanbian showed that local knowledge of some of these zones is limited. The manager of a factory located in the Hungnam SEZ had no updated information on the SEZ.

by DPRK scholars (see map 13). The official announcement of the 4th generation of North Korean SEZs, which is at the same time the first and the largest batch of SEZs, was published by KCNA on the 21st of November 2013⁸⁷⁵, the very same day the Sinuiju International Economic Zone was announced, in a separate statement. Several months later, on the 23rd of July 2014, the 5th generation was also publicized by KCNA⁸⁷⁶ (see map 14). The two last SEZs were introduced in 2015 on two different occasions, on the 24th of April for Mubong in Ryanggang and on the 8th of October for Kyongwon. The fact that they were not opened at the same time but on separate occasions might be relevant to keep in mind, and, although they do not technically constitute a “batch” of SEZs, they will, for practical purposes, be referred to as the 6th generation of SEZs (G6).

These 21 SEZs have not made a name for themselves among the community of DPRK observers, nor among Chinese business circles or even inside the DPRK⁸⁷⁷. As of today, very few details are available regarding these zones, and even the exact location of some of them is an enigma. However, as a group, G4, G5 and G6 SEZs are extremely interesting to study as their development strategy seems to substantially differ from the one that primed in previous SEZs: they are said to be provincial-level SEZs, they are all subjected to one common law and they are specialized.

7.1.1 Provincial vs. Central-level SEZs

As KCNA explained in 2013⁹³¹, the G4 and following generations of SEZs were labeled provincial-level SEZs, in opposition to what had mechanically become central-level SEZs like Rason, Kaesong, or Hwanggumpyong-Wiwha. The difference between central- and provincial level SEZ is however still a mystery. The Law on Economic Development Parks, published on the 29th of May 2013 (EDP Law; see next section)⁸⁷⁸ introduced a few minor differences

⁸⁷⁵ New Economic Zones are Under Development at Provincial Levels – Development of Sinuiju Special Zone Officially Announced, 2013, *NK Briefs*, Institute for Far Eastern Studies (online). Url: http://ifes.kyungnam.ac.kr/eng/FRM/FRM_0101V.aspx?code=FRM131129_0001. Last accessed 23rd of March 2016.

⁸⁷⁶ Economic Development Zones to be set up in Provinces of the DPRK, *KCNA* (online), 23rd of July 2014. Last accessed 23rd of March 2016.

⁸⁷⁷ As it turns out, most of our interlocutors in the DRPK, including business major students or even Investment Promotion officials have a limited knowledge of current development patterns of SEZs.

⁸⁷⁸ Law of the Democratic People’s Republic of Korea on Economic Development Parks, *Foreign Trade*, 3rd quarter 2015, Foreign Languages Publishing House, Pyongyang.

between these types of zones, but the typical vagueness of DPRK legal documents makes it quite difficult to identify significant differences. One would expect provincial-level SEZs to be managed at the local level, but it is not the case since the institutional background of both central- and provincial level zones is the same as the one in Rason and Hwanggumpyeong-Wiwha since 2011: a zone-specific management committee overseen by the local People's Committee, under the guidance of the CGA in Pyongyang. The only substantial difference that might potentially have a relative impact on these SEZs fate can be found in the 2013 EDP law. As art.14 and 15 of the law explain, while the CGA always has the last word in establishing SEZs, local (municipal or provincial) People's Committees can apply to the CGA for the transformation of some areas into a provincial-level SEZ. For central-level SEZ, on the other hand, the initiative is taken at the central level, by "the institution concerned". The fact that local authorities of the DPRK have to take the initiative in order to have part of their territories turned into SEZs can potentially mean many different things. First of all, this means that Pyongyang agrees to an increased degree of decentralization in its policies (even if it makes the final call) and tacitly acknowledges that local initiative can bring benefits to the country's economy. Second, it might mean that territories inside the DPRK are struggling to obtain FDI, and, in some cases, might be competing against each other, especially in cases where several SEZs are adjacent, for example in North Hamgyong⁸⁷⁹ and North Phyongan provinces but also in some areas in the vicinity of Nampho where two distinct SEZs coexist⁸⁸⁰ (and an additional one in Songnim, few kilometers east). Last, but not least, if the latest provincial-level zones are indeed born from the initiative of local authorities, it does not only mean that there is a strong interest among local political leaders in cooperating with foreign actors to develop their territories, it also means that these local executives and officials are thinking about what would make their territories interesting for foreign investors, with an increasingly raising awareness of their comparative advantages. Discussions with mid-level officials in areas such as Wonsan⁸⁸¹ or Hamhung⁸⁸² tend to support the view that local

⁸⁷⁹ CLÉMENT, Théo, 2015, Recent Developments on the SEZ Battlefront: Mubong and Kyongwon, *Sino-NK* (online). Url: <http://sinonk.com/2015/11/09/recent-developments-on-the-sez-battlefront-mubong-and-kyongwon/>. Last accessed 25th of March 2016.

⁸⁸⁰ ABRAHAMIAN, Andray, SEE, Geoffrey K., WANG Xinyu, 2014, ABC of North Korea's SEZ, *United States Korea Institute Report*. Url: <http://uskoreainstitute.org/wp-content/uploads/2014/11/Abrahamian-SEZs-14-1118-HQ-Print.pdf>. Last accessed 3rd of May 2015.

⁸⁸¹ Interview with Wonsan Zone Development Corporation officials, Pyongyang and Wonsan, May 2016.

executives are well-aware of their territories' potential in terms of FDI attractiveness. It is of course impossible to know the rate of approval of the CGA for local authorities-sponsored projects, and thus hard to deduct if Pyongyang only accepted projects with potential or if it accepted every project that did not constitute a security threat⁸⁸³. Interestingly, with the exception of tourism-focused zones (see *infra*), the overwhelming majority of provincial-level SEZs are located on the Chinese border or on the coasts, which could be explained by different hypotheses such as the export-oriented character of these SEZs, or simply acceptance by the CGA of EDP application based on locational advantages.

7.1.2 Common law: simplification of DPRK legal norms related to SEZs

Contrary to Rason, Kaesong, Hwanggumpyong-Wihwa, and Wonsan-Kumgang International Zone which all are governed by their own laws, the 2013 EDP law was designed to unify the next generations of SEZs under a unique law and vocabulary. "Economic Development Park" is the official term used by the DPRK to name post-2013 SEZs. Ideologically neutral (they are not "special"), the expression "EDP" has a quite broad meaning that could potentially apply to different kinds of SEZs. What's more, given the current trend, it is likely that additional SEZs will appear in North Korea in the future, with no need to create *ad hoc* laws.

With the publication of the 2013 EDP law, it seems that the objective of the DPRK government was to simplify the legal framework related to FDI⁸⁸⁴, as the Chinese example proved that an increased complexity of legal regimes could have numerous effects detrimental to the attraction of foreign investment. Since 1981, China has been opening different kinds of SEZs (SEZs, Open Coastal Cities, Economic and Technology Development Zones, High-Technology Development Zones, Free Trade Areas...⁸⁸⁵), with separate sets of laws, which proved to be an administrative nightmare for foreign investors, lawyers as well as Chinese investment promotion agencies. Besides, in the PRC, the formidable complexity of the "dual-track" legal regime (one for foreigners, one for locals) regulating FDI

⁸⁸² Discussions with officials in Hungnam, April 2015.

⁸⁸³ As the art.11 of the law explains, an EDP has to be located in an area "separated from residential quarters by a certain distance", most likely to prevent foreigners to interact with average North Koreans.

⁸⁸⁴ Interview with North Korean civil servants working for the Wonsan Zone Development Corporation confirmed that the DPRK authorities were trying to simplify the current legal framework.

⁸⁸⁵ TSENG, Wanda, ZEBREGS, Harm, 2002, Foreign Direct Investment in China: Some Lessons for Other Countries, *IMF Policy Discussion paper* (online). Url: <https://www.imf.org/external/pubs/ft/pdp/2002/pdp03.pdf>.

progressively led to the merger of both systems resulting in China *de facto* adopting (partially) international norms and standards as part of its own legislation. From the DPRK point of view, keeping a clear and simplified dual-track legal regime could allow Pyongyang not to be “forced” into transposing foreign norms into national laws that apply to DPRK citizens.

The content of the 2013 EDP law, besides the differences between central-level and provincial-level SEZs, is more of a synthesis of previous laws regulating FDI than a breakthrough. Technical aspects dealing with management, incentives and preferential treatment are similar to the 2011 Rason and the Hwanggumpyong-Wiwha laws (see next Part). In order to be adaptable to multiple situations, the 2013 EDP law also appears more flexible, especially regarding the development model of the zones: as art.20 explains, EDPs can be developed by one single enterprise (“Kaesong model”), or jointly with foreign or local companies.

7.1.3 Increased economic specialization

As seen in the first part of this dissertation, the DPRK was (and still partially is) ill-at-ease with the concept of international division of labor, often seen as the Trojan horse of active or passive foreign interference in internal affairs and more generally political dependence. During the Kim Il-sung era, because of both poor transportation networks but also ideological options, local self-reliance was also encouraged. The development of SEZs in the country *de facto* forces Pyongyang to show flexibility regarding international division of labor and to somehow find its place in the global economy in order to attract investment. With the G4, G5 and G6 SEZs, Pyongyang moved a step further and tried to concentrate investment in specific sectors in specific territories, most likely based on their comparative advantages: the location, the historical legacy, the local infrastructure seem to have played an important role in the establishment of SEZs in the DPRK, although some of them already seem to have limited cards to play.

As shown on map 16, in addition to the pre-2013 SEZs, there are now seven different types of Economic Development Parks in the DPRK: three export-processing zones (Nampo, Songnim, Jindo), four industry-focused zones (Hyondong, Hungnam, Chongnam, Wiwon),

three agriculture-focused zones (Sukchon, Pukchong, Orang), four tourism-focused zones plus Wonsan-Kumgangsan (Sinphyong, Chongsu, Mubong, Onsong). In addition, there are four different “Economic Development Zones” that can be considered as “generalist” EDP, one mysterious “International Green Model Zone” in Kangryong which seem to be dedicated to green development⁸⁸⁶ and last but not least, a high-technology focused SEZ in Unjong district, Pyongyang.

7.1.4 China-DPRK border SEZs

Among the 26 North Korean SEZs, more than one third of them are directly located on the border with the PRC. Besides Sinuiju, Hwanggumpyong-Wiwha and Rason, 8 additional zones were opened just south of the Yalu or the Tumen rivers. Topology and infrastructure seem to have been major determinants for the locations of these zones, as they are all located either directly in a “North Korean enclave” on the “Chinese side” of the rivers (like Hwanggumpyong), or near cross-border bridges. The “North Korean enclave” zones are most likely picked by the Koreans because of their geographic locations (no need to build bridge or important infrastructure with China) or the fact that cross-border semi-legal trade activities often already exist⁸⁸⁷. However, they also are scarcely populated areas with poor (often unexisting) infrastructure on the Korean side and their potential for tourism might be limited: although crossing the rivers or the border does have a “threshold effect” (the “thrill” of entering the DPRK) for Chinese and other tourists, it can be assumed that tourists coming to the DPRK are not primarily interested in scenic views that can be seen from the other side of the border but also in North Korean culture and society. Interviews with tourism agencies staff in Dandong, Yanji and Tumen as well as Chinese expatriates living in North Korea show that a substantial portion of Chinese tourists going to the DPRK seek to experience a “travel back in time” to Maoist China. As of today, little activity has been witnessed in these zones, and, although the DPRK has been progressively releasing information on them, their

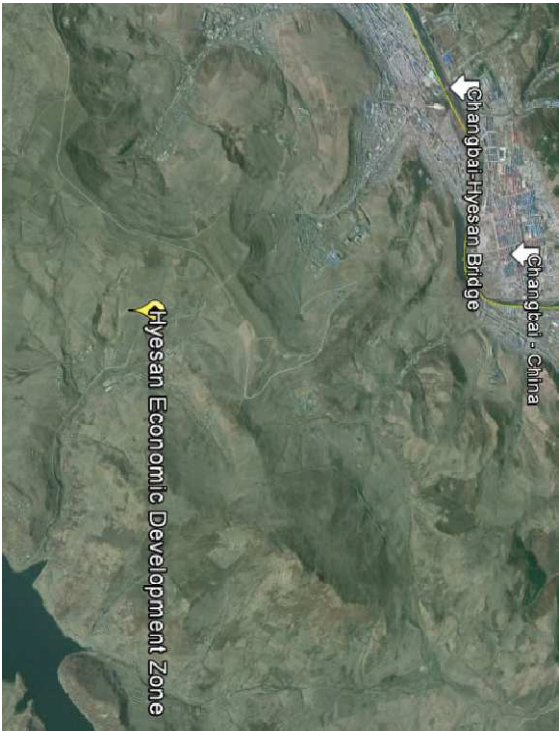
⁸⁸⁶ Agronomists and biologists who worked in the DPRK explained to the author that their North Korean colleagues were very keen to learn about organic farming and green technologies.

⁸⁸⁷ This seems to be the case in Onsong for example: N. Korea beefing up border control ahead of party congress: sources, *Yonhap* (online), 5th of April 2016. Url: <http://english.yonhapnews.co.kr/northkorea/2016/04/05/0401000000AEN20160405001800315.html>. Last accessed 6th of April 2016.

Figure 20: Satellite pictures of borderland SEZs
Source: Google Earth 2015



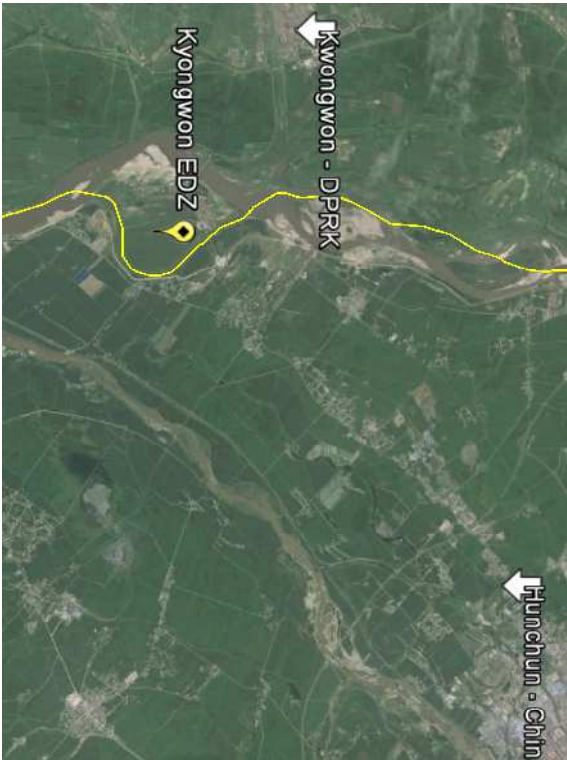
Amnok River Economic Development Zone area



Hyesan Economic Development Zone area (approx location)



Wiwon Industrial Development Zone area



Kyongwon Economic Development Zone area

potential success in attracting FDI still remains guesswork. Some of them might have interesting assets that could help them step out of the rank in the future. Given the lack of information on these zones and the fact that they share similar features, only the ones that are relevant within the context of this study (basically the ones that are aimed at attracting Chinese capital or that are symptomatic of policy changes in the DPRK) will be described below.

The Amrok River EDZ, located near Sinuiju as we mentioned already, is facing the very touristic Chinese city of Hushang, which is known, in China, for being the easternmost part of the Great Wall. Interestingly, South Korean scholars have challenged the Chinese view, explaining that this section of the Great Wall (which was entirely reconstructed based on relics discovered in the 1980s) was actually a Korean fortress (dating back from the Goguryo era, 37 BC-668 AD)⁸⁸⁸. To the author's knowledge, North Korean scholars have not expressed their own views on this sensitive subject yet, but this potential difference of interpretation could make it hard for the PRC and the DPRK to jointly develop this SEZ as a tourism project, as the influx of Chinese tourists can easily be influenced by socio-historical issues that irritate Chinese nationalism⁸⁸⁹. The zone was also publicized as encouraging FDI in the agricultural sector⁸⁹⁰, but, as everywhere in the Sinuiju area, it is quite likely to suffer from flooding on a regular basis. As explained before, since EDPs have to be separated from residential areas by "a certain distance" (according to the 2013 EDP law), tourism-focused areas are unlikely to lift the veil on the North Korean lifestyle which paradoxically attracts foreign tourists. Enjoying recreational facilities designed for tourists on DPRK territory but on the "Chinese side" of the Yalu, limits the thrill of the "threshold effect", entering North Korea. What's more, the zone seems to have very limited power supply⁸⁹¹, maybe necessitating for the Chinese side to connect both grids and supply power, which has proven immensely complicated in Rason.

⁸⁸⁸ KWON Hee-young, 2012, Ulterior Motives behind China's Extension of the Great Wall, *Korea Focus* (online). Url: http://www.koreafocus.or.kr/design2/layout/content_print.asp?group_id=104146/ Last accessed 31th of March 2016.

⁸⁸⁹ CHENG Minming, WONG, Anthony Ipkin, 2014, Tourism and Chinese Popular Nationalism, *Journal of Tourism and Cultural Change*, n°12, vol.4. pp. 307-319.

⁸⁹⁰ MIMURA, 2015.

⁸⁹¹ MIMURA, 2015. Chinese inhabitants of Hushancun explained to the author that they barely see lights at dark on the Korean side.

50 kilometers northeast of the Amrok SEZ is the Wiwon zone, which was opened in 2013 as an industrial development zone. The primary objective of the Wiwon SEZ indeed seems to process natural resources that abound in Wiwon's hinterland, the impoverished province of Chagang. While the exact location of the SEZ still is a mystery (the *Pyongyang Times* articles dealing with Wiwon are hard to decipher⁸⁹²), the 3km² zone seems to be heavily forested (up to 87%⁸⁹³) with rich underground deposits of galena, calcium carbonate, limestone and silica. In addition to timber and minerals, the zone also has plentiful resources of water, from different reservoirs (including the one of the Yalu dam known as Laohushao in China) and is near the 390 000 Kwh-capable Wiwon Power Station (which dates back from the 1980's⁸⁹⁴) and near the Yonha Power Station. Ideally, the objective would be to create a research center in the zone, develop the local processing industry and export processed goods made out of local resources. However, Wiwon is quite difficult to access and far from any significant Chinese city. From China, Wiwon can be reached through the Laohushao dam, but this route cannot be used for freight, especially not in case of heavy bulk cargoes like natural resources, timber or minerals. The nearest cross-border bridge is the new Manpho-Ji'an bridge (built in 2014⁸⁹⁵), 80km from Wiwon, but an area of Manpho was also turned into an SEZ in 2013, leading to *de facto* competition with Wiwon. As Mimura pragmatically explains, the zone might end up being an export base for unprocessed natural resources, unless it succeeds in attracting investment in processing industries, a quite unlikely possibility for now.

Opened in April 2015⁸⁹⁶, the Mubong SEZ seems to step out from the rest of the G4, G5, and G6 zones. This zone enjoys a highly-strategic location for tourism, as it is located in Mubong district of Samjiyon county, on the slopes of Mont Paektu (Changbai), the sacred mountain and cradle for both Korean and Mandchu peoples. There is already limited but existing tourism activity on the North Korean slopes of the volcano, mostly for locals but also for

⁸⁹² EDZs to be set up in Northern area, *The Pyongyang Times*, 12th of March 2015.

⁸⁹³ *Idem.*

⁸⁹⁴ KIM Il-sung, 1995c. See bibliography.

⁸⁹⁵ North Korea Building New Transport Corridor and Border Crossing, *38th North* (online), 4th of May 2015. Url: <http://38north.org/2015/05/cmclvin050415/>. Last accessed 12th of April 2016.

⁸⁹⁶ North Korea Spurring Development of Various Special Tourist Zones, *NK Briefs*, Institute for Far Eastern Studies (online), 30th of April 2015. Url: http://ifes.kyungnam.ac.kr/eng/FRM/FRM_0101V.aspx?code=FRM150514_0001.

foreign tourists⁸⁹⁷, due to the concentration of “spots of interests” in the area. Following acute media interest and the success of the Pyongyang Marathon, another race was organized for foreigners in Samjiyon in 2015, with limited success⁸⁹⁸. Technically, the zone was opened as an International Tourism Zone, not a Tourist Development Zone like in Chongsu, Sinphyong (see later) or Onsong. The difference might seem to be mostly a bureaucratic issue, but it also could mean that Mubong has the same status than Wonsan-Kumgangsan, a central-level SEZ, high priority of the DPRK government. The level of the Mubong SEZ is currently unknown: some official (but inaccurate) maps published in Chinese (see map 12)⁸⁹⁹ imply that Mubong belongs to the same category as other Central-level SEZ such as Rason, Sinuiju or Wonsan-Kumgangsan. Although lack of currently available information makes it quite hard to confirm, high-level “on-the-spot guidance” visits (including several ones by Kim Jong-un himself⁹⁰⁰) and increased infrastructural works strongly suggests that this zone is relatively high on the agenda of the Pyongyang leadership. Establishing an International Tourism Zone in Mont Paektu would actually make sense economically, even from the DPRK point of view. The zone is very regularly visited by North Koreans, as travelling to the volcano and to different political spots of the area almost is a “pilgrimage” for locals⁹⁰¹, which legitimizes for Pyongyang to spend resources on the Mubong project. In addition, the area might actually be more well-known than the Kumgang mountains, especially in China. This zone is much easier to access from China and from Yanbian in particular⁹⁰² than Wonsan-Kumgangsan. Besides stunning landscapes or the mount itself, the area is also known for major anti-japanese guerrilla-related sites like the mount Paektu secret camp (Kim Jong-il’s official birthplace), Chongbong and Konchang bivouacs (known for their slogan-bearing trees), Rimyongsu Revolutionnary sites, Samjiyon

⁸⁹⁷ The leading company of the DPRK tourism business, Koryo tours, organizes approximately two trips to mount Paektu a year. Kim Jong-il sometimes welcomed official Chinese delegations to the DPRK in the area, as explained in YOICHI, 2007, pp.261-263.

⁸⁹⁸ Interview with a business consultant in Yanbian, February 2016.

⁸⁹⁹ 朝鲜民主主义人民共和国 新义州国际经济地区 投资说明书, *Xici* (online), 19th of January 2016. Url : <http://www.xici.net/d227236201.htm>. Last accessed 16th of March 2016.

⁹⁰⁰ Kim Jong Un Provides Field Guidance to Various Fields of Samjiyon County, *KCNA* (online), 28th of November 2016. Url: <http://www.kcna.kp/kcna.user.special.getArticlePage.kcmsf>. Last accessed 1st of October 2017.

⁹⁰¹ It seems that travelling to Mount Paektu and Samjiyon county quite often is used as a reward for deserving youth. Informal discussions with students in Pyongyang, June 2016.

⁹⁰² There are buses leaving Yanji to Changbai mountain everyday, and planes landing in Yanji directly from important Chinese cities like Beijing, Chengdu, Changchun, Shanghai, Guangzhou etc. on most public holidays.

Grand Monument, lake Samji etc. Several pieces of infrastructure had been created in preparation for the 1995 Asian Winter Games, which were supposed to take place in Samjiyon, but were cancelled in the context of the Arduous March. As a result, there are some modest sport infrastructures including a ski resort in Samjiyon (near the Begaebong hotel for foreign tourists)⁹⁰³, an ice rink, and several other sports-related facilities have been announced by the official press⁹⁰⁴. Interestingly, it seems that the central government in Pyongyang is paying particular attention to this zone, maybe in a less affirmed way than in Wonsan-Kumgangsan, but important infrastructure investments have already happened, even before the zone was considered a SEZ. First of all, the Samjiyon town was completely refurbished during the 2000's, the traditional Korean buildings being transformed into a quasi-alpine style villages⁹⁰⁵, very different from what can be found in the rest of the country. Regarding the transportation infrastructure, the Samjiyon airport has been renovated in 2005 (using funding from the South's Ministry of Unification⁹⁰⁶), and a standard-gauge Hyesan-Samjiyon railway is currently being constructed, linking Samjiyon to Pyongyang by train⁹⁰⁷ (there is already a narrow gauge railway near the border). Last, but not least, proper customs/border-crossing facilities were built on the Chinese border in 2014, as can be seen on satellite imagery (see map 17).

Last, but not least, KCNA also explained that "a project for electricity supply system was already finished in the zone in cooperation with a foreign business"⁹⁰⁸, which could potentially mean two things: first, the power supply in the zone is insufficient; second and more important, it is more than likely that a Chinese company has shown interest in the

⁹⁰³ The Associated Press North Korean staff in Pyongyang captured some images of the resort. Footage can be found here: <https://www.youtube.com/watch?v=e6jMC3J9f-k>. Last accessed 6th of April 2016.

⁹⁰⁴ Enthusiasm for Sporting Runs High in Samjiyon County, *KCNA*, 12th of October 2016. Url: <http://www.kcna.kp/kcna.user.article.retrieveNewsViewInfoList.kcmsf>. Last accessed 1st of March 2017.

⁹⁰⁵ The official Naenara website published a portfolio online : http://www.naenara.com.kp/en/book/new_window.php?10+10110. Last accessed 6th of April 2016.

⁹⁰⁶ Asphalt designated for N. Korean runway diverted for use elsewhere, *The Hankyoreh* (online), 26th of June 2008. Url: http://english.hani.co.kr/arti/english_edition/e_northkorea/306712.html. Last accessed 6th of April 2016. Initially, this project was supposed to (literally) pave the way for a Kumgangsan-like project in Mount Paektu. Imagined during the 2000's North-South, this project never saw the light of day.

⁹⁰⁷ Ground-breaking Ceremony Held for Construction of Broad-gauge Railroad in Area of Samjiyon, *KCNA* (online), 4th of June 2015. Url: <http://www.kcna.co.jp/item/2015/201506/news04/20150604-27ee.html>. Last accessed 7th of April 2016.

⁹⁰⁸ Development of Special Zone for International Tour Progresses Apace in DPRK, *KCNA* (online), 11th of July 2016. Last accessed 1st of March 2017.

project. While the leadership seems to be determined in turning the area into a SEZ, interviews with tourism companies' staff in Yanji and Beijing showed that most often they had no knowledge of the Mubong area.

It is unlikely that the only objective of this particular care devoted to the Mubong area is only aimed at developing the Mubong SEZ. Indeed, the area seems to have received special attention from Pyongyang well before it was established as an SEZ. Given the quasi-sacred feature of the location for North Koreans, it might allow Pyongyang to kill two birds with one stone: using national resources for local people and at the same time creating a better environment for foreign tourists and potential investors in this sector.

7.1.5 "Unique" SEZs: increased experimentation?

Among the 21 ZES that opened between 2013 and 2016, the Kangryong and Unjong central-level SEZs are "unique". They are unique in the sense that they are the only zones of their kinds, but also because they seem to constitute a qualitatively different form of economic policy experimentation.

The Unjong Technology Development Zone (sometimes called "High Tech" or "Cutting Edge" Development Park/Zone), is a quite interesting project. The zone is the only SEZ located in Pyongyang city, although it actually is in the vicinity of Pyongsong (South Phyongan Province). Unjong is the only SEZ not affiliated with the Ministry of External Economy (MOEE), but with the State Academy of Science (SAS, under the State Committee for Education). Unjong basically works like a research cluster, bridging together the most advanced research centers of the DPRK and local companies. The main objective of the zone would thus be to infuse foreign technology and establish foreign-invested companies that would contribute to the DPRK's R&D effort. This development strategy is to be understood in the wider framework of Pyongyang's push to establish what it calls a "knowledge-based economy"⁹⁰⁹, betting on education and human capital. In addition to several universities, vocational schools and training colleges in Pyongsong⁹¹⁰, there is a long list of research centers, schools and

⁹⁰⁹ DPRK Gives Priority to Science and Technology, *KCNA* (online), 25th of March 2015. Url: <http://www.kcna.co.jp/item/2015/201503/news25/20150325-15ee.html>. Last accessed 26th of March 2015.

⁹¹⁰ DORMELS, Rainer, 2014, Profiles of the Cities of DPR Korea – Pyongsong, *Universität Wien Research Report* (online). Url:

universities in Unjong (no less than sixty, according to DPRK publications⁹¹¹). However, little is known about their scientific activities, the state of their facilities, etc. In addition to these scientific and academic institutions, a few trade companies are also working closely with the SAS in order to market and publicize the North Korean scientific expertise abroad, and especially in China: the Kanghung Technical Trading Company, for example, which was tasked with trading the “technological successes” of DPRK scientists⁹¹², leased a booth at the 2012 Trade Fair in Rason⁹¹³. Thanks to its location on the vicinity of Pyongsong, a city known to be an important place for trade of Chinese goods exported to North Korea⁹¹⁴, the Unjong SEZ benefits from facilitated exchanges with China. Pyongsong is indeed directly linked with Dandong by train, to Sunan International Airport by road and is 25km away from downtown Pyongyang.

The State Academy of Science was visited by Kim Jong-un several times, and the construction of the Wisong Scientists Street in 2014⁹¹⁵ also shows that the central leadership is concerned with the development of science in the DPRK and in Unjong, but official releases did not clearly link these efforts with the Unjong SEZ. What’s more, being administratively subjected to the SAS might be disadvantageous for the Unjong zone: as interviews with Beijing-based consultants and DPRK officials suggested, competing institutions inside North Korea might push officials with easier access to foreigners and foreign businesses (especially the above-mentioned ministries) to bypass the SAS and strike deals with their own organizations, while the SAS does not seem to have the network and scope to attract FDI by itself.

https://koreanologie.univie.ac.at/fileadmin/user_upload/p_koreanologie/North_Korean_Cities/Phyongsong/Phyongsong.pdf. Last accessed 4th of April 2016.

⁹¹¹ State Academy of Science DPR Korea, 2011, Pyongyang.

⁹¹² *Idem*.

⁹¹³ SELIGER, Bernhard, *Special Economic Zones, Trade and Economic Reform : the Special Case of Rason City*, in FRANK, Rüdiger, HOARE, James, KÖLLNER, PARES, Susan, 2013, *KOREA 2012, Politics, Economy and Society*, Brill, London.

⁹¹⁴ DORMELS, Rainer, 2014, *Profiles of the Cities of DPR Korea – Pyongsong*, *Universität Wien Research Report* (online). Url:

https://koreanologie.univie.ac.at/fileadmin/user_upload/p_koreanologie/North_Korean_Cities/Phyongsong/Phyongsong.pdf. Last accessed 4th of April 2016.

⁹¹⁵ *New Satellite Imagery of Pyongyang*, *North Korean Economy Watch* (online), 31st of October 2014. Url: <http://www.nkeconwatch.com/2014/10/31/new-satellite-imagery-of-pyongyang-2014-9-21/>. Last accessed 11th of April 2016.

Another example of these central-level “unique” zones is the Kangryong International Green Model Zone, located in Kangryong County, South Hwanghae province. This zone might be the most enigmatic SEZ in the DPRK: it is located in remote Kangryong, focused on organic agriculture and the difference in status with agriculture-focused SEZs remains unclear. Kangryong is located near South Korea, between the North Korean cities of Haeju and Ongjin. Haeju has a modest port that was plebiscited for North-South exchanges, as, between 1995 and 2001, almost 90% of its traffic (both ways) was in connexion with ports in the South (Incheon, Gunsan, Busan)⁹¹⁶. In the context of Seoul’s “Sunshine Policy”, Haeju might have been turned into a “second Kaesong”, but, as many North-South projects, the Haeju SEZ announced after the 2007 interkorean summit never saw the light of day⁹¹⁷. Once again, it seems that the choice of establishing a SEZ in Kangryong was largely motivated by the city’s strong agricultural legacy, some locally-produced goods, like the Kangryong green tea, being famous in the whole country⁹¹⁸. The Prime Minister of the DPRK, Pak Pong-ju, has visited Kangryong after another visit to the Sukchon Agriculture-focused SEZ the same week, but the official DPRK press did not mention Kangryong (nor Sukchon) as SEZ⁹¹⁹. Pyongyang University of Science and Technology foreign faculties supervise a pilot farm near Kangryong, but they explained to the author that they were never briefed about a SEZ being located in the area. Chinese press reports explained that Hong Kong, Singaporeans and Chinese investors had inked deals with the DPRK regarding investment in Kangryong⁹²⁰, but these reports are hard to confirm.

7.1.6 Conflicts and cooperation among SEZs

The effects of the proliferation of SEZs in the DPRK’s economy remain to be seen. However, in a difficult business environment like North Korea’s, the institutionalization of special zones

⁹¹⁶ DUCRUET, César, GELÉZEAU, Valérie, ROUSSIN, Stanislas, 2008, Les connexions maritimes de la Corée du Nord. Recompositions territoriales dans la péninsule Coréenne et dynamiques régionales en Asie du Nord-Est, *L’Espace Géographique*, vol.37. pp.208-224.

⁹¹⁷ HAN Jong-woo, JUNG Tae-hon, 2014, *Understanding North Korea: indigenous perspectives*, Lexington books, Lanham. See p.207.

⁹¹⁸ Tea, coffee drinking becoming trendy in the DPRK, *Xinhua*, 30th of November 2011. Retrievable here: <http://www.globaltimes.cn/content/894339.shtml>. Last accessed 11th of April 2016.

⁹¹⁹ DPRK Prime minister tours South Hwanghae Province, *KCNA* (online), 6th of November 2014. Url: <http://www.kcna.kp/kcna.user.article.retrieveNewsViewInfoList.kcmsf>. Last accessed 6th of November 2014.

⁹²⁰ N.Korea inks border town economic deal, *Global Times* (online), 13th of December 2013. Url: <http://www.globaltimes.cn/content/831869.shtml#Uq4dxPRDsV>. Last accessed 4th of February 2016.

de facto creates intra-DPRK boundaries and thus produces *territoriality*. Territoriality is defined by Gregory *et al* as

“either the organization and exercise of power, legitimate or otherwise, over blocs of space or the organization of people and things into discrete areas through the use of boundaries”⁹²¹.

One can hardly doubt that, even if the North Korean government has introduced shy attempts at decentralization in order to support its SEZs, Pyongyang still is firmly in control of developments that occur inside these enclaves. However, since Special Economic Zones in the DPRK (and elsewhere) were created to attract FDI inflows which are extremely limited in North Korea; their territorialization, the fact that they are legally distinct from the rest of the country, create competition not only between SEZ and non-SEZ territories, but also between SEZs themselves.

DPRK officials dealing with SEZs seem to be well-aware of this phenomenon⁹²², and have tried to create cooperation patterns between zones in order to limit negative effects of competition, especially territorial inequalities and related phenomena like unauthorized work “migrations” of the North Korean workforce. The Chinese historical example appears once again ill-suited for a comparison: not only China had a much larger pool of idle/excessive labour, but the establishment of Chinese coastal SEZs was paralleled with the progressive privatization and marketization of the economy, which is not the case of the DPRK. In a few words, Chinese countryside workers were hired by private or semi-private companies in need of labour, while in the DPRK, the State still is allocating workforce based on the country’s needs and according to the economic plan’s priorities. While not impossible, unauthorized “internal migrations” of the DPRK workforce are much less likely than in China. However, North Korea being ill-at ease with inequalities in general (or, if not directly inequalities, at least socio-political troubles that could be caused by them), Pyongyang tried to “partner up” SEZs together, sometimes dividing labour between them in order to prevent competition.

⁹²¹ GREGORY, Derek, JOHNSTON, Ron, PRATT, Geraldine, WATTS, Michael, WHATMORE, Sarah (eds) 2009, *The Dictionary of Human Geography*, Wiley-Blackwell, Oxford.

⁹²² Conversation with Wonsan Investment Corporation officials, Wonsan (May 2015).

➔ Wonsan-Kumgangsan, Hyondong and Sinphyeong zones

In 2013, amid acute media interest for the then under construction Masik Ski resort (few kilometers away from Wonsan), the DPRK announced the establishment of new SEZs in Kangwon and North Hwanghae provinces: the Hyondong Industrial and the Sinpyong Tourism Development Zones. The development of these SEZs seems to rely on the Wonsan-Kumgangsan zone's success. Hyondong's development plan is based on the attraction of FDI in the light industry sector, especially in the manufacturing and processing of souvenirs for foreign tourists⁹²³. If the Wonsan-Kumgangsan zone was to reach its ambitious objective of attracting 1 million foreign tourists every year (see below), it would create a surge in demand for DPRK paraphernalia, thus legitimizing the need for a souvenir-focused light-industry park in the area. The exact location of the zone, as well as its status, is hard to know for sure due to contradictory statements made by North Korean officials; in particular, it is hard to know if the zone is administratively separated from the Wonsan-Kumgangsan SEZ or if it is included in the latter⁹²⁴. The 2km² SEZ is logically believed to be located in Hyondong county, few kilometers south of Wonsan, but it was also explained that Wonsan harbor was encompassed in the zone⁹²⁵.

75 km west of Wonsan city is the small SEZ of Sinphyeong, halfway on the road towards Pyongyang, one of the most important gateways into the DPRK for foreign tourists. While very few foreigners have seen Sinphyeong city with their own eyes, the Sinphyeong lake rest area, 2,5km southwards, is almost systematically visited by foreign tourists on their way to Wonsan or back to Pyongyang. Anecdotal evidence also suggests that foreign guests en route to Hamhung (from the capital) also stop here⁹²⁶. The resort was completely rebuilt in 2011⁹²⁷, and "marketed" under the name "Sinphyeong Kumgang Scenic Beauty Resort", although it is quite far from the Kumgang range, at least 70 km away. It was then turned into

⁹²³ Wonsan-Mt.Kumgang International Tourist Zone and Hyondong Industrial Development Zone, Naenara (online), 6th of April 2015.

⁹²⁴ Idem. Choe Yong-dok, director of the Economic Zone Development of Kangwon People's Provincial Committee, stated that the zone was included in the Wonsan-Kumgangsan one.

⁹²⁵ MIMURA, 2015.

⁹²⁶ The author was taken to Sinphyeong lake twice on his way to Hamhung (May 2015). However, given the bad shape of the DPRK transportation network, it might well be because a more direct route was not possible at that time.

⁹²⁷ Scenic Spots Undergo Changes, KCNA (online), 3rd of March 2011. Url: <http://www.kcna.co.jp/item/2011/201103/news03/20110303-26ee.html>. Last accessed 4th of January 2013.

the Sinphyeong Tourism Development Zone in 2013, and has been trying to attract FDI in the tourism sector ever since. The landscape of the resort is indeed picturesque (see figure 21), but it is very small in size⁹²⁸ (see figure 22), which means that while the SEZ is definitely enjoyable as a rest area or maybe as an overnight stop en route to Wonsan, the resort is simply too small to attract foreign tourists. There is already a 15-beds hotel, a shop and a tea house on the shore of the lake, and little space available for additional facilities. DPRK officials however seem to have great plans for the development of Sinphyeong, with the overly optimistic objective of attracting 140 million dollars in the zone. They have expressed interests in creating sports facilities in the area, including a golf course⁹²⁹, which seems equally optimistic given the mountainous topography of the area. As Sinphyeong cannot be an attraction on its own, it could be argued, contrary to other analysts⁹³⁰, that the SEZ's development plan does not actually conflict with the Wonsan-Kumgangsan tourism region. On the one hand, the investment environment is undisputably better in Wonsan than in Sinphyeong, on the other hand the latter benefits from an ideal geographical location to capture the stream of foreign tourists going to Wonsan. Neither symbiotic nor parasitary, their relationship seems to be "commensalist": the development of Sinphyeong largely depends on Wonsan-Kumgangsan's success, the latter being indifferent to Sinphyeong's fate. However, two undergoing developments might force this relationship to evolve. First, the contruction of the Wonsan International Airport theoretically direct access (from abroad) to the tourism-focused zone. Second, even if the Pyongyang-Wonsan Motorway is in relatively good shape by DPRK standards, the 172 km long journey still takes slightly less than four hours it's upgrading might shorten travel time by half. This would definitely reduce Sinphyeong's attractivity.

⁹²⁸ According to MIMURA (2015), the SEZ's size is 8.1 km², but this figure might actually encompass the lake, not just the shores.

⁹²⁹ Journey To The East: Strange Encounters with Shower Villas, *Choson Exchange Blog* (online), 12th of February 2014. Url: <http://www.chosonexchange.org/our-blog/2447>. Last accessed 13th of April 2016.

⁹³⁰ ABRAHAMIAN, Andray, SEE, Geoffrey K., WANG Xinyu, 2014, ABC of North Korea's SEZ, *United States Korea Institute Report*. Url: <http://uskoreainstitute.org/wp-content/uploads/2014/11/Abrahamian-SEZs-14-1118-HQ-Print.pdf>. Last accessed 3rd of May 2015.

Figure 21: Sinphyong Lake (2015)

Source: Théo Clément, 2015.

Figure 22: Satellite picture of Sinphyong SEZ

Source: Google Earth, 2015.

➔ Songrim, Waudo and Nampho zones

In 2013, KCNA announced the opening of two provincial-level export-processing zones (EPZ), certainly the most well-known type of SEZ, in Songrim and in Waudo (Wau Island) district adjacent to the DPRK's fourth biggest city, Nampo (see map 18). One year later, another EPZ (central-level this time)⁹³¹ was established near Nampo, in Jindo⁹³². Songrim is located about

⁹³¹ MIMURA, 2015.

30 km south of Pyongyang, while Nampo lies near the western coast, about 42 km from the capital. The shortest way to go from Nampo to Songrim, separated by the Taedong River, is through Pyongyang.

The port of Nampo is one of the most important ports of North Korea as it is often considered to be Pyongyang's port. Although it freezes in winter, the harbor of Nampo is a crucial infrastructure for the DPRK's foreign trade: it was one of the first ports to be rebuilt after the war⁹³³, and handles the largest international cargo in North Korea⁹³⁴. Given its strategic position as a gateway inside North Korea (especially from China), Nampo was considered to be the model of the "modern city" by Kim Il-sung:

*"[In Nampo], where numerous residential buildings have been constructed, the international hotel and restaurants on Wau Island make a strong impression on foreign guests and earn a lot of foreign exchange."*⁹³⁵

Nampo obviously is ideally located to interact with Chinese (and South Korean) actors, and is thus particularly important to study. Nampo is linked by sea to Dandong, Shanghai, Qingdao but also Southeast Asia⁹³⁶. Equally important to consider is Nampo's and Songrim's important legacy as industrial sites, regarding both light and heavy industry.

The Satellite city of Songrim (129 000 inhabitants) is known for being a stronghold of heavy industry in North Korea, and more especially for the Hwanghae Iron and Steel Complex, the oldest and second largest ironworks in the DPRK⁹³⁷. Of course, the development strategy for

⁹³² First Bounded Processing Area to be Set Up, *Pyongyang Times*, 20th of September 2014.

⁹³³ KIM Il-Sung, 1981b. See bibliography.

⁹³⁴ DORMELS, Rainer, 2014, Profiles of the Cities of DPR Korea – Nampo, *Universität Wien Research Report* (online). Url: https://koreanologie.univie.ac.at/fileadmin/user_upload/p_koreanologie/North_Korean_Cities/Nampho/Nampho.pdf. Last accessed 4th of January 2016.

⁹³⁵ KIM Il-sung, 1995b. See bibliography.

⁹³⁶ The Pyongwha Motors Group, a North-South Joint-Venture, has factories in Nampo and was exporting cars to Vietnam for instance. What's more, Nampo has important linked with Singapore, as explained in DUCRUET, César, GELÉZEAU, Valérie, ROUSSIN, Stanislas, 2008, Les connexions maritimes de la Corée du Nord. *Recompositions territoriales dans la péninsule Coréenne et dynamiques régionales en Asie du Nord-Est, L'Espace Géographique*, vol.37. pp.208-224.

⁹³⁷ The largest ironworks of the DPRK, the Kim Chaek Steel Mill in Chongjin, was rumored to be on standby by the Chinese specialized press. See *Chaoxian zuida gangtiechang yijing tingshan* 朝鲜最大钢铁厂已经停产,

the Songnim SEZ aims at taking advantage of the nearby steel works by promoting the processing of materials produced in the iron and steel complex⁹³⁸. However, the SEZ's objective also seems to be the diversification of the local economy, by introducing services most often associated with port EPZs, especially in Asia: logistics and warehousing. This specialization takes full advantage of Songrim location as an industrial center in the vicinity of Pyongyang, and closely resembles the development path chosen by post-2000 EPZs in China⁹³⁹, like Dalian or Xiamen⁹⁴⁰.

Nampo is a much bigger city in terms of population (slightly less than one million inhabitants)⁹⁴¹ and density of active population⁹⁴². Historically an important port city of the DPRK, it gained even more significance in the last two decades due to the convergence of several phenomena: first, the abrupt decrease in trade with Russia and Japan, and then the resulting decline of importance of the North Korean eastern coast (Wonsan, Chongjin, Tanchon, Kimchaek)⁹⁴³. In addition, the general economic slowdown of the DPRK, and its deteriorating transportation networks led to a concentration of material and financial efforts towards Nampo, as it is directly linked to the political and economic heart of the DPRK, Pyongyang. A bulk cargo and a container berth were created in 2001 and 2006 (allegedly by attracting FDI⁹⁴⁴), and construction works on a 10-lanes highway leading to Pyongyang began in 2000. Nampo also has a much more diverse industry, with a strong presence of both light and heavy industry in the greater Nampo-Pyongyang corridor: besides the city itself, towns like Kangso, Tae'an or Chollima are also known to be industrial strongholds for both types of industry. Among many others, the zone has several shipbuilding and ship repairing facilities,

News Steel (online), 5th of April 2016. Url : <http://news.steelcn.cn/a/105/20160405/8460383FFFB526.html>. Last accessed 14th of April 2016.

⁹³⁸ MIMURA, 2015.

⁹³⁹ China Briefing's Business Guide to Beijing and North-East China, *China Briefing Media*, Hong Kong. See p.277.

⁹⁴⁰ Customs Supervised Areas for Designated Functions, *Xiamen Municipal Bureau of Commerce* (online), 29th of July 2014. Url: http://en.xmtdc.gov.cn/2014-07/29/content_18206047.htm. Last accessed 14th of April 2016.

⁹⁴¹ DORMELS, 2014, « Nampo ».

⁹⁴² DUCRUET, César, ROUSSIN, Stanislas, 2007, L'archipel nord-coréen : transition économique et blocages territoriaux, *Mappemonde* n°87. Url : <http://mappemonde.mgm.fr/num15/articles/art07302.html>. last accessed 15th of April 2016. In 2000, more than 75% of Nampo's population was considered active.

⁹⁴³ DUCRUET, César, ROUSSIN, Stanislas, JO Cheol-jin, 2009, Going West? Spatial polarization of the North Korean port system, *Journal of Transport Geography*, vol. 17, N°5. pp.357-368.

⁹⁴⁴ ROUSSIN Stanislas, DUCRUET, César, The Nampo-Pyongyang corridor: a strategic area for European investment in DPRK, in PARK Mung-kyu, SELIGER Bernard, PARK Sung-jo (eds), 2010, *Europe - North Korea: Between Humanitarianism and Business?*, LIT Verlag, Berlin.

constructions material factories, but also telecommunication machine, footwear, foodstuff and many other kinds of production plants. Enthusiastic researchers even considered the area to be “strategic” for potential European investment in the DPRK⁹⁴⁵, even if one can suppose that a significant part of the industrial facilities are idle. Nonetheless, it turns out that the area seemed relatively attractive for foreign companies, as several flagship Joint-Ventures were based in the area, including the Pyongwha motors project, the Taeon Glass factory (with China) and the French-DPRK Meccamidi project. Proximity with semi-finished goods production centers like steel or agricultural products (fisheries and farms, orchards) and relatively important desposits of natural resources (sand, graphite, coal) are strong advantages of the “Nampo-Pyongyang corridor” and constitute additional cards to play for both Waudo and Jindo SEZs.

Since the difference between central-level and local-level SEZ is still hard to grasp, cooperation or competition potential between Jindo and Waudo still is equally hard to assess. Some analysts have expressed their fears that the proximity of two distinct SEZs with different affiliations might add to already burdensome bureaucratic procedures, for both foreign and North Korean actors⁹⁴⁶. However, since both zones are regulated by the same law (2013 EDP law) and that it can logically be assumed that central-level decisions would take precedence on local-level ones, the scenario of symbiotic cooperation (based on a soft division of labour) remains plausible. Even if the Jindo central-level SEZ concentrates the bulk of FDI, economic spillover would likely benefit both the Waudo and the Songrim SEZs, respectively as forward (logistics and trade related services) and backward linkages (supplies of intermediate goods).

➔ North Phyongan SEZs

Most of the SEZs of North Phyongan Province (Chongsu, Amnok and Sinuiju in particular, see map 19) are at least partially dedicated to the attraction of foreign (and especially Chinese) tourists. Tourism is in full swing in Dandong, the promise of actually seeing the mysterious

⁹⁴⁵ *Idem.*

⁹⁴⁶ ABRAHAMIAN, Andray, SEE, Geoffrey K., WANG Xinyu, 2014, ABC of North Korea’s SEZ, *United States Korea Institute Report*. Url: <http://uskoreainstitute.org/wp-content/uploads/2014/11/Abrahamian-SEZs-14-1118-HQ-Print.pdf>. Last accessed 3rd of May 2015.

DPRK being the most important feature of the area. But crossing the Yalu still is a relatively rare experience (about 100 000 Chinese visit the DPRK every year), not only because of financial issues (a one-day journey to Sinuiju from Dandong is about 750 RMB - \$115, average salary in Dandong being 2850 RMB⁹⁴⁷), but also because of travel restrictions on both sides of the border: as of 2015, only a mere 4% of the Chinese population had a passport⁹⁴⁸. However, since tourism is a relatively risk-free and foreign exchange-earning activity quite unlikely to be too strongly affected by international sanctions⁹⁴⁹, it is thus actively promoted by North Korean authorities. As Dandong remains the most important gateway from Northeast China to the DPRK, there is clearly potential for tourism-activities in the area and both local and central powers in the DPRK have tried to seize these opportunities by creating SEZs and opening areas to foreign tourists: besides the four SEZs already mentioned, the city of Tongnim, for example, is opened to Chinese tourists⁹⁵⁰, most often as part of a two-day trip that includes Sinuiju and Tongnim. In order to overcome bureaucratic barriers, Sinuiju has agreed with the Chinese side to allow tourists to enter the DPRK not only without a visa, but also without a passport⁹⁵¹, a move that has been followed by neighboring SEZs like in Amrok and, most likely, Chongsu. While tours of Sinuiju rarely exceed two days, North Phyongan authorities have even smaller hopes for tourism-focused SEZs like Chongsu, which are designed for one-day or even half-day trips⁹⁵². These moves aimed at facilitating border-

⁹⁴⁷ *Hanguo meiti cheng chaoxian xiag whongguo dongbei yunchu daliang laodong zhuanqu waihui* 韩媒称朝鲜向中国东北输出大量劳工 赚取外汇 [according to South Korean media, massive export of North Korean laborers to China constitutes an important mean to obtain foreign exchange], *Cankao Xiaoxi*, 1st of February 2016. Url : <http://www.cankaoxiaoxi.com/china/20160201/1066952.shtml>. Last accessed 29th of February 2016.

⁹⁴⁸ SHO Kawano, LU Joshua, TSANG, Ricky, LIU Jinyuan, The Chinese Tourist Boom, *Goldman Sachs Reports*, 20th of November 2015. Url: <http://www.goldmansachs.com/our-thinking/pages/macroeconomic-insights-folder/chinese-tourist-boom/report.pdf>. Last accessed 19th of April 2016. This number is expected to surge to 12% by 2025.

⁹⁴⁹ As we will see later, the latest batch of UN sanctions might actually limit flows of tourists to Wonsan.

⁹⁵⁰ The Tongnim tour does not appear to be a big hit however: interviews with Chinese tourists coming back from the area and with tour agencies workers strongly suggested that tourists were mostly disappointed.

⁹⁵¹ *Gangti: zhongchao bianjing chaoxian jingnei de youyuanqu ji jiang kaiyuan* 港媒：中朝边境朝鲜境内的游乐园即将开园, *Cankao Xiaoxi* (online), 1st of January 2016. Url :

http://www.cankaoxiaoxi.com/china/20160101/1042864.shtml?sg_news. Last accessed 17th of March 2016.

⁹⁵² Tourism Opens in North Phyongan Province's Chongsu Tourist Development Zone, 2014, *NK Briefs*, Institute of Far Eastern Studies (online). Url:

crossing are double-edged swords: while they indeed relieve Chinese tourists from visa or passports issues, they also accentuate the territoriality of DPRK border zones and the fact that they constitute enclaves. As a result, tourists cannot leave from one enclave to the other without a visa, they need to re-cross the border into China, apply for another *laissez-passer* [出入境通行证; *churu jingtong xingzheng*] at Chinese Public Security Bureau in Dandong, and re-enter North Korea. It counter-productively induce Chinese tourists to pick one, and only one, SEZ on the border, *de facto* creating competition between North Phyongan zones. However, these visa-free border areas do not all have the same comparative advantages to attract foreign visitors, with the “Sinuiju International City” having much more to show for itself than the flat pieces of wetlands in Hwanggumpyong, Wiwha, Amnok or Chongsu (see map 19). According to information available, it seems that local authorities have plans to develop these SEZs in ways that would attract foreigners from the other side of the border: Amnok would bet on its proximity with the Great Wall, Hwanggumpyong and Wiwha on their direct connection with Dandong and Chongsu wants to build a Korean Folklore Village as well as a Sino-Korean Friendship village and various touristic spots to attract foreigners.

However, unless central or local governments of the DPRK decide to create themselves the basic infrastructure needed to kickstart FDI in the less-developed border SEZs, what is most likely to happen is that potential investors would focus their attention on the only SEZ that managed to gather limited success: Sinuiju. Not only the capital of North Phyongan Province has better road and train connection with China, but it is also a quite typical North Korean city with its Kim Il-sung Statue and square, a folk park, a local history museum, a golf range, etc. In a context of very limited Chinese investment in the DPRK, Sinuiju obviously emerge as the “safest” (in the North Korean context) pick in North Phyongan, and, as explained earlier, it is already reaping FDI in its tourism sector, with the Dandong-funded construction of a tourist complex near the Friendship Bridge. If the Sinuiju International Economic City’s tourism sector were to become prosperous, economic benefits might trickle down to other

http://ifes.kyungnam.ac.kr/eng/FRM/FRM_0101V.aspx?code=FRM141107_0001. Last accessed 19th of April 2016.

border SEZs, but in the short to medium term, the latter are likely to stay in Sinuiju's shadows.

7.2 Wonsan-Kumgangsan International Tourist Zone

Building on cancelled joint North-South Korean projects, the Wonsan-Kumgangsan International Tourist zone seems to be the focus particular attention from Pyongyang.

7.2.1 Mt. Kumgang Tourism Resort and the Mt. Kumgang Special Administrative Region

Among the many topics that were discussed between Kim Jong-il and Kim Dae-jung during the first Interkorean Summit in 2000 was the joint development of the Kumgang Mountains (금강산; *kumgangsan*, literally "diamond mountains") as a tourist resort for South Koreans. Like many joint North-South projects, this well-worn project was initiated by Hyundai founder Chung Ju-yung when Kim Il-sung first attempted to open the DPRK to foreign tourists⁹⁵³. It only became reality in 1998, partly due to the favourable context of the South's *sunshine policy* towards the DPRK. Besides high-level government contacts, Chung and other high-ranking executives of the Hyundai group⁹⁵⁴ were able to meet with Kim Jong-il in person, which certainly facilitated the project. Due to the lack of cross-DMZ roads and accommodation infrastructure at that time, the project was first launched as a cruise tour, with tourists sleeping on the ferry, and road connection was established after the 2000 summit. Together with the Kaesong Interkorean Complex, the Mt. Kumgang Tourism resort is considered to be a major success of North-South cooperation, with no less than 2 million South Korean tourists having visited the mountains range⁹⁵⁵ in 2008. The reason for this political, diplomatic and financial success was manifold, but the least that can be said is that the attitude of political actors played an important role in developing the area: from 1998 to

⁹⁵³ History of Mt. Kumgang Tour, *Mtkumgang* (online), undated. Url: <http://www.mtkumgang.com/eng/preview/story.jsp>. Last accessed 20th of April 2016. North Korean joined the World Tourism Organization in 1987.

⁹⁵⁴ Hyundai Asan is the branch of the Hyundai group in charge of North-South Joint projects.

⁹⁵⁵ JEFFRIES, Ian, 2006, *North Korea : a guide to economic and political developments*, Routledge, London. See p.379.

2002, the project was not profitable for Hyundai, and the South Korean government accepted to lend money to the *chaebol* in order to keep the project running⁹⁵⁶. Seoul also agreed to subsidize as much as 60% of the tour costs for average tourists (70% for students), in a move aimed at pushing South Koreans tourists to visit the North. This element is particularly important to keep in mind, because it clearly underlines the fact that without the political symbolism of North and South Korea working together and the resulting financial (and, obviously, political) support from Seoul, the successful Mt. Kumgang tourism resort might not have existed. This element is especially important as China-DPRK ties do not share the same symbolism. Pyongyang was not only unwilling to invest in the area, but also required Hyundai to make a more than substantial financial commitment for the development of the infrastructure in the area (\$104 millions), for the transfer of the development rights (\$308 millions) and payments for the exploitation of the resort (\$942 millions)⁹⁵⁷. As will be explained in the next part, in the current context of tensed political relations across the DMZ, Pyongyang's attempts at attracting FDI from countries and actors that do not share the same political aspirations (like the project of reunification) obviously constitutes a key issue.

Equally important to study is the fact that, in addition to political and financial support from Seoul, economic activity and attractiveness of the Mt. Kumgang tourism resort peaked after the creation of the Kumgang Tourism Region [금강산 관광 지구; *kumgangsan gwangwang jigu*] the same year: from around 80 000 thousands in 2001 and 2002, the number of tourists surged to 268 000 in 2004, peaking at an all-time high of 354 000 in 2007⁹⁵⁸. The transformation of the zone into a SAR, and the adoption by the SPA of new regulations created a better environment for investment, and total FDI into the zone also quickly rose from \$170 million in 2005⁹⁵⁹ to almost 300 million in 2008⁹⁶⁰. The SAR for example allowed

⁹⁵⁶ Mt.Kumgang and Inter-korean relations, *National Committee on North Korea*, 10th of November 2009. Url: <http://www.ncnk.org/resources/briefing-papers/all-briefing-papers/mt.-kumgang-and-inter-korean-relations>. Last accessed 20th of April 2016.

⁹⁵⁷ *Idem*.

⁹⁵⁸ Inter-Korean Exchanges of People and Goods, undated, Ministry of Unification data and statistics (online). Url: <http://eng.unikorea.go.kr/content.do?cmsid=3103>. Last accessed 21st of April 2016.

⁹⁵⁹ WROBEL, Ralph Michael, Inter-Korean Cooperation in Special Economic Zones: Developments and Perspectives, in, PASHA, Werner, SELIGER, Berhard, 2011, *Towards a Northeast Asian security community : implications for Korea's growth and economic development*, New York, Springer.

the creation of a direct road access across the DMZ, which dramatically lowered the cost of the tours. Several hotels, beach front villas, golf courses and facilities (like the now famous Family Reunion Center) were built between 2003 and 2008⁹⁶¹, using South Korean FDI to create infrastructure on the North Korean territory, generating income and creating actual physical assets for the DPRK government. The Kaesong Interkorean Complex, the other important success of South-North cooperation, was designed on the same model of economic cooperation: the South Korean side contributed capital, technology, managerial know-how, and Pyongyang allocated its skilled workforce and earned relatively large amounts of foreign currency. Once again, Amin's contribution to dependency theory helps us understand the political reasoning behind the creation of the Mt. Kumgang SAR and the KIC: in a centrally-planned economy aiming at "delinking", foreign contribution to the national economy is considered beneficial if it does not push the host country to change its economic policies (no political influence) and consists in foreign actors contributing to the national economy, not the other way round. Creating SEZs partially constitutes a breach of these principles, as they actually institutionalize dependency on foreign technology and capital (based on international division of labour)⁹⁶², but in the case of Kaesong and Mt. Kumgang, the DPRK had nothing to loose: with South Korean companies making financial, technological and physical contributions to the North Korean economy, the DPRK is not only learning and benefiting from technology and know-how transfers, it also earns large amounts of foreign currency. The DPRK nonetheless clearly showed that economic cooperation with the South would not influence its domestic or foreign policies, with the North Korean 2006 nuclear test certainly being the best example. Pyongyang appears willing to pursue economic cooperation on its own terms, if Seoul does not follow the North Korean government still benefits from modern technology, facilities, managerial know-how etc., and can use them for domestic purposes or with new partners. As a matter of fact, this last

⁹⁶⁰ On sixth anniversary, one trillion won in losses from halted Mt. Keumgang tours, *The Hankyoreh* (online), 14th of July 2014. Url: http://english.hani.co.kr/arti/english_edition/e_northkorea/646830.html. Last accessed 21st of April 2016.

⁹⁶¹ History of Mt. Kumgang Tour, *Mtkumgang* (online), undated. Url: <http://www.mtkumgang.com/eng/preview/story.jsp>. Last accessed 20th of April 2016.

⁹⁶² Amin explicitly considers industrialization through SEZs as "compradore", since they establish relations of dependence (to foreign technology and capital): AMIN (1985), pp.63. However, he also explains that small countries need to generate foreign exchange to import sophisticated products. SEZs could thus be used, as a "necessary evil" and a tactical setback.

option seems to be the one favored by Pyongyang for the Mt. Kumgang tourism resort: since South Korean tourists are not allowed to cross the DMZ anymore, the North Korean government is making the best out of a bad situation, trying to attract foreign tourists from other countries and is still being able to offer a more than comfortable resort to North Korean tourists. When the 2010 North-South negotiations on the reopening of the Kumgang tourism resort turned out to be a failure, Pyongyang's first move was to seize all Hyundai assets in the area⁹⁶³; in a similar move, after the 2016 nuclear test and the subsequent South Korean retreat from the KIC, North Korea also seized South Korean property in Kaesong⁹⁶⁴.

7.2.2 Wonsan-Kumgangsán International Tourist Zone

There were several attempts at reviving the Mt. Kumgang Tourism resort after the 2010 negotiations failed. The DPRK tried to rebrand the Mt. Kumgang SAR as "Mt. Kumgang Special Zone for International Tourism" (SZIT) in 2011, an entity that technically still exists although it has been included in the Wonsan-Kumgangsán International Tourist Zone, leading to bureaucratic overlaps⁹⁶⁵. The SZIT basically consists of the "Kumgangsán part" of the Wonsan-Kumgangsán International Economic Zone, namely the counties (*kun*) of Kosong, Kumgang, Thonchon, as well as villages (*ri*) such as Onjong⁹⁶⁶ (see map 20).

The DPRK first tried to do it "on its own", giving birth to the infamous cruises from Rason to Mt. Kumgang aboard the Man Gyong Bon (formerly used to repatriates Zainichi Koreans⁹⁶⁷),

⁹⁶³ North Korea 'to seize property at Kumgang resort', *BBC World* (online), 23rd of April 2010. Url: <http://news.bbc.co.uk/2/hi/asia-pacific/8639065.stm>. Last accessed 21st of April 2016.

⁹⁶⁴ North Korea to liquidate remaining South Korean assets, *Al Jazeera* (online), 10th of March 2016. Url: <http://www.aljazeera.com/news/2016/03/north-korea-liquidate-remaining-south-korean-assets-160310045846811.html>. Last accessed 21st of April 2016.

The KIC might however be tougher to « recycle » with foreign partners (efforts to internationalize Kaesong have always been in vain), first because of its political symbolism and attachment with Korean Reunification, second because of its geographic location and the fact that it basically is a EPZ: with the Southern border closed, the geographic location of the KIC is less than ideal for non-South Korean companies.

⁹⁶⁵ Introduction to Development Plan of Wonsan–Mt. Kumgang International Tourist Zone, *GPI Consultancy Newsletter* (online), June 2015.

⁹⁶⁶ Law of the Democratic People's Republic of Korea on the Mt. Kumgang Special Zone for International Tourism, in *Laws and Regulation of the Democratic People's Republic of Korea Governing External Economic Matters*, 2012, Legislation Press, Pyongyang. Hereafter "SZIT law". See art.2.

⁹⁶⁷ Conversation with DPRK official, Rason, March 2014.

quickly nicknamed “the less luxurious cruise ship in the world” by the foreign press⁹⁶⁸. About 400 Chinese tourists enjoyed the cruise but this performance was insufficient to operate on a regular basis⁹⁶⁹. The second attempt was made in 2013, in partnership with the Singaporean Royale Star Cruising company, using a much more modern ship. After a few pilot tours, the initiative also seems to have been abandoned.

At the same period, the Kumgang area received international attention for its latest development, the construction of the Masikryong Ski resort, an investment estimated at \$35 million⁹⁷⁰, this time entirely covered by the North Korean government. None of the previously existing SEZs (including Rason) have received such support by the Central Government of the DPRK, which strongly suggests that the Wonsan-Kumgangs International Tourist Zone is a priority of the North Korea government, an hypothesis that is reinforced by Kim Jong-un’s frequent economy-related visits to the zone and was confirmed by discussions with North Korean officials in charge of the zone’s economic development (Wonsan Zone Development Corporation).

In many regards, the Wonsan-Kumgangs SEZ is an exception among the DPRK’s SEZs. Not only does it benefit from a particular attention from the leadership, but it also encompasses important residential districts of Wonsan and also, more generally speaking, a large number of existing touristic and cultural spots. With 430 km²⁹⁷¹, the Wonsan-Kumgangs SEZ is the second largest zone of the DPRK, and while its exact geographical borders are not precisely known, it stretches from the Ullim falls in the North (Popdong county) to the Kumgang and Kosong districts in the South, where the “original” tourism resort is located). Besides Masikryong and the Mt. Kumgang tourism resort (which were both built from scratch), construction and renovation works have been made in the Songdowon International Children’s Camp (once a vacation resort for children of the Socialist bloc), Kalma airport (a

⁹⁶⁸ Is North Korea's Man Gyong Bong the least luxurious cruise ship in the world?, *News* (online), 2nd of September 2011. Url: <http://www.news.com.au/travel/travel-ideas/is-north-koreas-man-gyong-bong-the-least-luxurious-cruise-ship-in-the-world/story-e6frfqf9-1226127814789>. Last accessed 21st of April 2016.

⁹⁶⁹ North Korea Trying to Attract Foreign Tourists, *NK Briefs*, Institute of Far Eastern Studies (online), undated. Url: http://ifes.kyunghnam.ac.kr/eng/FRM/FRM_0101V.aspx?code=FRM130227_0001. Last accessed 21st of April 2016.

⁹⁷⁰ Masik-Ryong Ski Resort Development Project, Naenara, 10th of May 2013.

⁹⁷¹ Briefing on Wonsan-Mt. Kumgang Int'l Tourist Zone to Be Given, *KCNA* (online), 20th of January 2015. Url: <http://www.kcna.co.jp/item/2015/201501/news20/20150120-14ee.html>.

former military airport turned into an expensive and modern facility⁹⁷²), numerous accommodation facilities (Kalma and Tongmyong hotels), the Pyohun, Sokwang and Singye Buddhists temples, and, last but not least, numerous scenic areas like the Ullim Falls, Sijung and Thonchon lakes etc.

7.2.3 A North Korean priority and the link with China

There is still a lot to do in order to reach the very ambitious goal of attracting one million foreign guests a year in the Wonsan-Kumgangsan International Tourist Zone. Even if, at the macro level, there are numerous elements that could prevent the DPRK from becoming an important touristic destination, at the micro level, it seems that Pyongyang's strategy regarding the development of the Wonsan-Kumgangsan zone is more likely to succeed compared to elsewhere in the country. In a centrally-planned economy and an extremely centralized country like the DPRK, the fact that the *Supreme Leader* personally vouches for the project is undoubtedly a strong signal sent to potential investors and tourists, while having a strong propaganda value for both domestic and foreign audiences (the DPRK as a "leisure society"⁹⁷³), killing two birds with one stone. What's more, contrary to other central-level SEZs in North Korea, the Wonsan-Kumgangsan Special Economic Zone is the only one that is entirely tourism-focused. The emphasis put by Pyongyang on the Wonsan-Kumgangsan SEZ and tourism in general might be explained by different factors. The DPRK has a paradoxical attraction power to foreigners who would like to visit "a place that is normally impossible to visit" or that is considered to be dangerous, both stereotypes used by western-run foreign tour agencies⁹⁷⁴ as a marketing argument. But in order to open the DPRK for mass tourism as Pyongyang seems to hope, there are numerous challenges to overcome. North Korea needs to attract tourists who not only come for the thrill of the being in a secretive/mysterious/forbidden country (a quite limited market). It also needs to

⁹⁷² BOYSTON, Kent, 2015, The New and Improved Wonsan Kalma airport, North Korea: Witness to Transformation Blog, *Peterson Institute for International Economics* (online). Url: <http://blogs.piie.com/nk/?p=14514>. Last accessed 25th of April 2016.

⁹⁷³ WINSTANLEY-CHESTERS, Robert, 2015, The Socialist Modern at Rest and Play, Spaces of Leisure in North Korea, *Academic Quarter* vol.11.

⁹⁷⁴ Advertising slogans for western-run tour companies organizing tours to the DPRK include the following: "The last frontier", "let us take you to the most mysterious country in the world", "the least visited place of the least visited country" (Koryo Tours) or "tours to destinations your mother wish you'd stay away from" (Young Pioneer Tours).

attract tourists coming for more “traditional” reasons: landscapes, culture, food, beaches. The Wonsan-Kumgangsan area has potential to attract tourists who are not really concerned with socialist or *Juche* paraphernalia but are just looking for a “standard” tourism experience. The Chinese clientele especially fits this profile, and civil servants from the Wonsan Zone Development Corporation confirmed, during fieldwork, that Chinese tourists not only form the bulk of foreign guests staying in the zone but also are the local authorities’ favoured lead for development⁹⁷⁵. But for the country to move from its current niche market to mass tourism, many changes will be needed in tourism policies. However, in the longer term, the Wonsan-Mt.Kumgang area obviously will have much more attracting power than other tourism-focused SEZs, maybe more than Pyongyang city if the “last frontier thrill effect” eventually fades out.

Prioritizing Chinese tourists paradoxically is the safest choice, although the zone could no be further away from China. Tourism that is less likely to be directly affected by economic sanctions directed against the DPRK, especially unilateral sanctions from China. The most recent UN-supported measures, banning jet fuel exports to the DPRK for instance, can however indirectly impact the accessibility of the zone for Chinese tourists. In order to attract tourists on visa-free programs, the zone needs to be accessed directly from abroad, for example via the new Kalma Airport. Besides “technical issues”, refueling issues seem to constitute the most often quoted reason for the long delays in opening the Kalma airport. On the other hand, given the tensed context in the Korean peninsula, South Korean tourists are not allowed to visit the North without a rare and explicit approval from Seoul, while several western countries’s ministries in charge of Foreign Affairs have emitted explicit recommandations against travel in the DPRK⁹⁷⁶. Since the 1st of September 2017, US passports holders are actually banned from visiting the DPRK. China thus obviously stands out as the partner with most potential, although others SEZs directly dealing with China have showed limited results so far. Time will tell if Pytongyang’s special dedication to the Wonsan-Kumgangsan area can help spark interest for the zone. Most important within the framework of this study is the fact that contrary to borderland SEZs, Pyongyang does not

⁹⁷⁵ Discussion with Wonsan Zone Development Cooperation officials, Pyongyang, May 2016.

⁹⁷⁶ The US Department of State is the most famous example, but numerous Ministries or Government-affiliated institutions from different countries have officially expressed milder travel warnings (Australia for example).

seem to want to entirely rely on FDI to develop the area but tries to kick-start economic activity in the zone by itself.

North Korean's authorities increased boldness in its SEZ policies, as described at length in this part, has been mostly met with skepticism from China, for reasons that will be discussed in the following part.

Part three: A dysfunctional economic relation?

As just explained, through several case studies, the reality of Chinese economic engagement of the DPRK still is relatively weak and seems mostly indifferent to the development of SEZs inside the country. Seen from Pyongyang, China is an overwhelmingly important trade partner whose collaboration *de facto* is a *sine qua non* condition for the successful implementation of new economic policies and more generally the economic development of North Korea. Seen from Beijing, the DPRK is a minor customer, a natural resource supplier but a potentially strategic partner. Based on this state of facts the following features in both countries' attitude regarding mutual economic cooperation needs to be highlighted. First, Pyongyang has tried to improve its business environment since at least the 1980's, sometimes directly drawing inspiration from China or even following its neighbor's advice. However, it failed to attract Chinese capital (at least if compared to most Asian countries) and North Korea's business environment is still widely considered as difficult. Second, Chinese actors hold a somewhat ambiguous attitude towards the DPRK. On the one hand, China keeps on trading with the DPRK, while most other former trade partners (Japan, South Korea) have stopped, eventually becoming Pyongyang's economic lifeline. China still supplies an unknown amount⁹⁷⁷ of economic assistance to the DPRK. On the other hand, China does not act as a "supporter" of the DPRK strictly speaking, at least not in the sense that it used to be during the Cold War: Chinese investment in North Korea remains limited and constricted to a few sectors and trade is mostly made by private entities which show limited interest in "friendly trade policies".

The following part (chapters 8 and 9) aims at analyzing these features as well as patterns described and identified in Part II. Chapter 10 will try to build on this analysis to provide a general analytical assessment of Chinese economic engagement of the DPRK.

⁹⁷⁷ For an estimate of Chinese assistance to the DPRK, see GLASER and BILLINGSLEY (2012), p.19.

Chapter 8: The DPRK's evolving business and investment environment

As explained in the first part (chapter 3), Pyongyang has tried, officially since 1984 but actually even before, to use FDI and assistance as part of its economic development strategy. While North Korea has long been very keen in obtaining foreign capital and assistance to materialize its self-reliance policies, the gradual acknowledgment of the role of external profit-seeking actors in the development of the country has necessitated some “adjustments” in the DPRK’s economic but also political practices (to a lesser extend in the latter’s case). These “adjustments” can be witnessed in different areas, most notably in the evolution of the economy-related institutions and laws of North Korea. These efforts have been, until today, widely considered as insufficient⁹⁷⁸ to attract sizable FDI, and the business environment of the DPRK is still widely regarded as extremely difficult, although studies point out that most of the Chinese companies active in the DPRK are profitable⁹⁷⁹. Undoubtedly difficult by most commonly accepted standards, the business and investment environment of the DPRK is nonetheless going through deep changes for at least 25 years, and some of these adjustments actually led to relative but existing breakthroughs. What’s more, a closer look at North Korean law seems to reveal an increasing ideological boldness in policy-making as well as a growing tendency to align the DPRK legal regime on international standards. Two distinct hypotheses can be used in order to analyze and contextualize these emerging trends: first, Pyongyang is trying to restart a whole delinking process, a “first stage of delinking”, based on FDI instead of assistance programs; second possibility, the DPRK is actually trying to alter the design of its economic system into a more “liberal” one (in the North Korean context). As will be explained, the author tends to support the former hypothesis.

⁹⁷⁸ LANKOV, Andrei, Industrial Reforms : What is North Korea waiting for ?, *NK News* (online), 2nd of June 2015. Url: <http://www.nknews.org/2015/06/industrial-reforms-what-is-north-korea-waiting-for/>. Last accessed 22/08/2015.

⁹⁷⁹ HAGGARD, Stephan, LEE, Jennifer, NOLAND, Marcus, 2011, Integration in the Absence of Institutions: China-North Korea Cross-Border Exchange, *Peterson Institute for International Economics*, Working Paper Series (online). Url: <https://piie.com/publications/wp/wp11-13.pdf>. Last accessed 7th of June 2016.

8.1 Business and investment environment of the DPRK

Obviously the DPRK is widely considered as a very difficult business environment. Pyongyang, however, has been trying to look more welcoming to potential foreign business partners, sometimes benefiting from Chinese assistance and expertise.

8.1.1 *An indisputably difficult business environment*

Assessing the legal, institutional and political environment of a given country with regards to business and investment is not only tricky but obviously prone to political and ideological biases. Assessing the business environment of a socialist country like the DPRK is, unsurprisingly, especially difficult. Expectations of businessmen widely differ depending on a wide range of criteria (Chinese businessmen investing in the DPRK, for example, are less likely to be “surprised” by the local business environment than their Western homologues), and attempts at creating analytical tools that could provide with an objective ranking of the “quality” of business environment suffer from heavy political bias⁹⁸⁰ and therefore are subject to criticism by scholars and practitioners. Besides the Index of Economic Freedom and the Economic Freedom of the World report, the World Bank also publishes an “ease for doing business” ranking⁹⁸¹, which focuses on legal and infrastructural issues. With the DPRK not releasing statistics on a reliable base, the country is usually not referenced in these rankings, except in the Economic Freedom Index, where it has the lowest ranking of all countries surveyed with 2.3 pts on a maximum of 100 (the second lowest ranking country being Cuba, albeit with a much higher score, 29.8 pts).

Opacity of rules, institutions and political system, vagueness of business and investment laws, scarcity of reliable information, rigid planning, unorthodox economic practices... the poor performance of North Korea in these rankings is however unlikely to be only caused by

⁹⁸⁰ The two most well-known indexes are published by conservative or libertarian think tank: the Fraser Institute (Economic Freedom of the World) and the Heritage Foundation (Index of Economic Freedom). See Heritage Foundation Economic Freedom Index webpage, “country rankings”, 2016. Url: <http://www.heritage.org/index/ranking>. Last access 12 of October 2016. GWARTNEY, James, LAWSON, Robert, HALL, Joshua, 2016, *Economic Freedom of the World 2016 Annual Report*, Fraser Institute. Url: <http://www.freetheworld.com/2016/economic-freedom-of-the-world-2016-A4.pdf>. Last accessed 12th of October 2016.

⁹⁸¹ World Bank Doing Business website, « Economy Ranking », 2015. Url: <http://www.doingbusiness.org/rankings>. Last accessed 12th of October 2016.

methodological and ideological biases. As discussed before, the DPRK attracts very limited amounts of FDI, especially if compared with its neighboring countries in Northeast Asia, but also if compared to other socialist countries like Laos and Vietnam which both introduced economic reforms few years *after* the DPRK. Since North Korea is not a capitalist economy, enumerating potential reasons that make its business environment extremely difficult or making comparisons with other countries makes little sense. Examples of foreign companies going through bad experiences in the DPRK can nonetheless give a sense of commonly encountered difficulties by foreign entrepreneurs active in the country. The most well-known recent example of a bad experience in the DPRK might be the iron ore processing joint venture invested by the Haicheng Xiyang Group (Xiyang for short) in 2012. Failed attempts at investment occur on a daily basis globally, and it was already explained that most Chinese companies active in the DPRK report sometimes large profits from their ventures in the North. However, if the “Xiyang affair” is particularly interesting to study here, it is because it quickly took a political turn, involving some North Korean State-related institutions as well as, indirectly, the Chinese Ministry of Commerce. As explained in chapter 4, at the end of the 2000 decade, a rise in investments in the DPRK natural resources, especially its mining sector, started to appear. The Liaoning-based Haicheng Xiyang Group was part of this “surge” in investment and created a joint-venture with a DPRK company (Ryongbong) in 2007, operating a factory that was tasked with processing 500 000 tons of iron ore⁹⁸². Five years later, the Xiyang group announced in a well-detailed statement⁹⁸³ that the JV had been a “nightmare” resulting in a loss of more than 240 million RMB, with the plant closing no less than two months after starting operations. Engaged in a quest to attract more FDI, and thus ill-at-ease with the negative publicity generated by the affair, the North Korean Joint Venture Investment Committee (JVIC) published, via KCNA, a statement that aimed at presenting the DPRK’s view on the issue. The North Korean investment environment came under the spotlight, as the Xiyang Group statement repeatedly pointed out at the weakness of the North Korean legal system, and especially the fact that, beyond

⁹⁸² CATHCART, Adam, 2012, Tango in Dandong, Liaoning Dirge: Dualities of Sino-North Korean Trade, *Sino-NK*. Url: <http://sinonk.com/2012/10/17/trade-tango-in-dandong-vs-xiyang-dirge-dualities-of-sino-north-korean-trade>. Last accessed 13th of Octobre 2016.

⁹⁸³ 西洋集团在朝鲜投资的噩梦[Xiyang Group’s investment in North Korea : a nightmare], *Xiyang Mining Blog*, 3rd of August 2012. Ulr : http://blog.sina.com.cn/s/blog_916fb56901017b75.html. Last accessed 13th of Octobre 2016.

corruption or other issues, the DPRK partner signed a contract that allegedly was incompatible with North Korean investment-related laws. Interestingly, while the affair did not come as a surprise for the Western observers, it should be noted that the Chinese official press (especially *Huanqiu Shibao* Pyongyang-based reporter Zhou Yiran) was much softer on the DPRK than in the West, highlighting for example the fact that Pyongyang had become “extremely aware of the importance of the image of its business environment” and that a “complete understanding of North Korean laws was necessary”⁹⁸⁴ in order to successfully invest in the DPRK. After Xiyang’s spokesperson publicly criticized the Chinese Ministry of Commerce’s policies which at that time encouraged investment in the DPRK⁹⁸⁵, the affair became political and a thorn in Beijing’s side, forcing the PRC’s Ministry of Foreign Affairs to publicly express its “hope that the two sides will properly handle problems emerging in the process of cooperation of enterprises in both countries”, not blaming the Korean side nor Xiyang.

While the Xiyang affair was everything but an isolated case (the Wanxiang group, for example, also encountered difficulties in its North Korean ventures), the moderate Chinese official reaction is somewhat surprising in today’s context. But the Xiyang affair also seriously deteriorated the image of the DPRK as a potential FDI destination for Chinese businessmen, not to mention that, after the 2013 nuclear test and satellite launch, the bilateral relations became increasingly difficult. During the previous decade, in the wake of the 1st of July 2002 reforms, prospects for bilateral economic cooperation were high, but gradually gave place to disappointment and frustration on the Chinese side of the border, as businessmen and policy-makers’ hopes for a “Chinese-style” reform and opening were gradually disappointed.

8.1.2 *The 1st of July 2002 reforms and the first wave of investment*

The “surge” of Chinese investment in the DPRK during the 2000 decade was triggered by the 1st of July 2002 “measures”, when the SPA promulgated new economy-related laws that were widely considered by observers to be a first step towards a more far-reaching

⁹⁸⁴ *Zhong qi cheng zai chaoxian touzi shi hengxiang, chao bo qiye “touzi beipian” zhize* 中企称在朝投资是噩梦 朝驳中企“投资被骗”指责 [chinese business’ investment nightmare in North Korea, Pyongyang refutes being an « investment cheat »], *Huanqiu Shibao*, 6th of September 2012. Url : <http://world.huanqiu.com/exclusive/2012-09/3100324.html>. Last accessed 13th of October 2016.

⁹⁸⁵ North Korea Blasts Chinese Company in Failed Deal, *Reuters*, 5th of September 2012.

economic reform⁹⁸⁶: increased liberalization and extension of the role of the market. The 1st of July 2002 reforms encompassed the limitation of the Public Distribution System (with the exception of health and education, still State-provided) and thus the rise, mechanically, of the market for the allocation of goods and services. Another important element of these measures was the creation of government-induced inflation (prices and wages skyrocketed⁹⁸⁷) in order to boost financial incentives and with the hope that such a shock on the demand side would lead to an equivalent shock on the supply one. According to Frank, wages and currency manipulation were also aimed at creating a more credible price system⁹⁸⁸, which would allow an increased economic cooperation with the outside world⁹⁸⁹. What's more, a responsibility system for government-controlled companies was introduced⁹⁹⁰, partially mirroring earlier Chinese experimentations like the Household Responsibility System (HRS) which snowballed into a more comprehensive economic reform. Some scholars also add that the push for the Sinuiju SEZ was associated with these measures, although the time frames do not entirely coincide.

The PRC welcomed the 2002 economic measures. The announcement of the 1st of July measures was widely interpreted as a “North Korean 1978 Third plenum”, a change of course towards reform and opening which China encouraged. After the false-start of the Sinuiju SAR fiasco, business and economic cooperation-related government exchanges accelerated. In 2004, several central and provincial government-affiliated consulting companies were created to accompany these new cooperation prospects: in Beijing, the Beijing Sino-Korea Economic and Cultural Exchange [北京朝华友联文化交流; *Beijing*

⁹⁸⁶ NOLAND, Marcus, 2002, West-Bound Train Leaving the Station: Pyongyang on the Reform Track, *Council on US-Korea Security Studies paper* (online).

Url: <http://www.iie.com/publications/papers/paper.cfm?ResearchID=484>. Last accessed 9th of June 2016.

⁹⁸⁷ Idem.

⁹⁸⁸ The monetary value of the North Korean won, which has two extremely different exchange rates (official and black market), obviously constitutes an important obstacle for the internationalization of the DPRK economy. Orascom tackles its North Korean cash problem, *North Korea Tech* (online), 11th of June 2015. Url: <http://www.northkoreatech.org/2015/06/11/orascom-tackles-its-north-korean-cash-problem/>. Last accessed 2nd of March 2017.

⁹⁸⁹ FRANK, Rüdiger, 2006, Classical Socialism in North Korea and its Transformation: the Role and the Future of Agriculture, *Harvard Asia Quarterly*, vol. X, N°2.

⁹⁹⁰ Idem. See also NOLAND, Marcus, 2011, The Political Economy of North Korea: Historical Background and Present Situation, in *New International Engagement Framework for North Korea: Contending Perspectives*, Korea Economic Institute. Url: <http://www.keia.org/sites/default/files/publications/04Noland.pdf>. Last accessed 31st of August 2014.

chaohua youlian wenhua jiaoliu]; in Shenyang, the Shenyang Municipal Association of Entrepreneurs [沈阳市企业家协会; *Shenyangshi qiyejia xiehui*] and in Dandong the Municipal Economic Consultation Center for the Korean Peninsula [丹东市朝鲜半岛资讯中心; *Dandong shi chaoxianbandao zixun zhongxin*]⁹⁹¹. Chinese governmental support to FDI in the DPRK became explicit when Chinese Premier Wen Jiabao welcomed Kim Jong-il to visit Beijing in April 2004, which included a visit to “Beijing’s Silicon Valley”, the Zhongguancun Technology Park in Haidian district. One year later, DPRK Premier Pak Pong-ju, also visiting Beijing, signed a bilateral “Investment Encouragement and Protection Agreement”, a bilateral investment agreement that aimed at reassuring Chinese entrepreneurs’ concerns regarding the DPRK legal security issues. Another agreement on economic and technological cooperation was signed one year later, in 2005, when Hu Jintao toured Pyongyang. During these meetings was designed the catch phrase that is often mentioned by Chinese entrepreneurs doing business in the DPRK: China-DPRK investment is to be “government-induced, company-based, market operated and mutually beneficial” [政府主导，企业为主，市场运作，互利共赢; *zhengfu zhudao, qiye weizhu, shichang yunzuo, huli gongying*]. As Yoon and Lee pointed out, the expression “government-induced” [诱导; *zhengfu daoyin*], was replaced by the more affirmative “government-led” in 2010 (during the Kim Jong-il-Hu Jintao summit), once again reaffirming Chinese government support to Chinese FDI in North Korea. Interestingly, based on discussions with different DPRK officials, this expression does not seem to have a North Korean equivalent.

As seen in chapter 4, these policies have led to a boost in bilateral economic cooperation, especially in trade, but also to a lesser extent in terms of Chinese investments in the DPRK. While welcoming investment in trade and extractive industries, Pyongyang did also try to jointly develop more and more specific types of SEZs and attract more and more specific types of investments in these special zones. However, to do so, Pyongyang had to compromise with Chinese businesses and officials, and increasingly to review its business

⁹⁹¹ YOON Seung-hyun, LEE Seung-ook, 2013, From old comrades to new partnerships: dynamic development of economic relations between China and North Korea, *The Geographic Journal*, vol.179, pp.19-31. It seems that, as of 2016, only the Dandong entity is still actively doing DPRK related consulting work.

and investment-related laws, sometimes with the direct “assistance” of Chinese officials. This reforming venture led Pyongyang to sometimes go relatively far, and even play with ideological redlines.

1.1.3 The China-DPRK Joint Steering Committee for Economic Zone and the Rason Law

In order to accompany this surge in Chinese FDI to the DPRK, and more likely to prevent other mishaps like during the Yang bin affair, a “China-DPRK Joint Steering Committee of Economic Zones” (“Steering Committee” for short) was created, although the exact year of its creation is not publicly known. The Chinese side was represented by Chen Deming, the then-minister of Commerce, facing Jang Song-taek (Kim Jong-il’s brother-in-law) for the DPRK. The Steering Committee’s main tasks encompassed different elements such as “establishing mechanisms, training personnel, compiling detailed plans, laws and regulations, making customs clearance convenient, establishing telecom links, cooperating in agriculture fields, as well as building projects”⁹⁹². Chinese MOFCOM press release on the issue also stated that “the Government of DPRK has done revision of the Law of Rason Economic and Trade Zone, and formulated the Law of the Hwanggumphyong and Wihwa Islands Economic Zone”, which is likely to be a euphemism to explain that both sides negotiated to create a more welcoming business environment for Chinese companies. As a matter of fact, evidence of the active work of the steering committee can be witnessed in the fact that the Rason law was modified twice in two years: first, in 2010, and then in 2011. In chapter 3, it was already explained that Beijing had already influenced Pyongyang’s economy-related laws. It seems that, within the context of the Joint Steering Committee, Beijing took an even more active role in shaping recent legal developments in Rason and Sinuiju. As will be explained in the next section, the two versions of the Rason law can hardly be compared as they bear striking differences, which tends to suggest that the 2010 version was a “purely” North Korean

⁹⁹² The second meeting of the Committee took place on June 2011, the third meeting on August 2012. China, DPRK to develop two economic zones, *Xinhua*, 9th of June 2011. Url: http://www.chinadaily.com.cn/china/2011-06/09/content_12667570.htm. Last accessed 14th of October 2016. China-DPRK Joint Steering Committee of Economic Zones Held Third Meeting in Beijing, *Ministry of Commerce of the PRC*, 15th of August 2012. Url: <http://english.mofcom.gov.cn/article/newsrelease/significantnews/201208/20120808286632.shtml>. Last accessed 14th of October 2016.

version of the law⁹⁹³, while the 2011 version, which closely mimics the 2011 Hwanggumpyong-Wiwha law, most likely is the one that was completely rewritten in the context of the Joint Steering Committee.

Since the Hwanggumpyong law was only drafted in 2011, it provides with limited insights on the evolutions of the DPRK's business environment at that time. A comparison between the 2010 and 2011 versions of the Rason law, however, shows that, from 2011 on, there was definitely a strong reformist push in Rason. Although this version equals to a complete rewriting of the law (45 articles divided in 7 chapters in 2010 vs. 82 articles and 8 chapters in 2011), only the few meaningful changes in the context of this study will be highlighted. Most of what follows is also valid for the Hwanggumpyong-Wiwha SEZ, which was also drafted by the Steering Committee at the same time.

➔ *Increased decentralization*

Rason is an interesting case study of decentralization processes because what was mostly an economic experimentation remotely piloted by the central guidance authority of SEZs (CGA) in Pyongyang has gradually become operated mostly by local actors. Indeed, in Rajin-Sonbong, 80% of the decision-making is said to be done locally, with the remaining 20% transferred to the CGA. Before the 2011 revision the responsibilities were split between the CGA and Rason's People Committee (RPC), which were both considered executive organs of the State⁹⁹⁴, respectively central and local. The CGA had extensive responsibilities, including the examination of applications for "major investment projects"⁹⁹⁵, but its involvement in Rason was reduced in the 2011 version, where the CGA's legal competence is limited to the *selection of screening criterias* for investment projects, but not the projects themselves⁹⁹⁶. In the 2011 version of Rason law, the CGA mostly coordinates other economic actors in the DPRK: as explained a few lines above, foreign companies in Rason interested in using DPRK

⁹⁹³ Published in January 2010, before the opening of Hwanggumpyong and Wiwha and almost one year and a half before the steering committee second meeting, it is highly unlikely that the committee was involved in the drafting process.

⁹⁹⁴ Law of the Democratic People's Republic of Korea on the Rason Economic and Trade Zone, 2010, Legislation Press, Pyongyang. (Hereafter Rason Law 2010) See art.6.

⁹⁹⁵ *Idem*, art.10.

⁹⁹⁶ Rason Law, 2011. See art.31.

raw materials from outside the zone first have to contact the CGA in Pyongyang. Of course, the CGA is also responsible for organizing forward linkages with the rest of the DPRK economy, providing support to foreign companies targeting DPRK markets⁹⁹⁷. Until 2011, the CGA was tasked with screening applications for investment in the zone, and had to notify the results to the Rason People's Committee (RPC)⁹⁹⁸. In the 2011 version, the whole application screening process is performed locally. As a result of these measures, the delays upon reception of an application have been dramatically shortened: in 1998, potential foreign investors were notified the results of their applications within 50 days (80 days for wholly foreign-owned companies)⁹⁹⁹, whereas since 2011, it theoretically takes only 10 days¹⁰⁰⁰.

➔ *Stricter separation of political and administrative aspects*

The RPC's responsibilities also dramatically declined. The RPC is a political organ, working as a local executive branch, under the supervision of the CGA. It used to be tasked with relatively sensitive issues including, among others: preparing rules for the implementation of the Rason law, assisting investors in hiring workers, preparation and execution of the Zone's budget, screening of investment application¹⁰⁰¹, protecting public order and property, "handle matters related to registration, licenses and categories of businesses", leasing or transferring land and building, providing with services for the construction of buildings or infrastructures, and, "do other work entrusted by the State"¹⁰⁰². The contrast with the 2011 version is total, with the RPC's role being reduced to preparing rules for the implementation of the law, providing workforce to foreign-invested companies, and carrying out work "assigned by the CGA". The fact that, in the latter sentence, the 2011 version explicitly mentions the CGA (instead of "the State" in the previous version) is revealing: the main purpose of the 2011 Rason law is to reassure investors by preventing interference in business affairs in the zone. The People's Committee being a political organ, its role regarding business investment was reduced. Pyongyang's involvement in the zone was also

⁹⁹⁷ *Idem.*

⁹⁹⁸ Rason law, 2010. See art.11.

⁹⁹⁹ UNDP, 1998, see p.11.

¹⁰⁰⁰ Rason law, 2011. See art 37.

¹⁰⁰¹ Since « major projects » were screened by Pyongyang (CGA), it suggests that the RPC's screening role was centered on smaller-scale ventures.

¹⁰⁰² Rason law, 2010. See art.13.

reduced, and the fact that the CGA, and not “the State”, is mentioned, seems to be an attempt at establishing stricter boundaries between (sometimes competing¹⁰⁰³) North Korean institutions, in order to generate more legal security, or the illusion of it. In this regard, it should also be noticed that the very vague first article of the 2010 version of the Rason law¹⁰⁰⁴ (more of a political declaration than a law article), has been replaced by a much less optimistic sentence in the 2011 version, emphasizing legal security and “hard law”:

Article 1 (Objective)

This Law is enacted to provide strict guidelines for the development and management of the Rason Economic and Trade Zone, thereby contributing to developing it into an area of international transit transport, trade, investment, financing, tourism and service¹⁰⁰⁵.

Since the responsibilities of both the RPC and the CGA have been reduced, the 2011 version of the Rason law had to create an additional organ which is at the same time a local structure and only concerned with trade or investment-related issues. The 2011 version of the law thus stipulates that the organ in charge of the management of the zone is the “management committee” (MC). The competence of the MC is manifold, and the structure is most likely designed to be the privileged interlocutor of foreign businesses inside the zone. The MC is in charge of preparing rules required for the development and management of the zone, as well as attracting foreign investment and approving business applications (for projects located inside industrial parks¹⁰⁰⁶). It is also tasked with other practical but crucial responsibilities, including movements of personnel and goods in/outside the zone, financial matters, establishing a list of “priority sectors” (which is particularly important as investments in top priority sectors benefit from additional tax cuts), but also limitation and prohibition of investments in some other sectors¹⁰⁰⁷. To put it in a nutshell, the MC is tasked with all that matters for investors, and is the result of an attempt by the Zone’s local

¹⁰⁰³ ABRAHAMIAN, 2012.

¹⁰⁰⁴ “This Law of the DPRK on the Rason Economic and Trade Zone [...] shall aim to expand and promote economic cooperation and exchange with foreign countries through the improved development, administration and operation the Zone”. Rason law, 2010. See art.1.

¹⁰⁰⁵ Rason law, 2011. See art.1. Emphasis is ours.

¹⁰⁰⁶ *Idem*. See art.37. For projects outside industrial parks, the RPC is competent.

¹⁰⁰⁷ *Idem*. See art.27.

authorities to create a purely administrative interface with foreign investors in the zone, even if the MC is a sub-committee of the RPC (art.14) and responsible in front of the CGA (art.29).

➔ *Commitment to market principles and international standards.*

It can be seen as paradoxical to consider that a SEZ's "commitment to market principles" is a preferential policy. However, in the case of the DPRK, a socialist country, the explicit reference to market principle as a management guideline¹⁰⁰⁸ is not only a preferential policy but quite an ideological upheaval. The reference to the market was introduced in the 2011 version, a move that alone says a lot about the complete makeover that happened to the Rason law between 2010 and 2011, and the fact that authorities in Rason (or maybe in Pyongyang) seem to be willing to go further in terms of reform. For sure, the market principles that are supposed to drive the economy in Rason have a very relative impact¹⁰⁰⁹ on the actual business environment of Rajin-Sonbong, but, at least symbolically, an ideological Rubicon has been crossed. In fact, as always with trade and investment-related laws in the DPRK, "market principles" only apply to foreign companies, and for certain categories of products: as everywhere else in the DPRK, basic commodities like food are heavily subsidized and basic public services are free of charge. However, while the 2010 version of the law stated the RPC could arbitrarily fix the price of some goods¹⁰¹⁰, the 2011 version adds that in case a foreign-invested company suffers from what has to be considered as an exemption to the "market principles" of the zone, it shall receive a "monetary compensation". The idea is that the DPRK State has no say in the pricing of the products; pricing of "basic consumer goods such as food" by the RPC at heavily subsidized prices are an *exception to the rule* and foreign-invested companies suffering from these *market disturbances* are technically eligible for financial compensations. From this perspective, it is not surprising that DPRK zone managers have shown little interest in attracting investments in the country's public services¹⁰¹¹. Basically, "markets principles" guide the business

¹⁰⁰⁸ *Idem.* See art.23.

¹⁰⁰⁹ Interview with businessmen and consultants in the Yanbian prefecture (May 2014, February 2016).

¹⁰¹⁰ Rason law, 2010. See art.25.

¹⁰¹¹ Pyongyang woos foreign investors, *Joongang Daily* (online), 22nd of September 2014. Url: <http://koreajoongangdaily.joins.com/news/article/article.aspx?aid=2995173&cloc=joongangdaily|home|newslist1>. Last accessed 6th of November 2015.

environment of the zone as long as they do not overlap with the local or central authorities' premises. As often in the DPRK, legal dispositions are vague, opaque, and the actual implementation of market principle is likely to be very limited (to some actors, some sectors or some commodities). Nonetheless, the fact that DPRK lawmakers chose to use these specific terms (maybe following advices from their Chinese colleagues) should not be underestimated. Business practices in Rason evolve in a very slow and incremental fashion, but authorities are definitely showing signs of increasing ideological boldness¹⁰¹². Besides market principles, art.23 of the 2011 Rason law also enshrines the reference to "objective laws of the economy", an additional stretch from orthodox socialist economic thinking. Ironically, the term "objective", likely chosen in order to insist on the fact that the management of the zone shall be made beyond ideological and political differences, would be considered, from a standard Marxist perspective, as pure *ideology*: its main purpose would be to conceal the actual capitalist nature of the Rajin-Sonbong SEZ.

Another important evolution of the Rason Law made in order to provide a preferential treatment to trade and investment activities is the increased attention paid to international practices. The borrowing of foreign concepts and legal norms is especially important to underline. First, it clearly shows that there are elements of foreign influence in North Korean economic policy-making; second, it shows how the DPRK is willfully adapting its own internal norms in order to better interact with the outside world. To put it in Amin's words, it helps understanding to what extent Pyongyang is able or willing to make compromises regarding "the submission of external exchange to the logic of national accumulation". By integrating foreign concepts, practices and norms into DPRK law, in order to attract investment, Pyongyang is enshrining the fact that some international standards do apply inside the territory of the DPRK. This is obviously a very theoretical evolution, since, in practice, this "relinking" is qualified (or even nullified) by the fact that law in the DPRK still has a weak binding power, a limited applicability, but, once again, lawmakers seem to be playing with ideological red lines.

Besides "market principles" and "objective laws of the economy", article 23 of the Rason law also states that the authorities of the Zone shall refer to "international practices". In the typically vague, imprecise and opaque wording of the DPRK ZES's laws, the article does not

¹⁰¹² For a comment on the initial law of the Rason SEZ (1993), see ZOOK, 2012, p.166-169.

provide additional details. But other parts of the law reveal the significance and limits of this mechanism: with the notable exception of subsidized products, goods and services exchanged inside or “exported” outside the zone must be priced in reference to international prices, for example.

In some cases, the contradictions between the adoption of international standards and the sovereignty of the North Korea State are too strong, and it seems that, in those cases, DPRK lawmakers unsurprisingly chose to remain cautious and stick to the “golden rule” of “submission of external exchanges to internal political choices”. Dispute settlement is one example: while the 2010 version of the Rason law did not provide enough specifics on how to settle business-related disputes in the zone, the newer version stipulates that disputes can be settled either by local or central authorities, by mediation, or by arbitration¹⁰¹³. The latter is interesting because, in most parts of the world, and especially in SEZs, business-related disputes are often settled either in a court of a third country on which both parties to the dispute agree, either via different international organizations like the World Trade Organization’s Dispute Settlement Body. These methods are technically possible in the DPRK but if, and only if, *both parties agree* on the settlement method of dispute, *de facto* giving the DPRK the upper hand, as pointed out by Zook:

*“In other words, if North Korea wanted to assume jurisdiction, it could simply refuse to cooperate in the consultation, ensuring failure, and also refuse to agree on a third country, leaving arbitration through DPRK institutions as the only option for an aggrieved foreign party”.*¹⁰¹⁴

Even if the DPRK lawmakers can sometimes cross or circumvent ideological redlines, or try to make compromises in order to get closer to international standards (showing that they are fully aware of what foreign investors are expecting from the DPRK’s SEZs), they also choose to remain cautious when it comes to key issues that could actually be detrimental to the country’s interests.

¹⁰¹³ Rason law, 2011. See chap.8, art.80, 81, 82, 83.

¹⁰¹⁴ ZOOK, 2012. See p.160.

➔ Preferential policies towards investment

While the 1984 law is said to have been modeled from China's 1979 own Joint-venture law, the Rason law (especially in its 2011 version), and SEZs-related laws of the DPRK in general, are also closely following legal norms in China. Regarding preferential policies aimed at attracting investment, the SEZs in the DPRK have almost everything in common with SEZs in China and around the world, providing with quite complex tax-cuts regimes, reinvestment incentives, tariffs dramatically lowered or duty-free imports of products. In the DPRK's case, differences with other countries are to be found, once again, in the lack of concrete provisions for implementation and the idiosyncratic characteristics of the DPRK economy: art.66, for example, explains the DPRK authorities *encourage* trade activities in the zone, but do not provide with any additional preferential provision¹⁰¹⁵. As a matter of fact, what they do is not *encourage*, but *allow* trade activities with local or foreign partners. Same could be said about article 75, which explains that modern communication devices can be used in the zone (but do not clearly state if they can be used to make foreign calls), or the quite peculiar article 74, advertising the indeed picturesque environment of the DPRK but not dealing with any legal matters¹⁰¹⁶.

As explained already, enterprise tax, in Rajin-sonbong and in most other SEZs is 14% of the net profit, strategically lower than in most Chinese economic zones¹⁰¹⁷, but in the case of China, it only applies for the first ten years¹⁰¹⁸. Chinese economic zones and Rason also share incentives to attract lasting, long-term investment, but the Chinese laws are much more precise: if investments were made on a 10 year-period at least, foreign-invested company will be exempted for the first two years following the first profitable year, and get a 50% discount on the normal rate for the following three years. In contrast, article 68 of the Rason law only states that companies operating for at least ten years can benefit either from exemption or from reduction of enterprise income tax, referring to unspecified "relevant regulations" for specifics. Same could be said on additional tax cuts provided if foreign-

¹⁰¹⁵ Rason law, 2011. See art.66.

¹⁰¹⁶ "International tourism shall be extensively promoted in the Zone by developing favorable tourism resources such as seaside pine grove, sand beach, islets and other peculiar scenic beauty, and folk culture". Rason Law, 2011. See art.74.

¹⁰¹⁷ By economic zones, we refer to the different kinds or areas where specific regulations apply (SEZs, Open Coastal Cities, etc.).

¹⁰¹⁸ Hainan island is an exception, with even lower tax rates in order to attract infrastructure development.

invested companies plan to reinvest profits locally, with similar mechanisms existing in both countries.

It is however interesting to note that, in the 1998 UNDP report on Rajin-Sonbong, the specifics about these tax cuts and other preferential policies reveal legal provisions that were much more detailed than in the most recent versions of the Rason law. It is however quite difficult to interpret this differences as the pre-2010 versions of the Rason law are difficult to access.

Rajin-Sonbong also provides businessmen preferential policies regarding tariffs and customs duties, but regarding these important issues the Rason law could not be vaguer, and certainly cannot be compared with legal provisions of Chinese economic zones, which suffer from the opposite default and have been criticized for their high degree of complexity. Article 53 of the Rason law only explains that “preferential tariff system shall be introduced in the Zone”, but stop short of giving additional details, *de facto* giving central authorities (namely, the SPA¹⁰¹⁹) *carte blanche* to interpret and implementt this “preferential tariff system”¹⁰²⁰.

8.1.4 Legal developments in the Wonsan-Kumgangsan area

Due to the rather complex institutional history of the area (see chapter 4), the legal environment of the Wonsan-Kumgangsan area consists in a quite blurry and often contradictory multilayered legal sub-system, which dramatically tones down the otherwise unique and audacious nature of the “Wonsan-Kumgangsan SEZ law”. The current SEZ seems to stand somewhere between a DPRK SEZ (with the same preferential policies as in any other SEZ) and a SAR (with its very unique set of laws and completely different institutional structure). However, these legislative and institutional efforts are weakened (or even nullified) by the very fragile basis of the law published on the 31th of May 2011¹⁰²¹. This “Mt. Kumgang Special Zone for International Tourism” law was passed before the establishment of the Wonsan-Kumgangsan International Tourism Zone (ITZ), and, as its name says, it only

¹⁰¹⁹ As the appendix n°2 of the Rason law explains, “interpretation of this Law shall be provided by the Presidium of the Supreme People’s Assembly”. Rason law, 2011, see appendix.

¹⁰²⁰ Rason law, 2011. See art.53.

¹⁰²¹ Law of the Democratic People’s Republic of Korea on the Mt. Kumgang Special Zone for International Tourism, in *Laws and Regulation of the Democratic People’s Republic of Korea Governing External Economic Matters*, 2012, Legislation Press, Pyongyang. Hereafter “SZIT law”. See art.2.

applies to the Special Zone for International Tourism (the SZIT, basically the Mt. Kumgang area, but not Wonsan). Some scholars have argued that the SZIT law would be extended to include the parts of the Wonsan-Kumgangsan International Tourism Zone¹⁰²² that are not included in the SZIT (namely Wonsan city, the entire Thongchon county, areas of the Anbyon and Popdong counties. However, the 2013 Economic Development Park law, is supposed to apply to the Wonsan-Kumgangsan International Tourism Zone, while the SZIT is explicitly excluded from it¹⁰²³. More simply put, the SZIT is part of the Wonsan-Kumgangsan ITZ but is excluded from the 2013 law, while the latter technically is supposed to apply to the whole ITZ. As a result, the legal foundation of the SEZ is rather shaky, which undermines the boldness of the project. It is highly likely that the SPA will pass a new unified law for both the ITZ and the SZIT. In addition, reports of recent visits by DPRK Premier Pak Pong-ju on the Kalma peninsula of Wonsan as well as anecdotal evidence¹⁰²⁴ suggest that there might be an additional SEZ in preparation in Wonsan¹⁰²⁵.

Besides these rather complex and blurred legal status, the Special Zone for International Tourism however benefits from a unique legislation and institutional framework: contrary to the Rason and Hwanggumpyong laws (which were voted a few month later by the SPA), the SZIT law makes no reference to the Pyongyang-based CGA, mentioning instead an *had oc* central institution (the SZIT Guidance Organ, SZIT GA for short), another sign suggesting the uniqueness of this Zone among DPRK SEZs. The SZIT GA seems to be the State's proxy regarding developments in the SZIT, mostly tasked with creating rules for the implementation of the law (which, given its vagueness in a typical DPRK fashion, could mean rather broad powers), creating the zone's development masterplan, and levy taxes. Under the GA, the SZIT Management Committee (SZIT MC), a local organ, has a much broader power and is tasked with publicizing investment opportunities and tourism in the area (creating bureaucratic overlaps with other institutions¹⁰²⁶), screening investment projects,

¹⁰²² ABRAHAMIAN, Andray, SEE, Geoffrey K., WANG Xinyu, 2014, ABC of North Korea's SEZ, *United States Korea Institute Report*. Url: <http://uskoreainstitute.org/wp-content/uploads/2014/11/Abrahamian-SEZs-14-1118-HQ-Print.pdf>. Last accessed 3rd of May 2015.

¹⁰²³ EDP 2013 law, see appendix.

¹⁰²⁴ Email interview with China-based business consultant, March 2018.

¹⁰²⁵ Wonsan-Kalma Coastal Tourist Area to Be Built in DPRK, *KCNA*, 25th of January 2018. Url: <http://www.kcna.kp/kcna.user.article.retrieveNewsViewInfoList.kcmsf>. Last accessed 14th of February 2018.

¹⁰²⁶ The Wonsan Zone Development Corporation (WZDC) is theoretically in charge of attracting investment. Interviews with WZDC officials in Pyongyang, Mai 2016.

assisting foreign investors in establishing businesses and providing business licenses¹⁰²⁷. In a few words, it mostly has the role of a coordinator and a supervisor for developments in the area. It is also tasked with allocating DPRK labor, whose use is not compulsory in the SZIT: as the article 33 explains, “businesses in the SZIT may employ the labor of the DPRK, as well as foreigners, south Koreans of overseas Korean”, which is once again unique in North Korea. Another striking feature of the law is that foreigners do not necessarily have to use foreign currencies in the zone, and can *de jure* use wons, which is quite rare in the DPRK. As art.14 explains, the zone is a visa-free zone and foreigners can come in directly from abroad by plane or boat with their passports only (a rule that explicitly encompasses South Koreans¹⁰²⁸). In the DPRK, “visa-free” most often means that foreigners still need an invitation letter from a DPRK institution (which are often hard to reach from outside the country for mainstream tourists), or, in the SZIT’s case, a “tourism certificate” (emitted by the SZIT MC)¹⁰²⁹. If the SZIT law actually applies to the city of Wonsan, transportation infrastructure nodes like the Wonsan harbor and especially the new Kalma peninsula airport would be crucial to the project’s success as they offer direct access to the zone, and thus could make the “visa-free” regime a reality¹⁰³⁰.

While the SZIT certainly seems rather bold and has unique features, its legal foundations are shaky and, as in many DPRK legal documents, there is much room for interpretation left and many potential contradictions. Article 19 of the SZIT law proclaims that “tourists may freely practice tourism [*sic*] in the SZIT” which seems to be misleading as the SZIT Tourism Regulations (art.7) state that government-owned travel companies will establish schedules and provide with guide to foreigners, which strongly suggests that tourism in the SZIT will remain “DPRK-style” (organized tours with mandatory guides)¹⁰³¹. In a similar fashion, article 17 of the SZIT law stipulates that “devices [*sic*] such as mail, telephone, fax and internet shall

¹⁰²⁷ “SZIT Law”, art.12.

¹⁰²⁸ *Idem*, art.18.

¹⁰²⁹ Tourism regulations in the Mt. Kumgang Special Zone for International Tourism, in *Laws and Regulation of the Democratic People’s Republic of Korea Governing External Economic Matters*, 2012, Legislation Press, Pyongyang. See art.11. The fact that south Koreans are allowed to visit the SZIT (provided they obtain all necessary authorizations from Seoul) might suggest that the SZIT law will not simply be extended to the Wonsan area, as it remains quite unlikely that south Koreans will be allowed to visit the streets of the 330 000 inhabitants city of Wonsan.

¹⁰³⁰ Interview with Wonsan Zone Development Corporation official, June 2016, Pyongyang.

¹⁰³¹ Interviews conducted with DPRK officials (high-level diplomats positioned in Europe or officials in charge of SEZ development) seems to suggest that Pyongyang might experiment some more “lax” forms of foreign tours.

be used freely in the SITZ". But this might be hard to conciliate with the Customs Regulations of the SZIT¹⁰³², which do not allow "printed materials [...] films, pictures, sound or video recordings, [...] or electronic medium containing thereof that are likely to have a bad effect on social and moral life" in the SZIT.

8.2 Ambiguous, incoherent or unique? Trajectories of the DPRK most recent economy-related policies

The most recent attempts at adjusting legal norms dealing with economic matters in the DPRK are vague, lack details, are often contradictory and their actual implementation still needs to be tested. However, it should also be said that while the PRC is the world's largest FDI receiver and most important trade power on the globe, it paradoxically also lacks a solid business and investment-related legal corpus. As Clarke, Murrel and Whiting explain, China itself has very vague legal norms, an almost systematic overlapping of competencies and no practical separation between judicial and executive branches etc¹⁰³³. They also point out the fact that some aspects of the Shenzhen laws contradicted national laws for more than a decade, which was a chronic source of legal insecurity for foreign investors but did not prevent Shenzhen from becoming the world's most successful Special Economic Zone. To put it in a nutshell, Clarke *et al* argue that

*"the experience of the reform era in China seems to refute the proposition that a necessary condition for growth is that the legal system provide secure property and contract rights"*¹⁰³⁴.

On the Chinese case, the authors rather believe that "the political structure itself has served as an alternative to the formal legal system in providing a reasonable degree of security to certain non-State investors at the local level", which means that although the legal

¹⁰³² Custom Regulations in the Mt. Kumgang Special Zone for International Tourism, in *Laws and Regulation of the Democratic People's Republic of Korea Governing External Economic Matters*, 2012, Legislation Press, Pyongyang.

¹⁰³³ CLARKE, Donald, MURRELL, Peter, WHITING, Susan, The Role of Law in China's Economic Development in BRANDT, Loren, RAWSKI, Thomas G. (eds), 2008, *China's Great Economic Transformation*, Cambridge University Press, Cambridge.

¹⁰³⁴ Idem, p.400.

architecture was too shaky to offer robust guarantee to foreign investors, the fact that the Chinese government (and the CCP) was openly calling for (and implementing) reforms generated a sufficient amount of trust.

In the DPRK's case, however, although Pyongyang is making considerable changes to its legal regime since 2010-2011¹⁰³⁵ and its economic system since the 1980's, its general attitude regarding the foreign world did not undergo significant changes.

In 2008, the election of conservative South Korean president Lee Myung-bak was bad omen for the sunshine policy and North-South economic cooperation. Repeated episodes of tensions with the North, sometimes even reaching direct military conflict (like during the shelling of Yŏnp'yŏng island in 2010 and the sinking of the Chŏnan ship¹⁰³⁶), as well as the North's controversial nuclear and ballistic programs, led to a gradual deterioration of North-South relations, which eventually led with Lee Myung-bak's successor, Park Geun-hye, to sever almost all economic ties with the DPRK in 2016. Kaesong, which had already been closed temporarily in April 2013 after the DPRK's third nuclear test, was definitely closed in February 2016¹⁰³⁷. It also had for collateral effect to lessen the strategic importance of Rason as a potential Yanbian-ROK corridor and put on hold ambitious development plans, as explained earlier. Within the scope of this study, what maybe is the most important consequence of the freeze of North-South economic exchange is the fact that Pyongyang has for sole economic partner the PRC. After Russia wrote off about 90% of the DPRK's debt (contracted during the Soviet era) in 2014, there were optimistic reports of increased cooperation but as of 2017, Moscow-Pyongyang bilateral trade value only is a tiny fraction of Sino-DPRK trade. As a matter of fact, all of North Korea's former important trade partners (Russia, Japan, South Korea, etc., with the exception of China) nowadays have limited or no bilateral trade with the DPRK, mostly due to political reasons. Contrary to Cold War-era patterns of North Korean foreign policy, Pyongyang is not able to "balance" China with other

¹⁰³⁵ For practical reasons, we only mentioned laws that deal with elements we mentioned before. We could also have mentioned the Regulations of the Democratic People's Republic of Korea for the Establishment of Economic Development Parks (2013), the Regulation of the DPRK for the operation of the Management Body of Economic Development Parks (2013), among many laws that were published between 2011 and 2013.

¹⁰³⁶ The investigations dealing with the Chonan sinking have left different interpretations regarding the origin of the explosion that cause the incident. Not all of them point out at the DPRK.

¹⁰³⁷ FRANK, Rüdiger, CLÉMENT, Théo, 2016, Closing the Kaesong Industrial Zone: An Assessment, *Asia-Pacific Journal* vol.14, n°6.

major powers. But contrary to what one might expect, nor is it willing to “bandwagon” with it: while Pyongyang has been multiplying signs of economic opening towards China in the last few years, it has also made clear that it is not willing to adopt a “Chinese-style reform”, and seems increasingly skeptical regarding sino-centered economic integration.

8.2.1 SEZ proliferation and the Jang Song-taek affair

In 2010 and 2011, the DPRK and the Chinese government tried to jointly push for the restarting of the SEZs in Rason and in the Sinuiju area, following a period of rather intense political cooperation between the two socialist states. This phase of political cooperation peaked in 2010 and 2011, when Kim Jong-il visited his Chinese counterpart Hu Jintao in Beijing, while Chen Deming and Jang Song-taek were actively preparing for the opening of Hwanggumpyeong-Wiwha and the “restarting” of Rason. Jang Song-taek was actually part of both delegations led by Kim Jong-il¹⁰³⁸. The DPRK’s then-Premier, Choe Yong-rim also visited China, mostly accompanied by officials involved in economic development, including Ri Su-yong, the then-chairman of the JVIC as well as the ministers of Foreign Trade and Commerce. They met with Chinese Premier Wen Jiabao as well as Hu Jintao, with the former actively trying to nudge the DPRK in the right direction while offering face-saving comments to the press:

“China supports the DPRK’s exploration of its own way of development in accordance with its domestic situation, and will continue to offer assistance within its capability”¹⁰³⁹

Interestingly, Choe was also taken to visit the Baoshan Steel group, just like Kim Jong-il a few years before, as well as during the 1983 Kim Jong-il and Kim Il-sung visit. While there is no need to describe in too many details this period of intense diplomatic activity¹⁰⁴⁰, it should nonetheless be pointed out that on several occasions North Korean officials positioned in borderland provinces (North Phyongan, North Hamgyong and even Jagang)

¹⁰³⁸ MILLER, Nick, 2013, Contact Between China and the DPRK, 2010-2012, Focus on Ambassador Liu Hongcai, *Sino-NK Special Dossier*. Url: <http://sinonk.com/2013/04/06/china-north-korea-dossier-no-4-liu-hongcai/>. Last accessed 19th of October 2016.

¹⁰³⁹ Nam Kwang-sik, 2011, Efforts to reinforce Economic Cooperation with China, *Vantage Point*, vol.4, n°11. pp.28-31.

¹⁰⁴⁰ For a nearly exhaustive account of the 2010-2012 period, see MILLER (2013).

were part of these delegations to China, which strongly suggests that cross border-economic cooperation was on the agenda.

Although Kim Jong-il passed away at the end of 2011, it did not break the cycle of negotiations with China, as a DPRK delegation of the Joint Steering Committee visited Zhongnanhai on August 2012, and was received and wooed by members of the highest political spheres in Beijing: not only was Jang officially received by Hu Jintao, but also greeted by the director of the CCP's CC International Liaison Department, the ministers in Charge of Economic Development and National Reform, Finance, Commerce, the Vice-minister for Foreign Affairs as well as the CCP's provincial secretaries of Liaoning and Jilin¹⁰⁴¹. One year later, on the 13th of December 2013, KCNA released a statement that caught all observers off-guard, and has quite likely been a cold shower for Beijing: Jang Song-taek had been tried and executed for high treason. Among others, Jang was accused of "standing in the way of settling the issue of succession" between Kim Jong-il and his son, bribery, factionalist activities, criticizing Party lines, failing the 2009 currency reforms, corrupt behavior, etc. Most importantly here is the fact that Jang Song-taek was charged with two economic crimes:

*"[Jang] instructed his stooges to sell coal and other precious underground resources at random. Consequently, his confidants were saddled with huge debts, deceived by brokers"*¹⁰⁴²

North Korea's alleged former n°2 was indeed accused of selling mineral resources, at a time when exports of raw materials (coal, iron ore) to China peaked. Indeed, between 2009 and 2013, coal exports jumped from US\$ 250 million to slightly less than \$1,4 billion in 2013. One possible explanation of the last part of the second sentence is that the "brokers" in question most likely are Chinese companies. What's more,

¹⁰⁴¹ President Hu Jintao Meets with DPRK Delegation of the Joint Steering Committee for Developing Two Economic Zones, *Embassy of the PRC in the USA*, 17th of August 2012. Url: <http://www.china-embassy.org/eng/zgyw/t962145.htm>. Last accessed 19th of October 2016.

¹⁰⁴² Traitor Jang Song-taek Executed, *KCNA*, 13th of December 2013. Retrievable here: <https://nkleadershipwatch.wordpress.com/2013/12/13/jang-song-taek-dies-by-execution/>. Last accessed 20th of October 2016.

“Jang made no scruple of committing such act of treachery in May last as selling off the land of the Rason economic and trade zone to a foreign country for a period of five decades under the pretext of paying those debts”¹⁰⁴³.

While this sentence most likely refers to an event that is not public knowledge¹⁰⁴⁴, the accusation of “selling off” of Rason for five decades was a severe blow to the credibility of Rason as a SEZ. Here, several different interpretations are possible, but there are too few details available to lean towards one or the other. Jang might have tried to “sell off” (or most likely lease) Rason as a whole, just as China was forced to do with Hong Kong to the United Kingdom. A second possible explanation was that Jang greenlighted the lease of pieces of land in Rason for 50 years, as the 2011 Rason law technically allows. There is a significant difference between the two hypotheses because if the first one amounts to a denial of sovereignty, and thus a severe “political crime” in the DPRK, the second option is much more ambiguous: if the leasing of land was made legally, Pyongyang’s move against Jang is actually a move against its own laws and thus cannot be seen as anything else than a very bad sign for potential investors.

With Jang being Pyongyang’s point man on China-DPRK economic cooperation projects, it is clear that the “foreign country” mentioned in the KCNA statement cannot be anything else than the PRC. Given the opaqueness of the North Korean political circles, it is quite hard to decipher the exact reasons of Jang’s demise, especially if one tries to assess the role played by its ties with China in his downfall. The parallel with the 1955-1956 purges among the Yan’an faction obviously comes to mind, as Beijing again lost a reliable and powerful partner in Pyongyang.

Jang Song-taek’s demise did not prevent Pyongyang from pushing for new SEZs and new partnerships with China. Few months before the incident, Pyongyang had already opened no less than 14 SEZs, among which a “central-level” one in Sinuiju, necessarily directly connected with developments in Hwanggumpyong-Wiwha and thus Jang’s personal networks in China (in or outside the Steering Committee). The 13 remaining SEZs were labeled-provincial level zones, which hinted at increased decentralization in the economic realm, a development already strongly suggested by the 2013 EDP law (see part 2). The day

¹⁰⁴³ Idem.

¹⁰⁴⁴ To our knowledge, no significant event took place in May 2013 in Rason.

after Jang was executed, Tumen city officials inked a deal with the North Korean authorities regarding the development of the Rason-adjacent Onsong SEZ¹⁰⁴⁵. In 2014 and 2015, after Jang's death and replacement, additional batches of SEZs were announced, with no less than 3 zones positioned directly at the border with China, plus several others strategically located for cooperation with the PRC.

Few are in a position to say what the true reasons for Jang Song-taek's purge are. If there were only internal motives behind the arrest of Jang, Pyongyang would not have taken the risk of a Chinese backlash by mentioning Jang's activities in Rason as well as pointing out the one-sided aspect of the DPRK's mineral exports to China. Jang's special relation with China thus necessarily played a role in his downfall, or its downfall offered an opportunity for Pyongyang to send a message to China. After all, Jang, who, according to KCNA, did nothing else than what the *Great Leader* precisely advised against his whole life, that is selling unprocessed natural resources to foreign powers to import machines:

*Our country abounds with natural resources [...] but these cannot be used efficiently [...] if we do not have a mechanical construction industry. If we are not able to develop the latter, we will have to export raw minerals, and in exchange import all the consumer goods, machines, and machines parts we need. It is unacceptable to export raw materials and to import even the simplest machines and their spare parts*¹⁰⁴⁶.

These two last sentences could however be used to describe the nature of Sino-DPRK trade and more generally bilateral patterns of economic cooperation. But since Pyongyang kept on pushing towards more economic projects with the PRC after Jang's arrest, it could rather be argued that the purge was not aimed at China *per se*, but constituted the "salient feature" of a more profound refusal to engage into "unequal" economic cooperation with China (see next chapter).

¹⁰⁴⁵ N. Korea Inks Border Town Development Deal, *Global Times*, 13th of December 2013. Url: <http://www.globaltimes.cn/content/831869.shtml#.Uq4dxPRDsV>. Last accessed 21st of October 2016.

¹⁰⁴⁶ KIM Il-Sung, 1981k. See bibliography.

8.2.2 *The Chinese obstacle to Juche*

After Jang's arrest, Kim Jong-un seems to have gradually established his supremacy in the DPRK's political circles. Relations with China, however, remained mediocre at best, poisoned by the DPRK's nuclear program as well as increasing mutual mistrust.

In November 2012, Xi Jinping became the General Secretary of the PCC and thus the *de facto* leader of the country. While Xi met with Kim Jong-il in 2008¹⁰⁴⁷, when he was still Vice-President, it is believed that he never met with Kim Jong-un. As a matter of fact, Xi's arrival to power shortly preceded the DPRK's third nuclear test in February 2013, and a new round of China-backed economic and financial sanctions against the DPRK. What's more, Xi Jinping has been openly supporting a closer relation with the DPRK's foe, the ROK, not only by making official visits to South Korea before going to the North (which was unprecedented for a Chinese president) but also by making South Korean President Park Geun-hye his honored guest (Park sat at Xi's immediate right) at the grandiose "anti-fascist" military parade that took place in September 2015. At this parade, which Kim Jong-un refused to attend, the DPRK's envoy, Choe Ryong-hae, was positioned in the background, which led to a somewhat paradoxical scene that was understandably irritating for Pyongyang. The DPRK's sole ally and its other relatively important partner (Russia's Vladimir Putin sat on Xi's immediate left) were watching together with the South Korean conservative president (the daughter of Park Chung-hee) a military parade of the PLA, which fought against both the Soviet Union and the ROK.

Since then, several attempts at repairing the relationship have been made by both sides. China's n°6, Liu Yunshan, attended the WPK's founding anniversary in October 2015, waving to the crowd hand in hand with the North's Leader. After the 4th nuclear test, the WPK's International Department Director Ri Su-yong also held talks with Xi Jinping in June 2016. But these attempts, mostly focused on the DPRK's controversial nuclear program, have achieved limited results and China's image among the North Korean leadership seems to be extremely damaged, as bluntly expressed by Kim Jong-un during the WPK 7th Party Congress in May 2016. The Congress was the first since 1980, before Kim Jong-un was even born. Besides

¹⁰⁴⁷ Kim Jong-il meets Xi Jinping, *Xinhua*, 19th of June 2008. Url: http://www.china.org.cn/international/news/2008-06/19/content_15853289_3.htm. Last accessed 24th of October 2016. Kim Jong-il also met Peng Liyuan, Xi's wife, in 2002.

power shuffles and different political work reports, what should be pointed out here are the few lines that implicitly deal with China, but also especially a few sentences on economic policies that indirectly question the PRC's embrace of the DPRK economy. While the profound mistrust between Beijing and Pyongyang is now public knowledge, both sides tend to avoid direct criticism. The following passage from Kim Jong-un's 7th Congress Party activity report thus particularly strikes out not only because it is quite violent and outspoken, but also because it is quite rare to see direct criticism of Chinese policies in DPRK literature¹⁰⁴⁸:

*"Despite the filthy wind of bourgeois liberty and 'reform' and 'openness' blowing in our neighborhood, we let the spirit of [Songun] rifles fly and advanced according to the path of socialism that we had chosen."*¹⁰⁴⁹

The reference to both the "neighborhood" and the "reform and openness"¹⁰⁵⁰ is transparent: the country where a "filthy wind" is blowing is the PRC. In a few sentences that sound much like works of his father during the early 1980's, Kim Jong-un unequivocally states that although economic "adjustments" have already taken place in the DPRK, one should not expect the DPRK to evolve the way China did. Interestingly, while the *Supreme Leader* took time to discuss internal economic issues, matters related to the "external economy" only spread over a few paragraphs. Kim starts by stating that the "one-sidedness" of external trade should be "eliminated" [없애며; *öpsaemyö*], which most likely refers to the DPRK

¹⁰⁴⁸ It seems, however, that a line has been crossed by the DPRK official press in May 2017, when KCNA explicitly criticized China's peninsular diplomacy. Commentary on DPRK-China Relations, KCNA, 4th of May 2017. Url: <http://www.kcna.kp/kcna.user.article.retrieveNewsViewInfoList.kcmsf>. Last accessed 5th of May 2017.

¹⁰⁴⁹ Quoted in FRANK, Rüdiger, 2016, The 7th Party Congress in North Korea: An Analysis of Kim Jong Un's Report, *The Asia-Pacific Journal*, vol.14, N°8. Translation by Rüdiger Frank.

¹⁰⁵⁰ The Korean terms for "reform" and "openness" in the original, respectively 개혁 [*kaehyöŋ*] and 개방 [*kaebang*], are the Korean equivalent of *gaige* and *kaifang*. The use of quotation marks emphasizes the fact that these terms are borrowed. KIM Jong-un, *chosŏn nodongdang che 7ch'adahoeesŏ han tangjungang wiwŏnhoe saŏpch'ongwabogo* 조선로동당 제 7 차대회에서 한 당중앙위원회 사업총화보고 [Central Committee Activity Report at the Worker's Party of Korea 7th Congress], 8th of May 2016, *Rodong Sinmun*. Url: http://www.rodong.rep.kp/ko/index.php?strPageID=SF01_02_01&newsID=2016-05-08-0001. Last accessed 26th of October 2016. The full speech can be seen at the following url: <https://www.youtube.com/watch?v=MgLFYw3tmSQ>.

heavy trade dependence on China¹⁰⁵¹. Interestingly, the term used to describe this “one-sidedness”, 일변도 [*ilbyōndo*], meaning literally to “entirely lean on one side”, is etymologically rooted in a Chinese expression [一边倒, *yibiandao*] that is often used to depict a state of dependence. The issue of dependence indeed comes to mind when Kim continues:

*“Export of finished products and trade in technologies and services should be improved. Joint Ventures [...] are being organized in a way that contributes to the introduction of advanced technology”*¹⁰⁵²

The emphasis on the exports of more finished- and sophisticated goods is, as seen at length earlier, an old objective of the DPRK leadership that seemingly did not change. What is interesting, however, is the conferred role to JVs¹⁰⁵³: attracting foreign companies and their advanced technologies that could help the DPRK reach the above-mentioned objective. It is thus necessary to ensure *“favorable investment environment and conditions in Economic Development Zones”*.

In other words, the basic objective remains the same since Kim Il-sung: becoming gradually independent and self-reliant by increasing economic interaction with foreign countries. The economic development strategy seems to remain the same: by both fostering domestic scientific research and benefitting from technological transfers, the DPRK would climb up the industrial ladder and eventually be able to satisfy most of its material needs by itself, reduce its imports to the strict minimum and thus become more *independent*. The “novel” aspect here are the means used to channel technology and capital in the DPRK’s economy: SEZs and JVs are a means for Pyongyang to replace former flows of “aid in form of trade” and investments made by friendly socialist countries. With the collapse of the socialist bloc, the DPRK had to *adapt* to the new course of events and introduce economic policies that have proliferated in the globalized world.

¹⁰⁵¹ This interpretation was “confirmed” by a DPRK diplomat positioned in Europe. Private E-mail conversation, Fall 2016.

¹⁰⁵² FRANK, 2016.

¹⁰⁵³ Kim uses to different words to describe Joint Ventures: 합영 [*habyōng*] and 합작 [*hapchak*].

8.2.3 A North Korean Reform?

These “opening policies” at the same time do and do not constitute a *reform*.

They do not constitute a reform in the sense that they do not seem to prefigure a shift in the ideological matrix of North Korean economic policies, especially in regard to the “internal economy”. Private companies are still officially banned (although they might be tolerated to some extent), the economy is still centrally planned, etc. Unsurprisingly, the DPRK’s recent economic policies thus cannot be compared with the Chinese “reform and opening” in any way. In his analysis of Kim Jung-un’s report at the WPK Congress in May 2016, Rüdiger Frank states that instead of a “take-off”, a political trigger that would set off a successful economic reform (a “third plenum” in a sense), the May 2016 Congress marked the return to “a new normal”. Admittedly, an important change since the 6th Congress in 1980 was the mention of SEZs and JVs, but these *tools* (which are furthermore not new in the DPRK) find their roles within the “traditional” economic system, they replace former inflows of technology and capital and have limited qualitative impact on the general design of the economy. What’s more, although this goes beyond the scope of this research, one could add that internal measures such as the “seismic”¹⁰⁵⁴ June 28th and May 30th measures, which increase the size of private plots as well as the responsibility of “production teams” (most often families) seem to have mostly disappointed observers¹⁰⁵⁵, as they did not trigger what was widely expected: a Chinese-style reform.

On the other hand, the introduction and the proliferation of SEZs in the DPRK economy constitute a *reform* in that it necessarily impacts former practices and policies. During the Cold War, Pyongyang could maneuver politically between its allies in order to obtain much-needed technological and financial assistance, and inject it in the economic system it designed. Nowadays, although Beijing still provides assistance to the DPRK it is most likely a mere fraction of what it used to be. North Korea now has to *attract* investment from profit-

¹⁰⁵⁴ LANKOV, Andrei, Reforming North Korea, *Al Jazeera*, 30th of November 2014. Url: <http://www.aljazeera.com/indepth/opinion/2014/11/reforming-north-korea-20141117121917871925.html>. last accessed 27th of October 2016.

¹⁰⁵⁵ KATZEFF-SILBERSTEIN, Benjamin, The Limits of North Korean Agricultural Reform, *The Diplomat*, 19th December 2015. Url: <http://thediplomat.com/2015/12/the-limits-of-agricultural-reform-in-north-korea/>. Last accessed 27th of October 2016.

seeking Chinese actors, which in turn incites Pyongyang to open Special Economic Zones, integrate international norms and implement preferential policies for Chinese businesses. Based on Amin's theory of *Delinking*, it seems that a gradual change has happened¹⁰⁵⁶. When North Korea opens Economic Development Parks in order to attract investment, it no longer submits its external relations to the priority of its own internal development, quite the contrary: it (partially) alters its economic policies in order to be able to maintain necessary external relations. This shift is partial and obviously does not amount to a "structural adjustment", often opposed by Amin to its concept of *Delinking*. North Korea is however not in capacity to "compel the other to adjust to the needs of [its] development"¹⁰⁵⁷, it seems to be *adjusting*, to some extent, to the need of foreign countries, in particular China. In a sense, it might be argued that Pyongyang is currently experimenting with its very own "third way", which differs from both former policies but still is not like Chinese reform.

The extent of these adjustments, of these new economic policies that are and are not reformist at the same time, obviously is cause for great concerns in Beijing. Chinese diplomatic policies need to be calibrated and subtle, as the DPRK and the Korean Peninsula is part of an extremely and increasingly complex geopolitical *Great Game*, especially within the context of China's rise [中国崛起 ; *zhongguo jueqi*] as a diplomatic power. Beijing is pushing for reform, but also for stability. It is also pushing for openness, but in a way that suits its own development patterns. In other words, China's general attitude towards the DPRK is *ambiguous*.

¹⁰⁵⁶ In the French version of *Delinking*, Amin actually strongly criticizes SEZs as a mode of development : "free zones and cheap labour, abusive financial and technological dependence without to offer a possibility of emancipation [dépassément] gives this industrialization strategy a comprador character". AMIN, 1985, p.63.

¹⁰⁵⁷ AMIN, Samir, 2015, The Path of Development for Undeveloped Countries and Marxism, Speech at the World Congress on Marxism Studies, Beijing University, 10th of October 2015. Available here: <https://www.youtube.com/watch?v=F07FgOx7FVc>. Last accessed 27th of October 2016.

Chapter 9: The Beijing consensus and the Beijing paradox: China's ambiguous attitude towards the DPRK

Since China and North Korea signed their Mutual Aid and Cooperation Friendship Treaty in 1961, the bilateral relation has known important changes. The treaty was made to last twenty years, until 1981, but was renewed that year for another twenty years and then again in 2001, meaning that it theoretically runs until 2021. Since then, the PRC established diplomatic relations with South Korea, which had also become a very close business partner for China since the 1980s. In the context of the Chinese economic take-off as well as the DPRK's lasting economic struggle, the "aid" granted by the 1961 treaty is no longer mutual, and the very existence of actually successful cooperation is debatable, as seen already. The bilateral relation is becoming increasingly complicated by the DPRK nuclear program, making Pyongyang an important issue at stake in the announced Sino-American rivalry in the Asia-Pacific region. The DPRK is one of China's very few political¹⁰⁵⁸ and military¹⁰⁵⁹ allies (actually the *only* one in the latter case) but at the same time is the *only* economy actively sanctioned by China, a clear sign of Beijing's ambivalent attitude. Both countries have a common strategic interest in increased cooperation, both in the political and economic realm. This cooperation is irregular and difficult. One possible and obvious explanation are the DPRK's peculiar economic policies, which do not seem appealing for Chinese public or private investors or businessmen. Another explanation, that will be dealt with in this chapter, is Beijing's very unique and quite often self-contradictory foreign policy towards the DPRK: in many regards, the PRC seems to be trying to provide support to Pyongyang to prevent it from collapsing while at the same time refusing to engage into larger-scale economic

¹⁰⁵⁸ China traditionally mistrusts alliance formation, as explained in TRIGKAS, Vasilis, Is China a Lonely Diva?, *The Diplomat*, 3rd of September 2014. Url: <http://thediplomat.com/2014/09/is-china-a-lonely-diva/>. Last accessed 28th of October 2016.

¹⁰⁵⁹ 'Surgical' U.S. strike on N. Korea would lead to 'bloodbath,' war with China: expert warns, *Yonhap*, 1st of November 2016. Url: <http://english.yonhapnews.co.kr/northkorea/2016/11/01/26/0401000000AEN20161101000200315F.html>. Last accessed 11th of November 2016. According to Sullivan as of 2007, China had only signed Friendship treaties with Japan (in 1978) and Russia (in 2001). It however signed a "friendship treaty" with Pakistan in 2005. SULLIVAN, Lauren, 2007, *Historical Dictionary of the People's Republic of China*, Scarecrow Press, London. See also China, Pakistan, sign a Friendship Treaty, *Zhongguowang*, 6th of April 2005. Url: <http://www.china.org.cn/english/international/124830.htm>. Last accessed 28th of October 2016.

engagement as it did during and after the Korean War and still continues to do (albeit according to a different pattern and objective) in several countries considered to be “rogue”. The ambiguity¹⁰⁶⁰ of China’s diplomatic, political and economic policies can be witnessed not only by examining the policies themselves, but also by measuring the contrast between centrally- and locally-decided policies. The widening academic debate inside the PRC on the most suitable relation towards Pyongyang also is an indicator that China sits between two chairs. It was already explained that North Korea did not engage into the reforms that were widely hoped in China; in this chapter, it will be shown that the PRC also clearly does not constitute the DPRK’s dream partner.

In order to fully seize this paradoxical aspect of Beijing’s policy regarding the DPRK, the PRC’s objectives regarding North Korea, the peninsula as a whole as well as the rest of the world have to be taken into account. Chinese interests towards the DPRK are twofold: political and economic. These two aspects, in China, are nonetheless deeply intertwined, and this seems to be especially the case of Beijing’s DPRK policy. However, for practical reasons and readability, these two intertwined elements will be addressed consecutively in the following sections.

9.1 China’s political objectives and the Korean obstacle

China’s diplomacy towards the Korean peninsula is trapped in a dense network of contradictions which leave the PRC with very limited diplomatic leverage on the DPRK and other Northeast Asian States.

9.1.1 China’s rise and the issue of “rogue States”

In the wake of important diplomatic achievements by the PRC during the 1970 decade (Nixon visit, seat at the UN Security Council, etc.), the results of its successful economic reform and its export-oriented nature gave Beijing a front row seat on the world stage. Much ink has been spilled on China’s rise [中国崛起 ; *zhongguo jueqi*] and what it implies for international diplomacy, since it not only challenges hegemonic powers, but also could potentially reshape acceptable diplomatic practices. The modern Chinese State indeed stems

¹⁰⁶⁰ SZALONTAI, 2015.

from a different ideological background from the West, and has historically built a very different network of allies and partners. However, with China still being a developing country with limited soft power and an even more limited (but growing) ability to shape/influence international practices and institutions, its approach of global diplomacy is frowned upon by governments and societies in the West but also throughout the world. This growing contrast is the subject of a brisk intellectual debate in China on how to implement a “diplomacy with Chinese characteristics” that would be different from the West but would allow Beijing to be accepted in the closed club of global powers. In other words, how to appear as a “responsible power” [负责任大国 ; *fuzeren daguo*] but still implement policies that are favorable to Chinese national interests? While China’s internal policies are often pointed out by journalists and observers as somehow “unsuitable” for a major world power (often from a Western perspective), Beijing’s diplomacy is also viewed as something that would prevent it from becoming a world power. Chinese longstanding policy of non-interference in internal affairs has led to western criticism of Beijing’s role in supporting States that are considered as “rogue” or more generally speaking controversial by the West. Among these States is the DPRK, which is frequently accused of human rights violations, trafficking, and nuclear proliferation, among many others. China has an obvious strategic interest in supporting the DPRK but it also does so because Beijing bases the “superiority” of its diplomatic practices on the fact that it does not interfere in internal affairs. According to Chinese diplomats and scholars, Chinese diplomacy thus constitutes an alternative to Western support, which would come with political strings attached for partner countries. On the other hand, it also has a strong incentive to cut ties with the DPRK, a burden that prevents its emergence as a “responsible power” and a trustworthy partner for the rest of the international community. If China abandons North Korea (as some Chinese strategists advocated), it will most likely be seen as an unreliable partner by other developing countries that are placing high hopes on Chinese investment, assistance and support for their development, especially in Asia and Africa in the context of “the one belt, one road” initiative. On the other hand, the fact that China keeps on “supporting” the DPRK is often used by its rivals, especially by Washington, to point out that Beijing is not “bound to lead” (yet), not “mature” enough to be a world-class diplomatic power. In its objective of “peaceful rise”, the DPRK clearly appears as liability for China, and, trapped in contradictions,

Beijing has proven unable so far to sever the Gordian knot. Since the 4th North Korean nuclear test, it should however be noted that the PRC government increasingly relies not only on a well-worn official diplomatic “pedagogy”, but also tries to action its public diplomacy levers in order to better reach out to foreign, and especially western, audiences. For instance, former head of the State Council Bureau of Information (the twin institution of the CCP CC’s External Propaganda Office) and public diplomacy theorist¹⁰⁶¹ Zhao Qizheng, is increasingly mobilized to explain the foundations of the Chinese diplomacy regarding North Korea, for instance arguing that “excessive sanctions and pressure could lead to [...] even worse problems”¹⁰⁶². Zhao is the man behind the introduction of western-style official press conferences in the PRC, sometimes including foreign journalists, and his involvement in sensitive affairs like China-DPRK relations strongly suggests that if China is only marginally able to alter its policies regarding the peninsula it still tries to make its voice heard abroad by focusing on pedagogy and public relations.

9.1.2 China’s North-South and East-West equilibrium

The DPRK is for China an unsettling but important ally in a sensitive region, where former Cold War superpowers, their allies and new rising powers are juxtaposed. Indeed, the “standard” argument for Chinese support to North Korea is that the latter forms a “strategic screen” [战略屏障 ; *zhanlüe pingzhang*] or “buffer zone” between China and Washington’s allies in the Asia-Pacific region, among which is South Korea (and beyond, Japan). However, as mentioned already, South Korea now counts as one of China’s most important economic partner, and Sino-North Korean trade and investment levels amount to only a tiny fraction of Beijing-Seoul economic ties. Chinese diplomacy in the peninsula thus aims at maintaining a very subtle balance, and tries keeping good relations with both sides of the DMZ. This obviously does not come as a surprise, especially in the context of the China’s peripheral

¹⁰⁶¹ D’HOOGHE, Ingrid, 2015, *China’s Public Diplomacy*, Brill, Leiden. Zhao is the author of numerous books about communication in China and Public Diplomacy. He is also the president of the International Board of the Public Diplomacy focused-think tanks Charhar.

¹⁰⁶² Zhao Qizheng: *zhongguo danxin chaoxian nanmindapi tongru bianjing diqu* 赵启正 : 中国担心朝鲜难民大批涌入边境地区 [Zhao Qizheng : China worries about a migrant crisis in the borderlands], *Hanqiu Shibao*, 29th of April 2016. Url: <http://world.huanqiu.com/exclusive/2016-04/8838850.html>. Last accessed 25th of November 2016.

diplomacy that aims at maintaining “good, safe and prosperous neighbor relations” [睦邻, 安邻, 福邻 ; *mulin, anlin, fulin*], which mechanically necessitates subtle diplomacy when it comes to engaging mutually hostile countries. But as the geography of the peninsula is heavily influenced by Cold War patterns, China’s diplomacy faces another important dilemma, especially in the context of Washington’s “pivot towards Asia” [亚太再平衡 ; *yatai zaipingheng*], widely believed by analysts (especially in China) to be aimed at containing the new rising power of the region, the PRC. From China’s perspective, behind the DMZ are almost 30 000 US troops, anti-missile defense systems such as the THAAD (Terminal High-Altitude Aerial Defense), plus American highly sophisticated weaponry on an intermittent basis. In this very tensed and sensitive framework, Pyongyang’s controversial nuclear, ballistic and spatial programs puts Beijing in an extremely awkward position: every time the DPRK test-fires missiles or detonate a nuclear bomb, Washington seizes the occasion to enhance its military presence in Northeast Asia, boost its military ties with partners from the area, or pressure China to convince or compel the DPRK to alter its course. Beijing then again faces two different irreconcilable options: either voluntarily decreasing its economic ties and support to the DPRK and risk to push Pyongyang into even more provocative behavior, or try to balance Washington’s show of force by, paradoxically, increase its supports to North Korea. Beijing often leans towards one side or the other depending of the international context, but mostly seems to prefer *status quo* and refrains from making definite choices. After Pyongyang’s 3rd nuclear test in 2013, for instance, Beijing tried to be harsher on Pyongyang, allegedly in order to successfully unfold Xi Jinping’s “new type of major power relationship” with the US¹⁰⁶³. Beijing also seems to have made a similar choice in January 2016, when Pyongyang proceeded to its 4th nuclear test, in the midst of a phase of intense Chinese “charm offensive” towards South Korea. This particular configuration opened the way for UNSC resolution N°2270 (March 2016). The resolution encompassed very harsh economic measures against the North, specifically targeting the DPRK’s coal exports, which amounted for almost half of the country’s total exports. One month later, in April 2016, Beijing even implemented its own unilateral sanctions against the DPRK, which *de facto*

¹⁰⁶³ Fire on the City Gate: Why China Keeps North Korea Close, International Crisis Group, *Asia Report* n°254. See p.13

resulted in Pyongyang being Beijing's formal military ally, but also, at the same time, the only country in the world targeted by unilateral and active¹⁰⁶⁴ Chinese economic sanctions¹⁰⁶⁵.

Revealing of the ambiguous nature of its peninsular diplomacy, following the 4th nuclear test, China threaten to “backtrack” on the issue of sanctions after the US and Seoul announced that they agreed on deploying the Terminal High Altitude Defense System (THAAD) in South Korea¹⁰⁶⁶. This ground-based missile interceptor designed in the US involves powerful radars and detection devices which are allegedly pointed at the DPRK, but strongly suspected by Chinese analysts¹⁰⁶⁷ to be actually pointed at China for intelligence gathering purposes or in order to reduce the Chinese nuclear deterrence. UN sanctions following the 5th and 6th nuclear tests (respectively on the 3rd of September 2016 and 9th of September 2017), as well as countless ballistic missiles tests, dramatically increased but their systematic implementation by China is left to be seen, as will be discussed.

Beijing's cyclical behavior in regard with its “peninsular dilemma” paradoxically is the symptom of a profound, long-lasting desire for stability in its immediate periphery. This is evidenced by Beijing's “three nos” policy: no nuclear weapons, no chaos, no war [无核无生乱无战 ; *wuhe wushengluan wuzhan*]¹⁰⁶⁸, as well as the “three pros” (or three principles): pro-denuclearization, pro-stability, pro-dialog and negotiations [朝鲜半岛无核化、半岛和平与稳定、对话与协商解决问题; *chaoxianbandao wuhehua, bandao heping yu wending, duihua yu xieshang jiejie wenti*]¹⁰⁶⁹. Pressed by the US and its allies to prove its commitment to the denuclearization of the Korean peninsula by cutting economic ties with Pyongyang,

¹⁰⁶⁴ “Active sanctions” as opposed to passive boycott of certain products/companies, which might be encouraged or not discouraged by the government, but are not sanctions properly speaking.

¹⁰⁶⁵ *Shangwubu gonggao2016 nian di11 haoguangyu chaoxian jinyun bufen kuangchanpin qingdan gonggao* 商务部公告 2016 年第 11 号 关于对朝鲜禁运部分矿产品清单公告 [Chinese Ministry of Commerce announcement n°11 of 2016 regarding a list of embargoed minerals from the DPRK], *Ministry of Commerce of the PRC*, 5th of April 2016. Url: <http://www.mofcom.gov.cn/article/b/e/201604/20160401289770.shtml>. Last accessed 25th of November 2016.

¹⁰⁶⁶ LIANG Yabin, 2016, North Korea's Nuclear Tests Strategically Reshaping Northeast Asian Security, *Asia-Pacific Bulletin of the East West Center*, n°357.

¹⁰⁶⁷ Interview with Chinese military scholar, February 2017, Beijing.

¹⁰⁶⁸ GLASER, BILLINGSLEY, 2012.

¹⁰⁶⁹ WANG Junsheng, , *zhongguo dui chaoxian zhengce cuo le ma* 中国对朝鲜政策错了吗? [is China's North Korean Policy Wrong?], *Huanqiu Shibao*, 26th of September 2016. Url : <http://opinion.huanqiu.com/plrd/2016-09/9441771.html>. Last accessed 31st of October 2016.

China increasingly seems to try to dodge pressure not by making an impossible choice (assuming its support to a nuclear “free rider” or implementing stricter policies against the DPRK which directly contradicts China’s national interest), but by deflecting responsibility. As the very nationalist *Global Times* explained in an editorial,

“if the situation on the Korean peninsula is so complex, it is of course because the North Korea government made some mistaken security policy decisions, but also because the US still implements an antagonistic policy against the DPRK¹⁰⁷⁰.”

With Beijing once again having no appealing way out of this deadlock, its diplomatic efforts mostly aim at stability, damage control and *status quo*. While this very careful approach obviously contradicts with Pyongyang’s and Seoul long-term goal of reunification, it also, more surprisingly, antagonizes Pyongyang’s economic development strategy. Indeed, preferring stability above anything else, and trying not to antagonize too strongly with major trade powers such as the US, South Korea or many other, necessitates for China not to be seen overly supportive of the DPRK and consequently not to “reward” its behavior by fueling its economy with technology, capital and know-how. While this policy was relatively easy to implement when only exports of military or dual-use goods were sanctioned, the extremely far-reaching recent UN sanctions makes it increasingly difficult for Beijing to maintain its diplomatic balance while successfully implementing an economic engagement strategy towards the DPRK.

9.2 A captive but reluctant market: Beijing’s careful seizing of DPRK economic opportunities

Beijing’s longstanding preference for stability in the Korea peninsula is reflected by its very specific economic engagement strategies towards the DPRK.

¹⁰⁷⁰*Sheping: chaoheventi “zhongguo fuzelun” she wailikongtan* 社评：朝核问题“中国责任论”是歪理空谈 [editorial : « China’s responsibility debate » on the North Korean nuclear issue are toxic empty talks], *Huanqiu Shibao*, 8th of January 2016. Url: <http://opinion.huanqiu.com/editorial/2016-01/8338885.html>. Last accessed 25th of October 2016.

9.2.1 Preferring stability over engagement?

China has had a long history of direct interference and will of influence of North Korea's policies, including economic ones. In the context of the China's "go abroad" policy, and through the extensive use of FDI, it seems that Chinese investors abroad, often through State-owned companies are an important vector of influence for China. Chinese companies are currently pushing African, South and Southeast Asian countries to open North-South "development corridors", from China to the Indian Ocean (or from the African hinterland to the Indian Ocean), with, in the majority of cases, a "Chinese" SEZ at the southern end of the corridor (see next chapter). This strategy, which conjugates Beijing's strategic interests and corporate opportunities, is especially being promoted in the context of the "one belt, one road" initiative: China often loans capital (sometimes through the Asian Infrastructure Development Bank) to foreign governments, which spend them on infrastructure construction (often by Chinese State-owned companies) aimed at better integrating China and the destination country (roads, ports, communications networks...). Then, Chinese and local companies establish themselves in SEZs, often located near ports at the extremities of these communication corridors, and jointly seize benefits from the economic opportunities created. Famous examples include the Gwadar port SEZ in Pakistan, developed by the China Overseas Port Holding (see *infra*)¹⁰⁷¹, the Kyaukpyu SEZ in Myanmar currently being built by a Chinese consortium led by CITIC¹⁰⁷², as well as the Chittagong SEZ with Bangladesh where the China Harbour Engineering Company and the China Communication Construction Company recently started construction work¹⁰⁷³, following the inking of a government-to-government MoU¹⁰⁷⁴. Other examples in Africa¹⁰⁷⁵ include the Jinfei SEZ in Mauritius, where

¹⁰⁷¹ Chinese firm to develop special economic zone in Pakistan, *China Daily*, 12th of November 2016. Url: http://europe.chinadaily.com.cn/business/2015-11/12/content_22434967.htm. Last accessed 28th of November 2016.

¹⁰⁷² Chinese Company Wins Contract for Deep Sea Port in Myanmar, *The Diplomat*, 1st of January 2016. Url: <http://thediplomat.com/2016/01/chinese-company-wins-contract-for-deep-sea-port-in-myanmar/>. Last accessed 28th of November 2016.

¹⁰⁷³ Focus on China Economic Zone in Ctg, *The Independent*, 22nd of August 2016. Url: <http://www.theindependentbd.com/post/56978>. Last accessed 28th of November 2016.

¹⁰⁷⁴ *Zhongmeng shangfang jianshu zhongguojingjihe chanyequ hezuo liangjie beiwanglü* 中孟双方签署中国经济和产业区合作谅解备忘录 [China and Bangladesh sign bilateral MoU on Chinese Economic and Industrial Zone], *Ministry of Commerce of the PRC*, 11th of June 2014. Url: http://www.mofcom.gov.cn/article/zt_jwjmyhq/subjectm/201406/20140600619800.shtml. Last accessed 28th of November 2016.

a nearby port is currently built by the PRC,¹⁰⁷⁶ or the Eastern zone south of Addis-Ababa, linked to Red Sea by a Chinese-built railway¹⁰⁷⁷ that will soon end up on new Chinese-funded port in Djibouti where a massive SEZ (and military base) is being planned¹⁰⁷⁸.

In other words, Beijing is very keen, and quite successful, in promoting in neighboring countries and overseas what it considers as “modernization strategies” that proved to be successful for China. This general attitude sharply contrasts with the PRC’s economic integration strategies towards the DPRK, which are much more careful and cautious.

When the DPRK tried to establish a Hong-Kong inspired SEZ at the Chinese border in Sinuiju, on the mainstream of an *already existing* bilateral trade route (which is not the case in the South Asian and African ventures), China abruptly put an end to what can only be considered as the DPRK boldest reform and opening attempt, directly inspired by the Chinese example. Besides the judicial aspects of Yang Bin’s downfall, it seems that China indeed had several reasons not to feel comfortable with having him governing a Hong-Kong like SAR directly across the Yalu. Yang had benefited from a post-1989 law in the Netherlands to be granted political refugee status (and later Dutch citizenship). Seeing a former political refugee, as well as an alleged felon, given police power on a territory located on one of the world’s most sensitive border can only be considered as risky from a Chinese perspective. But China and the DPRK could have agreed on a less controversial figure to lead the SAR. It rather seems that Beijing wanted to nip the SAR in the bud, as PRC officials publicly voiced their doubts about the DPRK’s opening strategy (see chapter 6). China’s uneasiness with the SAR project can be explained in two ways. First, the SAR negotiations were mostly made without coordinating with Beijing. Chinese authorities obviously knew that “something” was going on: as early as April 2002, rumors about a new Special Economic Zone began to circulate among

¹⁰⁷⁵ BRAUTIGAM, Deborah, TANG Xiaoyang, 2011, African Shenzhen : China’s special economic zones in Africa, *Journal of Modern African Studies* n°49 vol.1. pp.27-54.

¹⁰⁷⁶ SPARK, Stephen, Major Investment Expected to Transform Mauritian Port, *HIS Fairplay*, 10th of January 2016. Url: <http://fairplay.ihs.com/article/4259936/major-investment-expected-to-transform-mauritian-port>. last accessed 6th of March 2017.

¹⁰⁷⁷ DUBÉ, François, 2016, China’s Experiment in Djibouti, *The Diplomat* (online). Url : <http://thediplomat.com/2016/10/chinas-experiment-in-djibouti/>. Last accessed 6th of March 2017.

¹⁰⁷⁸ ARTEH, Abdourahim, Djibouti breaks ground on massive Chinese-backed free trade zone, *Reuters* (online), 16th of January 2017. Url: <http://www.reuters.com/article/china-djibouti-idUSL4N1F649H>. Last accessed 3rd of March 2017.

the business community in Dandong, and the then-mayor of the city, Cai Zhefu, actually discussed these rumors with the author of Yang's hagiography. Cai was enthusiastic about the project, but admitted he had not received instructions from Liaoning Party authorities. The fact that Yang Bin seemed to not only target Chinese investment but also Japanese, South Korean, and European investments might have made Beijing feel it was "too much too fast" and potentially harm the stability cherished by China. This last point is especially important to be considered in the framework of Junichiro Koizumi's visit to Pyongyang on the 17th of September 2002. During this Kim-Koizumi meeting, the abduction of Japanese citizens by North Koreans had been acknowledged (and apologized for) by the DPRK authorities, and Kim Jong-il voiced support for the easing of tensions in Northeast Asia and better bilateral relations with the US and South Korea. To this list should also be added the 1st of July 2002 reforms, which were widely believed by some to be a first step towards a full-fledged economic reform at that time¹⁰⁷⁹.

It also might have been "too much too fast" for China in a more self-interested perspective. Since the end of the Cold War, and especially at the beginning of the 2000's when business activity in Rason slowed down, the DPRK gradually became a captive market for China, and Chinese investment was ready to skyrocket after the 1st of July economic reforms¹⁰⁸⁰, as explained earlier. In this context, more than a potential partner, Sinuiju might well have been a competitor to Dandong and Liaoning province in general, which were already struggling economically. Yang Bin can be criticized in several ways, but he was an extremely successful businessman, and Sinuiju's Basic law was explicitly designed in order to take advantage of the massive FDI flows aimed at the burgeoning Chinese market. In 2002, Chinese journalists even made anxious comments about the Sinuiju SAR's explicit objective of attracting the very best of China's graduate students (from Beijing and Tsinghua Universities) and create a business incubator: according to the Chinese press, Sinuiju was indeed designed to compete with Dandong and Northeast China¹⁰⁸¹. What's more, only a few days after the Sinuiju SAR opening was made public, business delegations started to visit

¹⁰⁷⁹ YOICHI, 2007. See p.451. The author quotes James Hoare, British Chargé d'Affaires to Pyongyang as saying: "*the most important reform since the birth of the DPRK in 1948*"

¹⁰⁸⁰ KIM Jae-chol, 2006, *The Political Economy of Chinese Investment in North Korea, A Preliminary Assessment*, *Asian Survey* vol. XLVI, n°6. 2004 Chinese investment levels in the DPRK were 10 times those of 2003 (see p.899).

¹⁰⁸¹ *Xinyizhou geming* 新义州革命 [The Sinuiju Revolution], Shangye Shidai, 25th of October 2002. See p.42-43.

Dandong to find information on “the new Hong-Kong”: on the 25th of September, no less than 50 Chinese companies toured Dandong, especially looking for opportunities in the manufacturing and tourism sectors. No one obviously is in a position to say that the Sinuiju SAR was bound to be a major success and actually threaten Chinese businesses on the other side of the border. However, the Sinuiju SAR project was bold, led by a Chinese-born businessman with an extensive network inside the PRC’s business and political circles, and the economy of the *Dongbei* was (and still is) clearly lagging behind coastal Chinese provinces (a phenomenon which eventually triggered the *Zhenxing dongbei* campaign in 2005). The Sinuiju SAR was thus a risk for both China’s security and economy and Beijing understandably picked the safest option.

This Chinese preference for stability is most obviously evidenced in the Sinuiju SAR fiasco, but can still be witnessed currently. The PRC has important incentives in favor of economically engaging the DPRK. Economic opportunities in North Korea could strengthen Northeast China’s economy, improve China’s bilateral relation with the DPRK as well as its influence on Pyongyang, and eventually, in the long run, stabilize the peninsula and the whole region. But an actual economic engagement would be seen –and denounced– as support by the international community and especially by Washington, and as a *blanc-seing* or a reward for the pursuit of Pyongyang’s controversial programs. What’s more, as history shows, increased economic ties with Pyongyang does not necessarily lead to influence (see next chapter). As a result, Beijing is increasingly trying to benefit from bilateral economic opportunities while limiting as much as possible its involvement on North Korean territory. One way of doing so, for example, is to attract DPRK labor to work on the Chinese side of the border. There is indeed an unknown (but allegedly rising) number of North Korean laborers working outside of the DPRK, especially in the Sino-Korean borderlands as well as in the Russian Northeast and in the Middle East (marginally in Europe). Given the sensitive aspect of these labor exports, there are no reliable figures available, but anecdotal evidence suggests that North Korean laborers active in the Sino-Korean borderlands are mostly active in the manufacturing and hotel/restaurant sectors (much less in construction than their compatriots working in other higher-income countries: Gulf States, Russia, etc.). As mentioned already, North Korean workers in Dandong are paid around 2000 yuans (\$290) per month (plus accommodation and catering), which amounts to only 70% of their Chinese

colleagues' average salaries¹⁰⁸². If these manufacturing jobs were "outsourced" to Sinuiju, this percentage could drop to less than 30%¹⁰⁸³. However, although this wage gap should favor investing on the North Korean side, evidence gathered during field research in Dandong¹⁰⁸⁴ tends to suggest that, businessmen involved in Sino-DPRK trade¹⁰⁸⁵ would not invest in Sinuiju because of the bureaucratic procedures (both in China and in North Korea). As studies showed, trade with the DPRK is less prone to dispute with North Korean partners than investment: a mere 4% of Chinese businessmen report business-related disputes with local partners, against no less than 41% of investors¹⁰⁸⁶.

The poor conditions of the DPRK's infrastructure (lack of communications and power) are also often pointed out as important obstacles for investment. A substantial number of Dandong-based interviewees expressed their hopes that when the "new bridge" would be completed, it would boost bilateral investment. Interviews with Chinese businessmen in Tumen, Hunchun and Yanji¹⁰⁸⁷, as well as North Korean representative stationed in Yanbian¹⁰⁸⁸, also tend to show that infrastructure development in the zone could potentially trigger larger trade and investment flows in the borderlands. Infrastructure-building strategies proved to be successful in most of China's neighboring countries: Chinese investments in Myanmar and Pakistan's infrastructure and manufacturing sector¹⁰⁸⁹ led to

¹⁰⁸² *Hanguo meiti cheng chaoxian xiaog whongguo dongbei yunchu daliang laodong zhuanqu waihui* 韩媒称朝鲜向中国东北输出大量劳工 赚取外汇 [according to South Korean media, massive export of North Korean laborers to China constitutes an important mean to obtain foreign exchange], *Cankao Xiaoxi*, 1st of February 2016. Url : <http://www.cankaoxiaoxi.com/china/20160201/1066952.shtml>. Last accessed 29th of February 2016.

¹⁰⁸³ Calculation made by the author, based on the average wage of DPRK workers in Rason. As a reminder, minimum wages are to be set by provincial and management committees in SEZs, and thus can differ from Rason.

¹⁰⁸⁴ Interviews in Dandong, November 2015.

¹⁰⁸⁵ The author was unable to engage into meaningful exchanges with Chinese businessmen hiring DPRK labor.

¹⁰⁸⁶ GLASER, Bonnie S., BILLINGSLEY, Brittany, 2012, Reordering Chinese Priorities on the Korean Peninsula, *Center for Strategic and International Studies Freeman Chair in China Studies Report*. Url: https://csis-prod.s3.amazonaws.com/s3fs-public/legacy_files/files/publication/121217_Glaser_ReOrderingChinese_web.pdf. Last accessed 6th of March 2017.

¹⁰⁸⁷ Interviews in Yanji, April 2014. Interviews in Tumen and Hunchun, February 2016.

¹⁰⁸⁸ Interview with Ho Kyong-jin, April 2014 and February 2016.

¹⁰⁸⁹ Myanmar and Pakistan are chosen here because the nature of their strategic interest for China closely parallels North Korea's. As will be explained and discussed later in this chapter and the following one, sharp differences between these countries and the DPRK obviously exist.

sharp increase in Chinese exports to these countries. Between 2007 and 2012, for instance, Chinese investment to Myanmar jumped from \$262 million to almost \$3,1 billion, part of which was due to new gas and oil pipelines linking Yunnan province to the Bengal Bay. In the same period, Chinese exports grew from \$1,7 to almost \$5,7 billion. On the other hand, in the DPRK's case, the increase in bilateral trade between 2006 and 2013 (from \$1,7 to more than \$6,5 billion) was paralleled by a much more modest increase in FDI, reaching slightly more than \$600 millions in 2014.

One way of seizing economic opportunities offered by the DPRK while limiting actual "binding" economic engagement is to open "border zones" on the Chinese side of the border, a strategy increasingly pursued by local authorities in the mainland towards neighbouring neighboring countries. Since the 2000's, "border zones" have proliferated on the mainland's margins, especially on the border with Vietnam (the Pingxiang and Hekou cross-border Economic Cooperation Zones), Russia (Manzhouli), Kazakhstan (Horgos Free Trade Zone), Tadjikistan (Kulma) and, last but not least, Laos, where the \$31 billion Mengla pilot zone recently started operating. As explained in part II, local authorities in Liaoning and Jilin have also opened "border zones" near the China/DPRK border: the Guomenwan Trade zone in Dandong¹⁰⁹⁰, the Hunchun Economic Border Cooperation Zone [珲春边境经济合作区; *hunchun bianjing jingji hezuo qu*] and the Hunchun Export-Processing Zones [珲春出口加工区; *hunchun chukou jiagong qu*]. These attempts at fostering trade (through fiscal incentives) and geographically structuring the international division of labor have mostly been met with skepticism on the Korean side of the border, although North Koreans laborers have been reported to be working in Hunchun¹⁰⁹¹. What these zones say about the current economic cooperation between the PRC and the DPRK will be dealt with in the next chapter. However, these zones, and the Guomenwan Trade Zone in particular, do indeed constitute symptoms of China's ambivalent and often paradoxical approach regarding the DPRK. Numerous analysts, including Chinese journalists, voiced their concerns that economic

¹⁰⁹⁰ There is also an export-processing zone in Dandong, but it does not seem to have any meaningful relation with the DPRK.

¹⁰⁹¹ Un air d'ouverture flotte à la frontière sino-coréenne, *Le Monde*, 26th of September 2012. Url : http://www.lemonde.fr/asie-pacifique/article/2012/09/26/un-air-d-ouverture-flotte-a-hunchun-a-la-frontiere-sino-coreenne_1765708_3216.html. Last accessed 29th of November 2016.

activity in Guomenwan would not pick up as too impacted by multi- and Chinese unilateral sanctions following the DPRK's 4th nuclear test in January 2016¹⁰⁹². More simply put, Chinese authorities implement contradictory policies regarding the DPRK, trying to foster economic cooperation on the one hand while sanctioning the North Korean economy on the other hand. As a matter of fact, sanctions and their uneven implementation also constitute an additional sign of Beijing's ambivalent diplomacy towards its neighbor.

9.2.2 *The sensitive issue of sanctions and their implementation*

The PRC was known, until recently, for "keeping a low profile" in international diplomacy, an attitude that can easily be witnessed in China's vote records at the UN, and especially at the Security Council (UNSC). Indeed, Beijing very rarely uses its veto power: between 1972 and 2006, it only casted a negative vote twice, against 76 times for the US, for instance¹⁰⁹³. However, contrary to a widespread belief, China does not systematically abstain when it comes to UNSC vote on North Korea, quite the contrary. China itself still is embargoed by several nations¹⁰⁹⁴ and has repeatedly expressed its uneasiness with trade embargoes and economic sanctions, considered to be interference in internal affairs. As scholars have pointed out, it certainly does not mean that the PRC is not using economic and financial pressure as part of its foreign policies¹⁰⁹⁵, but this does not technically constitute economic sanctions. As a matter of facts, Beijing, widely considered to be the DPRK's "protector" at the UNSC, never actually vetoed a UNSC resolution dealing with North Korea; it furthermore never abstained on arms trade embargo and economic sanctions against Pyongyang since the latter detonated a nuclear bomb in 2006¹⁰⁹⁶. Voting in favor of always harsher economic

¹⁰⁹² Zhicai zhongtu zhongchao Dandong bianmao chaoxian gehu mingxian jianchao 制裁冲击中朝丹东边贸 朝鲜客户明显减少 [sanctions hurt Sino-korean border trade, North Korean customers becoming increasingly rare], *Sohu*, 18th of April 2016. Last accessed 29th of November 2016.

¹⁰⁹³ SHICHOR, Yitzhak, 2006, China's Voting Behavior in the Un Security Council, *The Jamestown Foundation China Brief*, vol.6 n°18.

¹⁰⁹⁴ China is still currently under an arms trade ban from the EU, following the Tiananmen events, and from the US.

¹⁰⁹⁵ REILLY, James, 2012, China's Unilateral Sanctions, *The Washington Quaterly Journal*, vol.35, n°4. pp. 121-133.

¹⁰⁹⁶ WUTHNOW, Joel, 2011, *Beyond the Veto: Chinese Diplomacy in the United Nations Security Council*, Ph.D Thesis dissertation, unpublished. See also UN Security Council voting record on Resolutions 1718 and 1874 relating to an arms embargo on North Korea (DPRK), SIPRI, Undated. Url: <https://www.sipri.org/sites/default/files/2016-03/DPRK-vote.pdf>. Last accessed 30th of November 2016.

measures against the DPRK is in line with Beijing's will to be considered as a "responsible power" concerned with peace and stability and thus condemning North Korea's controversial programs. That being said, with China holding veto power at the UNSC, draft resolutions against the DPRK *de facto* need to be green lighted by Beijing. This state of fact leads to intense bargaining between China and other veto-wielding powers at the UNSC (mostly the US¹⁰⁹⁷) before resolution drafts can actually be presented to the council. China has thus an important role in watering down UNSC resolution in order to mitigate the risks for both the DPRK and itself.

If China has such an important position in determining the reach of economic sanctions, it is not only because of its veto power, but also because it almost is the DPRK's sole economic partner. As explained earlier, China values regional stability above all and is thus eager to see the DPRK nuclear program frozen, or, best case scenario, reversed. It also has an interest in having an economically dynamic neighbor, for self-interested reasons: stability and opportunities for the economically deprived *Dongbei*. China consequently needs to mitigate sanctions and their impacts in order to both keep Pyongyang under pressure while at the same time allow it to breathe. There are two main ways for China to do so: the first, as just explained is to act at the root of the issue, the diplomatic battle regarding the content of UNSC resolutions. The second one is to mitigate the *impact* of sanctions, by carefully adapting the scope and depth of their implementation at the border. Before 2016, Beijing was already regularly accused of not implementing UNSC sanctions against the DPRK, as anecdotal evidence suggested that banned items (essentially luxury products) were "easily" available inside the DPRK. After the 6th of January 2016 nuclear test, Beijing's attitude gradually changed, leading to the UNSC 2270 and 2321 resolutions, which dramatically increased the scope and nature of multilateral sanctions against the DPRK. To sum up, in addition to previously banned items (weapons, luxury products), the March 2016 resolution impose systematic inspection of cargo going in and out the DPRK, prohibits jet fuel exports and bans all supply and purchase of a quite large selection of minerals¹⁰⁹⁸ to/from North Korea (including coal). Much ink has been spilled on the impact of these sanctions and about

¹⁰⁹⁷ The draft of resolution 2270 voted in March 2016, for instance, was first jointly designed by the US and China, and then only passed on to France, the UK and Russia.

¹⁰⁹⁸ The March 2016 sanctions forbid the trade of coal, gold, titanium, vanadium, iron and iron ore, and some rare earths. To that list were added, in November 2016, copper, nickel, silver and zinc.

what they say of the current struggle of power between the international community and the DPRK, as well as China's crucial diplomatic position within this struggle. If the 2016 sanctions did constitute such a qualitative and quantitative change, it necessarily means that the PRC green lighted a much harsher resolution draft, sending a message to both the DPRK and the international community. China even broke with its long-lasting diplomatic tradition of not directly interfering in other countries' affairs by imposing its own economic embargo against North Korea¹⁰⁹⁹, an unprecedented move in the PRC's history. The message to Pyongyang did not change: China would not tolerate chaos in its near periphery. By imposing harsher bilateral and multilateral sanctions against the DPRK, Beijing did also send an important message to the international community: as a responsible power, China was joining collective efforts in order to curb North Korea's nuclear quest. This move however turned out to put the PRC in an even more awkward diplomatic position: the uncommon Chinese "radicalism" attracted observers' attention, and the relatively lax implementation of economic sanctions at the border became even more apparent.

The March 2016 UNSC resolution, as well as the Chinese unilateral sanctions (which closely follow UN resolution 2270¹¹⁰⁰), theoretically block numerous items to be imported from the DPRK. For months, they did have one important loophole: trade of above mentioned items is generally forbidden except if "the State determines that such activity is exclusively for humanitarian purposes or exclusively for livelihood purposes"¹¹⁰¹. In other words, UN member states were allowed to export jet fuel to the DPRK or to import banned minerals as long as they consider that the trade is made for humanitarian/livelihood purposes. Although the very strict nature of UN sanctions against the DPRK could potentially have dramatic consequences in the context of the critical humanitarian situation of North Korea, the well-known opacity of the country for outside observers makes it absolutely impossible to know about the final destination of traded items or trade benefits. What's more, the vagueness of

¹⁰⁹⁹ *shangwubu gonggao2016 nian di11 haoguangyu chaoxian jinyun bufen kuangchanpin qingdan gonggao* 商务部公告 2016 年第 11 号 关于对朝鲜禁运部分矿产品清单公告 [Ministry of Commerce 11th announcement on the publication of list of items and ores forbidden to supply to North Korea], *Ministry of Commerce of the PRC*, 5th of April 2016. Url:

<http://www.mofcom.gov.cn/article/b/e/201604/20160401289770.shtml>. Last accessed 1th of December 2016.

¹¹⁰⁰ China unveils embargo on North Korea, *Global Times*, 6th of June 2016. Url:

<http://www.globaltimes.cn/content/977365.shtml>. Last accessed 1th of December 2016.

¹¹⁰¹ UNSC Resolution n°2270, *Un Press*, 5th of March 2016. Url:

<http://www.un.org/press/en/2016/sc12267.doc.htm>. Last accessed 2nd of December 2016.

the resolution and the absence of a definition of “livelihood” or “humanitarian” purposes make these exceptions an important loophole that dramatically mitigates the strength of the sanctions. Indeed, after the sanctions were adopted, and even after the PRC’s Ministry of Commerce imposed its own measures, China used the “livelihood loophole” in the sanctions in order to boost its trade with the DPRK, including exports of items banned under resolution 2270. Eventually, resolutions 2321 and 2371 (respectively passed in November 2016 and February 2017) closed this “livelihood” loophole” and the issue of the actual implementation of sanctions by China has become the subject of much scrutiny by journalists, analysts and scholars.

Monthly statistical reports published by the Chinese General Administration of Customs show that, after an initial drop in April, May and July 2016 (respectively minus 9,1%, 8,1% and 15,7% year-on-year), bilateral trade ties soared. In August, bilateral trade value jumped almost 30% year-on-year, followed by another 21,1% rise in October¹¹⁰². Revealingly, exports of explicitly banned items broke records: in August 2016, exports of coal were 35% higher than one year earlier (+27% in value)¹¹⁰³, the largest amount imported in a month since 1998. Jet fuel exports, which are also banned under the 2270 UNSC resolution, also skyrocketed in September 2016, plus 391% year-on-year. After the vote of the 2321 resolution in November 2016, which capped total coal exports at \$400 million (or 7.5 million metric tons, whichever is the lowest), China purchased North Korean anthracite in a quantity far exceeding the cap set by the UN¹¹⁰⁴, violating the resolution it supported at the UNSC in December 2016. Few weeks later, in a context of tensed bilateral ties with Pyongyang and warming relations with Washington, Beijing backtracked and decided to cease all coal imports from Pyongyang¹¹⁰⁵.

¹¹⁰² N. Korea-China trade on steady rise despite sanctions, *Yonhap*, 25th of November 2016. Url: <http://english.yonhapnews.co.kr/search1/2603000000.html?cid=AEN20161125006900315>. Last accessed 2nd of December 2016. Chinese Customs data is consistent with this KITA-based report.

¹¹⁰³ N. Korea's coal exports to China hit record high in Aug. , *Yonhap*, 5th of December 2016. Url: <http://english.yonhapnews.co.kr/search1/2603000000.html?cid=AEN20160930001500320>. Last accessed 5th of December 2016. Chinese Customs data is consistent with this KITA-based report.

¹¹⁰⁴ U.N. report: N. Korea's coal exports far exceed U.N. ceiling in Dec., *Yonhap News*, 21st of February 2017. Url: <http://english.yonhapnews.co.kr/search1/2603000000.html?cid=AEN20170221012900315>. Last accessed 6th of March 2017.

¹¹⁰⁵ *Shangwubu haiguan zongshu gonggao2017 nian di 12 hao* 商务部 海关总署公告 2017 年第 12 号 [MOFCOM Customs office announcement n°12 of 2017], *Ministry of Commerce of the PRC*, 18th of February 2017. Url: <http://www.mofcom.gov.cn/article/b/c/201702/20170202518342.shtml>. Last accessed 6th of March 2017.

China is thus able to mitigate the sanctions and their implementation based on its cyclical interests regarding the peninsula, the US and the international community in general. Beijing being the DPRK's almost exclusive trade partner, it does naturally have a very important leverage power on its economy. With great power comes great responsibility: the international community is increasingly pressuring Beijing to implement sanctions, which is a very awkward diplomatic position for China. By trying to show its commitment to regional peace and denuclearization of the peninsula (by voting always stricter sanctions) while at the same time protecting stability and maintaining the North Korean State (by loosely implementing the aforementioned economic measures), China appears increasingly unable to do both. *Status quo* is detrimental to both the US and the DPRK's interests and pushes them to more radically express their dissatisfaction with the current situation: Washington increasingly performs shows of force through large-scale military exercises and deployments in South Korea or in Japan; North Korea detonates bombs and test-fires missiles. The evolving degree to which Beijing actually implements sanctions at the border with the DPRK is revealing of the PRC's attempts to maintain a fragile equilibrium between these irreconcilable pressures. This difficult diplomatic position has even led China to sacrifice its own interests, especially economic ones: local economic cooperation initiatives that might have alleviated the *Dongbei's* economy and "reassured" the DPRK have already been nipped in the bud by sanctions or their indirect effects.

9.2.3 *Great game strategy or counterproductive policy?*

Trying to hold together a fragile equilibrium on the peninsula eventually led Beijing to implement mutually contradictory policies, designed to serve both short-term objectives (preventing actual outbursts of violence in the peninsula) and larger geopolitical interests. Given the issues at stakes in the peninsula, any disruptive element could potentially escalate into a major conflict. The constant emergency created by the tensions in the peninsula has led China to give up on some aspects of its policies regarding the DPRK. First, China did sacrifice local or micro-level interests by limiting increased economic integration with the DPRK. Second, Beijing also can no longer implement its policies aimed at fostering economic reform in the DPRK, which would be seen as counterproductive by UNSC member States.

At the local level, even if the still rigid North Korean policies are evolving, China's ambivalence has taken its toll on bilateral economic cooperation with the DPRK. Higher levels of Chinese government-led investments in the North Korea would be almost certainly interpreted as a political support, as they do in Sudan¹¹⁰⁶, Congo or Myanmar¹¹⁰⁷. But contrary to these relatively isolated countries, increased economic support to the DPRK would not only hurt Western audiences and societies but also directly antagonize with South Korea's, Japan's and the US's strategic interests in Northeast Asia. Since political tensions regularly impact trade and economic relations in the region¹¹⁰⁸, it would be especially ill-advised for China to display a too close economic integration with the DPRK. However, North Korea is an admittedly quite difficult and "reluctant" economic partner, but is also a captive market for China, especially for companies located in the northeastern part of the country. Local authorities are obviously aware of the comparative advantage local companies have to engage into economic cooperation with the DPRK, especially if compared with international companies or even non-*Dongbei* Chinese enterprises. They are also fully aware that North Korea lacks everything, and can offer a cheap supply of raw materials that could attract manufacturing companies in the borderlands, as this is currently the case in Hunchun (see chapter 5) or Dandong. But economic sanctions put these potential synergies in jeopardy. The idea, put forward by Chinese scholars, that "the sanctions will exert a tremendous negative effect on trade between China and North Korea"¹¹⁰⁹ might be a politically motivated exaggeration (aimed at showing Beijing's dedication to end the DPRK's nuclear program). It is nonetheless true that, even if the PRC implements sanctions in a quite loose way, after the 2013 round of UN measures, bilateral trade levels decreased for the first time

¹¹⁰⁶ China-Sudan Financial, Military Relations At Risk Amid Beijing's Economic Woes, *International Business Times*, 26th of August 2015. Url: <http://www.ibtimes.com/china-sudan-financial-military-relations-risk-amid-beijings-economic-woes-2068261>. Last accessed 6th of December 2016.

¹¹⁰⁷ Myanmar is pivoting away from China, *Foreign Policy*, 15th of June 2015. Url: <http://foreignpolicy.com/2015/06/15/myanmar-burma-is-pivoting-away-from-china-aung-san-su-kyi-xi-jinping-india/>. Last accessed 6th of December 2016.

¹¹⁰⁸ Li Dunqiu, "sade" hui cuihui zhonghan guanxi ma "萨德"会摧毁中韩关系吗 [Can THAAD destroy China-South Korea bilateral ties?], *Huanqiu Shibao*, 9th of September 2016. Url: http://opinion.huanqiu.com/opinion_world/2016-09/9421973.html. Last accessed 6th of December 2016. China's ban on Korean Culture, *Donga Ilbo*, 22nd of November 2016. Url: <http://english.donga.com/List/3/0502/26/786409/1>. Last accessed 6th of December 2016.

¹¹⁰⁹ China commits to implementing NK sanctions despite trade losses, *Global Times*, 1st of December 2016. Url: <http://www.globaltimes.cn/content/1021470.shtml>. Last accessed 6th of December 2016.

since 2002 (from \$6,5 to \$5,4 billion between 2013 and 2015). It is too early to assess the impact of the 2016 measures, not to mention the Chinese unilateral sanctions that followed multilateral ones. But if the “pinch” of punitive measures against the DPRK is difficult to measure through statistical analysis or field research¹¹¹⁰, their impact on “institutionalized cooperation” and bilateral development is much easier to observe: the Guomenwan Trade Zone, for example, is believed by the Chinese official press to be among the first “victims” of China’s self-inflicted sanctions¹¹¹¹. Already almost desert when the author visited it few weeks after its opening (in October 2015), local officials explained that the low visible activity was due to the “freshness” of the project, unseen in Dandong, and that economic cooperation would likely pick up after a few months. However, two batches of multilateral and unilateral sanctions are now considered responsible for the failure of the Guomenwan Trade Zone¹¹¹², and it is quite plausible that the soon-to-be opened Ji’an border trade zone, facing Manpho in the DPRK, will know the same fate as it was not only designed after Guomenwan but is also located far away from the mainstream of Sino-DPRK trade. Interestingly, when mitigating the impact of sanctions on the DPRK economy, China tries to keep its own interests in mind. Among the few exceptions that allow coal exports from the DPRK in the 2270 UNSC resolution of March 2016, one specific element need to be highlighted. As explained earlier, under the 2270 resolution, North Korea is not allowed to export coal, with the notable exception of the “livelihood purpose” of the transaction but also the following one:

“Coal that the procuring State confirms on the basis of credible information has originated outside the DPRK and was transported through the DPRK solely for export from the Port of Rajin (Rason), provided that the State notifies the Committee in advance and such transactions are unrelated to generating revenue for the DPRK’s nuclear or ballistic missile programs or other activities prohibited by resolutions”¹¹¹³

¹¹¹⁰ The author was surprised to see that, after the 2016 measures were passed, the “observable economy” that can most easily be witnessed in the DPRK (road traffic, tractors, etc.) seem to be in better shape than at the end of the previous year. Based on observations made in November 2015 (Pyongyang), May 2016 (Pyongyang, Wonsan, Nampo, Chaeryong), June/July 2016 (Pyongyang, Kaesong).

¹¹¹¹ Chinese border town feels full brunt of sanctions on North Korea, *Global Times*, 4th of December 2016. Url: <http://www.globaltimes.cn/content/1021903.shtml>. Last accessed

¹¹¹² Chinese border town feels full brunt of sanctions on North Korea, *Global Times*, 4th of December 2016. Url: <http://www.globaltimes.cn/content/1021903.shtml>. Last accessed 7th of December 2016.

¹¹¹³ UN Resolution N°2270, *UN Documents*, 2nd of March 2016.

This paragraph is interesting for a variety of reasons. It can be safely assumed that the Chinese delegates are responsible for the insertion of the “Rajin-Sonbong” exception. It thus means that China is fully aware that sanctions do have a detrimental effect on Northeast China’s economy but also that the Rason SEZ could play a key role in the regional economy: surprisingly, the resolution does not encompass an exception for the much larger, much easier to access and much more developed port of Chongjin. The Chinese attempt was however mostly vain, as economic sanctions (either from the UN or regional powers, including China, South Korea or Japan) nullified Rason’s strategic locations through various measures, especially those forbidding North Korean vessels to anchor at foreign ports. But Beijing’s attempt to save the “Rason window” for its coal “exports” shows that there is a debate inside the PRC on how to prevent sanctions targeted at the DPRK to hurt Chinese public and corporate interests. As a reminder, Rajin harbor’s northernmost pier was renovated for more than \$3,5 million and is now currently leased by the Chinese Chuangli group in order to send Jilin coal and minerals from northeast China to the south of the country¹¹¹⁴ (“trade inside, ship outside”). The route through Rajin takes three days, against seven when using the rail¹¹¹⁵. The trade ban on minerals and ores imports from the DPRK will also almost certainly have a strong impact on the few Chinese companies that invested in the DPRK, a large share of them being involved in the mining business: the Tonghua Iron and Steel Group (Jilin), for example, reportedly had begun to invest several hundred million dollars in the Musan iron mine¹¹¹⁶, located a few kilometers away from the border with China. Since iron and iron ore exports are forbidden by UNSC resolution n°2270, there are limited options for China: either violating its own sanctions or give up on a very large investment that could ensure a cheap¹¹¹⁷ and stable supply of iron ore, which the PRC massively imports. The same could be said about almost all of the publicly known major

¹¹¹⁴ Desperate Pyongyang opens door to investors, *South China Morning Post*, 6th of April 2010. Url: <http://www.scmp.com/article/710630/desperate-pyongyang-opens-door-investors>. Last accessed 7th of December 2016.

¹¹¹⁵ Hunchun sees new benefits of location on the border, *China Daily*, 22nd of February 2011. Url: http://usa.chinadaily.com.cn/epaper/2011-02/22/content_12056778.htm. Last accessed 7th of December 2016.

¹¹¹⁶ NANTO, K.Dick, MANYIN, Mark, 2010, China-North Korea Relations, *CRS Report for Congress Congressional Research Service*.

¹¹¹⁷ One advantage of investing in a captive market that is deserted by non-Chinese companies is that DPRK goods and resources are often bought at just below-market prices. Informal discussions with DPRK foreign affairs officials in Pyongyang, Mai 2016.

Chinese investments in the DPRK mining sector, including the China Minmetals (a central level SOE) venture in the Ryongdung coal mine, or the Chinese consortium involved in the Hyesan Youth Copper Mine, as copper is also sanctioned under UNSC resolution 2321.

Besides these micro-level economic cooperation issues, sanctions could also potentially hinder the PRC's foreign policy objectives in the longer term. Sanctions strongly antagonize Pyongyang, which considers them to be interference in the DPRK's internal affairs¹¹¹⁸. Given that Beijing can only apply limited pressure on Pyongyang and since the DPRK has little incentive (and little inclination) to react positively to frontal political pressure, the ultimate Chinese goal of denuclearization seems further away, as the increasingly frequent North Korean nuclear tests would suggest. Sanctions also could decrease stability on its border, as the latest batches of UNSC sanctions, if fully implemented, are potentially strong enough to seriously disrupt the DPRK's economy: the \$400 million cap on coal exports for livelihood purposes theoretically translates into a net loss of more than \$700 million, amputating the DPRK's total exports by 28% (based on 2015 trade statistics). In a country that still is economically deprived like the DPRK, this potential loss could lead to large inflow of economic refugees¹¹¹⁹ at the Chinese border. The risk is indeed great, especially since Jagang and Ryanggang provinces, believed to be the DPRK poorest provinces, border the PRC. It could also cause an increase in cross-border criminality (see figure 23): cases of theft, murder¹¹²⁰, and drug trafficking¹¹²¹ have been documented, and criminality rate is unlikely to decrease if the economic situation at the border becomes more strained. As a Huanqiu Shibao editorial explained after UNSC resolution 2321 (2016) was passed, "China's

¹¹¹⁸ DPRK Permanent Representative to UN Sends Letter to UN Secretary General, *KCNA*, 7th of December 2016. Url: <http://www.kcna.kp/kcna.user.article.retrieveNewsViewInfoList.kcmsf>. Last accessed 7th of December 2016.

¹¹¹⁹ *Zhongguodanxin chaoxian nanmin tongru bianjing gudu zhicai jiangzhi chaobenkui* 中国担心朝鲜难民涌入边境 过度制裁将致朝崩溃 [China worries about a North Korean Refugees crisis], *Sina*, 30th of April 2016. Url: <http://mil.news.sina.com.cn/china/2016-04-30/doc-ifxrtztc3082344.shtml>. Last accessed 8th of December 2016.

¹¹²⁰ North Koreans Walk Across Frozen Border River to Murder Chinese, *Bloomberg*, 13th of January 2015. Url: <https://www.bloomberg.com/news/articles/2015-01-13/north-koreans-walk-across-frozen-river-to-china-to-commit-murder>. Last accessed 8th of December 2016.

¹¹²¹ Drugged by comrades, *Global Times*, 3rd of December 2013. Url: <http://www.globaltimes.cn/content/767651.shtml>. Last accessed 8th of December 2016.

difficulties in controlling the very long border with the DPRK show that it is not as simple as explained by countries that do not trade with the DPRK”¹¹²².

Figure 23: Warning sign on Hwanggumpyong Island



Source: Théo Clément, November 2015.

Last, but not least, further isolating the DPRK economically might be counter-productive for China in that it actually legitimizes Pyongyang’s traditional view that economic ties necessarily come with political strings attached, and that increasing economic self-reliance is the only way to have free hands in internal and external policy-making¹¹²³. The DPRK economy is already designed in order to progressively escape other countries’ political orbits, although Pyongyang’s position has known some evolutions recently. But by half-heartedly implementing economic sanctions against Pyongyang, and preventing successful economic interaction, Beijing *de facto* limits the “demonstration effect” that could have had initial successes on the DPRK’s opening policies.

¹¹²² *sheping: xinzhaicaiyaxiang chaoxian, tupo jiangjubu qujue zhongguo* 社评：新制裁压向朝鲜，突破僵局不取决于中国 [editorial : new sanctions on the DPRK, key of the issue is not China], *Huanqiu Shibao*, 30th of November 2016. Url: <http://opinion.huanqiu.com/editorial/2016-11/9753906.html>. Last accessed 8th of December 2016.

¹¹²³ CLEMENT, Théo, 2016, Sanctions Contre Ouverture? Quelques Effets Contre-productifs des Sanctions Économiques contre la Corée du Nord, *Korea Analysis* n°4. DELURY, John, North Korea sanctions: Futile, counterproductive and dangerous, *CNN*, 2nd of December 2016. Url: <http://edition.cnn.com/2016/12/01/opinions/north-korea-sanctions-delury/>. Last accessed 8th of December 2016.

The PRC is thus trapped in an extremely complex and difficult diplomatic position, where passive conservatism or more audacious policies would have adverse effects for China. This does not, however, mean that China is passively waiting for the next event that could shake the existing situation to adapt its policies. Indeed, there is a large number of Chinese analysts and observers who advocate different strategies to cope with the DPRK and evade foreign pressure of all kinds. Even if the Chinese MOFA often highlight the coherence of its policies regarding the DPRK (the three “nos” and the three “pros”), it also knows how to adapt its discourses depending of the evolution of regional political dynamics. Besides official actors, Chinese scholars and analysts also often express (and confront) themselves on the attitude Beijing could (or even should) adopt on the Korean issue. A closer look at the local debate on the DPRK proves interesting as it mirrors the PRC’s ambivalent attitude towards its neighbors and offers perspective on potential future developments.

9.3 Chinese intellectual debate on North Korea

Although most Western countries have established diplomatic ties with the DPRK, the intellectual debate in these countries is typically structured around the tricky concept of “engagement”¹¹²⁴. In a nutshell, some argue in favor of a tough line against the DPRK and its controversial programs, refusing negotiations or engagement with Pyongyang, sometimes even openly being in favor of a regime change in Pyongyang or preemptive strikes against nuclear facilities in North Korea¹¹²⁵ (the so-called “hawks”). Some others argue in favor of dialog and engagement with the DPRK, mostly on the nuclear issue, but also in other areas, in order to bridge the gap between North Korea and the rest of the world (the so-called “doves”). Between these two extremes, some have mentioned a third category, which closely mirrors the “strategic patience” policy: a mixture of refusal of dialog and engagement,

¹¹²⁴ CHA, Victor, KANG, David, 2003, *Nuclear North Korea, A debate on Engagement Strategies*, Columbia University Press, New York.

¹¹²⁵ HAAS, Richard, The Coming Confrontation against North Korea, *Concil on Foreign Relations op-ed*, 20th of September 2016. Url: <http://www.cfr.org/north-korea/coming-confrontation-north-korea/p38328>. Last accessed 8th of December 2016.

sanctions and “passive” military deterrence (the “boas”¹¹²⁶). Interestingly, Chinese analysts make little case about the concept of engagement applied to North Korean studies. China indeed has been involved in the DPRK for seven decades and traditionally does not use boycotts or embargoes as foreign policy tools. As explained already, Beijing is increasingly daring and using sanctions, theoretically in order to limit its economic cooperation with the DPRK. If anything, the PRC gradually is “disengaging”: not from the DPRK in itself, but from the political and military controversies surrounding Pyongyang.

9.3.1 *The strategist dead-end and the “abandon North Korea controversy”*

According to a 2009 report¹¹²⁷, published by the International Crisis Group in the wake of the DPRK’s 2009 nuclear test, Chinese analysts with interest in North Korean studies are divided into two groups: strategists [战略派; *zhanlüe pai*] and traditionalists [传统派; *chuantong pai*]. Although these concepts are often used by western analysts to describe the current state of the internal debate on China’s policies towards the DPRK, an overwhelming majority of Chinese scholars and experts interviewed by the author do not use these terms, which are furthermore extremely rarely used (if used at all) in Chinese language publications. While these categories might have had some meaning few years ago, both groups’ views have gradually converged, fostered by governmental red lines as well as recent geopolitical developments in Northeast Asia. It should also be said that in the Chinese political context, distinguishing research trends on such sensitive subjects is especially tricky: as will be explained, Chinese authors sometimes point out divergence or converge between Beijing and Pyongyang, which necessarily does not only question the nature of the DPRK’s State, but also the PRC’s. In 2013, the Chinese government actually put the brakes on an intellectual controversy that dealt with the DPRK but quickly spiraled out of control and stirred issues that the Chinese leadership would have rather leave untouched.

Scholars viewed as “traditionalists” typically consider the DPRK as a strategic asset in order to keep Western powers and its allies (South Korea, Japan) at arm’s length. They generally support Chinese aid programs towards their neighbor and blame Washington and its “Cold

¹¹²⁶ DELURY, John, 2016, *The China Factor*, *38North*. Url: <http://38north.org/2016/10/jdelury103116/>. Last accessed 8th of December 2016.

¹¹²⁷ International Crisis Group, 2009, *Shades of Red: China’s Debate over North Korea*, *Asia Report* n°179.

War mentality”¹¹²⁸ as much as Pyongyang for its controversial WMD programs. Contrary to what one might believe, traditionalists have little deference for the DPRK, *Juche* ideology, and most often make little case of standard Marxist theory. Even the fiercest tenants of the “traditionalist school” have called on Pyongyang to implement economic reforms, although some of them argue that the DPRK international environment is not stable enough to implement “genuine” reforms¹¹²⁹, while other believe that Pyongyang is already converging towards a Chinese-style *gaige kaifang*¹¹³⁰. What’s more, an important share of traditionalist experts do not specifically focus on DPRK-PRC bilateral relations, but on the strategic importance of the Sino-North Korean ties in the wider framework of Beijing’s world diplomacy and especially the growing rivalry with the United States. Wang Junsheng, from the Chinese Academy of Social Science (CASS), does not seem to consider the DPRK as an ally or even an asset but considers that Washington uses Pyongyang’s controversial programs as an excuse to strengthen its military presence in Asia (as part of the so-called “pivot to Asia”)¹¹³¹ and coerce Beijing into implementing policies that are detrimental to its interests (such as economic sanctions)¹¹³². The least that can be said is that traditionalists should not be confused with Marxist-leaning scholars, but increasingly tend to be, just as strategists are, realists that first and foremost are concerned with Beijing’s strategic interests. Their most important difference with strategists actually goes beyond their assessment of the North

¹¹²⁸ Li Dunqiu, *pojie chaohe binjie xu tianchu lengzhan sixiang* 李敦球：破解朝核症结须跳出冷战思维 [Li Dunqiu : to break the North Korean nuclear weapons deadlock, one needs to give up on Cold War mentality], *Huanqiu Shibao*, 12th of September 2016. Last accessed 9th of December 2016.

¹¹²⁹ Cao Shigong: *chaoxianweihe bu yuan bo cheng “gaigekaifang”* 朝鲜为何不愿被称“改革开放” [Cao Shigong : Why doesn’t North Korea aspire to “Reform and Open”], *Huanqiu Shibao*, 22nd of May 2015. Url: http://opinion.huanqiu.com/opinion_world/2015-05/6497944.html. Last accessed 9th of December 2016.

¹¹³⁰ *Jinzhengeun zhizhengyilai, chaoxian jingji weihe lianceng* 金正恩执政以来，朝鲜经济为何连增 [Li Dunqiu : Why does the North Korean economy grow since Kim Jong-un took power?], *Huanqiu Shibao*, 26th of December 2015. Url: http://opinion.huanqiu.com/opinion_world/2015-12/8263042.html. Last accessed 9th of December 2016.

¹¹³¹ *chaoxian ruanying jiashe, bandao huoniang chongtu* 朝鲜软硬兼施，半岛或酿冲突 [North Korea couples treats with promises, contradictions grows on the peninsula], *Sohu Pinglun*, 26th of April 2016. Url: <http://star.news.sohu.com/20160426/n446148815.shtml>. Last accessed 9th of December 2016.

¹¹³² WANG Junsheng, *zhongguo dui chaoxian zhengce cuo le ma* 中国对朝鲜政策错了吗？[is China’s North Korean Policy Wrong ?], *Huanqiu Shibao*, 26th of September 2016. Url : <http://opinion.huanqiu.com/plrd/2016-09/9441771.html>. Last accessed 31st of October 2016.

Korean State in itself and has to do with perspectives of Beijing-Washington relations and more generally China's rise.

"Strategists" are the proponents of tougher policies against the DPRK, seen as a liability for China. Strategist thinkers mobilize a wide array of arguments, ranging from military strategy to ideological differences between the DPRK and China. Interestingly, and counter-intuitively, some strategists also sometimes put forward the alleged superiority of Chinese-style Marxism thought (against revisionist *Juche*) in order to justify diminished ties with Pyongyang. This kind of argument, which mechanically highlights the ideological rift between the DPRK and China, paradoxically justifies Beijing's implementation of a "normal" diplomacy towards its neighbor, a foreign policy stripped of its traditionalist and socialist paraphernalia, aimed at maximizing China's national interest. Lt. Wang Hongguang¹¹³³, for example, explains that in the XXIth century, in the context of cyber- and modern warfare, the concept of "buffer zone" makes little sense and thus the DPRK's strategic value for China would not counterbalance the diplomatic burden Pyongyang represents for the PRC. This idea of "normalization" is most often put forward by strategists, especially those who tend to support better ties with the USA. Scholars like Zhu Feng, for example, often explain that Beijing's stance on the DPRK is gradually changing¹¹³⁴, from an historical and ideological alliance to a "normal" relationship, interest-based relation.

The normalization of DPRK-China relations would necessarily require China to take a step back from its current policy of very relative support to North Korea, but the scale and the nature of this step back led to heated debate among Chinese scholars, which in turn led central authorities in Beijing to wade in and seal the debate. Some bold Chinese strategists, including some analysts and scholars holding important positions in key universities and research centers, have bluntly argued in favor of China "abandoning" [放弃; *fangqi*] North Korea. A few days after the DPRK conducted its 3rd nuclear test (in February 2013), Deng Yuwen, then editor of the Central Party School's journal *Study Times*, explained in a *Financial*

¹¹³³ *Bandao shiping wanghongguang zhongjiang: chaoxian yao bengkuai, zhongguo jiu bu liao zidi bing bubi wei bie guo dazhang* 朝鲜要崩溃中国救不了 子弟兵不必为别国打仗[When North Korea will collapse, China won't rescue it: no need to send our army got to war for another country], *Sohu Pinglun*. Url: <http://mt.sohu.com/20160503/n447316204.shtml>. Last accessed 11th of January 2017.

¹¹³⁴ China's North Korea policy is definitely Changing, *New York Times*. Url: <http://www.nytimes.com/roomfordebate/2016/03/31/is-chinas-policy-toward-north-korea-changing/chinas-north-korea-policy-is-definitely-changing>. Last accessed 11th of January 2017.

Times article¹¹³⁵ that for reasons mentioned above but also the general ungratefulness of the DPRK towards Beijing, the PRC would have a strategic interest in cutting ties with the DPRK and getting closer to the South. Fudan University International Relations scholar Shen Dingli argued in the same direction in an article published in *Foreign Policy*¹¹³⁶, which is rather surprising given his long-lasting support in favor of closer military ties between Beijing and Pyongyang¹¹³⁷, and a tacit support to North Korea's nuclear quest. If these articles caused so much stir, leading to a counter-offensive from traditionalists (in the conservative Huanqiu Shibao, mostly) and an intervention by authorities in Beijing to settle the "abandon North Korea controversy" [弃朝论; *qichaolun*], it was not only because of the general boldness of Deng's and Shen's contributions, but also because they published their analysis directly in foreign and English-language reviews, putting Beijing under pressure from foreign parties. Many western and foreign analysts saw in Deng and Shen's opinions a reflection, to some degree, of changing mentalities inside the CCP. Beijing was nonetheless very keen in showing that these audacious views were the authors' owns: Deng was fired from his editorial position in *Study Times*¹¹³⁸ and the controversy was momentarily solved. Since then, public Chinese academic debate on the DPRK and bilateral ties seems to be mostly following governmental red lines, leading to opposition among scholars to soften and the relevance of concepts like "strategists" and "traditionalists" to diminish.

9.3.2 Governmental redlines and gradual convergence

Since Kim Jong-un rose to power, China made limited alterations to its foreign policy towards the DPRK, for reasons mentioned above. The evolution of the bilateral relations is mostly animated by events and decisions that are happening outside the PRC, with Beijing making

¹¹³⁵ China Should Abandon North Korea, Financial Times, 2013. Url: <https://www.ft.com/content/9e2f68b2-7c5c-11e2-99f0-00144feabdc0>. Last accessed 13th of January 2017.

¹¹³⁶ Lips and Teeth, *Foreign Policy*, 13th of February 2013. Url: <http://foreignpolicy.com/2013/02/13/lips-and-teeth/>. Last accessed 3rd of January 2014.

¹¹³⁷ Beijing Took Wrong Foreign Policy Option on Pyongyang, *Korea Times*, 22nd of May 2011. Url: http://www.koreatimes.co.kr/www/news/nation/2016/09/120_87464.html. Last accessed 13th of January 2017. See also DIAMANA, Walter, 2015, Strategic Alliance: China-North Korea Relations, *International Policy Digest*. Url: <https://intpolicydigest.org/2015/07/02/strategic-alliance-china-north-korea/>. Last accessed 13th of January 2017.

¹¹³⁸ LEE Seong-hyon, China-NK Relations and Information Asymmetry, *Korea Times*, 3rd of May 2016. Url: http://www.koreatimes.co.kr/www/news/opinion/2016/05/197_203944.html. Last accessed 13th of January 2017.

adjustments in its foreign policy in *reaction* to these events (THAAD deployment, nuclear tests, US-DPRK or North-South relations, etc.). Chinese scholars interested in DPRK policies thus focus on pointing out the coherence and the balance of Beijing's North Korea policy. They also explain to domestic and foreign audiences that the nuclear and all North Korea-related issues originate from outside the PRC, and thus trying to relieve Beijing from internal pressure. Shen Dingli¹¹³⁹, Qian Wenrong¹¹⁴⁰, Chen Fengjun¹¹⁴¹ and editorialists in well-known papers such as the *Huanqiu Shibao*¹¹⁴² have (repeatedly) argued that China is not responsible for the North Korean nuclear program and that the key to the resolution of the diplomatic deadlock could not be the PRC. Some analysts explicitly consider that suspending aid programs to the DPRK would likely result in a refugee crisis on China's border, a tacit acknowledgement that Chinese support is crucial to the DPRK. But they also highlight the fact that behind Washington's pressure on Beijing to put an end to North Korea's nuclear quest, there is a selfish [私心 ; *sixin*] motive¹¹⁴³: transforming the architecture of the Korean peninsula, or more bluntly put, reunifying Korea through absorption by the South. Chinese scholars also increasingly tend to consider the United States' Asian policy (the so-called "pivot to Asia") to be using "pretexts" such as the DPRK's controversial programs to increase its presence and influence in the region and contain its upcoming rival, China¹¹⁴⁴.

¹¹³⁹ *piaozhu nanhai he chaoxian, keli dongyaxing bu suan chenggong* 瞞著南海和朝鮮，克里东亚行不算成功 [On the South China and North Korea issue, Kerry's Asia Tour will not succeed], *Haiwai*, 2nd of February 2016. Url: <http://opinion.haiwainet.cn/n/2016/0202/c353596-29609708.html>. Last accessed 13th of January 2017.

¹¹⁴⁰ *zai chaohe wenti shang, meiguo qiaqia gai ganxie* 在朝核问题上，美国恰恰该感谢中国 [on the North Korean issue, the US should be thanking China], *Huanqiu Shibao*, 1st of February 2016. Url: http://opinion.huanqiu.com/opinion_world/2016-02/8485445.html. Last accessed 13th of January 2017.

¹¹⁴¹ *Mei yingren zhen kaolü chaoxian jihe tiyi* 美应认真考虑朝鲜弃核提议 [The US should really consider proposing a deal in exchange of the DPRK abandoning the nuclear bomb], *Huanqiu Shibao*, 18th of January 2016. Url: <http://opinion.huanqiu.com/1152/2016-01/8396718.html>. Last accessed 13th of January 2017.

¹¹⁴² *Sheping: chaohe wenti "zhongguo fuzelun" she wailikongtan* 朝核问题“中国责任论”是歪理空谈 [Editorial: "China's responsibility theory" on the nuclear issue is non-sense], *Huanqiu Shibao*, 8th of January 2016. Url: <http://opinion.huanqiu.com/editorial/2016-01/8338885.html>. Last accessed 13th of January 2017.

¹¹⁴³ *Telangpu youxiang na chaohe wenti xie zhongguo ma* 特朗普又想拿朝核问题要挟中国吗 [Will Trump use the North Korea Nuclear Issue to Pressure China?], *Huanqiu Shibao*, 3rd of January 2017. Url: <http://opinion.huanqiu.com/editorial/2017-01/9899005.html>. Last accessed 16th of January 2017.

¹¹⁴⁴ *chaoxian bandao jushi jinzhang zhongguo zhuanjia: chaobuhui zhudong chuji* 朝鲜半岛局势紧张 中国专家：朝不会主动出击 [tensed context in the Korean peninsula, Chinese expert: DPRK won't take the first shot],

Obama's signature "pivot to Asia" policy indeed led to increased frictions between the US and the PRC, most often through "proxies", countries such as Pakistan, Myanmar, Vietnam, the Philippines or Japan. Current issues range from the South China Sea in the South to strained Sino-Japanese ties in Northeast Asia. The DPRK is one of the most obvious bones of contention in Beijing-Washington ties and the acceleration, in 2016, of Pyongyang's nuclear weapons test processes raised the issues at stake on the North Korean dossier. As Beijing, caught in the contradictions explained above, had little room to maneuver, Washington went one step further in pressuring the PRC by announcing the upcoming deployment of the THAAD. This move strongly undermined the arguments of strategist thinkers: while getting closer to the US on peninsular issues might have had some advantages, submitting to the US pressures clearly does not seem to be an appealing option for most Chinese scholars, even though some of them are still arguing for a sino-US (or rather Sino-ROK) compromise on THAAD¹¹⁴⁵. On the opposite, the announced THAAD deployment in South Korea emboldened traditionalists, who saw in it the root for the DPRK's 5th nuclear test¹¹⁴⁶, and even called to boycott South Korean brands¹¹⁴⁷, especially the Lotte group, who sold a golf course where the THAAD would be deployed¹¹⁴⁸. Scholars eventually advocated straight-up economic sanctions against North Kyongsan Province in South Korea¹¹⁴⁹. Last but not least, the sudden tensions that occurred during the 2016 US Presidential campaign and the subsequent election of Donald Trump in the White House also played its part in widening the gap between the PRC and the US, once putting Sino-American cooperation perspectives in

Huaxia, 29th of February 2016. Url: <http://www.huaxia.com/thjq/js wz/2016/02/4744030.html>. Last accessed 16th of January 2017.

¹¹⁴⁵ ZHAO Tong, 2016, China and South Korea's Consensus on THAAD, *Carnegie Qinghua Center for Global Policy article*. Url: <http://carnegietsinghua.org/2016/10/13/china-and-south-korea-s-path-to-consensus-on-thaad-pub-64856>. Last accessed 16th of January 2017.

¹¹⁴⁶ WANG Junsheng, Blame China's 5th Test on THAAD, *China Daily*, 10th of September 2016. Url: http://usa.chinadaily.com.cn/opinion/2016-09/10/content_26758651.htm. Last accessed 16th of January 2017.

¹¹⁴⁷ Moran "hanliu" bian "hanliu" 莫让"韩流"变"寒流" [from "Korean wave" to "Cold wave"], *Huanqiu Shibao*, 9th of September 2016. Url: http://opinion.huanqiu.com/opinion_world/2016-09/9421992.html. Last accessed 16th of January 2017.

¹¹⁴⁸ *Sheping: yuetian jiting "sade", jiu likaizhongguo yuandian ba* 社评：乐天既挺“萨德”，就请离中国远点吧 [editorial : as Lotte is supporting THAAD, please leave China], *Huanqiu Shibao*, 21st of February 2017. Url: <http://opinion.huanqiu.com/editorial/2017-02/10169234.html>. Last accessed 6th of March 2017.

¹¹⁴⁹ *Zhongguo ying quan zhicai hanguo qingshanbeidao* 李敦球：中国应全面制裁韩国庆尚北道 [China should sanction South Korea's North Kyongsan Province], *Huanqiu Shibao*, 16th of January 2017. Url: http://opinion.huanqiu.com/opinion_world/2016-12/9867147.html. Last accessed 16th of January 2017.

jeopardy and thus further undermining strategist arguments. The reappearance of the Taiwan controversy, the increased US assertiveness in “defending” the South China Sea, but also the announced convergence between the Russian Federation and the Trump administration in Washington¹¹⁵⁰ caused anxiety in Beijing: this timeframe obviously does not constitute an adequate moment to get engaged into more cooperation with the US as well as it is not a good timing to anger Pyongyang. On the other hand, sending “wrong” signals to the DPRK by more actively engaging with it would Sino-US ties even more difficult. This complex situation result in the diplomatic dead-end described above, and Chinese literature on the DPRK is equally impacted by this deadlock, resulting in an increased consensus on coherence and “conservatism” on North Korean issues.

¹¹⁵⁰ *Meichao xianyilun boyi lakai xumu* 美朝新一轮博弈拉开序幕 [The beginning of a new round of US-DPRK gamble], *Huanqiu Shibao*, 17th of January 2017. <http://opinion.huanqiu.com/1152/2017-01/9956122.html>. Last accessed 17th of January 2017.

Chapter 10: The paradoxical Chinese economic engagement strategy of the DPRK

In the context of the OBOR initiative, China has been trying to shape a new sino-centered international division of labor in Asia. As seen already, efforts to foster bilateral RPC-DPRK economic integration have mostly failed. As a result, Chinese economic engagement patterns towards the DPRK increasingly have a paradoxical nature: North Korea constitutes an exception in China's immediate periphery, not participating in OBOR but having a specific economic cooperation pattern with the PRC.

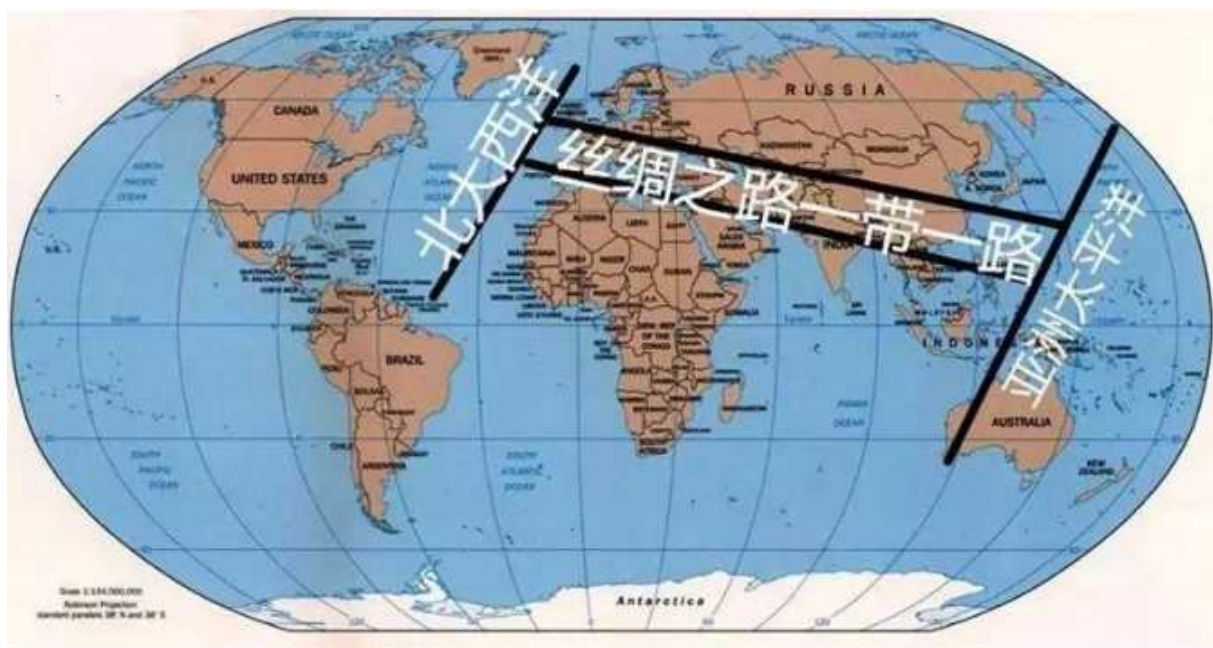
10.1 Killing two birds with one stone: the OBOR initiative

The PRC has become, in recent years, a global economic power. The world's largest developing country in terms of population, China is however struggling to cope with its unequal economic development, as its export-oriented strategy mechanically favored coastal provinces, especially in the south of the country (Shanghai, Guangdong, Fujian). As mentioned already, Beijing has tried, with little success, to bridge the gap between coastal and inland provinces by implementing specific development plans (*xibu kaifa*, *zhengxing dongbei* programs). With the general slowdown of the Chinese economy in recent years (with GDP growth rates dropping from 14% in 2007 to 6,7% in 2016) the economic development pattern favored by Beijing encountered additional difficulties, as Chinese markets proved unable to offer sufficient opportunities for domestic companies. With structural overcapacity looming, the Chinese government sought to gain access to more foreign markets, in developed OECD countries but also increasingly in Asian and African markets, with Chinese FDI stocks in these countries dramatically rising after 2006-2007.

Allowing the Chinese economy to kill two birds with one stone, the "one belt, one road" initiative, put forward by Chinese President Xi Jinping in 2013, would allow the PRC to reach out to new markets and solve its structural industrial overcapacity issues (through

infrastructure development and resulting market access¹¹⁵¹) while “unlocking” non-coastal southern provinces (Yunnan, Guizhou, Tibet, among the worst-performing provinces) and western provinces (Xinjiang, Qinghai, Gansu, Ningxia). The general goal of the OBOR strategy indeed is to foster the economic integration of China in the Asian heartland (including South and South-east Asia via the “maritime silk road”, the maritime “branch” of the OBOR initiative), but also in Africa and Europe, via ambitious infrastructure development programs. However, contrary to what one might believe, OBOR’s ultimate goal is much larger than « just » infrastructure development to link up China with developing countries. As researchers at the Chinese think tank Pangoal pointed out¹¹⁵², the ultimate goal is to position China at the center of two major economic interfaces, namely the Atlantic and Pacific Oceans (see figure 24).

Figure 24: Map of the General Design of the OBOR Plan



Source: 丝路经济带一路大自贸区建设研究——SRT 建设构想 [One belt, one road large Free Trade Areas development research, Free Trade Areas Conception and Development], 2015, Pangoal Research Report (online).
 Url: http://www.pangoal.cn/news_x.php?id=332&pid=13. Last accessed 7th of March 2017.

¹¹⁵¹ ZHANG Junhua, 2016, What’s driving China’s One Belt, One Road initiative?, *East Asia Forum*. Url: <http://www.eastasiaforum.org/2016/09/02/whats-driving-chinas-one-belt-one-road-initiative/>. Last accessed 7th of March 2017.

¹¹⁵² Silu yidai yilu da simaoqu jienshe yanjiu, SRT jianshegouxiang 丝路经济带一路大自贸区建设研究——SRT 建设构想 [One belt, one road large Free Trade Areas development research, Free Trade Areas Conception and Development], 2015, Pangoal Research Report (online). Url: http://www.pangoal.cn/news_x.php?id=332&pid=13. Last accessed 7th of March 2017.

As it turns out, the DPRK *should* be part of this gargantuan initiative, same as its South Korean or Japanese neighbors, as Chinese scholars recalled¹¹⁵³. The least that can be said here is that short-term prospects for the integration of the DPRK into the OBOR initiative are limited, as the Chinese offer is quite unlikely to convince Pyongyang to hop on the OBOR train.

10.1.1 The multi-faceted nature of Chinese economic engagement

Analysis on OBOR as a global phenomenon is still rare, as the initiative was quite recently put forward by the Chinese leadership. Beijing still has to unfold what it means by reviving the “old silk road”, and especially how will the larger OBOR initiative give rise to more than “just” massive infrastructure development and expanded trade relations. As the Chinese MoFA explains, the OBOR initiative indeed is a multi-faceted one, encompassing not only “facilities connectivity” and “unimpeded trade” but also “people-to-people exchanges”¹¹⁵⁴ and more importantly here, “policy coordination” at the governmental level. As the official “action plan on the Belt and Road initiative” explains:

*“Enhancing policy coordination is an important guarantee for implementing the Initiative. We should promote intergovernmental cooperation, build a multilevel intergovernmental macro policy exchange and communication mechanism, expand shared interests, enhance mutual political trust, and reach new cooperation consensus. Countries along the Belt and Road may fully coordinate their economic development strategies and policies, work out plans and measures for regional cooperation, negotiate to solve cooperation-related issues, and jointly provide policy support for the implementation of practical cooperation and large-scale projects.”*¹¹⁵⁵

But promoting intergovernmental policy coordination and support “for the implementation of practical cooperation and large-scale projects” (which alludes to improved “facilities connectivity”, next item on the list of “cooperation priorities”) does not limit OBOR to a

¹¹⁵³ DA Zhigang, Can Beijing Shape New Northeast Asia Order?, *Global Times*, 23rd of March 2017. Url: <http://www.globaltimes.cn/content/1034561.shtml>. Last accessed 7th of March 2017.

¹¹⁵⁴ *sichou zhilu shi minzu jiaotong ronghe de wutai 丝绸之路是民族交流融合的舞台* [The Silk Road is a stage to foster people-to-people exchanges], *Huanqiu Shibao*, 8th of March 2017. Url: http://opinion.huanqiu.com/opinion_world/2017-03/10272505.html. Last accessed 9th of March 2017.

¹¹⁵⁵ Full text: Action plan on the Belt and Road Initiative, *PRC State Council website*, 30th of March 2015. Url: http://english.gov.cn/archive/publications/2015/03/30/content_281475080249035.htm. Last accessed 8th of March 2017.

government-based initiative, quite the contrary. As the official action plan explains, the initiative is to be operated by the market, “will abide by market rules and international norms, give play to the decisive role of the market in resource allocation and the primary role of enterprises”. Closely reminding the joint development pattern that was favored by China and the DPRK in the context of the Joint Steering Committee (“government-led, business-oriented, market-based and mutually beneficial”, see chapter 8), the OBOR initiative actually largely relays and systematizes former Chinese FDI patterns that emerged in the context of the “going out” policy, identified in chapter 4. While these recent Chinese investment patterns were already often criticized as a form of “neo-imperialism”¹¹⁵⁶, especially in African countries¹¹⁵⁷ (interestingly, much less in Asia and in the Chinese periphery), the more “grandiose” and explicitly “systematic”¹¹⁵⁸ nature of OBOR does nothing but reinforce the claim that OBOR aims at positioning China as the center of a new international division of labor. To better understand the reach of these claims, two different theories might be useful here: first, and most obviously, dependency/world system theory; second, Akamatsu’s flying geese paradigm. As Zhang¹¹⁵⁹ summarizes, China benefited from important comparative advantages to find its own position in a Japan-centered Asian division of labor and gradually climb up the industrial ladder thanks to relatively low wages and a very high rate of domestic investment in productive capacity. While the export-oriented nature of the Chinese economy and its technological catch-up make heavy investments in human capital and means of production a necessity, these large investments nonetheless require relatively high rate of returns, and thus access to mature markets. With OECD countries already being flooded with Chinese-manufactured goods and in the absence of any foreseeable technological breakthrough that could restructure global demand, from

¹¹⁵⁶ KRAUSS, Clifford, BRADSHER, Keith, China’s Global Ambitions, Cash and Strings Attached, *New York Times*, 24th of July 2015. Url: <https://www.nytimes.com/2015/07/26/business/international/chinas-global-ambitions-with-loans-and-strings-attached.html>.

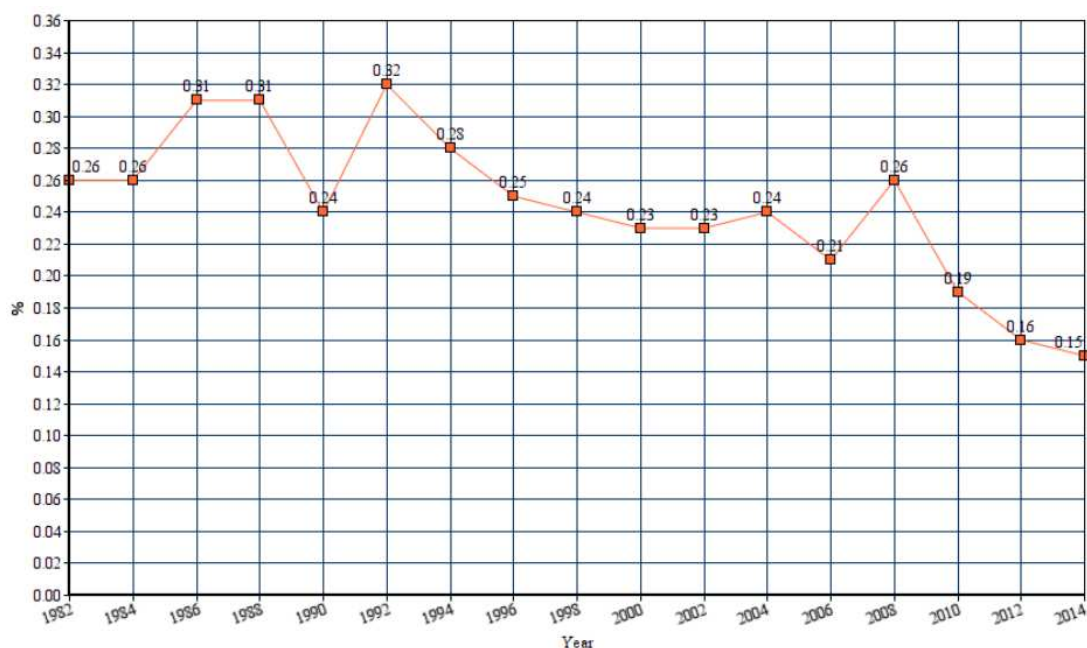
¹¹⁵⁷ See, among many others, LUMUMBA-KASONGO, Tukumbi, 2011, China-Africa Relations: A Neo-Imperialism or a Neo-colonialism? A reflection, *African and Asian Studies*, Vol.10, n°2-3. pp.234-266. ALVES, Ana Cristina, 2013, China’s ‘win-win’ cooperation: Unpacking the impact of infrastructure for-resources deals in Africa, *South African Journal of International Affairs*, vol.20, n°2. Pp. 207-226.

¹¹⁵⁸ Full text: Action plan on the Belt and Road Initiative, *PRC State Council website*, 30th of March 2015. Url: http://english.gov.cn/archive/publications/2015/03/30/content_281475080249035.htm. Last accessed 8th of March 2017. See “principles”.

¹¹⁵⁹ ZHANG Xin, 2017, Chinese Capitalism and the Maritime Silk Road: A World-Systems Perspective, *Geopolitics*, vol.0, n°0. pp.1-22.

2003 on, the very powerful National Development and Reform Commission of the State Council (NDRC) issued almost yearly warnings¹¹⁶⁰ about China's industrial overcapacity [产能过剩; *channeng guosheng*]. It is at this moment that China's first attempt to solve this structural issue emerged: the "going out" policy. Indeed, further investment in domestic production capacity has been proving difficult, as Chinese¹¹⁶¹ and foreign¹¹⁶² economists identified a decreasing rate of investment returns in mainland China (see figure 25).

Figure 25: Yearly average investment returns in China, 1978-2014



Source: BAI Chongen, ZHANG Qiong, 2014, *中国的资本回报率及其影响因素分析*[Return to Capital in China and its Determinants], *Shijie Jingji*, vol.10. pp.23.

According to Zhang, this situation of "capital glut" [资本过剩; *ziben guosheng*] resulting from excessive productive capacity creates the condition for a « spatial fix », as conceptualized by David Harvey. First used as an operating concept in *The Limits to*

¹¹⁶⁰ Zhongguo shifo yijing chuxian le ziben guocheng 中国是否已经出现了资本过剩[is China experiencing a capital glut]?, 2015, *Hongguan guancha*, n°121. Hongguan guancha is the journal of the Bank of China's International finance research institute. See p.7: "2003 年以来发改委几乎每年都会提到产能过剩问题."

¹¹⁶¹ BAI Chongen, ZHANG Qiong, 2014, *Zhongguo de ziben huibaolü jiqi yingxiang yinsu fenxi* 中国的资本回报率及其影响因素分析[Return to Capital in China and its Determinants], *Shijie Jingji*, vol.10. pp.3-30.

¹¹⁶² GAULARD, 2014.

*Capital*¹¹⁶³, the “spatial fix” was not clearly defined until few years later as a way for capitalist economies to overcome internal structural contradictions by geographic expansion. Indeed, as Harvey puts it,

*“The central point of this argument concerned a chronic tendency within capitalism, theoretically derived out of a reformulation of Marx's theory of the tendency for the profit rate to fall, to produce crises of overaccumulation. Such crises are typically registered as surpluses of capital (in commodity, money, or productive capacity forms) [...] Since it is the lack of profitable opportunities that lies at the heart of the difficulty, the key economic (as opposed to social and political) problem lies with capital. If devaluation is to be avoided, then profitable ways must be found to absorb the capital surpluses. Geographical expansion and spatial reorganization provide one such option. [...] Since geographical expansion often entails investment in long-lived physical and social infrastructures (in transport and communications networks and education and research for example), the production and reconfiguration of space relations provides one potent way to stave off, if not resolve, the tendency towards crisis formation under capitalism.”*¹¹⁶⁴

Chinese infrastructural development from the PRC to Asian, African and European countries would thus be a mean for the Chinese export-oriented economy to access new markets, as Zhang, based on theoretical work by Harvey seems to believe¹¹⁶⁵. This attempt to “physically” reach out to foreign markets in order to increase trade volumes participates in shaping a Sino-centered (or “China-led”) Asian division of labor. China’s OBOR strategy bears striking resemblance with earlier Japanese economic development policies as theorized by Akamatsu and later “modernized” by his disciples. Akamatsu’s flying geese paradigm, and its updated versions¹¹⁶⁶, is based on a four-stage production cycle, starting with the import of foreign relatively sophisticated goods thanks to the exchange revenue generated by natural

¹¹⁶³ HARVEY, David, 2006, *The Limits to Capital*, Verso, New York. Harvey’s “Spatial fix” has already been used in GRAY, Kevin, LEE Jong-woon, 2017, The Rescaling of the Chinese State and Sino-North Korean Relations: Beyond State-Centrism, *Journal of Contemporary Asia*, Vol. 48, n°1.

¹¹⁶⁴ DAVID Harvey, 2003, *The New Imperialism*, Oxford University Press, New York. See p.87-88.

¹¹⁶⁵ ZHANG, 2017.

¹¹⁶⁶ SHIGEHISA Kasahara, 2013, The Asian Developmental State and the Flying Geese Paradigm, *United Nations Conference on Trade and Development Discussion Papers*. Url: http://unctad.org/en/PublicationsLibrary/osgdp20133_en.pdf. Last accessed 9th of March 2017. See p.10 and following.

resources exports. Imports and reverse-engineering of foreign-made machines and means of production is the second phase of the flying geese model, which allows starting domestic production by national firms. Last, when the domestic market becomes saturated, national companies start to export their productions to less “advanced” countries, or even outsource production abroad through FDI. The saturation of the domestic market needs to be interpreted as a signal to trigger the launch of a new cycle with the importation and reverse engineering of more sophisticated products.

As scholars already noticed¹¹⁶⁷, the PRC’s very active economic diplomacy and OBOR strategy seems to be trying to structure and organize a Sino-centered flying-geese paradigm. But since the academic literature on OBOR and China as the locomotive of a new international division of labor is consequently limited, it might be useful to briefly point out, through a case study, the main objectives and characteristics behind current OBOR flagship projects. Although quite different from the North Korean case, the Pakistani example, in particular, provides very useful insights for the study of China’s economic engagement strategy towards the DPRK.

10.1.2 Chinese economic engagement in Pakistan and the China Pakistan Economic Corridor

“Quasi-allies”, Beijing and Islamabad have had longstanding ties since Pakistan was among the first to transfer its embassy from Taipei to the Chinese mainland in 1950, but especially after Chinese support during the 1971 India-Pakistan war¹¹⁶⁸. The Pakistani example is actually quite interesting to have in mind within the context of this study, as the Beijing-Islamabad relation bears, to a certain extent, interesting resemblance with the PRC-DPRK case. While Pakistan and the DPRK share little political characteristics, they are both considered “rogue States”, both have potential economic strategic importance as “exports windows” on the Indian or Pacific Ocean, both are the results of partition (which leaves China unable to engage with one side without antagonizing the other¹¹⁶⁹) and, last but not least, both controversially developed a nuclear weapon program and are proliferating States.

¹¹⁶⁷ LIU Weidong, DUNFORD, Michael, 2016, Inclusive globalization: unpacking China's Belt and Road Initiative, *Area Development and Policy*, vol.0, n°0. pp.1-19.

¹¹⁶⁸ SMALL, Andrew, 2015, *The China-Pakistan Axis, Asia's New Geopolitics*, Oxford University Press, New York. See chapter 1.

¹¹⁶⁹ LONG, Xinchun, 2017, New Delhi's objection to CPEC in Kashmir not to its own benefit, *Global Times*. Retrievable here: <http://www.charhar.org.cn/newsinfo.aspx?newsid=11519>. Last accessed 14th of March 2017.

The contrast in terms of economic development strategy, however, could not be stronger. Leaving historical development patterns aside, Islamabad and Beijing only lately found a common interest in strengthening economic ties¹¹⁷⁰. As a matter of fact, while Small gives a quite bleak account of the current bilateral economic ties¹¹⁷¹, Beijing's interests in Pakistan sharply rose after 2000, following an official visit in Beijing by Pakistani Prime Musharraf who advocated for closer economic cooperation between both countries. Trade ties rapidly expanded, from around \$1.4 billion in 2001 to almost \$7 billion in 2007, when a bilateral Free Trade Agreement (FTA) was signed. After 2007, trade ties kept rising sharply, up to \$18 billion in 2015¹¹⁷², and were paralleled by relatively large Chinese investments in Pakistan, from a negligible \$146 million in 2006 to \$2,2 billion in 2012, a figure that most likely kept ballooning since then. Interestingly, these investments did not happen solely based on traditional friendship between the Islamic and the People's republics, but also because from 2004 on, Pakistan's Prime Minister Shaukat Aziz engaged into a far-reaching economic reform which led to large privatizations and decentralization measures (part of this trend is the amendment to the Pakistani SEZ act in 2012, see below)¹¹⁷³. Against this backdrop, few months before the OBOR initiative was officially launched, Pakistan and China restarted the project of creating a multi-purpose transport and development corridor across Pakistan, linking the Chinese city of Kashi (Kashgar) to the Gwadar port on the Indian Ocean. The China-Pakistan Economic Corridor (CPEC) infrastructure development program has a total cost in initial investment of no less than \$46 billion¹¹⁷⁴ (about the size of Macau's GDP) and encompasses, among many others projects, the creation of several SEZs (up to 40 according to wide-ranging estimates) to be scattered across Pakistan, along the CPEC. These Special Economic Zones would obviously be extremely attractive for Chinese capital, not only given their strategic location and the potential savings in transportation costs, but also given Pakistan's comparative advantages that combine well with the Chinese economy. For

¹¹⁷⁰ KUMAR, Sumita, 2007, The China-Pakistan Strategic Relationship: Trade, Investment, Energy and Infrastructure, *Strategic Analysis*, n°31, vol 15. pp 758-790.

¹¹⁷¹ SMALL, 2015.

¹¹⁷² UNCOMTRADE.

¹¹⁷³ KUMAR, 2007.

¹¹⁷⁴ AHMAD RAMAY, Shakeel, undated (2015?), China Pakistan Economic Corridor, A Chinese Dream Being Materialized Through Pakistan, *Sustainable Development Policy Institute Policy Brief*. Url: [https://sdpi.org/publications/files/China-Pakistan-Economic-Corridor-\(Shakeel-Ahmad-Ramay\).pdf](https://sdpi.org/publications/files/China-Pakistan-Economic-Corridor-(Shakeel-Ahmad-Ramay).pdf). Last accessed 10th of March 2017.

example, Pakistan's most exported product to China (but also on a global scale) is raw unprocessed cotton, which is not surprising since the PRC is the world's largest textile manufacturer and exporter¹¹⁷⁵. However, as it is well-known, facing rising wages in labor-intensive industries, China's initial competitive advantage in garment processing is put in jeopardy, and textile processing plants are increasingly being outsourced to lower-income countries, particularly in South Asia¹¹⁷⁶. Revealingly, Chinese cotton imports from Pakistan and the world peaked in 2012 and have been decreasing ever since (from \$18,6 to \$10,3 billion in 2015). On the other hand, exports of knitting and stitch-bonding machines jumped, and it should thus not come as a surprise that a delegation of Shenzhen businessmen led by officials from the Department of Commerce from the Xinjiang Autonomous Region (where the CPEC starts) showed particular interest in the Pakistani SEZs for their potential as a textile export-processing base¹¹⁷⁷. What's more, Kumar also explains that, among other sectors in Pakistan that were identified as high-potential after the concrete implementation of the Chinese-Pakistani FTA, the agricultural sector ranks high¹¹⁷⁸. As the research team in charge of identifying potential areas of cooperation explained, Pakistan might have a comparative advantage over China in terms of fruit and seafood production, "once fruit and fish processing technology is brought in[...] by guided investments from Chinese companies"¹¹⁷⁹.

Indeed, given the extremely low costs of labor in Pakistan, it might indeed have a comparative advantage over China in manufacturing, should it be able to overcome productivity issues by attracting investment in fixed-asset capital and better technology. Chinese investment could (and actually is) be filling the capital and technology gap in order to sharpen Pakistan's competitive edge. But the Pakistani economy is also facing massive infrastructural issues, ranging from lack of transportation infrastructure to export Pakistan-manufactured commodities, but also energy bottlenecks that jeopardize the entire

¹¹⁷⁵ *World Statistical Review*, 2016, World Trade Organization. See p.33.

¹¹⁷⁶ WANG Jinmin, WU Jiebin, YAO Xianguo, 2008, The expansion of textile and clothing firms of China to Asian Least Developed Countries: The Case of Cambodia, *Asia-Pacific Research and Training Network on Trade Working Paper Series*, n°60.

¹¹⁷⁷ JABRI, Parvez, Chinese investors interested in textile sector, *China Pakistan Economic Corridor Info*, 22nd of December 2016. Url: <http://www.cpecinfo.com/cpec-news-detail?id=ODM3>. Last accessed 10th of March 2017.

¹¹⁷⁸ KUMAR, 2007.

¹¹⁷⁹ KUMAR, 2007.

development of wider-scale labor-intensive industrial sector¹¹⁸⁰. Hence the need for an infrastructural “big push” in Pakistan that happens to intersect with China’s economic development strategy and is mostly being carried out by Chinese SOEs in Pakistan, as part of the CPEC. A multi-faceted and comprehensive project, the CPEC indeed encompasses not only SEZs and a multi-modal transportation corridor from Xinjiang to the Indian Ocean, as mentioned already, but also an oil pipe-line and several power plants. Islamabad and Beijing jointly set up the China-Pakistan Power Plant Corporation, a giant company whose main purpose is to establish new power plants (mostly nuclear-powered but also coal-fueled power plants such as in Qasim Port) across the country: no less than 14 new energy-related projects have been already agreed on, while an additional batch of seven more are currently being discussed¹¹⁸¹.

Simply put, China does indeed have an actual economic engagement strategy towards Pakistan. It seems to be furthermore a quite successful one, although the strictly-defined economic results of the Chinese venture in Pakistan remain to be seen. It is successful in the sense that the Pakistani economy is actually doing better, but also because Chinese corporations seem to be really interested in what Pakistan has to offer in terms of comparative advantages: a gigantic market, strategic access to the Indian Ocean, and low labor costs. Since Pakistan is one of the least performing countries in “economic freedom” or “ease to do business” indexes (it ranks 141 on 180 in the Economic Freedom Index), Chinese interests might seem surprising for most western businessmen, but are generally in line with Chinese FDI patterns. But the contrast between Chinese involvement in Pakistan and in the DPRK could not be stronger. Obviously, the economies of North Korea and Pakistan have little in common, both in scale and nature: Pakistan is a much larger country and economy than North Korea, and has never been a socialist economy. Hence, being the closest wagon to an export-oriented economic locomotive does provide with interesting opportunities for the Pakistani economy and open perspectives for economic development as an export-

¹¹⁸⁰ HOURELD, Katharine, 2015, Pakistan government, frustrated by power crisis, changes tack, *Reuters*, 10th of November 2015. Url: <http://www.reuters.com/article/us-pakistan-power-idUSKCN0SZ1AP20151110>. Last accessed 14th of March 2017.

¹¹⁸¹ TIEZZI, Shannon, China Powers up Pakistan: The Energy Component of the CPEC, *The Diplomat*, 13th of January 2016. Url: <http://thediplomat.com/2016/01/china-powers-up-pakistan-the-energy-component-of-the-cpec/>. Last accessed 14th of March 2017.

processing base. This pattern of development is globally in line with policies that made most “Asian dragons” economic successes, the key differences here being that Pakistan does not rely on Japan or South Korea but China, and that Beijing is willing to be extremely “generous” in terms of infrastructure development in order to accelerate the process and alleviate its industrial overcapacities. Pakistan of course is a quite particular example as the Chinese engagement strategy appears here more distinctly than elsewhere, but these observations would also be valid for several countries in South, Southeast Asia (Bangladesh, Myanmar, Laos, Vietnam...), Central (Kazakhstan, Tajikistan) or even Northeast Asia (the Russian far east). Chinese investors for example recently pledged no less than \$3 billion for the infrastructure of the Russian Far east¹¹⁸², part of which will be spent in transportation corridors linking Hunchun to Vladivostok¹¹⁸³ or Zarubino, entirely circumventing the DPRK, to reach Busan¹¹⁸⁴ or Japan. The fact that China heavily invests in most countries of its periphery but not the DPRK (and actually physically tries to circumvent it) raises important questions, as beyond their obvious differences, North Korea and Pakistan do have characteristics in common, at least if seen from China. Both countries can indeed offer low-cost labor to Chinese companies and have a strategic interest for Beijing: creating transportation infrastructures through Pakistan and the DPRK would participate in “unlocking” the Western and Northeastern parts of China, a long-lasting goal of the central government of the PRC. What’s more, strategic economic engagement from China, as defined in the introduction, could help China achieve its trumpeted objective to have “good, safe and prosperous” neighboring countries, especially in troubled territories such as Pakistan or the Korean peninsula. Consequently, one can only be puzzled by the fundamental differences that appear in Chinese economic engagement patterns towards

¹¹⁸² Russian Far East may see \$3bn in Chinese investments, *RT*, 21st of November 2016. Url: <https://www.rt.com/business/367619-china-businesses-investments-russia/>. Last accessed 15th of March 2017.

¹¹⁸³ *Hunchun jiji tuijin zhi ehaishanwei gaotiexiangmu* 珲春积极推进至俄海参崴高铁项目 [Hunchun actively promotes bullet train to Vladivostok], Ministry of Commerce of the PRC, Url: <http://www.mofcom.gov.cn/article/difang/201603/20160301280808.shtml>. Last accessed 15th of March 2017.

¹¹⁸⁴ *Hunchun-zhalubino-fusan hangwenbu yunxing* 珲春-扎鲁比诺-釜山”航稳步运行 [« Hunchun-Zarubino-Busan » shipping lane set in motion], Ministry of Commerce of the PRC, 2nd of March 2017. Url : <http://www.mofcom.gov.cn/article/resume/n/201703/20170302526403.shtml>. Last accessed 15th of March 2017.

both Islamabad and Pyongyang. It is therefore necessary to examine why is China unwilling, or unable, to apply similar economic engagement strategies in both countries.

10.2 From Soviet- to Chinese-centered international division of labor

China is the largest investor in the DPRK. It is also, since the closure of the Kaesong complex the only one very few countries that still risks investing in the DPRK, a country with an extremely poorly rated business environment. The difficulty of doing business and investment in North Korea of course is a strong obstacle to larger Chinese investment flows in the country. However, as explained already, this mono-causal explanation, albeit true to some extent, cannot entirely explain the current weakness of sino-DPRK ties. Indeed, China has become a major investor in several countries that are widely considered to be “fragile States”, several of them ranking much lower than North Korea in the Fund for Peace’s Fragile States Index¹¹⁸⁵. According to this index, the DPRK is “only” listed as the world’s 30th most fragile nation (ranking 23rd in 2013 and 13th in 2007), outperforming countries like Zimbabwe, Afghanistan, Democratic Republic of Congo, Sudan and South Sudan, Nigeria, and, last but not least, Pakistan. Revealingly, China invests more¹¹⁸⁶ in all of these countries than in the DPRK. This is all the more surprising given that, as discussed and explained at length, Pyongyang has been trying, even if sometimes reluctantly, to woo Chinese investments since at least 25 years, with moderate success in the 2000 decade. The North Korean economy, just like Pakistan, has interesting comparative advantages that can attract Chinese capital: large amounts of natural resources, skilled and cheap labor, Special Economic Zones modeled after the Chinese example... Theoretically, North Korea could indeed be part of a Chinese-led flying geese development pattern. As explained in previous chapters (chapter 8), Pyongyang has indeed been reforming its investment-related legal corpus and practices to attract more foreign capital, and Chinese FDI in particular. However, the core of the DPRK’s economic strategy, rooted in *Juche* and independence, does not appear to have changed, or if so, only marginally.

¹¹⁸⁵ Fragile State Index 2016, United States Fund for Peace. Url: <http://fsi.fundforpeace.org/>.

¹¹⁸⁶ Based on latest UNCOMTRADE data for Chinese Investments in the DPRK, *e.g.* 2012.

10.2.1 The limits of a “compradore” success

As explained earlier, the PRC and the DPRK did prove able to reach a common ground after Pyongyang recovered from the “Arduous March”. In the wake of the 2002 reforms, Chinese investments did make their way into the DPRK, and trade ties soared. While this new era of Sino-Korean economic cooperation did certainly positively impact the North Korean economy, which is widely considered to perform better by the overall majority of observers (in the absence of reliable statistical data besides international trade), it also turned out to be a quite *specific* engagement strategy aimed at transforming North Korean policies. Contrary to global Chinese FDI patterns that started to appear at the same time, Chinese SOE did not (or marginally) invest in the DPRK. Contrary to Chinese support for SEZs in Asian and African countries that surfaced few years later, China showed limited interest in North Korean SEZs, sometimes even nipping them in the bud (Sinuiju SAR). Contrary to the Chinese well-documented pattern of accompanying FDI with infrastructure development, China does not contribute (or, again, marginally) to infrastructure development in the DPRK. As the “new Yalu bridge” perfectly exemplifies, Chinese infrastructure development stops at the border, and does not venture into North Korean territory. The political motive behind this *specific* policy was explicit at that time, and Chinese officials were still hoping that the DPRK was genuinely interested in following their tracks; as Hu Jintao explained to the *Dear Leader* while on a trip to Beijing: “*Economic development should be self-reliant and also cannot be separated from opening up and cooperation*”¹¹⁸⁷. While Beijing was understandably convinced that the *demonstrative effect* of China’s growing embrace would make Pyongyang more keen in adopting a Chinese –style *gaige kaifang* (as both Chinese scholars and businessmen most often tend to believe¹¹⁸⁸) one might counter-intuitively argue that Pyongyang regards the post-2002 period of increasing economic cooperation with China as a success ambivalent in nature.

First, and most obviously, while China’s share in the DPRK total imports was no more than approximately 18% in 2001, it abruptly increased to 40% in 2008 and finally reached an astonishing 85% in 2015. The explanation behind this increasing phenomenon is admittedly

¹¹⁸⁷ THOMPSON, 2011.

¹¹⁸⁸ DUCHÂTEL, Mathieu, SCHELL, Philippe, 2013, China’s Policy on North Korea: Economic Engagement and Nuclear Disarmament, *SIPRI Policy Paper* n°40. Url: <http://books.sipri.org/files/PP/SIPRIPP40.pdf>. Last accessed 7th of February 2017.

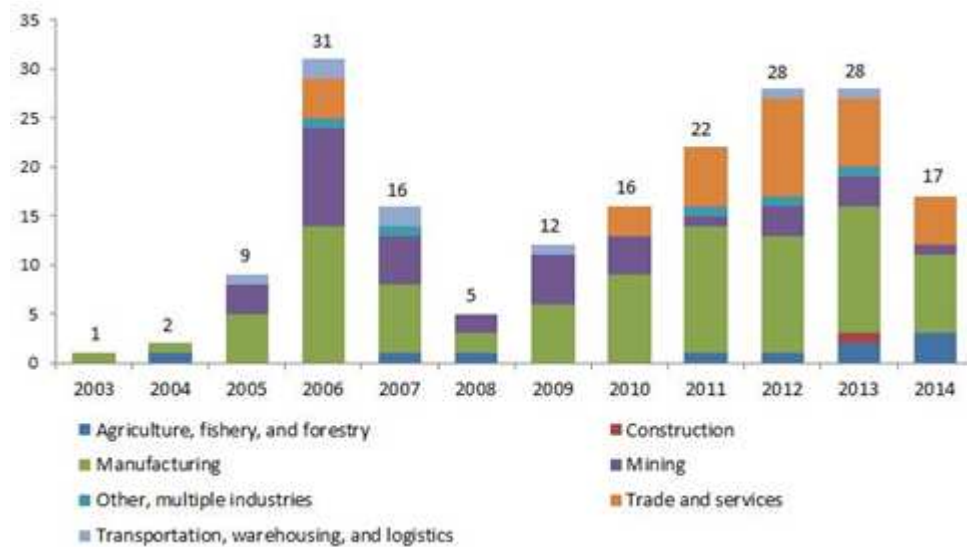
more rooted in the political realm than in the economic one: bilateral economic ties did indeed make breakthroughs at that time, but this was also due to the gradual disappearance of alternative trade partners in the context of the DPRK's controversial nuclear and ballistic programs. From the author's perspective, the "quantitative aspect" of North Korea's trade dependence on China is not the most disturbing one for Pyongyang, at least not until very recently. Indeed, the DPRK obviously made the deliberate choice to venture into controversial programs and certainly knew that it would result in economic sanctions that would affect trade relations. Economic dependence, in a country that trumpets self-reliance, obviously is an important issue, but being dependent on one specific country instead of several is merely a question of degree, not nature. Only after 2016, when Beijing decided to vote in favor of stricter economic sanctions against the DPRK, did the absence of potential alternative undermine the DPRK's economic development strategy, leading Pyongyang to sharply criticize the PRC, whose measures were considered to be "*tantamount to the enemies' moves to bring down the social system in the DPRK*"¹¹⁸⁹. At that point, increased, and exclusive, economic interaction did prove to be an important weakness in North Korea's strategy. It also showed, but one can certainly assume that it was clear to Pyongyang for a quite long time already, that China was actively trying to interfere in Pyongyang's internal affairs.

As pointed out in chapter 4, the composition of post-2002 bilateral trade shows that the DPRK's longstanding goal of mastering the whole product cycle and becoming a trade power is still out of reach. In terms of volume, the DPRK's trade performance did perform much better after the famine, in part due to the post-crisis "catching up effect", but also due to increased economic cooperation with China and investment-related trade. As explained, the DPRK first and foremost received FDI in two specific sectors (in terms of number of projects): the first one was mining, the second one manufacturing (see figure 26). Based on PRC-DPRK cooperation patterns identified in Part I, one might assume that Chinese investment in mining would allow Pyongyang to exports more natural resources, "necessary evil" that could have allowed it to import more advanced technology and/or sophisticated products. On the other hand, investments in the manufacturing sector would have allowed Pyongyang

¹¹⁸⁹ Neighboring Country's Mean Behavior: Written by Jong Phil, KCNA, 23rd of February 2017. Url: <http://www.kcna.kp/kcna.user.article.retrieveNewsViewInfoList.kcmsf>. Last accessed 20th of March 2017.

to directly access more advanced technology, know-how and allow it to sharpen its competitive edge on foreign markets and eventually being less dependent on foreign imports.

Figure 26: Chinese investment projects (realized) by sectors



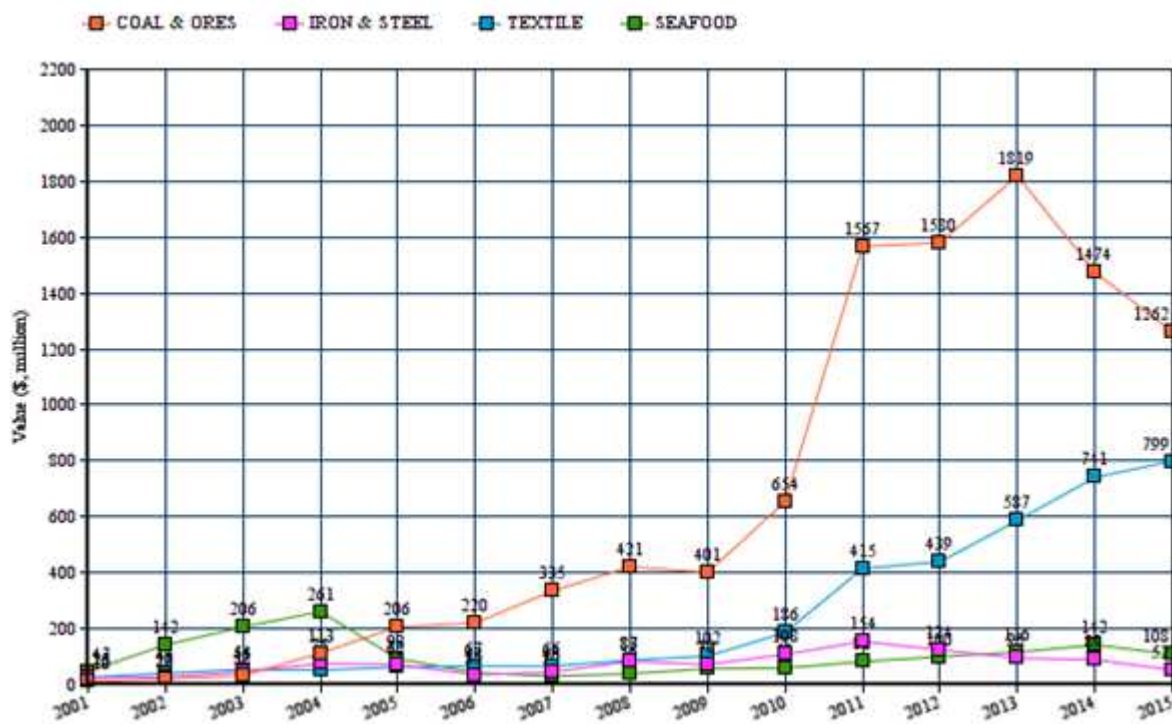
Source: HAGGARD, Stephan, SHI Weiyi, 2014, *Chinese Investment in North Korea: Some Data*, Peterson Institute for International Economics (online.) Url: <https://piie.com/blogs/north-korea-witness-transformation/chinese-investment-north-korea-some-data-part-i>. (part I). Last accessed 2nd of June 2016. Based on Chinese Ministry of Commerce data.

Chinese FDI in the mining sectors did lead to a clear bump in extractive resources exports to China, from 2005 onwards (especially coal and ores). While coal was, in 2001, only the 8th most exported goods to China, it ranked first as soon as 2005 and remained on top until 2016 and the 2017 Chinese coal ban. Exports of ores (iron, lead, zinc, copper) also increased, albeit in a less spectacular manner. Chinese FDI in the manufacturing sector, however, did not really intersect with North Korean expectations. As figure 27 shows, from 2008 onwards, exports of clothes manufactured in the DPRK surged to become the country's second most exported commodity in 2011. Official data is likely to underestimate trade volume since textile manufactured in the DPRK is labeled "made in China"¹¹⁹⁰ and thus does not necessarily appear in statistics. Besides the manufacturing and exports of low-value added products like textile, the Chinese FDI inflows in the manufacturing sector of North Korea had little effect on the structure and composition of external trade. Exports of electric cables and

¹¹⁹⁰ Personal observations of the author, Rason, March 2014.

inductors reached, respectively, about \$30 million and \$16 million in 2015 (both against nothing in 2001) while the low residual volume of integrated circuits that were still imported by China (\$16 million in 2001) did actually drop to around zero until 2015. Interestingly, this extremely modest performance in non-textile exports might not even have anything to do with Chinese investment, as the factory which is likely to be behind the exports of electric cables to China, the Pyongyang 326 Electric Cable Factory, is not, to the author's knowledge, involved in a partnership with Chinese companies. Chinese exports, on the other hand, rose until 2013¹¹⁹¹.

Figure 27: North Korea most exported goods to the PRC, 2001-2015 (US dollars, millions)



Source: based on UNCOMTRADE statistical data. Url: <https://comtrade.un.org/data>

The fact that Pyongyang has become, in 2015, China's most important textile supplier is a clear sign of gradual vertical economic integration of the DPRK in a PRC-led flying geese model of development, as already argued by Choi and Im:

¹¹⁹¹ Chinese exports can however be suspected to have kept rising since 2013, as the relative decrease after 2013 is due to the mysterious "disappearance" of Chinese oil exports (most likely considered as assistance and thus not appearing in MOFCOM data).

*“China may be utilizing North Korea’s cheap labor in the form of outsourcing certain manufacturing procedures, especially those that are labor intensive, for instance in the garment and textile industry. The rising traffic of textile products between borders, especially in the form of processing trade, points to this trend.”*¹¹⁹²

The structure of bilateral trade, but also the DPRK’s export of labor in the Chinese borderlands (especially in the textile sector!¹¹⁹³) is likely to be a temporary “band-aid” solution to the more structural issue of rising wages in China. But there seem to be limited opportunities for small, private Chinese companies (which make the bulk of the DPRK’s trade partners) to invest in production facilities in the DPRK. The extremely poor shape of North Korean infrastructure is, according to Haggard and Lee, the second most reported issue by Chinese businessmen surveyed (behind lack of international communication from/to the DPRK)¹¹⁹⁴. This obstacle, quite common in developing countries, does not necessarily prevent Chinese companies from investing abroad, as the Pakistani example showed. However, as discussed already, Chinese large infrastructure-building SOEs do not, or marginally, accompany investment in the DPRK. In other words, if one looks at the current China-DPRK economic ties from Pyongyang’s point of view, not only is it increasingly integrated in a sino-centered international economic division of labor, with the benefits (larger exports and access to foreign currency and assistance) and disadvantages it implies (heavy trade deficit and creeping dependence), but it also comes with relatively low levels of investment, extremely low infrastructural build-up and thus quite limited prospects for substantial intrinsic economic development.

The limited but nonetheless existing increased economic integration, from the 2000s on, between China and DPRK partially fits in what Amin and most other dependency theorists would call a “*compradore*” success. Interestingly, in *Delinking*, Amin explicitly considers “free

¹¹⁹² CHOI Jang-ho, IM So-jaeong, 2016, The Changing Structure of Economic Cooperation between China and North Korea, *KIEP World Economy Update* vol.6. n°15. Url: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2799985. Last accessed 3rd of March 2017.

¹¹⁹³ North Koreans Meet Chinese Demand For Cheap Labor – Report, *Forbes*, 27th of April 2012. Url: <https://www.forbes.com/sites/simonmontlake/2012/04/27/north-koreans-meet-chinese-demand-for-cheap-labor-report/#69257bac35fd>. Last accessed 22nd of March 2017.

¹¹⁹⁴ HAGGARD, Stephan, LEE, Jennifer, NOLAND, Marcus, 2011, Integration in the Absence of Institutions: China-North Korea Cross-Border Exchange, Peterson Institute for International Economics, *Working Paper Series* (online). Url: <https://piie.com/publications/wp/wp11-13.pdf>. Last accessed 7th of June 2016.

zones” to confer a *compradore* character to economic successes (measured by high growth rates) in developing countries as they embody technological and financial dependence on foreign partners, and are most often based on the sole comparative advantage of low labor costs. This seems to be the essence of “economic compradorization”, a term never exactly defined by Amin (at least not to the author’s knowledge). The Portuguese term “compradore” historically refers to the Chinese or Indian native that was in charge of being the intermediate between European companies and local customers. In its XXth century meaning, especially for Marxists and dependency theorists, the term *compradore* refers to the social strata of developing countries that benefits from the economic integration of “peripheral countries” (countries specialized in one or several economic sectors, depending on inputs from centers) with “centers” (countries that master the whole economic production cycle). Archetypal examples include traders and landlords. Consequently, economic compradorization, for a country as a whole, means to base an economic development strategy on the inputs of foreign partners, which requires the exact opposite of what Amins calls “delinking”: continually adjusting economic development strategies to the needs of foreign countries (“centers”), i.e. producing textile when it becomes unprofitable in higher-income countries. What dependency theorists negatively consider as “dependence” is the core of Akamatsu’s flying geese paradigm. Indeed, the economic opportunities provided by the outsourcing of production capacities from more advanced countries precisely is what dependency theorists call a *compradore* success. Perspectives of economic development depend on stimuli from more advanced countries (“centers”), and this dependence on foreign countries provides opportunities of economic growth, but no genuine possibility of catching-up (only lower added-valued productions processes are being outsourced to peripheral countries). What’s more, this economic development strategies and the hierarchy they imply generate what dependency theorists call *transfers of value*, from the periphery to the centers: due to the different structure of wages in peripheral and central states, the former import at much higher prices than the latter.

The North Korean official literature, more versed in political nationalism than in economics, most often does not directly refer to dependency or Marxist theory. Interestingly, while references to Marxism, economic dependence, “colonisation-induced imbalance” flourished

in Kim Il-sung's writings, they seem to be rarer in Kim Jong-il's works, and, to the author's knowledge, absent in Kim Jong-un's. Recent publications favor the use of terms like "*Juche*-oriented", "Korean-style" (as in, for example "*Juche*-oriented theory on monetary calculation"¹¹⁹⁵, Korean-style tourism, etc.) to describe current economic policies. However, recent North Korean scholarship, including contributions by researchers from the leading Kim Il-sung University, still show that North Korean resistance to economic development strategies based on international division of labor, comparative advantages and "bourgeois policy" is still vivid. Kim Un-chol, for example, explains that

*"one of its reactionary natures is that this [comparative advantages] theory conceals the exploiting nature of imperialists who try to maintain the old international economic order and to strengthen the economic yoke and plunder toward developing countries through it. [...]bourgeois theory justifies the unfair international division system of labor which is an economic basis of non-equivalent exchange by insisting on "comparative advantage" theory. [...]In practice, international trade between developed and developing countries is non-equivalent exchange. In such unfair international trade, developed countries sell their products such as industrial products, processed products, intellectual products to developing countries at higher prices than in international market, while they buy developing countries' products such primary products as minerals, agricultural products at lower prices than in international market. The main reason is that developing countries are bound by one-sided and unfair international division system of labor forced by imperialist countries."*¹¹⁹⁶

While one might argue that there is a difference between what researchers say and the policies implemented at the State level, it should nonetheless be noticed that the extract quoted above bears close similarities with the Kim Jong-un May 2016 KWP Congress speech introduced in chapter 8. Kim Jong-un's mention of the "one-sidedness" of external trade obviously echoes the "one-sided and unfair international division [...] of labor" mentioned in the extract above. Kim Jong-un's brutal criticism of Chinese style "reform and opening"

¹¹⁹⁵ KANG Chol-su, 2015, The Originality of the *Juche*-Oriented Theory on Monetary Calculation, *Kim Il-sung University Journal* (Social Science), vol.2. pp.42-45.

¹¹⁹⁶ KIM Un-chol, 2015, Bourgeois "Comparative Advantage" Theory Justifying Imperialist Trade Policy and Its Reactionary Nature, *Kim Il-sung University Journal* (Social Science), vol.2. pp.134-137. English language approximations appear in the original.

seems to be shared among the North Korean intelligentsia, with Kim Il-sung University researcher Kim Un-chol also explaining that

*“bourgeois economic theory preaches that socialist and progressive countries stop to construct the independent economy and take part in international division system of labor by reforming and opening their economies. It shows that this theory enables socialist countries and developing countries to give up the class struggle and not to build the independent economy, and finally, to be constant economic appendage to serve the imperialists.”*¹¹⁹⁷

Other contributions by DPRK academics seem to converge with a North Korean version of Dependency Theory, as the works of scholars like Kim Un-nam¹¹⁹⁸ or Mun Chun-gwang¹¹⁹⁹ suggest.

10.2.3 Special Economic Zones in the DPRK, compromise to Chinese pressure and/or resistance to Chinese engagement?

Same as the ambiguous nature of the North Korean economic “reform”, the use of SEZs in the DPRK bears an equivocal character. As explained, China invests little in the DPRK in general, but is even less involved in the development of SEZs, besides small-scale investments in Rason. North Korean SEZs are modeled after their Chinese equivalents, albeit with a much different role as they are “inserted” in a completely different economic system. As a form of Chinese influence on North Korean policies (which is sometimes acknowledged by DPRK officials¹²⁰⁰), SEZs can thus be considered as compromise made by the DPRK leadership, out of necessity or “soft” foreign pressure. This was especially the case for the first- and second-generations SEZs: Rason was, at the beginning a UNDP supported project with important infrastructure development pledges and Kaesong was entirely build by Hyundai Asan. At that time, foreign partners were still able to convince Pyongyang that

¹¹⁹⁷ *Idem.*

¹¹⁹⁸ KIM Un-nam, 2014, Basic Principles of the Law of the WTO and Some Legal Problems of Them, *Kim Il-sung University Journal* (Social Science), vol.2. pp.77-80.

¹¹⁹⁹ MUN Chun-gwang, 2014, Important Issues Arising in Increasing International Competitiveness of Exports at Present, *Kim Il-sung University Journal* (Social Science), vol.2. pp.64-67.

¹²⁰⁰ Interview with DPRK diplomat in Switzerland, November 2013.

opening up parts of the territory of North Korea would provide the country's economy with the inputs it needed (capital, technology, know-how). Pyongyang proved able to partially meet the demands of foreign partners, especially in Kaesong, where North Korean labor was provided to South Korean companies at lower prices than in other SEZs¹²⁰¹, and vertical economic integration, clearly dominated by South Koreans, was accepted by the North, out of necessity, but also as part of broader and gradual reunification strategies. The fact that Hyundai, with the assistance and support from Seoul, was willing to undertake all infrastructure development in KIC, supply power and water, left Pyongyang with nothing to lose besides minor security risks.

On the other hand, the proliferation of SEZs in North Korea after 2013 might stem from a different policy: more than ten years after the introduction of the 1st of July 2002 economic measures, investment had made its way into the DPRK already and while it can hardly be said that it achieved its goal of establishing a "strong and prosperous" country, North Korean economy was clearly performing much better, not coping with the emergency anymore but trying to "give shape" to newly functioning economic system. But, by publicizing its comparative advantages, based on "capitalist criteria of success", as Amin would say, Pyongyang did only succeed in attracting FDI in sectors for which it does have a competitive edge. These investments were obviously welcome, but the dependence on China they imply in the longer term actually runs against North Korea's long-lasting political objectives of economic independence.

In this context, the emissions of seemingly mixed signals on the establishment of SEZs and the attraction of foreign capital might actually make sense: on the one hand, SEZs are proliferating, increasingly specialized and more and more openly supported by the Pyongyang leadership. On the other hand, political figure widely believed to be incremental in the implementation of SEZ-related policies, like Jang Song-taek, get purged ostensibly on the charge of "selling off the land of the Rason economic and trade zone to a foreign country". These seemingly mixed signals are, in fact, clear boundaries: the DPRK is indeed looking for more foreign investments, as long as they go in line with North Korea's very own general economic development strategy, once again strongly mirroring Amin's policy

¹²⁰¹ DOUCETTE, Jamie, LEE, Seung-ook, 2015, Experimental territoriality: Assembling the Kaesong Industrial Complex in North Korea, *Political Geography* n°47, pp.53-63.

recommendations. The post-2013 waves of SEZs might even be considered as a form of “resistance” to the Chinese embrace: by opening increasingly specialized investment zones, Pyongyang might try to be more proactive in attracting *specific* investments in *specific* parts of the country, and not only what Chinese companies are willing/needing to outsource. As explained already, the location and focus of these zones are partially based on local comparative advantages; but the sectors in which they seem to try to attract investment¹²⁰² remain completely different from current Chinese FDI patterns in the country. Besides sectors on which Pyongyang seems to be particularly paying attention to, like tourism (Wonsan, Mubong, Onsong, Manpho, Hyesan, Amnok, etc.) or science and technology (Unjong, Hyondong), the DPRK’s SEZs try to capture investment in sectors like metals and mineral processing, building materials, chemicals (Hungnam), or “sophisticated export-oriented manufacturing”. In other words, while the 2002 reforms allowed Chinese waves of investment in the country based on the needs of Chinese companies; recently, since Jang’s demise or maybe after Kim Jong-un took power, it seems that Pyongyang has been trying to “compel”, or rather *entice*, the other to adjust to its needs. Special Economic Zones, and their comparative advantages, are paradoxically used as tools to achieve this objective.

10.3 Positive reinforcement: an ill-suited economic engagement strategy

North Korea’s and China’s very different attitudes regarding economic cooperation and economic development have led to political friction. On the one hand, the DPRK is “resisting” the Chinese embrace, while the PRC is adapting its economic engagement strategy to serve its political objectives.

10.3.1 North Korea’s resistance to Chinese engagement

As just explained, China has been trying to integrate the DPRK into a sino-centered flying geese paradigm, a perspective that might not seem very appealing to Pyongyang. This engagement strategy necessarily is very incremental, for two main reasons. First, China chose to let private companies interact with DPRK businesses, and to mainly rely on the “invisible hand” of the market to foster economic integration with North Korea. The local

¹²⁰² MIMURA, 2015.

business environment being extremely bad, the progress of this engagement strategy necessarily is very gradual. The second reason, which could also be seen as a different view of the same problem, is that the degree of openness of the North Korean economy still is quite limited. Although markets are believed to play a more important role in the country, external trade, if legal, still is strictly controlled by the North Korean authorities and Chinese businessmen obviously are not able to export as much as they might want to. With Pyongyang suffering from a long-lasting trade deficit and being unable to access financial markets, it also obviously has limited budget to fund imports. But Pyongyang also clearly favors domestic production against imports. It is reasonable to argue that the DPRK strongly depends on China as a trade partner, but it should also be pointed out that North Korea's trade deficit has been shrinking since 2008 (when coal, ores then apparel exports started to rise). This deficit actually is relatively low if compared with other countries in Asia. Afghanistan's trade deficit with China more than doubled, in two years, following inflows of Chinese FDI in the country (from \$402 million in 2013 to \$1 billion in 2015¹²⁰³), while long-lasting economic partners of the PRC often show extremely large trade deficits: \$9 billion for Pakistan, \$14 billion for Indonesia, \$32 billion for Vietnam. These large numbers, of course, can be explained by the relative size of their economies, but smaller countries like Cambodia or Sri Lanka, also have higher trade deficits with China than the DPRK. Kyrgyzstan, a recent economic partner of China and a key country in the context of OBOR, has a trade volume with China that is roughly 3,5 times lower than the DPRK's, but three times its trade deficit (as of 2015). In other words, the North Korean reluctance in economic opening might not only be rooted in ideological preferences from the North Korean leadership but also in China's aggressive "expansionist" and unbalanced economic engagement strategy.

The DPRK necessary is well-aware of the political nature of Chinese engagement strategies. Recent, and increasingly explicit¹²⁰⁴, outbursts of enmity coming from both sides are thus not really surprising: China is frustrated by the DPRK's so-called stubbornness in not implementing "genuine" *gaige kaifang* policies; North Korea, on the other hand, sees China

¹²⁰³ UN COMTRADE.

¹²⁰⁴ See, for instance: Commentary on China-DPRK Relations, *KCNA*, 3rd of May 2017. Url: <http://www.kcna.kp/kcna.user.article.retrieveNewsViewInfoList.kcmsf>. Last accessed 8th of May 2017.

as a quasi-imperialist country¹²⁰⁵ that is trying to interfere in its internal affairs. In particular, the very unique Chinese policy of letting small private companies, instead of SOEs, engage with the DPRK needs to be highlighted: these necessarily profit-oriented companies need quicker returns and thus require more flexibility from the local partner, pushing North Korea to “adapt” to the needs of these companies and (thus) to the market. In the absence of an alternative, Pyongyang necessarily needs to compose with this attitude from the Chinese partner, attract as much investment and technology as possible in the country in order to lessen its dependence on Chinese imports and gradually leave the Chinese orbit. In other words, the DPRK is, in a way, resisting China’s embrace by partially trying to “filter out” economic cooperation patterns that would result in higher degrees of dependence. As one North Korean mid-level official from a ministry in charge of science and high-technology explains, establishing joint-ventures in the high-tech sector of the DPRK is “the very political requirement of our country”¹²⁰⁶. But, since Chinese companies have shown a quite limited interest in investing in the DPRK (at least in strategic sectors that might actually intersect with Pyongyang’s development goals), North Korea must still, reluctantly, engage into foreign currency-earning activities, such as trade of unprocessed mineral resources, labor exports or low-valued added processing activities.

10.3.2 *Is China engaging the DPRK?*

China is the DPRK’s most important economic partner, and yet its engagement strategy is minimalist. The Kaesong Interkorean Complex, which was mainly politically motivated but did also serve an economic purpose¹²⁰⁷ for the manufacturing sector of the ROK, was an outstanding success for both sides. South Korean companies in the KIC recorded astonishing performance¹²⁰⁸, and the 53 000 North Korean employees of the complex were trained on the job with advanced technology, while their wages have generated hard currency for

¹²⁰⁵ At least one DPRK trade official used the word « imperialism » (帝国主义) to describe current Chinese policies.

¹²⁰⁶ Personal email to the author, 20th of March 2017.

¹²⁰⁷ DOUCETTE, Jamie, LEE, Seung-ook, 2015, Experimental territoriality: Assembling the Kaesong Industrial Complex in North Korea, *Political Geography* n°47, pp.53-63.

¹²⁰⁸ Ten Years at the Kaesong Industrial Complex: South Korea’s Listed Firms Demonstrate Strong Growth, *NK Briefs*, 30th of January 2013. Url: http://ifes.kyungnam.ac.kr/eng/FRM/FRM_0101V.aspx?code=FRM150130_0001.

Pyongyang. Simply put, this successful experience would be very easy to reproduce in Sinuiju or anywhere near the Chinese border. The price of North Korean labor for Chinese companies was substantially lower than in Kaesong. However, in order to make a “Chinese Kaesong” successful, it would require relatively important Chinese investment on North Korean territory, a steady supply of electricity (supplied by the South in Kaesong), roads, factories etc. It would also create a definitely more competitive rival to *Dongbei’s* SOE “zombie companies” that are currently engaging in massive lay-offs¹²⁰⁹, which would obviously runs against Chinese immediate interests. Last, but not least, the now defunct Kaesong complex did not trigger a wider economic reform in the DPRK, as some argued it would, and it also did not lead to a reduction of tensions on the peninsula and Northeast Asia.

With Chinese scholars already beginning to express doubts on the financial feasibility of some OBOR-related projects¹²¹⁰, a large scale venture in North Korea, under the banner of the One Belt One Road initiative, seems all the more unlikely in any foreseeable future. Given Chinese economic and political interest as well as the diplomatic pressure on Beijing’s shoulders, it seems that China is more likely to root for a “new round” of 1st of July 2002-like economic measures before increasing its economic involvement in the DPRK. In other words, Beijing is “holding back” on its global economic expansion strategy as it considers that more actively engaging the DPRK in the current situation would not suit its interests. This “engagement policy” that paradoxically consists in not actively engaging the DPRK mirrors what psychologists call “positive reinforcement” to describe situations in which the subject is given a positive stimulus (reward) in case of correct behavior. With China being unable, for structural reasons, to make a choice between “active” support to Pyongyang and bandwagoning with the US against North Korea, this strategy of “positive reinforcement” might have been considered by Beijing as the best short-term policy to cope with the extremely delicate geopolitical situation. However, this policy clearly does not work well

¹²⁰⁹ China’s State-Owned Zombie Economy, *Financial Times*, 29th of February 2016. Url: <https://www.ft.com/content/253d7eb0-ca6c-11e5-84df-70594b99fc47>. Last accessed 28th of March 2017.

¹²¹⁰ *ruhe yingdui gaotie haiwaiqiankui fengxian 如何应对高铁海外潜亏风险 [Song Wei : How to limit overseas high-speed train projects financial risks]*, *Huanqiu Shibao*, 8th of December 2016. Url: <http://opinion.huanqiu.com/1152/2016-12/9787234.html>. Last accessed 28th of February 2017.

with Pyongyang and is clearly becoming more and more difficult to support, as the 2017 ban on coal imports from the DPRK seems to suggest. Contrary to the Cold War era, Pyongyang does not have any alternative partner to leverage China (quite paradoxically, North Korean officials sometimes express their hopes that the US will, someday, play this role¹²¹¹) but increasingly shows signs that it is not willing to compromise on the core principle of the North Korean State: independence. It might indeed be argued that Chinese engagement strategies have done little to convince Pyongyang of the advantages of opening up, and, in the absence of alternative sources of inputs that could “feed” the DPRK’s *delinking* strategies, North Korea bets on its brinkmanship strategies (most obviously, its nuclear program) to trigger a change of attitude from foreign partners, especially the US and China. Beyond security concerns that may or may not be genuine, what the DPRK has consistently been requesting from the US during different rounds of nuclear-related negotiations (for example the 1994 US-DPRK agreed framework) is economic assistance. With the increase of geopolitical tensions in the region, a Chinese shift towards the DPRK might also end up, in Pyongyang’s strategic thinking, in Beijing supplying more “assistance (or more “friendlier” trade and investment policies) which could potentially kick-start yet another delinking attempt.

In many regards, the Chinese economic engagement strategy towards the DPRK seems particularly ill-suited and even, to some extent, self-defeating. As previous published research¹²¹² and fieldwork interviews show, Chinese scholars most often justify the current Chinese engagement as a means to push Pyongyang to alter its policies on diverse issues such as economic reforms and the nuclear programs. While Pyongyang certainly is not “immune” to political influence, as many historical examples show, it does not react well to direct interference and pressure, especially if these pressures frontally contradict core value of the North Korean State, and especially the central notion of *Juche*, on which the legitimacy of the DPRK leadership is based. The integration of North Korea into a Chinese-led

¹²¹¹ LANKOV, Andrei, 2017, Why Nothing Can Really Be Done about North Korea’s Nuclear Program, 2017, Hazards on the Road Ahead: The United States and the Korean Peninsula, *Asia Policy* n°23, National Bureau of Asian Research.

¹²¹² DUCHÂTEL, Mathieu, SCHELL, Philippe, 2013, China’s Policy on North Korea: Economic Engagement and Nuclear Disarmament, *SIPRI Policy Paper* n°40. Url: <http://books.sipri.org/files/PP/SIPRIPP40.pdf>. Last accessed 7th of February 2017.

international division of labor is not only a heavy-handed reminder of Cold War practices, it also fuels Pyongyang's almost proverbial distrust of the "outside world", its so-called "siege mentality" and, *de facto*, its isolation. This strategy is also self-defeating, as increased isolation leaves Pyongyang with limited prospects for economic development, threaten the long-term survival of the North Korean State and almost mechanically increase the need for Pyongyang to develop security guarantees and means of geopolitical pressure such as nuclear bombs and their delivery systems. As of today, an important body of academic and policy-oriented literature agrees on the lack of impact of economic sanctions against the DPRK¹²¹³. This might be due to the Chinese reluctance in implementing them, always more complex circumventing techniques used by North Korean businessmen, or more generally the uselessness of economic sanctions in curbing one country's policy options. China's increasing recourse to economic sanctions against the DPRK is, however, also ill-advised and potentially dangerous. Not only is China supposed to be North Korea's closest political partner, but Beijing's recent using of economic leverages is a painful and bitter reminder for Pyongyang that engagement strategies aiming at integrating the DPRK in a Chinese-dominated international division of labor fundamentally and frontally contradict North Korea's political goals and come with political strings attached. Specifically, China's February 2017 ban on all coal imports seems especially clumsy and counter-productive: anthracite, the DPRK's most exported commodity, embodies the failure of delinking strategies implemented by Pyongyang and of Chinese attempts to engage North Korea in a way that is seen as detrimental to its core interests. Indeed, using economic pressure tools (such as coal imports) that were forged at a time when the DPRK was more "receptive" to Chinese economic diplomacy clearly is the most direct way for Beijing to unveil the very political nature of its engagement practices and to overlook Pyongyang's consistent and long-lasting quest for independence.

¹²¹³ HUIH, Robert, 2017, The Failure of Maritime Sanctions Enforcement against North Korea, in Hazards on the Road Ahead: The United States and the Korean Peninsula, *Asia Policy* n°23, National Bureau of Asian Research. LANKOV, Andrei, 2017, Why Nothing Can Really Be Done about North Korea's Nuclear Program, 2017, Hazards on the Road Ahead: The United States and the Korean Peninsula, *Asia Policy* n°23, National Bureau of Asian Research.

CONCLUSION

This dissertation has examined current Sino-DPRK relations through the prism of economic cooperation and more precisely through the study of Chinese economic engagement strategies towards the DPRK and the political dynamics they imply.

The evolution of Chinese economic diplomacy towards the DPRK has been studied in details, from the immediate post-war to the present day, while the “modern” economic relation between China and North Korea (from 2002 on) has been the focus of particular concern. This study has allowed to shed light on the nature and the objectives of Chinese economic engagement strategy towards the DPRK and to better understand one specific issue at stake in bilateral relations that is economic cooperation. This led the author to closely follow and examine developments in Special Economic Zones in the DPRK as well as a selection of other cross-border economic integration programs (both at the central and local level), whose role in bilateral relations is often overlooked.

At the most general level, it can be said that Chinese economic engagement strategy towards the DPRK constitutes a peculiar example of Chinese global economic engagement outreach. At a time when China is trying to unfold a grand, global strategy of economic integration under the “one belt, one road” initiative, a case study of the Chinese engagement strategy towards the DPRK provides interesting insights on probable achievements and potential roadblocks ahead for Chinese economic actors (either public or private, high- or low-level) targeting sensitive or highly strategic areas. In a classical fashion, main results of this doctoral research will be addressed and examined, while limitations and indications for future research will be discussed afterwards.

11.1 Main results

11.1.1 *China implements a DPRK-specific economic engagement strategy*

As widely documented and analyzed by the academic literature on Chinese post-2002 economic diplomacy, the PRC unfolds a quite peculiar economic engagement strategy at the global level that contrasts with traditional (Western) economic powers. The fact that China-

DPRK exchanges are structurally imbalanced, both qualitatively and quantitatively, does not come as a surprise since China is the world's leading manufacturer and exporter and has become one of the most technologically advanced countries in Asia. As a matter of fact, most countries in the direct Chinese periphery display the same bilateral trade structure with the PRC. However, when it comes to Chinese investments in North Korea, important differences appear if compared with Chinese FDI patterns in neighboring countries, especially within the context of OBOR. Obviously, at the tactical level, Chinese economic engagement differs from one country to the other, depending on natural resources dotation, position in the global value chains, and other macroeconomic and political features. But at the strategic level, the least that can be said is that scholars have identified a general economic engagement pattern, especially after the "going out" policy and OBOR.

Although patchy, data from the Chinese Ministry of Commerce show that the sectors in which Chinese companies invest the most in are manufacturing and mining. This is globally consistent with other observable trends in Chinese foreign investment and in the OBOR initiative. But Chinese investment stocks in the DPRK remain extremely low, even if compared with the most unstable and "underdeveloped" countries in China's periphery (Afghanistan) and is performed by local, private and profit-seeking actors. This has had a major impact on current China-North Korea economic ties, as small-scale or even medium-scale ventures are unable and unwilling to provide the DPRK with what it has consistently been asking to foreign partners, that is technology and know-how transfers or investment in the country's derelict infrastructure. Chinese investments abroad, and especially in developing countries, are famous and appreciated by local powers and government because they often come with loans and infrastructure development that create demand for Chinese companies and banks but also "concretely" contribute to the target country's economic development through infrastructural build-up. Quite the contrary, Chinese investment in the DPRK's infrastructure, even at the peak of bilateral economic cooperation (during Hu Jintao's second term), has been minimal. What are most likely the largest Chinese investments in North Korea (mining ventures) are mostly located directly at the border with China, or in its close vicinity (Rajin port).

11.1.2 China has been trying to incentivize the DPRK into giving up its delinking strategy and integrating a Chinese-led international division of labor.

The analysis of post-2002 reform economic cooperation patterns and economic integration attempts show that Beijing has been trying to facilitate an easier seizing of economic opportunities in North Korea by Chinese companies. Contrary to the underlying principles of Delinking Theory and North Korean traditional economic thinking, the rapid rise in economic cooperation between China and DPRK has had for immediate effect a partial integration of North Korea in the global value chain, where Pyongyang is in the position of supplier of cheap resources and unsophisticated goods. As explained in Part I, the DPRK never was the independent economy, nor the exporting power, it aspired to be. However, during the Cold War, it benefited from friendlier trade policies and loans that helped generating export revenues that partially fueled the country's economic development. The collapse of the USSR and the DPRK's economy during the "Arduous March" left North Korea with limited choice but partial economic integration on China's terms, as evidenced by Beijing's brutal handling of the Sinuiju RAS and Pyongyang's growing trade deficit vis-à-vis China. Although Chinese investments in the DPRK are low if compared with Chinese FDI in other countries, they still sharply grew after 2002, providing the DPRK with important opportunities in economic sectors where Pyongyang was relatively inexperienced such as consumer goods manufacturing. Along with South Korean investments in Kaesong, Chinese FDI in the DPRK's fragile and outdated manufacturing sector is one plausible explanation for Pyongyang's recent and relatively successful push on light industrial and consumer goods production, especially since Kim Jong-un took power in 2011.

That being said, interviews with North Korean diplomats, trade officials and scholars, as well as DPRK publications tend to show that Pyongyang is increasingly unsatisfied with its bilateral economic relation with Beijing. The question of trade dependence from Beijing is often put forward by media and analysts but it should be noted that the North Korean economy has always been depending on "the outside world". Profit-seeking behavior and Chinese companies' cherry-picking of business opportunities in North Korea, however, have pushed the DPRK to reluctantly integrate the international division of labor at its lowest level

and that certainly is a larger source of grief for Pyongyang. Indeed, while cooperation and limited integration with China allowed the DPRK to get back on its feet after the “Arduous March”, it also contributed to Pyongyang’s increased dependence on Chinese economic development. Obviously, while this research mostly focused on economic aspects of China-DPRK ties, one should nevertheless be aware that Pyongyang’s nuclear and ballistic programs played an important role in its isolation from the rest of the international community and thus indirectly in its increased dependence on China. Since the Chinese endorsement (and relative implementation) of more comprehensive economic sanctions against the DPRK (especially after the March 2016 UNSC resolution n°2270) , it is all the more probable that this increased dependence has become not only an issue of economic development and sovereignty, but also a security issue. In that regard, it is quite probable to witness future balancing moves from the DPRK in the short-term, either external (contacts with alternative trade partners, especially Russia) and/or internal (emphasis on domestic production and self-reliance). Given the scope and the rapid increase of UNSC economic sanctions against the DPRK, it is also quite possible that China-DPRK bilateral relations might evolve in different directions in the near future (see “limitations and indications for future research”).

11.1.3 Special Economic Zones policies in the DPRK show that Pyongyang is still committed to attract Foreign Direct Investment but remains concerned about the political implications of foreign investment and economic integration

Since (at least) the opening of the Rajin-Sonbong Economic and Trade Zone in December 1991, under Kim Il-sung, Pyongyang has consistently showed interest for development possibilities offered by FDI and SEZ. Under Kim Jong-il were launched three different projects in addition to Rason, including the very successful Kaesong Interkorean Complex and the extremely audacious Sinuiju Special Administrative Region. Since Kim Jong-il passed away, no less than 15 SEZs have been established, albeit with limited or no success in attracting investment.

The evolution of SEZs and SEZ-related policies in the DPRK, their locations and economy-related sets of laws, show that North Korea has been gradually learning from experience and adapting its SEZs policies to the current international context but also to its economic needs and political options. Obviously this learning process has not led to a simple transfer of Chinese policies but rather to an adaptation of the latter to the general, consistent design of the North Korean historical economic matrix. As we have seen in Part II, Pyongyang has definitely been inspired by some aspects of the Chinese reform and even accepted to have Chinese lawyers and policy-makers advise their North Korean counterparts on specific projects aimed at fostering bilateral integration, for example during the Sinuiju SAR fiasco or in the context of the Joint Steering Committee. The analysis of the DPRK's investment-related legal corpuses also tends to show that the SPA has been trying to narrow the gap between North Korean and foreign practices, although the issue of legal security for foreign investors remains a major roadblock. Pyongyang even seems to have gradually accepted to take the initiative in developing promising ZES, as in the Wonsan-Kumgangsan and in the Mubong-Samjiyon areas.

As explained above, bilateral economic patterns established after the 1st of July 2002 reforms generally leave Pyongyang with little leeway to escape the Chinese orbit, and although authorities in Pyongyang have repeatedly called on the "economic forces" of the country to create different cooperation patterns little success has been recorded so far. Special Economic Zones, while mostly aiming at attracting Chinese investment, seem to constitute a tool designed for breaking the "vicious circle" of economic integration on China's terms. SEZs, especially the most recent ones, are generally designed in order to attract investment in technology, infrastructure or higher valued-added sectors, investment that according to Pyongyang, should allow the country to achieve sound economic development (as defined by local political criteria). In Pyongyang's calculations, Chinese investments in SEZs would not only benefit the Chinese economy but would be based on the DPRK's wishes and needs.

But for the time being, and to put it in Amin's terms, Pyongyang still is unable to "submit its external relations to its internal choices", and quite the contrary is seeing its internal economic system being animated by Chinese stimuli. Quite counter-intuitively, SEZs are being used by Pyongyang, with limited success, as a mean to escape this situation

During the introduction, three working hypotheses were highlighted as potentially useful to understand current bilateral economic cooperation. The first one assumed that Chinese economic policies towards the DPRK were first and foremost aimed at maintaining the North Korean State. The second one assumed that Beijing was trying to influence the DPRK's policy-making, while the third one was based on the idea that China's DPRK policy could be determined by external or internal causes.

It seems that the second hypothesis is the one that characterizes best the logic of Chinese economic engagement policies towards the DPRK. Indeed, at least until very recently (see "limitations" below), the PRC has actively tried to influence Pyongyang's policy-making by unfolding a quite specific and selective engagement strategy that aimed at creating new patterns of economic cooperation that would better integrate the DPRK in the global value chain. That being said, as explicitly underlined in the introduction, the different working hypotheses introduced earlier are not mutually exclusive and, as a matter of fact, one can hardly say that the first or the third hypothesis are entirely proven wrong.

The first hypothesis was based on the general assumption that China is actively helping a DPRK that would otherwise be on the verge of collapse; as this research (as well as many other academic contributions) has showed, Chinese economic engagement policies towards North Korea are very Chinese-centered and profitable and can hardly be considered as a gesture of diplomatic largesse from Beijing. That being said, it is also true that Beijing is only very loosely implementing UNSC sanctions against the DPRK, in part due to the fact that it might indeed destabilize the country's economy.

The third hypothesis posited that China's DPRK policy might not be aiming at the DPRK in itself, but quite the contrary be determined by internal or external causes: fostering economic development in *Dongbei* or using the DPRK as a diplomatic tool in the wider context of its relation with the US. There is also a part of truth in this hypothesis, as Beijing clearly is trying to use bilateral economic cooperation as a mean to facilitate the economic development of the *Dongbei* (especially in Dandong and Yanbian), either by trying to open and "conquer" a new market, or by establishing new export routes through the DPRK. Given the tensed geopolitical context surrounding North-east Asia, it is also obvious that Beijing's options regarding the peninsula are influenced by larger-picture geopolitical considerations.

Since Donald Trump's election, it might even be argued that Beijing's North Korean policy first and foremost is designed in order to prevent frontal opposition with the United States. What's more, given the most recent course of events and the accumulation of UNSC economic sanctions against Pyongyang, the issue of bilateral economic cooperation has become a strictly-defined geopolitical and geostrategic question, in a much larger extent than before the January 2016 test.

11.2 Limitations and indications for future research

As with any academic contribution, some aspects of the issue examined above are left untouched and require further research. On the North Korean side, obviously, the opacity of institutional dynamics makes it quite hard, or even impossible, to assess and analyze relevant internal mechanisms that would certainly be crucial to fully understand Pyongyang's reaction to the Chinese economic embrace. Although the author was able to go five times in the DPRK during the 2013-2017 period, with sometimes prolonged access to officials and scholars, data gathered during these stays is not reliable enough to provide anything else than anecdotal evidence. This doctoral project was first and foremost designed in order to address the effect of Chinese economic engagement strategy on the DPRK economic policy-making. This "naturally" led to the study of SEZs, as they constitute the most "easily" visible result of these engagement policies. However, there might be additional internal consequences to these engagement strategies, which did not appear clearly in the course of the research. Since Kim Jong-un took power, Pyongyang has passed several sets of laws that seem to be aimed at relaxing North Korea's internal economic mechanisms, for instance by allowing farmers to cultivate for their own profit larger surfaces or introducing a "field responsibility system" (6.28 measures). The results and outcomes of these policies are extremely difficult to analyze given the lack of reliable data. Without denying that they may have played a role in the bilateral economic relations between China and the DPRK, their impact being only indirect, it was therefore not taken into account in this study.

The rocky situation of the peninsula during fieldwork research (2015-2017) made quite difficult to obtain consistent and reliable answers from interviewees. As explained above, the March 2016 UNSC 2270 resolution, and the following ones, completely changed the atmosphere at the border and, encouraged by Chinese security forces, formerly quite candid and open interviewees became much more cautious in their answers, sometimes contradicting themselves, leading to incoherent results. As a consequence, data gathered before the January 2016 nuclear test was generally inconsistent with post-nuclear test interviews at the same location. Some interviewees actually explicitly asked the author to modify or not to take into account their pre-test comments and answers. What's more, since the 4th nuclear test happened early in the fieldwork process, data gathered before the test was not ample enough (limited number of interviews) and not diverse enough (only one location: Dandong) to properly reflect bilateral dynamics. Future research on bilateral economic ties will definitely be hindered by the fact that gathering reliable interview data on the border currently seems quite difficult and raises important personal security issues.

Unfortunately, research interviews were mostly made with Chinese *traders*, but not, or marginally (only two interviews) with people who worked for Chinese companies *investing* in the DPRK. This is especially unfortunate as Chinese investments in North Korea, as discussed at length throughout this dissertation, do impact local economic policy-making. Interviews with actors working in these companies could thus provide very interesting insights on why they are interested in doing business in the DPRK, how they assess the impact of reform on their businesses (or the other way round), etc. However, the vast majority of contacted investors did not answer to the author's interview proposals. There might be a possibility to gather sufficient data from a smaller sample of small-scale investors, but this would require more time and certainly a more interview-focused methodology (firm-based study for example), with few guarantees of success given the current instability at the border. Quite counter-intuitively, accessing North Korean officials during fieldwork turned out to be easier than expected, while interacting with Chinese officials became almost impossible after the January 2016 nuclear test.

The reliability of Chinese statistics, today more than ever, is becoming worrying for researchers working on China-DPRK economic ties. Once again, Chinese customs are a

precious source of information on North Korea's external trade (see chapter 4), but the current tensions and the hide-and-seek game played by smugglers (state-sanctioned or not), journalists, Chinese security forces as well as intelligence agencies at the border strongly suggests that China's most recently published trade statistics are subject to manipulation. One should not underestimate the fact that not only do the Chinese State and local governments have an interest in dissimulating large parts of their trade with the DPRK, but since most Chinese import-export companies are profit-seeking, leaving North Korea with no trade alternative offer important leverage for Chinese entrepreneurs. As a result, North Korean cheap resources that are now sanctioned, such as seafood, can actually be bought at lower prices by Chinese importers in exchange of the punishment they face if found importing banned items. That is to say that given the peculiar situation of the borderlands and more generally speaking of North-east Asia, sanctions might actually cause an *increase* (in volume) of some North Korean exports to China.

Several aspects which were just briefly touched upon in this dissertation might require additional in-depth research in the future.

The very specific issue of economic sanctions against the DPRK has been examined only regarding their influence on bilateral ties between China and the DPRK, but it would of course be interesting to look at their real impact on the DPRK economy as a whole. However, as UN Panel of Experts on Sanctions reports regularly show, sanctions implementation remains a global issue, with under-the-radar illegal trade currently happening with a quite large selection of Asian, American and African countries, although sometimes through China¹²¹⁴. Integrating such a global dimension would have led us well beyond our subject which focuses on China-DPRK bilateral ties only. Also, the DPRK's fast-paced testing of missiles or nuclear weapons led to a piling up of uni- and multilateral sanctions against North Korea which resulted in extremely fast-changing trade patterns and circumvention techniques. Studying this always-evolving situation would have required a quite different methodological approach to comprehensively grasp economic sanctions' impact on bilateral cooperation and their political implications.

¹²¹⁴ LUKIN, Artyom, ZHAKHAROVA, Liudmila, 2017, Russia-North Korea Economic Ties: Is There More than Meets the Eye?, *Foreign Policy Research Institute Papers*. Url: <https://www.fpri.org/wp-content/uploads/2017/10/Russia-DPRK-Economics.pdf>. Last accessed 9th of February 2018.

Additional research on institutional aspects and internal dynamics of Beijing's engagement policies would also be needed. As this study has shown, there are inconsistencies in the implementation of policies decided by Beijing as well as contradicting interests at the national and local levels. This suggests that there may be some kind of balance between geopolitical concerns, economic and political security as well as local corporate interests, and thus a certain degree of bargaining between institutions. Of course, the study of Chinese institutions involved in China-DPRK relations would have benefited to our research, but due to the opaqueness of the Chinese policy-making, this would have required a broad analysis of Chinese institutions involved in foreign policy-making. As highlighted by recent research on Chinese institutions' policy-making, the "fragmented authoritarianism" model¹²¹⁵ might provide interesting results. According to this model, Chinese decision-making follows a top-down pattern, but vaguely-defined orders coming from the top are interpreted in a different fashion by multiple ministries, agencies and factions within the CCP, the government or business circles. As a result, due to the fragmentation of the Chinese political governance, intense bargaining and powerplays within party or government hierarchy, policies drafted at the top might be subjected to an evolving implementation, if not a complete reinterpretation. This "fragmented authoritarianism" model, according to the author's knowledge, has never been applied to China's current multifaceted diplomacy towards the DPRK (economic engagement, party-to-party relations, official and "track two" diplomacy). Such an approach could potentially provide interesting insights on current bilateral relations between China and North Korea, if one is able to obtain at least limited access to policy-makers or broadly-defined diplomatic actors, but it would ultimately constitute a completely different research project, much more focused on Chinese institutions and much less dealing with bilateral ties.

¹²¹⁵ HUANG Chia-yu, 2014, *The Making of China's Maritime Security Policy: Policy Actors, the Fragmented Authority, and Implications*, University of Canberra Ph.D, unpublished yet.

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Maps

Map 1: Japanese colonization era postcard showing important Manchukuo-Niigata transport routes



Postcard showing important Manchukuo-Niigata transport routes (undated [1918-1933?]).

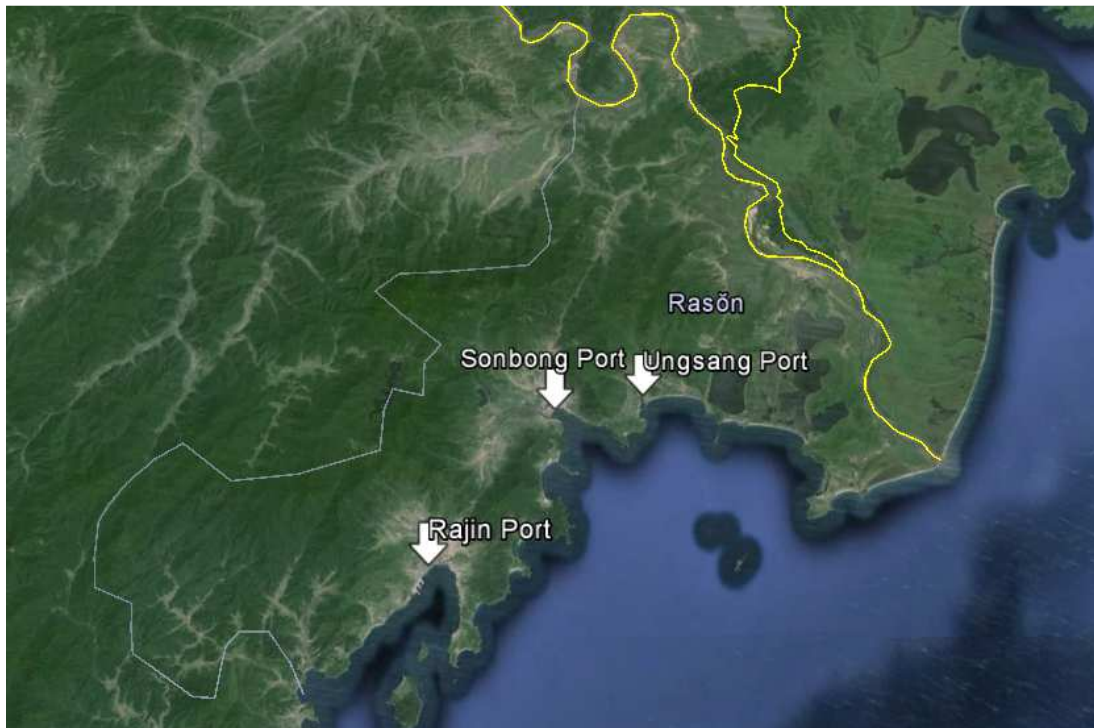
Source: Lafayette College Digital archives.

Map 2: Vicinity of Rason in continental Northeast Asia



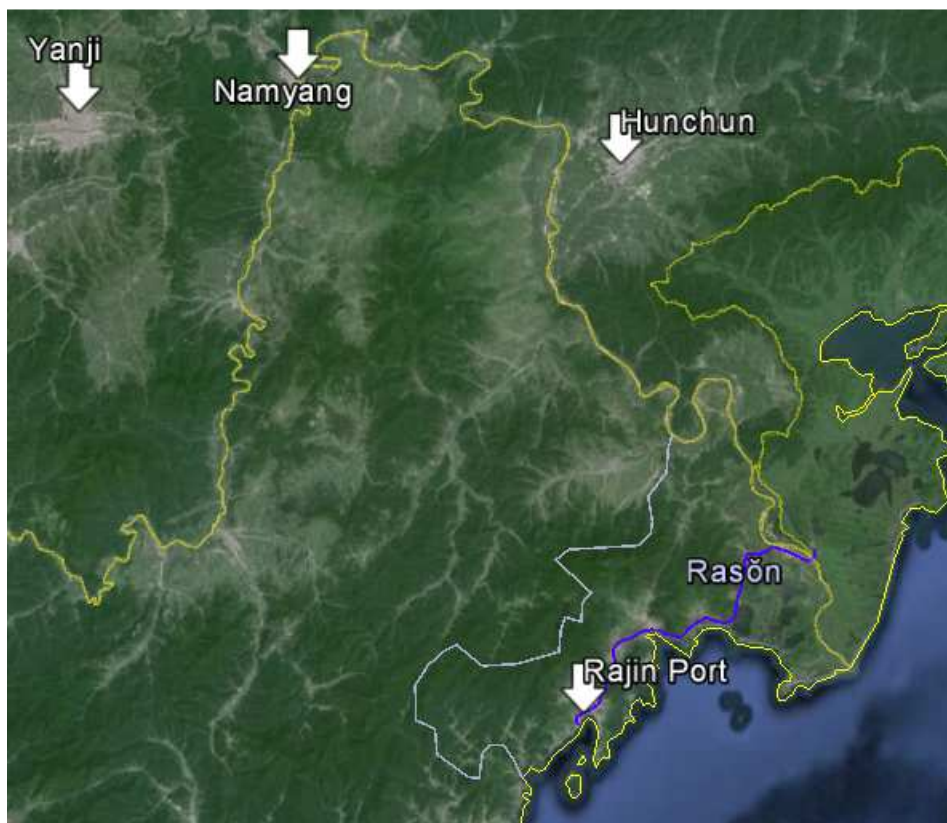
Source: Google earth, 2015. Modified by the author.

Map 3: Map of Rason's main ports



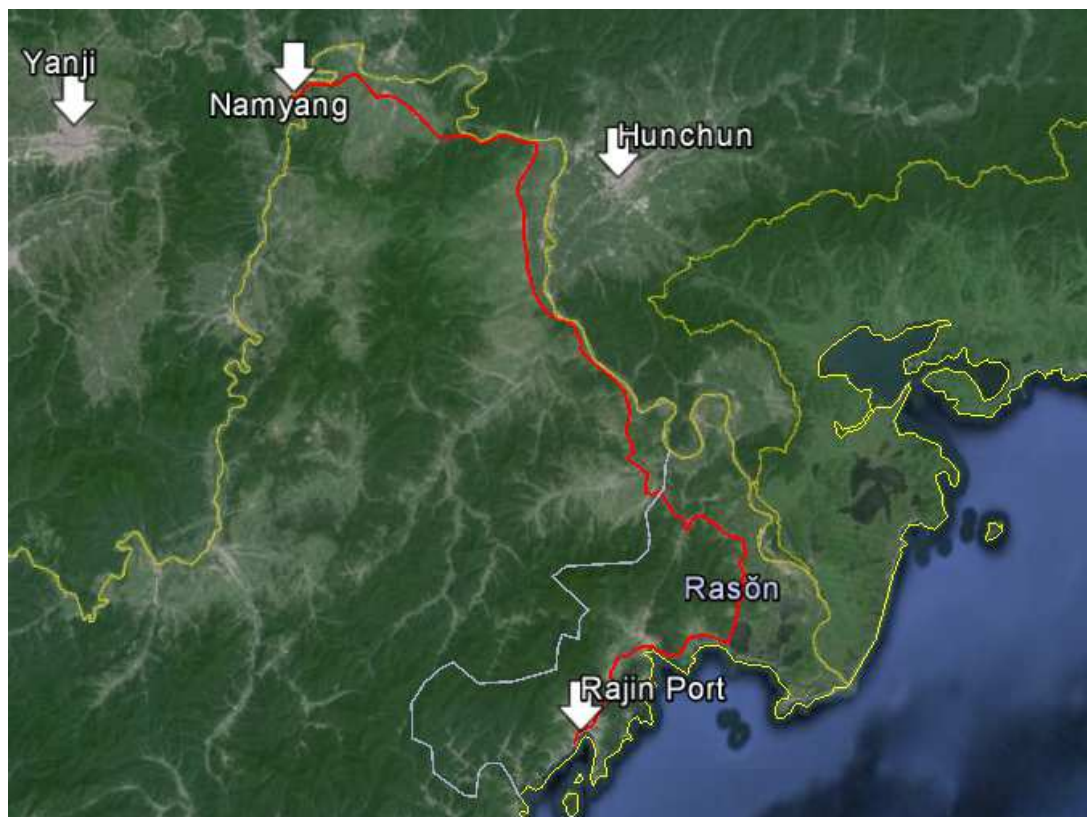
Source: Google Earth, 2013. Modified by the author.

Map 4: Location of Rajin-Khasan railway



Source: Google Earth, 2013.

Map 5: Location of Rajin-Namyang railway



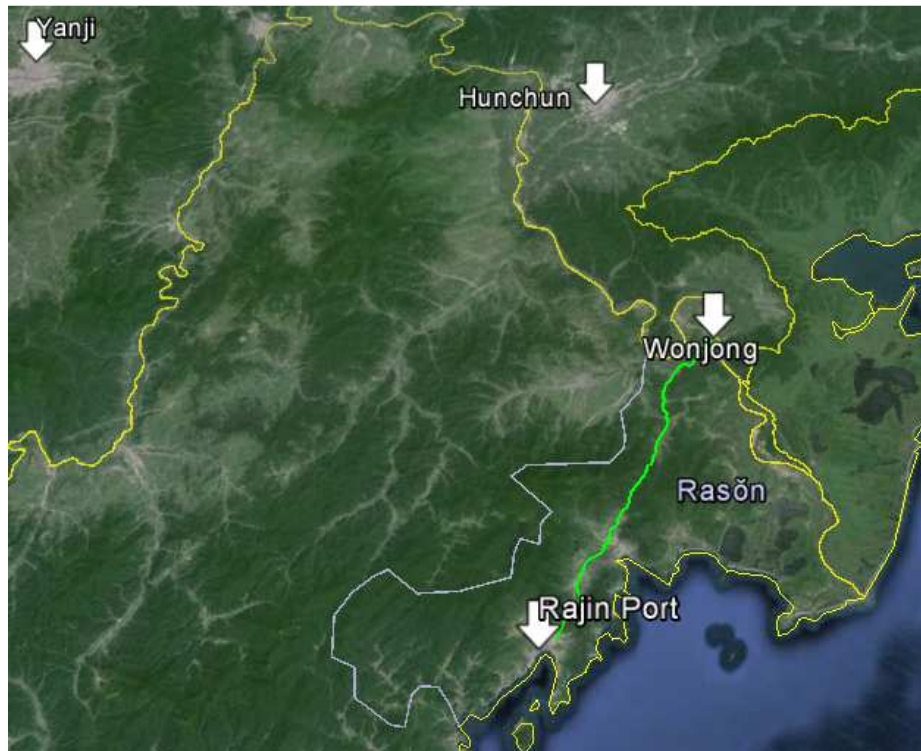
Source: Google Earth, 2013.

Map 6: Wonjong –Quanhe bridge and border crossing



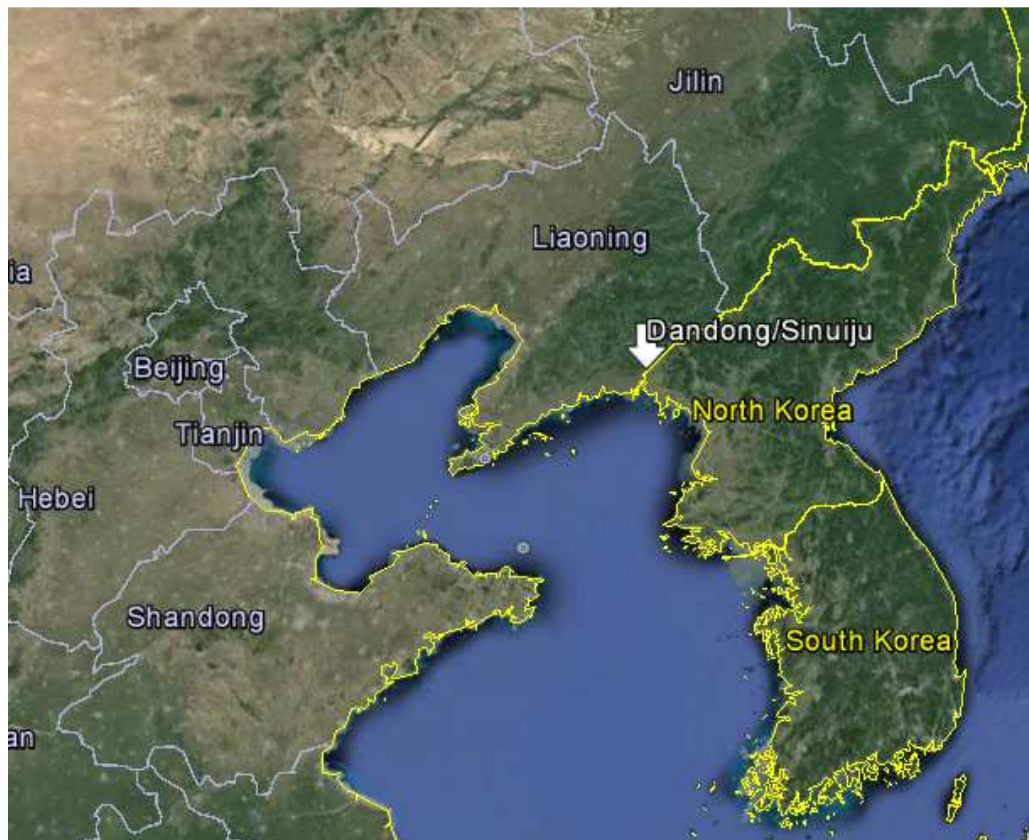
Source: Google Earth, 2015.

Map 7: location of Wonjong-Rason road



Source: Google Earth, 2013.

Map 8: Location of the Dandong-Sinuiju axis



Source: Google Earth, 2015.

Map 9: the new Yalu River Bridge



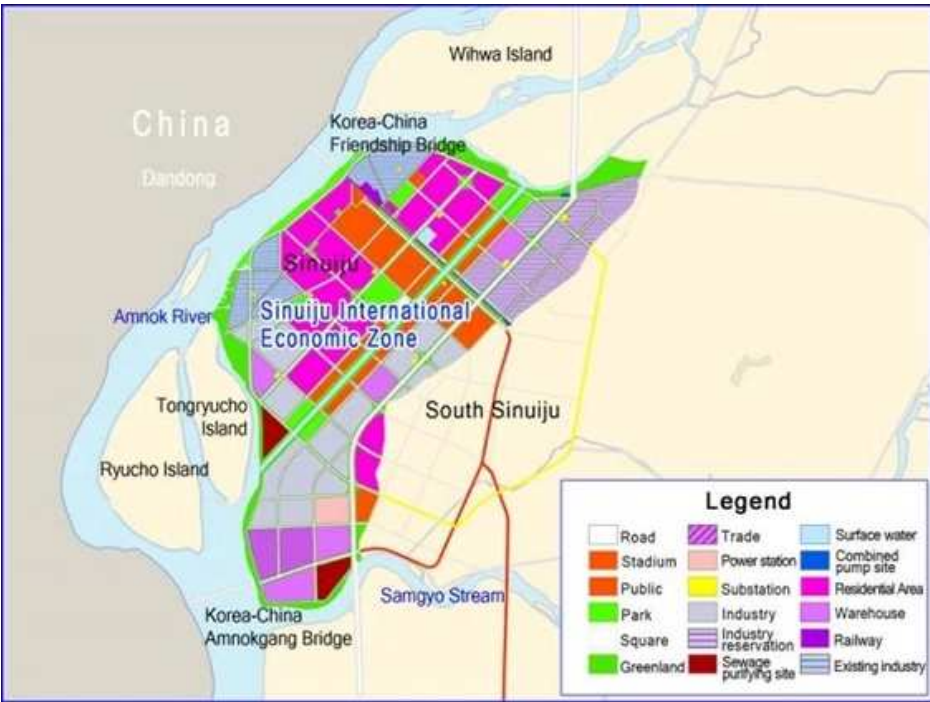
Source: Google Earth, 2015.

Map 10: Location of Wiwha and Hwanggumpyong Islands



Source: Google Earth, 2015

Map 11: The Sinuiju International Economic Zone Development Plan



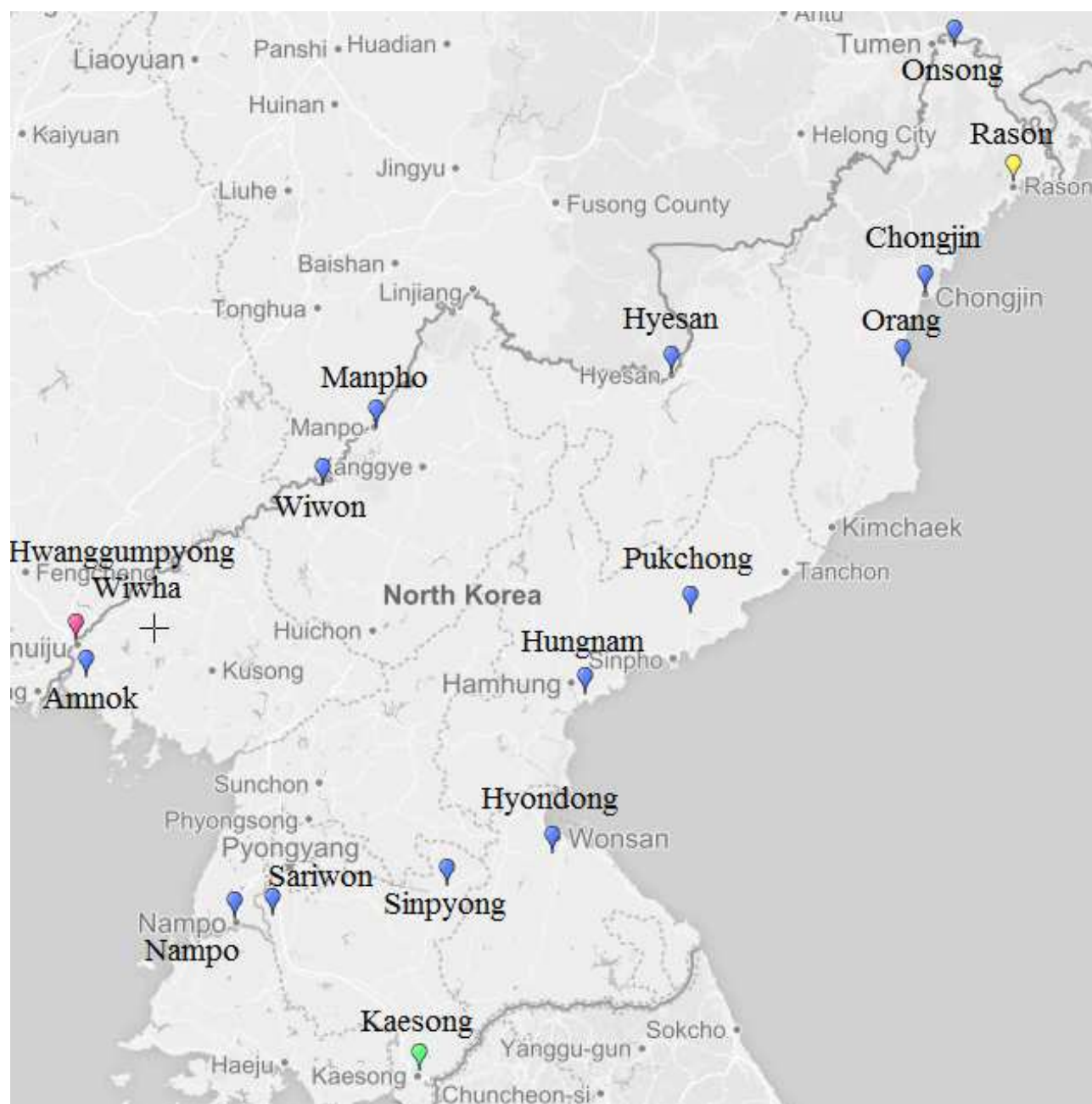
Source: CLEMENT, Théo, 2016, *One More for the Road : New Masterplan for the Sinuiju SEZ*, Sino-NK (online).
 Url: <http://sinonk.com/2016/02/11/one-more-for-the-road-new-masterplan-for-the-sinuiju-special-economic-zone/>. Last accessed 16th of March 2016

Map 12: Central and provincial SEZs in the DPRK



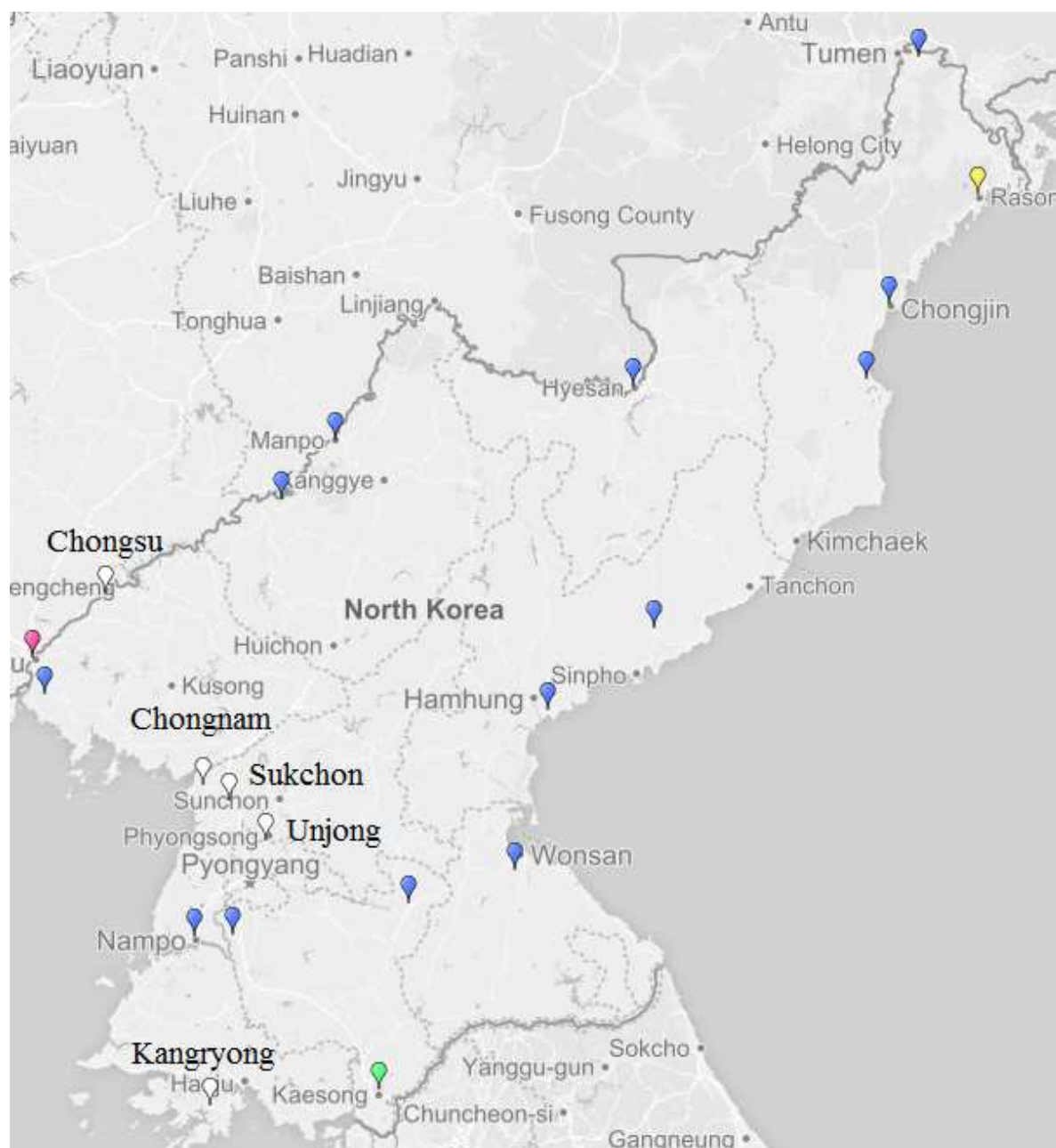
Source: 朝鲜民主主义人民共和国 新义州国际经济地区 投资说明书 [Investment Guide for the DPRK's Sinuiju International Economic Zone], Xici (online), 19th of January 2016. Url : <http://www.xici.net/d227236201.html>. Last accessed 16th of March 2016.

Map 13: DPRK SEZs in 2013



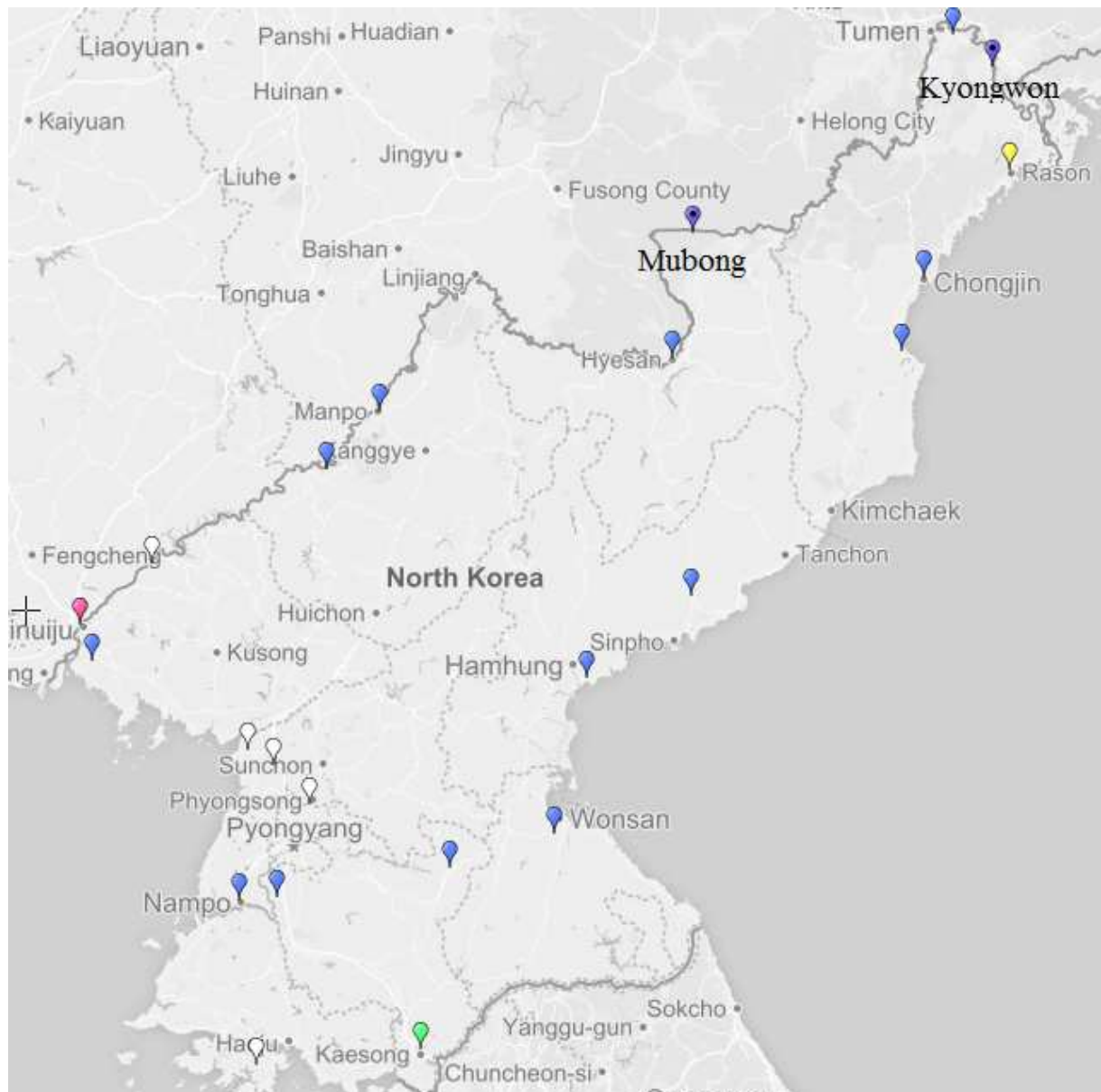
Source: Théo Clément (G4 appears in blue).

Map 14: DPRK SEZs in 2014



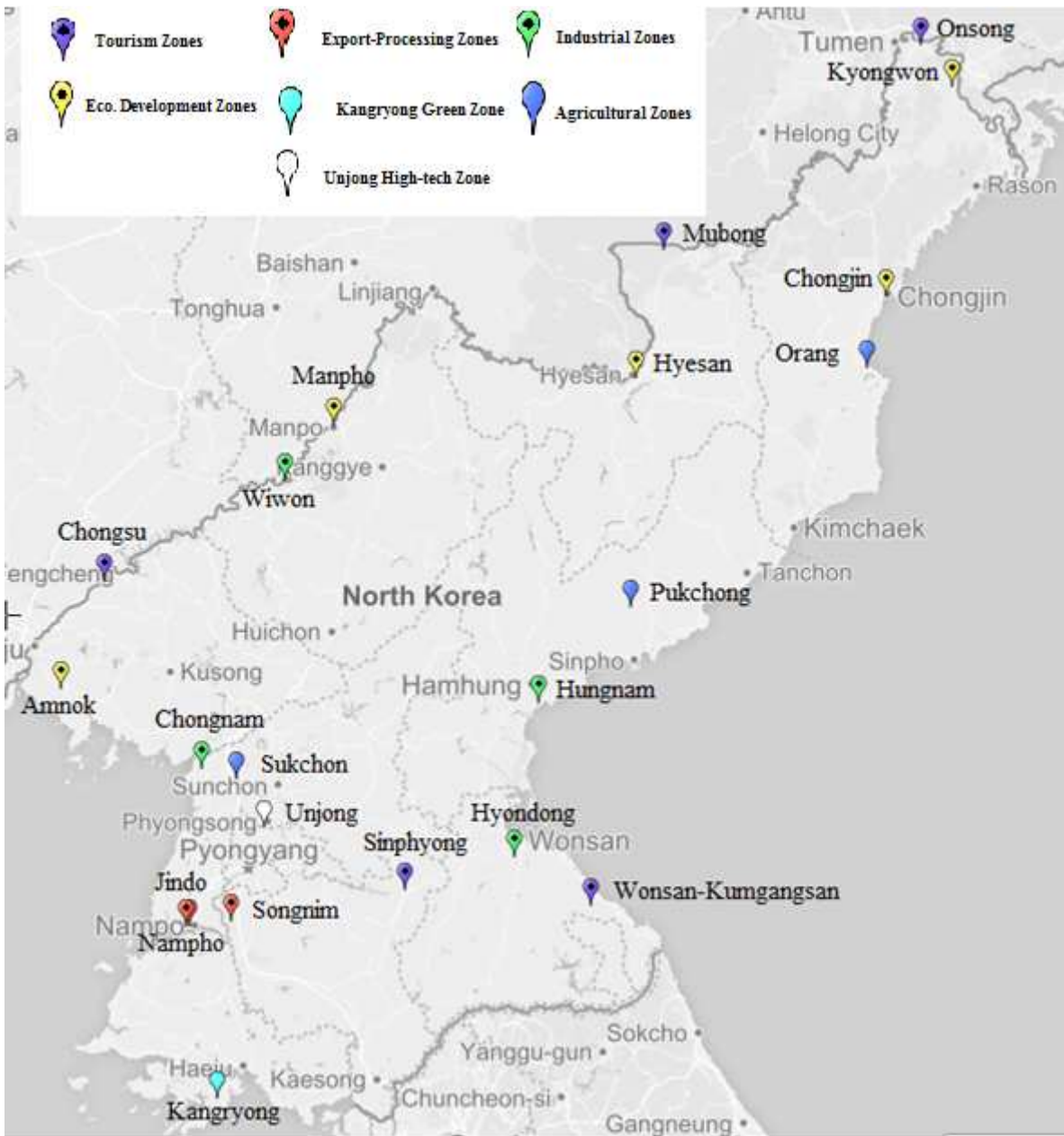
Source: Théo Clément (G5 appears in white).

Map 15: DPRK SEZs in 2015



Source: Théo Clément (G6 appears in purple).

Map 16: DPRK SEZs by sectorial specialization



Source: based on MIMURA (2015).

Map 17: China-Korea border crossing in Mubong County, April (left) and July (right) 2014



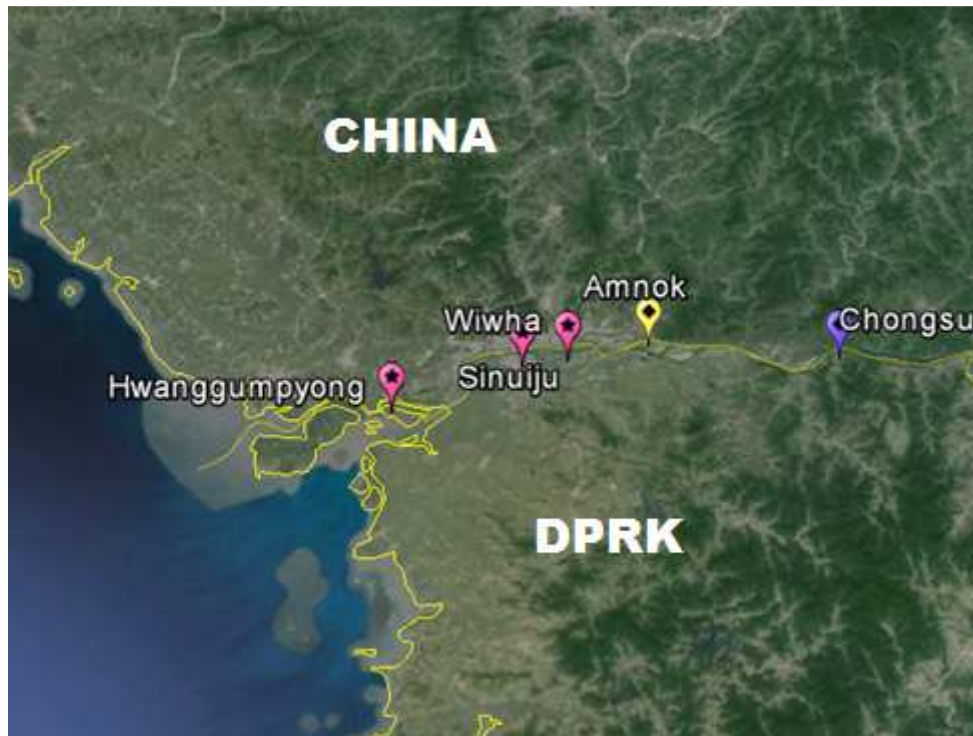
Source: Google Earth (2014).

Map 18: Satellite picture of EPZ's in the Nampo Area



Source: Google Earth, 2015.

Map 19: SEZs in North Phyongan Province



Source: Google Earth, 2015¹²¹⁶.

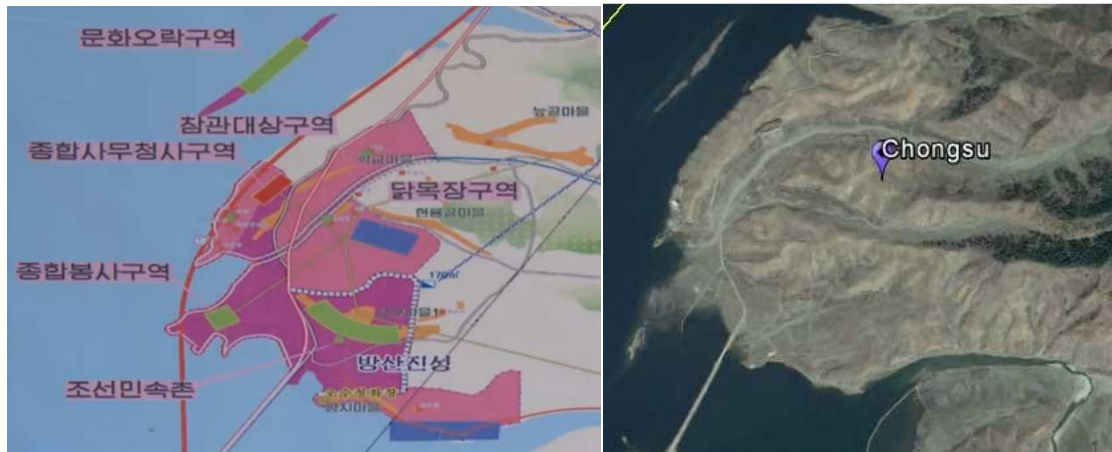
Map 20: Approximate locations of the ITZ and the SITZ



Source: Google Earth, 2015. Modified by the author.

¹²¹⁶ In this picture, Hwanggumpyong and Wiwha appear as two distincts SEZ, while they administratively constitute two distinct “areas” of one single zone.

Map 21: Chongsu SEZ development plan and satellite picture



Left¹²¹⁷: Source: Youtube Url: <https://www.youtube.com/watch?v=uHHn0lz8dnY>.
 Right: Source: Google Earth, 2014.

List of research interviews

¹²¹⁷ The video was published by the “North Korea Today” Youtube Channel. The pink captions read (counterclockwise): cultural game area, sightseeing area, office building area, combined service area, Korean traditional village, duck farm, chicken farm. According to the map, there are former city walls in the area.

- Interview with DPRK diplomat in Switzerland, November 2013.
- Interview with (Korean) Chinese businessmen in Yanji, April 2014 (and February 2016).
- Interview with DPRK diplomat in charge of trade issues in Yanji, April 2014.
- Interview with DPRK official of the Rajin-Sonbong trade zone, April 2014.
- Interview with Czech worker in Rajin-Sonbong, April 2014.
- Interview with Korean Chinese workers, Yanbian, April 2014.
- Interview with Korean Chinese school manager, Tumen, April 2014.
- Interview with Jérôme Sauvage, former UN agencies coordinator in Pyongyang, Paris, September 2014.
- Interview with Pyongyang University of Science and Technology President James Kim, Pyongyang, April 2015.
- Interview with a Chinese businessman in Dandong, November 2015.
- Multiple interviews with small-scale traders in Dandong, November 2015, including *de facto* smugglers (art dealers).
- Interviews with Dandong-based travel agencies managers, November 2015.
- Interviews with Defeng Times Square executive in Dandong, November 2015.
- Interview with Guomenwan Zone mid-level manager, November 2015.
- Interview with Hunchun Border Trade Zone civil servant, February 2016.
- Multiple interviews and discussions with a business consultant in Yanbian (November 2015-June 2017).
- Interviews with Dandong-based travel agencies managers, April 2016.
- Interviews with Taiwanese businessmen in Beijing May 2016.
- Interview with Wonsan Zone Development Corporation officials, Pyongyang and Wonsan, May 2016.
- Interviews with Dandong traders at the Pyongyang Trade Fair, May 2015 and 2016.
- Interviews with DPRK officials from Ministry of Foreign Affairs, May 2016.
- Interview with foreign journalist in Pyongyang, May 2016.
- Interview with western business consultant established in Pyongyang, May 2016.
- Interview with French humanitarian worker in Pyongyang, 14th of July 2016.

Multiple interviews with Chinese business owners involved in trade with the DPRK, Beijing (2015-2017).

-Interview with Chinese military scholar, Beijing, February 2017. Interviewee has been participating in seminars at Kim Il-sung military academy.

-Multiple interviews with business consultant in Beijing (February-May 2017).

-Interview with a South Korean diplomat in Beijing, April 2017.

-Interview with DPRK diplomats in Madrid, April 2017.

-Interview with South Korean official, November 2017, Paris.

NB: the author also had multiple conversations with DPRK students, scholars and officials while teaching and presenting papers in the DPRK (April-May 2015; October 2015; June-July 2016). The author also had multiple conversations with DPRK diplomats in Paris, since 2013.