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Issue Brief

The China-North Korea Uneasiness

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Introduction

The People's Republic of China (PRC) and the Democratic People's Republic of Korea (DPRK) are close neighbours. They largely share a common political philosophy of Communism but they do differ in their economic approaches. Whilst China has gradually moved toward



a free market economy after 1978 reforms, North Korea continued to strictly follow the old close door economic policy. The political and economic gap between China and North Korea further widened after the Pyongyang regime opted for nuclear test in 2006. Since then, it became difficult for Beijing to support the launch of missiles and nuclear tests conducted by North Korea. China has adopted a different posture toward North Korea.

North Korea's Trade with China

North Korea is a tiny economy. There is no precise data available by the World Bank, but it is estimated that North Korean total Gross Domestic Product (GDP) could be around US\$ 12 billion. According to the IMF, the total exports and imports of North Korea were recorded at US\$ 8.1746 billion in 2014.¹ China is North Korea's largest trading partner. North Korea exported goods worth US\$ 2.5 billion to China and imported goods worth US\$ 3.8 billion for the same period, which means that China accounts for 78.4 per cent of North Korea's exports and 79.3 per cent of its imports.

Among the advanced economies, North Korea's largest exports (US\$ 37 million) were shipped to Taiwan for the same period. North Korea made its largest imports of US\$ 53 million to Singapore, followed by imports of US\$ 26 million from the United States among the advanced economies for the same period.

¹ IMF: *Direction of Trade Statistics* (Washington: International Monetary Fund, 2016), p. 426.

In case of complete trade embargo on North Korea, the exports from Thailand, Saudi Arabia, Russia, and Myanmar will also be affected, besides stoppage of imports from China.

In terms of North Korea's exports, its market in China, India, and Saudi Arabia would be most affected. (See Table below). On humanitarian grounds, a complete trade embargo on North Korea would be highly detrimental and would wipe out the impoverished nation. Therefore, a cautious approach should be adopted to tackle the issue of North Korea.

Table: North Korea's Largest Trading Partners

(US\$ Million)

Countries	Exports	Imports
China	2,583	3,874
Taiwan	37	4
USA	--	26
Singapore	.1	53
India	99	83
Thailand	17	117
Myanmar	79	79
Russia	9	90
Saudi Arabia	99	116
Congo	--	221

IMF: *Direction of Trade Statistics* (Washington: International Monetary Fund, 2016), pp. 426-28.

Trade Sanctions

In February 2017, China imposed a total halt on coal imports from North Korea until the end of 2017.² New figures have shown that Chinese imports from North Korea fell 35 per cent month-on-month in March 2017, after Beijing suspended coal purchases.³ In 2016, China imported coal worth US\$ 1.1 billion from North Korea that was criticised by the United States, South Korea, and Japan that Beijing has been helping the Pyongyang regime to sustain itself despite its missile and nuclear provocations and blackmailing.

Beijing action has now clarified its position to critics and sent a strong message to them. It is, however, not clear if the United States has stalled all its exports to North Korea yet, or it is simply putting pressure

² "North Korea 'feels the heat' from China's renewed coal bans", *South China Morning Post* (Hong Kong), February 25, 2017.

³ news.com.au, April 26, 2017. <http://www.news.com.au/finance/economy/world-economy/chinese-pressure-costs-north-korea-millions/news-story/272e2c92d7129cb4517dcc338db73be1>

on China to change the *status quo*. The primary purpose of China's sanctions on North Korea is to prevent it from conducting the sixth nuclear test, which it announced recently.

Air China operates flights between the two countries. North Korea's Air Koryo is the only other airline operating flights between Pyongyang and Beijing. China announced that it would suspend all flights to North Korea from April 17, 2017 but flights continued to operate.⁴ The reason could be market-based, for example ticketing sales rather than strategic considerations of North Korea.

Washington continuously exerts pressure on North Korea through China and this policy framed American response toward North Korea for decades. The United States wants to be much tougher on North Korea and even indicated to go unilateral,⁵ which means that without consulting China, the United States could militarily tackle the North Korean nuclear and ballistic missile program. The United States wants to end the North Korean issue by putting maximum pressure on China. This is a new US strategy. The United States thinks that China is the "Frontline State" in diffusing the North Korean stalemate, but China has certain limitations along with its edge and special ties with North Korea that needs to be understood.

Conclusion

North Korea is not a Beijing's liability. China matters at a certain level, but it is not a shield for North Korean nuclear and missile program. There is no quick fix to North Korean missile and nuclear program that has been going on for decades. China has the leverage, but it cannot totally solve the North Korean stalemate alone. There are certain limitations. Beijing could not totally terminate its relations with North Korea, however, it could only employ diplomacy and trade sanctions. It would not opt for a painful military action to change the *status quo* in North Korea because that could bring enormous losses for China on its border. China carefully moves and takes small steps. That is the main point of difference between China and the United States and its allies. After China's trade sanctions, one has to wait and see the response of the Pyongyang regime, at least by the end of this year. In spite of all frustrations, Beijing has worked hard to bring North Korea and the United States on the table. Beijing would continue with this policy.

⁴ "Air China resumes booking flights to North Korea", *The New York Times* (New York), April 26, 2017.

⁵ "Trump Says U.S. Willing to Take Unilateral Action on North Korea", *The Wall Street Journal* (New York), April 2, 2017.