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## How to Approach the China–North Korea Relationship

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I appreciate this opportunity to appear today (*September 14, 2006*) to discuss China's relationship with the Democratic People's Republic of Korea and China's role in addressing the DPRK's weapons of mass destruction (WMD) and missile programs.

I speak to you as someone who spent a considerable amount of time in the first term of the Bush Administration focused on North Korea and its relationship to the People's Republic of China (PRC), serving as the Senior Advisor for East Asian and Pacific Affairs, as North Korea Working Group Coordinator at the State Department, and as a participant in the Six-Party Talks. However, particularly for these reasons, I am mindful that my remarks should not in any way be interpreted as current administration policy or that I be seen as representing the views of the Department of State, Department of Defense, or any other part of the government. These views are mine alone.

I want to make five points regarding the China–DPRK relationship and how we should approach it.

### **Appreciating Our Differences**

First, working closely with China obviously is a very important aspect of our strategy toward North Korea, but we need to be realistic about our differences. We all should appreciate the role that China has played as host of the Six-Party Talks. I have no doubt that China's leaders are sincerely interested in a diplomatic resolution of the core issues on the Korean peninsula. They have done a magnificent job bringing the differ-

### **Talking Points**

- China has long served as a safe harbor for North Korean proliferation and illicit trading networks and a transport hub for these networks via its airports and airspace, harbors and sea space.
- The Chinese should be encouraged to join the Proliferation Security Initiative and the Illicit Activities Initiative, as well as effectively police North Korea's trade coming through its borders.
- Additionally, China needs to take decisive actions against Korea's weapons proliferation and procurement networks within its borders, including front companies and trading companies, their agents and officers, as well as their underlying finances.
- The U.S. can work with China to spread capitalism in North Korea, even as we compel it to crack down on the North Korean elite's finances and support for North Korea's weapons of mass destruction programs.

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ent parties together and facilitating dialogue on a critical issue. All of us involved should thank them.

At the same time, I am convinced that the Six-Party Talks mean something very different for China than they do for the U.S. or Japan. In fact, I sense that for many in the Chinese leadership the Six-Party Talks have always been more about managing the U.S. and Japan in order to temper the possibility of our taking actions that could disrupt North Korean stability than they have been about seriously promoting the denuclearization of North Korea. Despite its leading status in the talks, China has only on rare occasions been willing to put pressure on North Korea to denuclearize. Instead, the sporadic pressure it has applied has been more geared to trying to get the DPRK to act somewhat more civilized and less menacing, aiming to control, rather than trying to eliminate, the DPRK nuclear menace.

There even may be some in the Chinese military who feel that their North Korean ally, by possessing nuclear weapons and delivery systems, can serve as a proxy to intimidate Japan, impair our alliance with the Republic of Korea, and put pressure on the U.S. Perhaps they also reason that the U.S. can be deterred by North Korea's possession of a robust arsenal of weapons and missiles in a way that we would not be if the North had a much smaller capability. For example, the large-scale deployment over the last decade of North Korean nuclear-capable missiles that can readily strike Japan never seems to have become a sufficient problem for the People's Liberation Army to actively protest. Likewise, the development of a North Korean intercontinental ballistic missile that could hit the U.S. has not elicited any significant negative feedback—let alone serious pressure—from China. One would rationally expect that the Chinese might make these missile deployments “make or break” issues with the DPRK given the fact that their deployment might induce the U.S. to make a unilateral strike, encourage Japan to develop its own offensive capabilities (potentially including intermediate range ballistic missiles and nuclear weapons), and increase the urgency for the U.S. and Japan to deploy missile defense systems that reduce the effectiveness of China's deterrence against us. I am puzzled and disturbed by the PRC's passivity

regarding North Korea's combined nuclear and missile build-up. (*Author's Note: It will be interesting to see if China's attitude will change in light of the DPRK claim to have tested an actual nuclear weapon.*)

As judged through its actions more than its words, China apparently believes it can live with a nuclear-armed North Korea as long as the DPRK maintains its stability and is integrated gradually, both economically and politically, into the international community. I believe Beijing would find it especially easy to accommodate a nuclear-armed North Korea if the North returned to the NPT and adopted some form of safeguards for its weapons and programs. In fact, this might represent the most the PRC would hope to get out of the Six-Party Talks. These steps, while important, would fall far short of the headline aims of the talks and the fundamental objective of the Bush Administration to seek a denuclearized North Korea—an aim that I support wholeheartedly.

### A New Strategy

I feel that China's differing perspective on the denuclearization of North Korea seriously hampers the viability of the Six-Party Talks as an effective negotiating forum. One year after the last meeting, at which a major agreement was reached—an agreement that Pyongyang promptly dismissed—we need to rethink our strategy. It is obvious to all that the process of holding the Beijing talks has become less a means to an end and more an end in itself. Efforts to get North Korea back to the table have been placed ahead of what North Korea does at the table, as well as what others are willing to do to North Korea if it does not change its behavior. The talks also have served to hamper us from taking certain defensive measures that we should have taken long ago, but for “fear of disrupting the talks.” They probably also have hindered what could have been a meaningful independent dialogue with elements in the North Korean power structure (outside of the Foreign Ministry “buffers”) that we would be wise to have contact with, especially as we turn up the heat, or if we are serious about testing the DPRK's willingness to set a new course.

This does not mean that at the appropriate stage we should not reconvene the Six-Party Talks, but

we need to be mindful of when and where such a forum will truly be useful. The real utility of the forum will be once North Korea, through dialogue or pressure—both internal and external—feels compelled to shift direction, give up its nuclear weapons, and seek a new path for its people. At that point all of the parties will need to be involved in settling the Korean War and creating a normalized state of relations with either a unified Korea or one that has peacefully adopted some sort of confederation. Until then, I think we may be far more effective at influencing the North Korean regime via a multi-tiered approach—with multi-lateral, bilateral, and unilateral elements of both diplomacy and pressure—that has at its core an active unwillingness to accept the status quo inside North Korea and a firm determination to try to change it. Such a “Cold War–style” approach will be more appropriate toward our last remaining Cold War adversary in Asia.

### **China and North Korean Proliferation**

Second, China has long served as a safe harbor for North Korean proliferation and illicit trading networks and a transport hub for these networks via its airports and airspace, harbors and sea space. Moreover, in the past decade there have been way too many incidents of Chinese companies actively fronting for North Korea in the procurement of key technologies for the DPRK’s nuclear program. Some of these incidents suggest lax enforcement of export controls, poor border controls, and a head-in-the-sand attitude of senior authorities. Others suggest active collusion and/or deliberately weak enforcement of international laws and agreements against WMD and missile proliferation. There is a great body of information about this and the Chinese are well aware of our grave concerns.

For many years, China also has exhibited a remarkable tolerance for the DPRK’s deep relationship with Chinese organized crime and the use by Chinese organized crime groups of North Korea as a sort of criminal’s paradise to produce illegal items both for sale in China and for export internationally. Ironically, China has long been the biggest victim of North Korean illicit activity, including the passage of counterfeit U.S. currency, North Korean

drug dealing, and the distribution of DPRK-produced counterfeit cigarettes. There are even public reports that North Korea is counterfeiting the renminbi, too. Given North Korea’s flagrant disregard of Chinese law, I always hoped China would want to be an active partner in the Illicit Activities Initiative. However, PRC authorities have offered little cooperation, especially compared to those in other countries.

Still, every once in a while the DPRK crosses a line that Beijing cannot tolerate. For example, in the fall of 2002 a Chinese business tycoon named Yang Bin, with ties to organized crime, secured a contract from North Korean leader Kim Jong Il to set up and operate what amounted to a center for money laundering, gambling, and prostitution in Sinjuju, just across from the Chinese border city of Dandong. Not long after North Korea formed this “free crime zone,” with Yang as “governor,” Chinese authorities denied what the DPRK authorities had pledged would be visa-free access for a raft of Chinese and ROK tourists who had shown up wanting to be the first to enjoy the pleasures of Sinjuju. They then lured Yang back across the border and arrested him. Another instance of unusual unilateralism occurred in the spring of 2004 when the Executive Vice Minister of the Ministry of Public Security publicly announced a crackdown on North Korean drug dealing in the Jilin Province, which was portrayed as being out of control.

China’s uneven record contrasts with the very positive improvement in cooperation with Taiwan. Taiwan’s record was historically lax, both in terms of export control enforcement and law enforcement cooperation against the involvement of domestically based organized crime groups with North Korean partners. However, during my time at the State Department we formed a high-level task force with Taiwan’s National Security Council and commenced a wide range of cooperative efforts and joint investigations. These included steps toward a full revamping of the Taiwanese export control and enforcement systems (to be compliant with U.S. standards) and a variety of joint law enforcement efforts of considerable importance against North Korea. Taiwan has volunteered to do what the mainland unfortunately has resisted.

### Serious, Reasonable Pressure

Third, we need to recognize that China has responded favorably only when its bottom line is directly affected or it has felt under serious, but reasonable, pressure. American appeals based on China's responsibility to uphold international laws and agreements as a "stakeholder" typically fall on deaf ears. If we want Chinese government officials to act, we need to either present the specifics in a way that is beyond dispute or suggest that if they do not get a grip on the facts and do something themselves there will be significant economic consequences. Appealing to their self-interest is more persuasive than appealing to their purported sense of global responsibility.

For example, from relatively early in our time at the State Department, Assistant Secretary James Kelly and I repeatedly raised the issue of rampant DPRK money laundering, crime, and proliferation in Macau with our PRC counterparts, as did higher level officials. The response to suggestions in Beijing, or even in Macau, that they crack down was typically either, "This is the first I have heard of it but we'll look into it," or "We find no evidence that this suspicious activity is going on." Of course, a compilation of the press on North Korea's use of Macau as a money laundering center probably could equal the length of an encyclopedia, and we knew that Chinese authorities were well aware of the crooked reality of the North Korean presence in Macau. Still, they were unwilling to budge.

That is, until September of last year when the U.S. Treasury Department designated a small Macau Bank, Banco Delta Asia (BDA), under Section 311 of the USA Patriot Act. This designation specifically cited the role the bank played in facilitating North Korean illicit activities. It triggered a run on BDA that forced the government to take it over. Chinese authorities reportedly froze roughly \$24 million in North Korean funds at the bank. Moreover, according to press accounts that White House spokesman Tony Snow publicly confirmed on July 26, China

took other, more significant, actions against North Korean illicit funds in Macau.<sup>1</sup>

To the extent that China acted comprehensively, I believe they did so less so because of a desire to punish North Korea for its terrible performance in the Six-Party Talks and more out of concern that more significant economic equities would otherwise be affected by U.S. regulatory action. The facts certainly were neatly aligned to compel the Chinese. For example, the role of several Macanese banks in North Korean illicit activity had been documented in law enforcement investigations conducted pursuant to the Illicit Activities Initiative, whose indictments, not coincidentally, had been unsealed two weeks before—a fact of which Chinese authorities were well aware. Other information was readily available thanks to a South Korean investigation into the hundreds of millions of dollars of bribes deposited into the Macau bank accounts of North Korea to buy the 2000 summit. One of these banks was getting ready for a multi-billion dollar initial public offering of its stock, a stock listing that might have been affected if the bank continued to do business with North Korea and tarnished its reputation. I also believe Chinese authorities realized they needed to improve Macau's anti-money laundering and financial supervision compliance record in order to maintain and attract billions of dollars in U.S. investment in the Macau gaming industry. Freezing funds linked to illicit activities or controlled by the perpetrators of illicit activities is a significant responsibility for any nation committed to upholding international money laundering standards.

In sum, if it came down to either being able to successfully do international banking from Macau, develop a hugely lucrative gaming industry, or protect an already frayed banking relationship with North Korean criminals, I was confident that Chinese bankers and regulators would follow their bottom line and implement their commitment to uphold global standards. The Chinese are pragmatic and expedient and we need to approach them

1. Reuters, "U.S. Welcomes China's 'Affirmative Steps' on N. Korea," July 26, 2006, at [http://today.reuters.com/news/articlenews.aspx?type=politicsNews&storyid=2006-07-26T142312Z\\_01\\_N26323282\\_RTRUKOC\\_0\\_US-KOREA-NORTH-CHINA-USA.xml&src=rss](http://today.reuters.com/news/articlenews.aspx?type=politicsNews&storyid=2006-07-26T142312Z_01_N26323282_RTRUKOC_0_US-KOREA-NORTH-CHINA-USA.xml&src=rss) (October 4, 2006).

more as they approach themselves if we wish them to act. The BDA case is instructive in this regard.

Despite problems and setbacks in the past, recently there seems to be a qualitative and quantitative improvement in the cooperation between our governments. Reports that the PRC froze significant sums of money not only in Banco Delta, but elsewhere in Macau, are encouraging. Likewise, the fact that the Chinese Central Bank has publicly advised Chinese banks to be on the lookout for counterfeit U.S. currency and the laundering of its proceeds offers further encouragement.

Finally, China's willingness to sign on to U.N. Resolution 1695 could be a historic development. The resolution specifically "requires all Member States, in accordance with their national legal authorities and legislation and consistent with international law, to exercise vigilance and prevent the procurement of missiles or missile related-items, materials, goods and technology from the DPRK, and the transfer of any financial resources in relation to DPRK's missile or WMD programmes."

### **How to Discourage Chinese Support for DPRK Proliferation**

Fourth, in line with U.N. Resolution 1695, we need to insist that China take more significant measures to counter North Korean proliferation and illicit activities. Let me suggest some broad, as well as specific, steps:

- China must join the Proliferation Security Initiative (PSI). The PSI is now becoming an effective regime for countering a global proliferation threat that extends well beyond North Korea. As a trading state, China has a huge interest in maintaining international economic and political stability. The proliferation of WMD offers the surest way to undo the stability that China relies on for its prosperity. It is in China's interest to be a partner rather than a free-rider.
- China should join the Illicit Activities Initiative and engage in cooperative law enforcement with U.S. authorities, beginning with joint investigations into North Korean counterfeiting of the dollar and ties to organized crime.

- China must effectively police North Korea's trade coming through its borders and into the international system. North Korea has a ready means to clandestinely ship WMD and illicit items via the use of conventional shipping containers. Thousands of North Korean containers go through Chinese ports for onward shipment globally without any form of inspection. These containers need to be inspected inside China before trans-shipment, and if contraband is found, seized.
- China needs to take down North Korea's weapons proliferation and procurement networks within its borders, including front companies and trading companies, their agents and officers, as well as their underlying finances. Even now, many sanctioned DPRK entities continue to operate in China. It is time the curtain comes down on these companies.
- Beijing should no longer tolerate any relationship between the DPRK diplomatic presence in China and trans-national organized crime or proliferation. North Korea should not be allowed to use its diplomatic status to protect those involved in its WMD program and illicit trading operations working in or through China.

### **What China Has Done Right**

Fifth, and finally, we need to give credit to China for a key aspect of its strategy toward the DPRK. Even though China unfortunately may be willing to tolerate a nuclear North Korea, this does not mean it tolerates the status quo inside the DPRK regime. The Chinese seem to believe that the biggest threat to stability in North Korea is its bankrupt economic system and its unwillingness to adopt pro-capitalist policies as in Deng Xiaoping's China. In the face of protracted North Korean resistance to calls for reform, China has managed to seed what could become a quiet revolution in the DPRK via a cross-border trade boom, flooding the country with consumer goods, including cell phones, radios, personal computers, and televisions, encouraging direct investment in light manufacturing and the minerals sector by Chinese businessmen, and making capital available to an emerging North Korean merchant class.

Perhaps most importantly, the renminbi seems to be supplanting the won as the main currency inside North Korea. China, in essence, seems to have an economic regime change plan toward North Korea that, over time, may undermine the rule of the Kim dynasty. In this regard, I believe that we can work with China to spread capitalism in North Korea, even as we compel it to crack

down on the North Korean elite and support for North Korea's WMD programs.

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