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# The Rescaling of the Chinese State and Sino-North Korean Relations: Beyond State-Centrism

KEVIN GRAY & JONG-WOON LEE<sup>1</sup>

## Abstract

While Beijing has repeatedly signed up to multilateral sanctions against North Korea, it is widely regarded as having failed to strictly enforce those sanctions. Indeed, China's deepening economic engagement with the country has led observers to debate the causes of this seemingly duplicitous approach. Constructivist and realist approaches have relied on state-centric frameworks that serve to reduce Sino-North Korean relations to the high politics of Beijing-Pyongyang diplomacy in the context of broader geopolitical dynamics. We argue that such approaches pay insufficient attention to the profound rescaling of the Chinese state in recent years and the implications this process has for bilateral relations. We shed light on how Sino-North Korean relations are being driven by actors at multiple scales and by a multitude of objectives as a result of decentralisation and marketisation alongside increasing geographical unevenness within China and new challenges to continued capital accumulation. North Korea has come to play an increasingly important role in efforts to facilitate economic recovery in the northeastern border regions through serving as spatial fix for Chinese manufacturing capital. These new cross-border flows of capital and labour suggest an emerging pattern of Sino-North Korean relations that is by no means static but in considerable flux.

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## *Introduction*

Beijing's key role in approving multilateral sanctions directed against North Korea, its failure to strictly enforce those sanctions, and its deepening economic engagement with the country has led to widespread debate regarding the causes of this seemingly inconsistent or even duplicitous approach. From a social constructivist perspective, one argument has been that China's actor identity is composed of various contradictory role conceptions, some of which are based in the country's past and some commensurate with China's new-found global stature. As a result, there has been a deepening contradiction between China's desire to be seen as responsible global partner that does not associate with rogue states, and its identity as an ostensibly socialist one-party state that refuses to engage in actions that could lead to North Korea's downfall (Noesselt 2014). Other social constructivists have made reference to China's more traditional norms that are alleged to shape the country's relations with its near abroad. These include an emphasis on stability in China's border regions combined with a siege mentality born out of a history of encroachment by imperialist powers. In this approach, relations with North Korea are further problematised, however, by China's expectation of deference on the part of its near abroad alongside a perceived sense of cultural superiority amidst Confucian expectations of reciprocity (Easley & Park 2016).

From a mainstream *realpolitik* perspective, on the other hand, it has typically been argued that China's North Korea policy should be viewed as a straightforward reflection of Beijing's strategic interests in maintaining North Korea as a buffer state for the purposes of countering US influence in the region. This imperative is seen as having its origins in the early 20th century when the Korean peninsula formed the corridor through which imperial Japan facilitated its military expansion into China. As such, support of North Korea as a bulwark against US encroachment can be seen as a consistent objective since the Korean War (Habib 2016, p.60). Thus, while China and North Korea in reality share little in common in terms of historical ties, ideological stance, political and economic programmes, or diplomatic interaction, Beijing fears that Korean reunification may lead to US military presence on China's doorstep and thus prefers maintenance of the status quo (Ji 2001, p.398). This means that while Pyongyang's nuclear tests may bring some short term disruption to Sino-North Korean relations, China's engagement with the country is likely to continue as long as tensions remain in US-China relations remain tense (Kim 2016; Kong 2017). By extension, Beijing's failure to fully enforce the multilateral sanctions that it has signed up to is consistent with the fear of the negative impact that a North Korean collapse may have on

China itself (Moore 2008). As such, the emphasis that China's grand strategy places on regime security means that it is unlikely that Beijing will take actions leading to instability in North Korea (Horowitz & Ye 2006). Furthermore, China's deepening economic engagement with North Korea can also be seen as functional to this broader grand strategy.

In this paper, we argue that these views pay insufficient attention to the ongoing transformation of the Chinese state that has taken place over the past four decades and the implications that the ongoing decentralisation of political authority in China has had for the latter's relations with North Korea. We argue that the Chinese state has undergone a profound process of rescaling in the form of the marked decentralisation of authority from the centre towards provincial, municipal and other local actors. Existing social constructivist and *realpolitik* approaches thereby pay insufficient attention to how the key agents in day-to-day Sino-North Korean relations are increasingly local governments alongside profit-oriented private actors, both of whom pursue goals that are not reducible to those of the central government authorities. What this means is that accounts that focus on *realpolitik* or the norms underpinning Beijing's grand strategy are only able to give a partial account of bilateral relations between the two countries. In reality, the rescaling of political authority and the diversification of actors involved in China's external relations means that the country's relations with North Korea has come to be underpinned by a broader range of concerns and imperatives than simply those captured via analysis of the high politics of Beijing-Pyongyang relations.

However, we also focus on how this rescaling of the Chinese state has led to increasingly uneven development within the country and on the implications of efforts to facilitate development in China's northeast for Sino-North Korean relations. Existing analyses of these efforts have tended to emphasise their origins within the context of China's increasingly tense relations with the United States (see Lee 2014), thereby seeing geo-economic strategies largely as a means of achieving geopolitical objectives (Yoon & Lee 2013). In contrast, we focus on their role as responses on the part of political actors at multiple scales to the increasing unevenness of China's development and to the challenges this unevenness poses to social stability and to the legitimacy of the Chinese Communist Party (CCP). Drawing on the literature on rescaling and the decentralisation of political authority, we examine how the diversification of governmental and private actors constitutive of Sino-North Korean relations serve to problematise the state-centredness of social constructivist and *realpolitik* approaches. As we argue, ongoing processes of decentralisation and marketisation have resulted in new

patterns of geographical unevenness and in new forms of social struggles, particularly within China's northeast. This has led to state-led re-imagining of national space in which North Korea has come to play an increasingly important role in efforts to facilitate economic recovery in the northeast. In this sense, North Korea has increasingly come to play the role of spatial fix for Chinese manufacturing capital, particularly in the northeastern border regions. This ongoing process of rescaling and the resulting emergence of new cross-border flows of capital and labour suggests an emerging pattern of Sino-North Korean relations that is by no means static but is in considerable flux.

### ***The Rescaling of Political Authority in China***

Existing *Realpolitik* and Constructivist approaches to Sino-North Korean relations are essentially based upon a static "black box" conception of the state. By naturalising the state as a transhistorical concept, such approaches fail to convincingly explore either the state's historical origins or its ongoing transformations. State-centric conceptions thus fall into what John Agnew has referred to as the "territorial trap," whereby states are typically reified as fixed units of sovereign space. These approaches serve, however, to de-historicise and de-contextualise processes of state formation and transformation as well as obscure the interaction between processes operating at different scales (Agnew 1994, p.59). Though it is debatable whether state-centric approaches have ever adequately captured the changing relationship between the state and the international system (Lacher 2003), they are particularly inadequate given the profound transformations that territorial states have undergone since the world economic crisis of the 1970s. As Bob Jessop has argued, the widespread rescaling of political authority that has taken place globally over the past four decades has typically taken the form of the relative denationalisation of statehood. This process has involved the transfer of powers previously located at the national-territorial level up towards international organisations, downwards to regional or local states, or outwards to cross-national alliances between local metropolitan or regional states. This process amounts to a de- and re-territorialisation of authority that has served to radically reshape hitherto mutually exclusive, formally sovereign, spatially segmented national states (Jessop 2004, p.15).

In this sense, the effort to escape the "territorial trap" of state-centrism does not entail a denial of the state's continued relevance as a locus of social power, but rather a rethinking of the meaning of both state territoriality and political space (Brenner 1999, p.41). In contrast to

widespread arguments in the 1990s concerning the "retreat of the state" (Ohmae 1990; Strange 1996), the reorientation of the state's development policies towards the promotion of global economic competition has been closely intertwined with this re-territorialisation and rescaling of the state. This process of rescaling should therefore be seen not simply as a defensive reaction against globalisation but as a concerted strategy to create new scales of state regulation to facilitate and coordinate the globalisation process. Rescaling can thus be interpreted as a strategy of political restructuring that aims to enhance the locationally specific productive forces of each level of state territorial organisation (Brenner 1999, p.66). A corollary of this process, however, is that fragmented and decentralised state apparatuses and quasi-market actors have increasingly pursued their own independent interests and agendas overseas, generating conflict-ridden, incoherent policy output (Hameiri & Jones 2016, p.73).

It is important here, however, not simply to describe these processes of re-territorialisation and rescaling but to explain them with reference to struggles between social forces, since as Gough (2004) argues, changes of scale in political-economic processes are often associated with changes in class relations and are an outcome of social contestations. The nexus between social struggles and the rescaling of political authority is also closely linked to and is facilitative of what David Harvey refers to as the "spatial fix." As Harvey argues, limits to capital accumulation in any one geographical locale can create a surplus of capital that cannot profitably be re-invested. However, such limits emerging from the internal contradictions of capital can be resolved through a process of geographical restructuring and expansion (Harvey 1982, p.390). The resulting spatial fix thus involves the export of money capital, commodities or productive capacities or imports of fresh labour powers from other regions as a means of overcoming existing limits to capital accumulation (Harvey 1982, pp.427–428). Labour struggles and rising labour costs can be a particularly powerful driver of such processes (Silver 2003), as can the need for new sources of raw materials in order to maintain rapid economic growth. Thus, as Harvey argues, it is the "irresolvable" internal contradictions of capitalism that have accounted for its extraordinary expansive dynamics since its emergence. Continual spatial re-ordering and geographical expansion is, therefore, as central to capitalism as technological change (Harvey 2001, p.24).

This framework based on the rescaling of the state and the spatial fix therefore provides an alternative to widespread understandings of China as Westphalian state *par excellence*. In line with the critique offered above, such understandings remain unable to capture the

radical shift from the self-contained pattern of auto-centric development pursued under Mao Zedong towards the transnationalised economy of the post-1978 era. They tend to neglect the decentralisation of political authority and pluralisation of actors constitutive of China's external relations, and in particular, how such processes have occurred in response to the internal and external challenges to the ruling CCP's legitimacy. These challenges have taken the form of social and class-based struggles from below as well as external challenges in the form of China's position within the uneven development in the East Asian region and beyond.

Deng Xiaoping's decision in the late 1970s to pursue economic liberalisation can thus be understood as a strategic response to the stalling of the country's economic development and to shifts in China's external environment. Economic stagnation was a result of the systematic inefficiency and waste associated with Soviet-style central planning and the subsequent failure of developmental Maoism to establish a viable alternative accumulation regime based on mass mobilisation. By the time of the death of Mao Zedong, there was as a result a widespread social mandate for change within China, particularly amongst those who had suffered under the political mobilisations of the Mao era and those who worked in the agricultural collectives or state-owned enterprises (SOEs) and were subject to often irrational and stifling administrative direction from above (White 1993, pp.21–50). The challenge of addressing this economic stagnation was viewed as particularly acute given the context of the extraordinary growth rates achieved by the US allies of Japan, South Korea, and Taiwan. Uneven development in East Asia both exerted a strong impression on China's leadership of the country's economic backwardness as well as provided practical policy alternatives (Vogel 2013). Together with the shifting dynamics of the Cold War in the form of the Sino-Soviet split and rapprochement with the US, this provided the impetus and opportunity for China to pursue an outward-oriented strategy of greater integration into the international division of labour (Cumings 1989).

This shift in development strategy involved marked scalar shifts in governance both upwards towards the level of international organisations and downwards towards provincial and local governments as well as to non-state actors. The upward scalar shift is clearly represented by China's entry into the United Nations in 1979, membership of the World Trade Organization, increased voting rights in the International Monetary Fund and the World Bank, a rising stature in forums such as the G20, and the establishment of new institutions of global governance such as the New Development Bank, the Contingent

Reserve Arrangement and the Asian Infrastructure Investment Bank. As Wang and Rosenau have argued, many of these initiatives would have been hard to contemplate only a decade or two before, and thus represent a significant move on the part of the Chinese government toward closer identification with the international system (Wang & Rosenau 2009, p.10). Contemporaneous with this upward shift has been the decentring of political authority down towards the provincial, city, and county level. Planning and decision making powers in particular have been transferred from the central government down to local governments, thereby providing opportunities for local governments to stimulate economic growth (Wei 2001, p.9). Political decentralisation has therefore also been a process of marketisation, whereby the dismantling of the state planning and allocation system has resulted in party-state elites at all levels losing some ability to control economic activity. At the same time, power has passed into the hands of non-state actors, including managers, producers, consumers, and increasingly, private and foreign economic actors (Breslin 2000, p.209). It is important to note, however, that there have also been periodic and partial reversals to this trend, such as with the introduction of the tax sharing system in 1994 (Ahmad et al. 2002), thus suggesting the emergence of a contested multi-scalar structure rather than a complete rescaling away from the central state.

The question of the precise relationship between local state and capital emerging from this process has been widely debated. Jean Oi has argued, for example, that local states and markets in China should not necessarily be viewed as being in an antagonistic relationship with each other. Fiscal reform assigned local governments property rights over increased income, thereby creating strong incentives for local officials to pursue economic development in their regions. With parallels to the Northeast Asian developmental states of Japan, Taiwan and South Korea, this merging of state and economy characterises a new institutional development model referred to by Oi as "local state corporatism," whereby local government coordinates economic enterprises as if it were a diversified business corporation (Oi 1992, pp.100–102; see also Blecher & Shue 2001). One manifestation of this new scalar configuration has been the emergence of Special Economic Zones (SEZs) as an example of the downward shift in political authority, thereby demonstrating that decentralisation was simultaneously a process of internationalisation (Breslin 2000, p.211). However, while China's reforms were in many respects a conscious emulation of the Northeast Asian developmental state model, the relative lateness in world-historical time of China's integration into the regional and global economy meant that "national development" was a

much more difficult goal to pursue. In a context whereby transnational production networks have become dominant, China's post-1978 reforms took the form of "shallow integration" into the global economy (Steinfeld 2004), whereby economic growth became heavily reliant on inward FDI and overwhelmingly centred on the Eastern and Southern coastal regions. By the early 2000s, however, China's development was increasingly beset by the overaccumulation of capital, as manifest in the country's towering foreign exchange reserves (Su 2012, p.502). Beijing thereby responded to this challenge by promoting a "going out" strategy, whereby domestic SOEs were encouraged to invest abroad to secure cheaper labour, resources and achieve geographical or institutional proximity to markets (Yeung & Liu 2008).

The outward expansion of China's SOEs should not be viewed as simply directed by the state, however. Deng Xiaoping's reforms meant that SOEs became increasingly profit driven and characterised by the kind of separation between ownership and management that could be found in Western firms. Indeed, Chinese SOEs are often larger in size and capacity than the government agencies that are supposedly meant to provide oversight over them (Gonzalez-Vicente 2011, pp.405–409). Deng's reforms also led to the rapid expansion in private enterprises, many of which have also been increasingly internationalising their activities through overseas direct investment (Ge & Wang 2013). This suggests that the decentralisation of political authority in China has led to an institutional arrangement that is in fact much less coherent and unified than that of the developmental states of Northeast Asia in which the state exerted considerable influence over the investment activities of enterprises (Amsden 1989; Wade 1990). Indeed, as Jude Howell argues, the Chinese state should be understood more as a polymorphous state that assumes multiple, complex forms and behaviours across time and space, and defying any definition which reduces it to a single actor (Howell 2006, p.275).

China's post-1978 reforms and the concomitant rescaling of political authority has, however, created new challenges for the CCP due to the manner in which these processes have exacerbated regional disparities in the country. Prior to the reforms, China's fiscal system was characterised by centralised revenue collection and inter-regional resource transfers. As noted, however, fiscal decentralisation allowed localities to retain certain portions of their revenues for local spending. The reforms also increased local governments' discretion over the investment process, and the divergence in local inputs play a key role in explaining the dramatic unevenness (Wei 2001, pp.10–12). Indeed, the central state deliberately treated provinces differently during the process of decentralisation, with coastal provinces given

rights to seek foreign investment earlier than inland provinces (Breslin 2000, p.215). The resulting regional disparities thus posed serious challenges in terms of political stability. As we argue in the following section, the economic decline of China's northeast has been a key manifestation of this process, and as a result, regional authorities have placed increased emphasis on economic cooperation with North Korea as a means of revitalising the region.

### ***The Northeast Phenomenon and State-led Responses***

In the midst of China's deepening regional disparities, the country's northeast remains somewhat unique in that it constitutes the country's primary rust belt but also includes relatively undeveloped border regions. Following 1949, the Chinese state had made large-scale investments in heavy and chemical industries in the region, to the extent that it became known as the "cradle of Chinese industry" (Chung et al. 2009, p.110). Many of China's largest SOEs in the steel, chemicals, heavy equipment, automobiles and defence equipment sectors were located in the region. The northeast has, however, fared badly in the context of the growing inter-provincial inequality that characterized China's growth during the 1990s (Fan and Sun, 2008). As noted, this was due to the fact that the reforms led to a shift in the locus of China's economic dynamism towards the labour-intensive export-oriented industries located in the coastal regions and from SOEs to private and foreign-invested enterprises.

This "Northeast Phenomenon" (*dongbei xianzhuang*) was not simply a result of the region's ageing heavy industrial structure, however. The region's relative geographical isolation and the fact that both Jilin and Heilongjiang provinces are landlocked meant that the northeast was ill-placed to take advantage of the investment by overseas Chinese networks that formed the impetus of China's post-1978 growth. In addition, the northeast was relatively slow to encourage inward direct investment from nearby South Korea and Japan. Official economic cooperation between northeast China and these countries remained limited until the 1990s. Due to this combination of factors, the northeast's trade reliance in 2001 was just 20.37 per cent, less than half of the national average of 43.57 per cent, and foreign direct investment to the region recorded US\$ 3.19 billion at the same year, accounting for just 6.89 per cent of the national total (Kim 2012, p.45). With its ageing industrial base and limited new investment, the northeast's share in China's overall industrial production saw a sharp decline from 17 per cent in the late 1970s to just 8.6 in 2002 (Kang 2005, p.194).

The northeast's economic decline has been of increasing concern to the authorities. Consequently, local governments in the region took a leading role since the 1990s in seeking

to revitalise the region through cooperation with neighbouring countries. For example, the Tumen River Area Development Programme (TRADP), sponsored by the United Nations Development Programme, was aimed at establishing a Northeast Asian economic regime centred on China, North Korea, South Korea, Russia and Mongolia, with Japan adopting the position of observer. TRADP aimed to promote regional economic integration through a number of mechanisms including plans to establish a duty-free shipping and processing zone inclusive of the North Korean cities of Rajin and Chongjin, the Chinese cities of Hunchun and Yanji, and the Russian city of Vladivostok (Kim 2001, pp.388–390). However, TRADP's progress was erratic due to the security tensions on the Korean peninsula and limited interest on the part of corporations in neighbouring countries in investing in the Sino-North Korean border area of the Tumen River.<sup>1</sup> The project thus failed to achieve the goals of the Jilin provincial authorities, who were its most enthusiastic supporter. Furthermore, there were tensions between central and local governments in a number of member states with regards to the extent to which cross-border regional cooperation should occur (Hughes 2002). Beijing was also seemingly wary of North Korean initiatives to promote border region developmental projects. In addition to providing little support to North Korea's Rajin-Sonbong Free Economic and Trade Zone in the early 1990s, Beijing appeared to adopt a negative stance towards Pyongyang's attempts to develop the Sinuiju Special Administration Region near the Chinese city of Dandong in the early 2000s.

Despite the slow progress of multilateral cooperation in the region, China has since the mid-2000s made significant advances in bilateral cooperation and exchange with North Korea. As noted in the introduction, a number of observers have interpreted this deepening of Sino-North Korean economic cooperation within the context of the former President Obama administration's "pivot to Asia" and the challenges posed by North Korea's nuclear test. Seung-Ook Lee has argued, for example, that increased tensions with the United States led to a shift in the way Beijing seeks to maintain North Korea as a strategically important buffer state. Whereas Beijing had previously stood in the background and allowed local government and business to take the lead, 2009 saw a switch to a state-level strategy of engagement with North Korea (Lee 2014, p.182; see also Kim 2016). This view of geopolitically-driven economic cooperation bares strong parallels with arguments made concerning China's relations with Southeast Asia. Yoshimatsu, for example, has argued that China's engagement with the Mekong Region is similarly driven by strategic objectives, such as the cementing of China's influence in Southeast Asia at the expense of the United States, the demonstration of

leadership potential in East Asia, and securing a route to the Indian Ocean (Yoshimatsu 2010, p.92; see also Dosch & Hensengerth 2005).

Though Premier Wen Jiabao's visit to Pyongyang in 2009 did see the announcement of several high profile cooperation projects, it should be noted that in reality Beijing's attempts to promote economic exchange between the northeast and North Korea have earlier origins and can be seen in part as a response to economic decline and to its potentially destabilising social consequences. The latter included the large-scale social unrest amongst laid off workers in the northeast in the early 2000s (Chung et al. 2009, p.112) and the recognition of the role that economic exchange with North Korea might play in promoting the northeast's economic recovery. The poor profitability of northeastern SOEs in the northeast and the failure to attract sufficient new investment into the region has led to bankruptcies and to widespread unemployment and social unrest across the region (Lee 2008, pp 69–73). As a result, in the early 2000s, the northeast accounted for about 18 per cent of the country's total urban unemployed, despite the fact that the region accounted for just 8.5 per cent of China's overall population (Kang 2005, p.195). Northeastern cities such as Liaoyang in Liaoning Province and Daqing in Heilongjiang Province have subsequently seen protests involving tens of thousands of workers. At the same time, the ethnic Korean (*Chaoxianzu*) population in Jilin Province's Yanbian Autonomous Prefecture adjacent to North Korea poses potential challenges to national unity and stability in China. Historically regarded as a "model minority," ethnic Koreans in China have not engaged in any explicit acts of unrest such as those seen in Tibet in 2008 and in Xinjiang in 2009. Nonetheless, the Chinese government has, as with other ethnic minorities, historically had concerns about the possibility of an emerging national consciousness amongst ethnic Koreans (Luova 2009, p.442; Kwon 2011, p.240), a concern that is evident in state-led attempts to propagate an understanding of history that unambiguously cements China's claim over the region and its people (Hays Gries 2005). It is true that such concerns may be dissipating to a degree due to outward migration of around one million ethnic Koreans over the past two decades. Nonetheless, the northeastern border regions benefit from a number of central government politics designed to promote border trade as a means of tackling similar concerns in China's border regions more generally (Thompson 2011, p.14).

As a result of these challenges, the central and provincial governments' increased emphasis on promoting the economic revitalisation of the northeast can be seen as a new stage in China's reform era. On a visit to Changchun in August 2003, Premier Wen Jiabao announced

that henceforth the industrial rehabilitation of the northeast would together with a programme to develop China's western regions form the "two wheels of the East-West cooperation" that would propel China's economic growth in the 21st century (Li 2004, p.2). In October 2003, the CCP and the State Council formally marked the launch of the Revitalise the Northeast programme. In its early stages, however, this programme placed overwhelming emphasis on the restructuring of inefficient SOEs and large-scale infrastructure projects. For the provincial governments, these efforts were initially seen as insufficient and as doing little to facilitate the "external opening" (*duiwai kaifang*) of the northeast (Kwon 2011, p.243; Kim 2012, p.46).

As such, Beijing began from the mid-2000s to place more emphasis on cooperation with North Korea as a means of further facilitating the northeast's economic recovery. In June 2005, the State Council adopted an active strategy of encouraging Chinese enterprises in the northeast to "go out" in order to gain access to raw materials and mineral resources. This strategy included a proposal made by Jilin provincial government for a "Road Port Zone Integration Project" (*lugangqu yitihua*) (Won 2011, p.47). This project would thereby facilitate Jilin Province's strategy of "borrowing the harbour to access the sea" (*jiegang chuhai*), whereby landlocked Jilin Province would acquire rights to use North Korea's warm water ports on the latter's northeastern coast in order to overcome its isolation. Beijing formally raised these cross-border regional development plans with North Korea in September 2007 at the Third Meeting of the China-North Korea Science and Technology Economic Trade Joint Committee. In response to North Korea's subsequent request for a written proposal, the related documents compiled by the Chinese Ministry of Commerce were subsequently submitted to the North Korean embassy in Beijing in April 2008 (Won 2011, p.55). As such, Wen's visit to Pyongyang in 2009 merely marked the public announcement of the projects that would form the basis of the Road Harbour Zone Integration Project, and thus, their adoption cannot easily be regarded as a response to Obama's "pivot to Asia" and North Korea's 2009 second nuclear test.

### ***Decentralisation and Sino-North Korea Economic Cooperation***

China's implementation of cross-border infrastructure projects with North Korea has also taken the form of more targeted regional development plans. In July 2009, the State Council ratified the Liaoning Coastal Economic Belt Development Plan (herein, Liaoning CEBDP) aimed at the further revitalisation of the province's industrial base. The plan was first proposed by Liaoning provincial government in 2005, and sought to connect the six coastal

cities of Dalian, Dandong, Jinzhou, Yingkou, Panjin and Huludao into a single regional industrial hub (Xinhua 2009). The State Council's plan also included the development of Dandong New City, which with downtown Dandong, Dandong Harbour, and the neighbouring North Korean Hwanggumpyong-Wuiha SEZ would form a more focused regional industrial zone. A further key component of the Plan was the building of the New Yalu River Bridge, connecting Dandong New City with the North Korean city of Sinuiju at a cost of US\$350 million.

In August 2009, the State Council also approved the Changchun-Jilin-Tumen (abbreviated to 'Changjitu') Pilot Area, covering the cities of Changchun and Jilin as well as Hunchun in Jilin Province's Yanbian Autonomous Prefecture, along with Rason SEZ and Chongjin city on North Korea's northeastern coast (Sohu News 2009). In line with Beijing's Road Port Zone Integration Project, the Changjitu plan similarly promotes access to North Korea's harbours. Access to North Korea's Rajin harbour, for example, would mean that raw materials could be shipped from China's northeast to its southern provinces more quickly and cheaply than by road or rail transport. It would significantly reduce shipping times from China's northeast to the key markets of South Korea and Japan, and would relieve pressure on Liaoning Province's Dalian port. Access to North Korean harbours would also mean that Jilin province border city of Hunchun in the ethnic Korean Yanbian region would find itself only 93km from its nearest port rather than current 1,300km land journey to Dalian port (Lee 2011). As such, the plan would help to reduce the geographical isolation of the northeast and thereby tackle the unevenness of China's development. However, the benefits of access to North Korean ports would extend even beyond the northeast towards the Russian Far East and Mongolia. To facilitate these regional and international linkages, the Changjitu plan involved the renovation of Quanhe-Wonjong bridge on the Sino-Korean border and the building of a new road from the border to Rajin, while Chinese companies have been involved in renovating piers in the North Korean city of Rason.

The role in which cooperation with North Korea plays in such regional development plans needs to be qualified somewhat. The position that local governments in the region take towards such cooperation tends to be shaped by geography. Liaoning Province already has coastal access, for example, and the province as a whole arguably has less to gain from investments in improving transport infrastructure with North Korea. The border city of Dandong, on the other hand, is heavily reliant on cross-border economic exchange, and as discussed in more detail below, has taken the lead in several important cooperative initiatives.

As a landlocked province, Jilin Province, and the Yanbian Autonomous Prefecture in particular, have more to gain in terms of cooperation with North Korea (Lee 2014, pp.185–187). The importance of North Korea to the regeneration of the northeast is thus unsurprisingly more concentrated in the border regions. Nonetheless, it is difficult to understand the substance of Sino-North Korean economic cooperation separately from the wider context of northeastern regional development efforts.

As such, to simply reduce China's North Korea strategy to the desire to maintain a buffer state on the Korean peninsula amidst growing geopolitical tensions can only at best provide a partial explanation. It is the case, however, that with Pyongyang's continued nuclear and missile tests there have been growing tensions between Beijing and Pyongyang as well as between Chinese central and provincial governments over how to deal with North Korea. Beijing has not only signed up to increasingly stringent sanctions against North Korea but has also adopted its own follow up measures. In April 2013, for example, China's Ministry of Transport and Transportation sent a notice indicating the execution of UN Security Council Resolution 2094 to lower-level government organisations (Ministry of Transport 2013). China's four big state-owned banks stopped conducting business with North Korea, and on the 7th of May, the Bank of China closed its accounts with North Korea's Foreign Trade Bank (Won 2013, p.59). Furthermore, following North Korea's third nuclear test in 2013, Beijing appears to have abandoned the pursuit of large scale economic cooperation projects with North Korea. In a context of rising US-China tensions, this again suggests that understandings of China's engagement exclusively in *realpolitik* terms or as resulting from relatively static norms are problematic. Despite a worsening external climate, North Korea has not been included in Xi Jinping's flagship One Belt One Road strategy, and there has been no discussion of North Korea's entry into the Asian Infrastructure Investment Bank. This is despite the fact that both regional development projects in the northeast explicitly seek to strengthen the northeast's economic cooperation with neighbouring countries through the construction of rail, road, electricity networks, pipelines and economic corridors (Government of China 2015).

Beijing's increasing reluctance to pursue large-scale cooperation projects with North Korea does reflect in part the increased tensions over the latter's nuclear programme, but more importantly, it reflects the fact that many existing high profile projects have simply failed to progress as planned. For example, the New Yalu River Bridge remains unopened despite having been completed in 2014. Indeed, there has apparently been no effort on the North

Korean side to connect the bridge to the existing road network, and thus, the bridge has remained unused and, for many observers, stands as a testament to the futility of engagement with North Korea. Despite Beijing's apparent change of heart, however, regional governments in the northeast have maintained efforts to pursue smaller scale economic cooperation projects with North Korea despite increasingly stringent international sanctions. For example, in October 2015, Liaoning provincial government opened the China-Korea Border Trade Zone in Dandong's New City, which allows tax-free purchase of goods by border residents up to a value of 8,000 Yuan (US\$ 1,260) per day (Voice of America 2016). Though the success of this endeavour, like that of Dandong New City itself, depends in part on the opening of the New Yalu Bridge, more successful border economic zones have been established in Hunchun and in Ji'an.

These continued efforts at the regional level can be understood as a result of the fact that, within the context of a broader economic slowdown in China, the northeast has in recent years seen a particularly sharp economic decline. In 2015, for example, Liaoning's economic growth rate reached just 3 per cent, the lowest amongst China's 31 administrative provinces. In 2016, Liaoning's recorded growth rate fell further to -2.5 percent. Jilin and Heilongjiang provinces fared somewhat better, but these northeastern provinces were still the lowest performing provinces in the country. At the same time, economic exchange with North Korea has increased in importance to the region. In Jilin Province, for example, North Korea accounted for 12.1 per cent of the province's total exports (US\$ 6.25 billion) in 2014, making North Korea Jilin province's biggest export destination for the first time, exceeding Japan, Russia and South Korea (Bae & Yoon 2015, p.14). Thus, while high profile engagement projects promoted by the central government appear to have ground to a halt, regional governments have continued to encourage the expansion of economic exchange with North Korea.

### ***Engagement with North Korea as Spatial Fix***

The rescaling of political authority in post-1978 China has meant that Sino-North Korean relations have come to be shaped by a range of state actors at the central and regional level, and as such, China-North Korean relations cannot be reduced to a singular geopolitical logic. However, processes of decentralisation and marketisation have also meant a shift away from government towards private actors primarily oriented towards the pursuit of profit. Indeed, in contrast to the aided-trade and government commodities of the past, the vast majority of

Chinese trade and investment with North Korea has since the early 2000s been profit oriented and conducted largely by either private enterprises or individual traders based in the northeastern border cities. While this reflects in part the marketising dynamic of China's reforms, it also reflects the fact that North Korea too has adopted reform measures that have strengthened enterprise autonomy and increased motivation for enterprises for engaging in profit-seeking activities (Gray & Lee 2017). As a result, trade and investment between the two countries take the form of spatial fix for Chinese manufacturing capital rather than simply reflect the vicissitudes of Beijing-Pyongyang relations or of international sanctions.

The majority of trade and investment between China and North Korea has been centred around mineral resources. Reflecting demand in the Chinese economy, the growth in North Korean exports of anthracite to China is particularly noteworthy, reaching a level of US\$ 1.38 billion dollars in 2013. However, the slowdown of the Chinese economy, the end of the global commodity boom, and the tightening of environmental regulations in China have more recently led to a sharp decline in anthracite prices from about 100 dollars per ton in 2011 to 50 dollars per ton in early 2016.<sup>11</sup> North Korea initially responded to this decline by increasing the physical quantity of coal it exports, and as such, in 2015, North Korea replaced Russia as China's third largest source of coal. However, the continuing decline in price meant that the total value of exported anthracite fell to US\$ 1.05 billion dollars that year. In a similar fashion, China Customs data shows iron ore exports to China grew from a value of US\$529,000 in 2000 to \$324 million in 2011, but thereafter declined to a value of \$72.8 million in 2015. These fluctuations in anthracite and iron exports further underlines the fact that importers of North Korean mineral resources are largely Chinese enterprises making decisions on the basis of profit rather than political factors.

There has also been increasing Chinese investment in North Korea, including investment in mineral resources but also in the manufacturing, logistics, retail and transportation sectors. In 2003, investment approved by China's Ministry of Commerce into North Korea was recorded at just US\$ 1.12 million dollars, but by 2012, this had grown to US\$ 194.6 million dollars. In the context of declining revenues from mineral exports, investment in labour-intensive manufacturing has been a key growth area for North Korea. Some of this investment has been for the purposes of targeting North Korean domestic demand in consumer goods, electrical appliances, food manufacturing, construction materials, etc. More importantly in terms of foreign currency earnings, however, has been the expansion of export-oriented manufacturing

within North Korea, which has served to integrate the country into regional and global production networks despite stringent international sanctions. Investment in North Korean manufacturing for export typically takes the form of consignment-based processing (CBP), whereby Chinese enterprises supply the funds, production equipment and materials while North Korean companies provide the workers. The finished products are then re-exported back to China. CBP-based production of clothing and related items (HS 61, 62) has seen particularly rapid growth in recent years, from US\$ 186.42 million in 2010 to US\$ 799.3 million dollars in 2015, forming 32.3 per cent of North Korea's total exports to China.

This integration of North Korea into regional and global production networks has occurred mainly as a result of rising labour costs within China. This reflects in part the dynamic whereby social struggles at the point of production and the threat that they pose to social and political stability have led to government reforms designed to manage tensions through piecemeal reform from above. More specifically, the potential of labour unrest as demonstrated in China's 2010 strike wave along with the manner in which the global financial crisis exposed the vulnerabilities of the country's export-dependent industrialisation model have led to a shift in government strategy away from export-oriented manufacturing towards increasing domestic consumption (Gray & Jang 2015). China has thus seen rapid increases in the minimum wage and enterprises have been faced with further costs related to social insurance payments and other employee benefits. Demographic shifts associated with the one child policy have added to difficulties faced by Chinese firms in recruiting workers (Cai 2007).

For clothing manufacturers in the more prosperous coastal provinces, the challenge of rising wages has led to spatial relocation of production either to China's inland/western regions or to overseas low-wage sites (Zhu & Pickles 2014). However, the latter strategy of "going out" has increasingly been adopted by clothing manufacturers in the northeast, particularly in the border regions adjacent to North Korea. Indeed, China's northeast has by no means been spared from the rapid increases in wages. In 2010 alone, for example, the average minimum wage in Liaoning province rose by 28.6 per cent, in Jilin province by 26.2 per cent, and in Heilongjiang province by 29.4 per cent (Jin et al. 2012, p.12). Though labour shortages first emerged in the coastal export-oriented industrial regions, they have subsequently spread to China's inner provinces, to the West, and to the northeast. Despite increases in wages, northeastern labour-intensive factories in the clothing and footwear sectors, for example,

have reportedly experienced greater hardship in recruiting workers, with some of them operating at less than half of their capacity. Dandong city has experienced one of the most serious labour shortages in Liaoning province, and the number of apparel companies in the city in the early 2010s has declined from 120 to 70 (Choi et al. 2015, p.109).

As such, North Korea has come to perform the role of spatial fix for a number of China's northeastern clothing manufacturers in terms of providing manufacturers with new sources of low-cost labour without exposing them to the risks of direct investment in the country. In the context of the continued slowdown of the northeastern economy, CBP-based production has been supported by regional governments. For example, several major clothing manufacturers in Hunchun and Dandong cities have acquired official permits for the newly excised preference trade system of cross-border processing work from the customs authorities so that these local companies only have to pay 20 per cent of customs duties from 2013 when re-importing finished clothing items back into China from North Korea (People's Daily 2013). Furthermore, the Jilin provincial authorities regard clothing manufactured in North Korea under this CBP arrangement as domestically produced, thereby giving them preference in terms of quality and safety inspections (Bae & Yoon 2015, pp.167–168; Choi et al. 2015, pp.108–109).

In addition to CBP-based production, there has also since the early 2010s been a marked rise in the dispatch of North Korean workers to China's northeast, and particularly to border cities such as Dandong. Though CBP-based production is a less risky arrangement than direct investment for Chinese firms, the use of dispatched North Korean labour represents a further reduction of risk. Indeed, there have been widespread reports of the difficulties faced by Chinese enterprises operating in North Korea. Chinese enterprises generally fear the appropriation of their businesses and have significant concerns about poor infrastructure in the country as well as arbitrary changes in rules and practices (Haggard & Noland 2012). The strict quarantine procedures put in place during the winter of 2015-16 in response to the Ebola crisis demonstrates further how seemingly arbitrary actions taken by the North Korean authorities can greatly inconvenience Chinese investors (Abrahamian 2015). The dispatch of North Korean labour to production sites in China thereby helps to mitigate such risks.

The direct employment of North Korean workers by Chinese manufacturers is a relatively new phenomenon. The Liaoning provincial government reached an agreement with the North

Korean authorities in April 2012 to allow 20,000 North Koreans to work as "industrial trainees" in Chinese factories. This followed a similar agreement made by Jilin provincial government to resolve labour shortages in several Jilin border cities (Chosun Ilbo 2012). While there are no accurate statistics available, a fieldwork report by Jong-Seok Lee of the Sejong Institute indicates that there are currently around 70,000-80,000 North Korean workers in China (Lee 2016, p.10). In the past, small groups of North Koreans tended to work primarily in the service sector, and in restaurants in particular, but more recently, this has expanded to textiles, timber processing, machinery assembly, fisheries processing, construction and IT sectors. In the Dandong region alone, there are estimated to be around as many as 30,000 workers (Choi 2016, p.104), largely in unskilled jobs in clothing, seafood, wood product, and construction material factories. A further 9,000 North Korean workers are estimated to be employed in Jilin's Yanbian Autonomous Prefecture.<sup>iii</sup> Some of these operations are reported to be quite large in scale. With the support of Hunchun city government, for example, China's largest manufacturer of men's clothes, the Youngor Group established a factory in the city's industrial zone in 2015 (Bae & Yoon 2015, p.170). In 2016, the employment of 1,500 North Korean workers made up around 75 per cent of the total workforce, and there are plans to raise this to 5,000 North Korean workers in the near future.<sup>iv</sup> In addition to low-wage unskilled labour, North Korea has also dispatched relatively highly skilled IT workers in line with North Korea's comparative strengths in software development and animation. For example, Dandong's Dongfang Measurement and Control Technology Co. have employed 40-50 doctoral researchers from the (North) Korean Academy of Sciences.<sup>v</sup> Furthermore, recent media reports suggest that there are more than 2,400 North Korean IT workers in the Chinese northeast, including about 1,000 workers in Yanji of Jilin Province and 500-600 workers in Shenyang, Liaoning Province (Yonhap 2016).

Local governments have played a key role in facilitating this process. In 2012, for example, the Tumen authorities signed an agreement with the DPRK Joint Venture and Investment Committee (*Chosŏn t'ujahabyŏng wuiwŏnhoe*) to dispatch 20,000 North Korean workers to city's newly established Chosun Industrial Park (Heilongjiang News 2013). The actual number of North Korean workers employed there have grown rapidly from 625 at the end of 2013 to around 4,000 in August 2016 (Lee 2016; Choi 2016, p.104). As Chinese enterprises have put pressure on local governments to permit the employment of North Korean workers, those local governments have also competed with each other. Following the approval by the Tumen municipal authorities for Chosun Industrial Park to employ North Korean labour,

Hunchun, a neighbouring city, signed a separate contract with North Korean labour supplier Chosun Rungnado Company to supply North Korea workers (Kim 2014). In any case, the employment of North Korean workers is largely a local-level initiative. The central Chinese government has not formally expressed its position on such practices, though as with local efforts to promote exchange with North Korea more generally, it appears that it is showing a blind eye to this practice given the continued economic slowdown in the northeast.

### ***Conclusion***

While China's rise has led to an increase in the country's influence within the structures of global economic and political governance, it continues to pursue a strategy of engagement with North Korea despite Beijing's support of increasingly stringent UN-mandated sanctions. As we have argued, contemporary analyses of this apparent paradox are arguably constrained by their state-centric analytical frameworks that serve to reduce relations between the two countries to *realpolitik* considerations or to relatively static norms. Such views neglect, however, the ongoing multi-faceted transformation of the Chinese state since the late 1970s, and in particular, the profound rescaling of political authority along with the diversification of public and private actors involved in the conduct of relations with neighbouring countries. As the key agents involved in Sino-North Korean economic relations have seen a relative shift from central to local government and to local enterprises, relations between the two countries are increasingly characterised by multiple and at times contradictory goals. Certainly, the relative autonomy of the local governments should also not be exaggerated as the extent to which regional authorities can adopt policies that directly contradict the intentions of Beijing is highly constrained and it would be misleading to view regional initiatives in external affairs as in direct conflict with the policies of the central government (Cheung & Tang 2001, p.93). Nonetheless, the emergence of a multi-scalar political structure has meant that China's approach to North Korea is irreducible to any single geopolitical logic and is instead characterised by a multiplicity of goals that compete for dominance.

This process of the rescaling of political and economic governance in China has been central to the country's post-1978 reforms. At the same time, however, it has served to exacerbate China's internal uneven development, raising issues of internal migration, labour unrest, wage rises, and shortages of workers. This dynamic has led to a process whereby central and local governments have sought to facilitate cross-border relations with North Korea as a

means of reviving the northeast and tackling the limits to capital accumulation by means of the spatial fix. While the Chinese central government's regional development plans have had mixed results, local governments in the border regions have made continued efforts to facilitate trade and investment through such efforts as Dandong's free trade zone and Hunchun's industrial park. State-led initiatives aside, decentralisation and marketisation have also meant that economic relations between China and North Korea are increasingly underpinned by trade and investment conducted by small private businesses based in the northeast rather than by SOEs. As such, the true story of Sino-North Korean economic engagement is one of micro-regionalism driven by local actors. This means that despite Beijing's apparent displeasure with North Korea's nuclear programme, the importance of North Korea for China's domestic stability and particularly for the revitalisation of the northeastern border regions means that it seems unlikely that this will do much to reverse the situation in which Sino-North Korean relations are being driven by private enterprises, underpinned by local governments and public and private companies.

Certainly, Beijing can and does take actions aimed at expressing its displeasure with Pyongyang over its nuclear and missile tests. China's banning of coal imports from North Korea in 2017 is one such example, though it remains to be seen as to the extent to which this ban will be enforced and whether it will simply drive more of the trade into the realm of the informal economy. A stringent application of the ban would no doubt have a significant impact on North Korea's foreign exchange earnings, though it should be noted that economic exchange in other areas, including the outsourcing of apparel manufacturing, has continued to grow and trade in minerals banned under UN sanctions is still reportedly taking place (Yonhap 2017). As such, the substance of Sino-North Korean relations is likely to continue to follow market dynamics rather than the vicissitudes of high politics between Beijing and Pyongyang.

Though not primarily the focus of this paper, this analysis has important implications for thinking about potential alternative strategies of engagement with North Korea. China's engagement with the country has taken on quite a different form to the more territorially-motivated engagement strategy pursued by the South Korean government under the auspices of the erstwhile Sunshine Policy (1998-2006). China's approach has been much more based around interaction between local actors in both countries. There has been more in the way of business-to-business interaction and, as a result, people-to-people contact. South Korean engagement on the other hand was conducted through much more constrained channels.

Encounters between North and South Koreans were more strictly regulated, and as a result, there was less space for any transformative impact. Though South Korean local governments did participate in inter-Korean exchange, their counterpart was often more likely to be the North Korean central government (Marumoto 2008). Indeed, it was partly the highly constrained nature of inter-Korean exchange that led it to be criticised by South Korean conservatives (Son 2009). As a result, it can be argued that China's engagement with North Korea has served to encourage the ongoing process of marketisation in the latter, and indeed, there is evidence to suggest that North Korea is in the process of copying market institutions found in China (Reilly 2014). This grassroots exchange has played a key role in the broader recovery of the North Korean economy. There are signs that North Korean society is becoming more pluralistic, and that an entrepreneurial class may be emerging: if so, a profound transformation is underway in the country. This serves to underline the fact that in the context of the increasingly tense stand of between North Korea and the United States, an appreciation of the multi-scalar dimensions of potential engagement strategies may provide the basis for devising alternative approaches to engaging with North Korea.

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## *Notes*

<sup>i</sup> In 2005, TRADP was re-branded as the Greater Tumen Initiative (GTI) following the transfer of full ownership from the UNDP to the member states. However, North Korea withdrew from the GTI in 2009 as a result of increasing tensions surrounding North Korea's nuclear programme but also due to the disappointing results of the TRADP/GTI and the failure for expected levels of FDI to materialise. Given North Korea's geographical centrality to the broader multilateral Tumen River cooperation, this withdrawal was a major blow to multilateral efforts to development the region. As such, the results of the TRADP/GTI can be seen as having fallen well short of its often grandiose aims.

<sup>ii</sup> Interviews with managers of Chinese trading companies importing anthracite from North Korea, July 2016.

<sup>iii</sup> Interview with Hunchun municipal government official, July 2016.

<sup>iv</sup> Interviews with factory managers, Hunchun industrial zone, July 2016.

<sup>v</sup> Interviews with IT staff, Dandong, November 2012.