Expanding DPRK-China Economic Cooperation and the Future of the DPRK Regime:
A "Rentier-State" Analysis

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Recently, on June 8-9, North Korea and China began construction of a special economic zone on Hwanggeumpyeong and Wihwado islands and an economic and trade zone in Rason. This reflects the general expansion of the DPRK-China economic relationship since October 2009. But what sort of impact will these expanded economic relations have on North Korea's economic development and internal politics? This paper will examine that question from the angles of politics and regime survival.

1. General Assessment of Recent Developments in DPRK-China Economic Relations

Up to 2003, the majority of DPRK-China economic interaction consisted of simple trade. From 2003 onward, China began to develop North Korea's underground resources through private investment. Trade between the two countries also began to increase dramatically from 2003. In the 2004-2006 period the proportion of overall (including South Korean) trade with North Korea taken up by China remained stable at 39%, but from 2007 onward this number again began to rise, reaching 53% in 2009. Meanwhile South Korea's contribution peaked in 2007 at 38.9%, and by 2009 it had declined to 33%. Then, in 2010 inter-Korean trade was suspended by the 5.24 Measure. DPRK-China trade in 2010 amounted to US$3465 million, representing a 32.1% increase over the previous year, while inter-Korean trade declined by 13.9% to US$1912 million.

DPRK-China economic relations entered a new phase in October 2009 following Prime Minister Wen Jiabao's visit to North Korea. On August 30, 2009 China ratified a national strategy for developing the "Chang-Ji-Tu" (Changchun-Jilin-Tumen) region. During Wen Jiabao's October visit various DPRK-China economic cooperation deals were signed. Also around this time China announced plans for the construction of a new bridge over the Amnok River and joint development of Rajin Port. From early 2010 North Korea began making various moves to expand its economic relations with China. In early 2010 they established the National Development Bank, supported by the existing Daepoong Investment Group of Korea. Additionally, in July the Joint-Venture Investment Committee was formed. Kim Jong Il made trips to China three times within a year between May 8th 2010 and May 2011. In late 2010 and early 2011 North Korea and China signed various bilateral agreements and memoranda of understanding regarding the Rason Special Development Zone, Hwanggeumpyeong, and joint development of underground resources. In 2010 limitations on North Korean tourism were lifted and increasing numbers of Chinese tourists began traveling to North Korea. The idea of dispatching North Korean workers to China began to be discussed. Following Kim Jong Il's May visit to China, a ground-breaking ceremony was held on June 8th for DPRK-China joint development and management of the Hwanggeumpyeong/Wihwado Economic Zone, and on the 9th another ground-breaking ceremony was held for joint development and management of the Rason Economic and Trade Zone. Following the direction proposed by Wen Jiabao in 2006 and by Hu Jintao in August 2010, DPRK-China economic relations continued to expand according to the principle of government-led, business-centered, market-focused development.

The view in South Korea regarding this expansion of DPRK-China economic relations was a combination of hope and concern. After Kim Jong Il's China visit in May there was much speculation in the South Korean media about expectations for North Korean development and opening. This has happened before. One of the more academic assessments[1] identified some positive aspects of expanded DPRK-China economic interaction such as "easing material shortages, increasing earnings, and contributing to economic growth," "spurring reform and opening," "reducing unification costs," etc.

1) Yang Moon Soo, "NDC Chairman Kim Jong Il's China Visit and DPRK-China Economic Cooperation," 48th Policy Forum Presentation at the Korean Sharing Movement's Peace and Sharing Center (2011.6.16), pp. 17-21.

Some of the negative aspects discussed included a setback for inter-Korean economic integration, various obstacles to the unification process, the likelihood of DPRK-China economic cooperation replacing inter-Korean economic cooperation, the negative impact of China's rising economic power on the South Korean economy, and the structural division of North Korea into a pro-South Korea south and a pro-China north.

2. The "Rentier State" Concept

Looking at the phenomenon of expanded DPRK-China economic relations, this paper seeks first to analyze the DPRK regime's economic survival strategy from a predominantly political angle. Second, it examines the impact this expansion may have on North Korea's long-term economic development and relations between the regime and the people. This analysis assumes that the regime's primary objective is (internal) political survival and it will pursue external economic policies in line with this objective. North Korea's policy of expanding economic relations with China is placed in this context. In other words, the main purpose of this paper is to observe the influences that this relationship will have on North Korea's long-term economic development, internal politics and the regime-people relationship if it continues to expand smoothly in the future. For the purpose of making such observations, this paper will use the "rentier state" concept to analyze North Korea's internal and external economic strategies and its expanding economic relations with China.

The rentier state concept was originally applied for political and economic analysis of the oil-exporting dictatorships of the Middle East. This concept was particularly used to analyze the political-economic structure and operation by which long-term stability was ensured for dictatorships in oil-producing Arab states based on foreign exchange earned from oil exports. The scope of application was later expanded for use in analyzing and explaining the staying-power of any dictatorship that relies on external income from the export of natural resources.

First let us examine what is meant by the terms "rent" and "rentier state."[2] Advocates of the rentier state concept define "rents" as "exports earned or income derived from a gift of nature." This is explained in more detail below, but the representative example of this kind of rent is income acquired from the export of natural resources,

2) For more information on the rentier state concept, refer to Hyeong Jung Park, "Post-Stalinist Neo-patrimonial Rentier State: Current Status of North Korean Transformation and its Implications for North Korea's Future and Korean Unification," *Journal of Peace and Unification*, Volume 1, Number 1 (Spring 2011), pp. 50~53.

particularly oil. More generally, this concept includes profits gained from the export of products that have a wide margin between production costs and international prices, and imports offered for free in lieu of foreign aid. An even broader definition of rents would be "politically mediated opportunities for obtaining wealth through non-productive economic activity."

Rentier states acquire most or a significant portion of their income from external sources by means that fall under the above definition of "rents." There are at least five distinct methods by which rentier states can acquire rents.

① Raw materials rents - income from the sale on the global market of natural resources and/or raw materials;

② Location rents - income from possession of vital transport routes or infrastructures such as crude oil pipelines or the Suez Canal;

③ Strategic rents - income from strategic or political positions or acts, such as alliances (or anti-alliances) with major global or regional powers or support (or refusal to support) certain political or ideological positions of other countries

④ Political rents - income from the acquisition of foreign aid given by the OECD and the Arab oil-states according to solid developmental and moral orientations;

⑤ Migration rents -income earned from sending domestic workers abroad to participate in the labor market of the OECD or other Arab oil-producing countries (in the case of Arab states).

3. North Korea as a Rentier State

What is important to note here is that although the rentier state concept was initially developed in a context that had absolutely nothing to do with North Korea, it expresses a condensed explanation of the internal and external economic policies being pursued by North Korea under the top priority of regime survival. At least, this appears to have been the case since North Korea abandoned its internal economic reforms in 2005. Turning back the reforms has sterilized the domestic economy. Nevertheless the economy and government have to be maintained. If they are to do that, they must increase their income from external rent sources such as those listed above. Since 2005 North Korea has pursued an anti-reform economic strategy internally, while externally attempting to diversify and expand its rent sources. The expansion of DPRK-China economic relations since October 2009 can be considered part of this diversification strategy.

Let us examine how Pyongyang raises income from among the five categories described above. First there are raw materials rents. By 2009 mineral products had taken up 42% of North Korea's total exports. 96.6% of these minerals are being exported to China. Aside from minerals, animal and plant products, wood, precious metals and base metals are also collected for export or manufactured into products of very poor quality. If we classify all of these under the first category listed above, "raw materials rents,"then income from this category took up 68.7% of North Korea's total export income for 2009.

Second are location rents. As representative examples we can consider the development of Rajin port and tourism projects. The central role of Rajin port will be to function as a major shipping hub for Northeast China. Rajin port is designated as part of the Rason Economic and Trade Zone project set to be jointly developed and managed by North Korea and China together, but in reality China will likely take responsibility for investment and operation of the project, leaving North Korea to take its share of the profits with none of the risks or responsibility. If those plans are to be carried out, plans to connect the Siberian railroad and Russian oil and gas pipelines will also be included in the project. Representative tourism projects are the tourist resorts at Mt. Keumgang and Kaesung. North Korea has been actively promoting tourism, particularly targeting Chinese tourists, since 2010.[3] These renewed efforts to promote tourism resemble typical moves by other rentier states seeking to deal with threats to their revenue of rents.

Third are strategic rents. For an example of these we can point to North Korea's use of Weapons of Mass Destruction development as diplomatic leverage to acquire foreign aid. Also, from North Korea's perspective Chinese aid also counts as a strategic rent. If China does not observe international norms (such as adequate monitoring) in its "humanitarian" aid to North Korea, then even though they may describe such aid as humanitarian, it actually qualifies as a strategic rent rather than humanitarian aid. If South Korea provides "humanitarian" aid to the North Korean authorities for the purpose of getting them to approach inter-Korean dialogue calmly and refrain from making military provocations, this also qualifies as a strategic rent. China's actual aid to North Korea is not considered to be as extensive compared to other countries.

Fourth are political rents. This category includes humanitarian and development aid, but only if it follows international norms. Because of aid fatigue, these kinds of aid to

3) Lee Hun Jin and Yoon Jong Gu, "Transformation of a Cold War Symbol: the *Mangyongbong*," *Donga Ilbo*, June 21, 2011.

North Korea have declined in the latter half of the 2000s. In 2011 North Korea has appealed to various countries for humanitarian food aid but has been unable to generate a favorable response. Because of monitoring and other issues the receiving governments are usually only able to control about part of this kind of aid directly.

Fifth are rents earned from migrants. These are mainly laborers who have gone to other countries to work and who send money home to support their families. Thus in this fifth category the proportion of rent that the state is able to control is generally not very high. However in North Korea's case migrant labor is carried out as a form of human resource export directly managed by the state. At present, in 2011,North Korea is estimated to have 60~70,000 laborers dispatched abroad. Some 70~80% of their wages go to the state. It is said that the North Korean authorities take in hundreds of millions of dollars in this way.[4] The Kaesong Industrial Complex and the economic zones on Hwanggeumpyeong and Wihwado are designed to bring in income from the wages of workers dispatched by the government, along with income from territorial leases which could be classified as location rents. Therefore these can also be considered a form of human resource exporting by the North Korean authorities. In addition, in late 2010 it was reported that North Korea and China were exploring plans to dispatch North Korean workers to Hunchun and other places in China. It was also announced that a deal has been reached to send 200,000 North Korean workers to China to work in Chinese industries, of whom 100,000 would be employed as agricultural workers in Heilongjiang.[5]

Since 2009 North Korea has looked to China as its major source of external rents and pursued various policies aimed at expanding its income from these rents. The main reason North Korea has turned its attention to China is that it can no longer expect to extract substantial rents from South Korea as in the past. Like other rentier states, when North Korea sees one external source of rents dry up it cultivates a new source, working continually to diversify and expand its income. Let's examine the rationale. If it is to increase production through economic reforms, the regime must adopt measures which encroach on its vested rights and interests, and a substantial portion of the profits from such production increases must be shared with the people if it levies taxes it must make some political concessions to the people. But by increasing rent income, no infringement on its interests is necessary, the state can monopolize the

4) Ju Sung Ha, "60~70,000 NK Laborers Dispatched Abroad… Billions of Dollars in Foreign Exchange Funds Plucked from Wages," *Donga Ilbo*, May 11, 2011.

5) Park In Hui, "Dawn of the Age of DPRK-China Economic Cooperation… The DPRK's Gambit to "Overcome Economic Hardship," *Hangyoreh*, June 9, 2011.

income, and the income helps to support regime survival. In a word, diversifying external sources of rent provides an economic basis for regime survival without necessitating internal economic reforms. Among the five rent categories listed above, we can say that the policy of expanding DPRK-China economic relations serves to increase raw materials rents, location rents, strategic rents and migration rents. Meanwhile North Korea is also working to increase its political rents (humanitarian/development aid) from other countries.

4. North Korea's Future as a Rentier State

How will this economic policy of expanding rents influence North Koreas economic development and regime survival? In regard to this question it is useful to look at three features that generally emerge in other rentier states.

First, the state has monopoly control over most external sources of income. A substantial portion of this income has a rent-like character. In states like these, regime survival can be ensured even if the domestic economy fails to generate income and even if the state fails to care about or take responsibility for the societal repercussions. Increasing rent income allows the regime to avoid the political and economic reforms that would inevitably accompany any attempts to increase economic production or raise taxes.

Second, income from rents is not re-invested toward boosting production. This is because the rents that form the major source of income for these regimes are not acquired as the result of complex and cleverly organized production but rather are a kind of free income. In short, when dealing with rents there is no correlation between degree of effort and amount of income. Thus such regimes have a tendency to spend their rent income wastefully. Regimes generally distribute their rent income according to completely political standards with no regard for long-term economic development. Over the long term, the ultimate objective of a rentier state is not to increase its capital through investment in production but to preserve political power.

Third, the existence of rents helps back up the continued survival of the regime. Only a small number of people are involved in developing and managing rents, and rents are distributed along political lines, through wasteful and non-transparent patron-client networks, in ways that contribute to maintaining the regime's power. If a stable supply of rents is secured, it will provide an increased source of funds for rewarding and co-opting members if the internal supporting classes and power structures essential to regime survival, making the existing regime that much more secure.

5. Conclusion

The essence of the rentier state concept is a dictatorship regime that maintains itself through stable sources of external rents. A stable distribution of rents eliminates the need for the regime to attempt internal reforms for economic or political advancement. In such regimes, internal reforms are attempted only when the source of external rents becomes destabilized. As explained above, this concept was originally developed to explain the staying power of oil-producing Arab regimes. The recent political changes in certain countries in the Middle East and North Africa have reaffirmed the validity of the rentier state concept. For the most part the regimes that collapsed were those whose sources of rents had diminished, and the countries that still have stable sources of rents are expected to ride out the wave of political upheavals throughout the region.[6)]

Compared with the oil-producing countries of the Middle East and other exporters of raw materials, the North Korean regime's rent sources can hardly be described as stable. The regime is trying to diversify and create new sources of rents through expanded economic relations with China. Alongside the positive aspects for the regime such as creating additional rents, this effort may also produce unwanted side effects that weaken the regime. Of course it would be unwise to underestimate the North Korean regime's management abilities for survival. Also, the North Korean regime's future cannot be assessed by such simple yardsticks as "reform and opening" or collapse. What is clear is that as the relationship between the regime and its people evolves, the regime will continuously adapt and change. We must be prepared to recognize and wisely utilize the various political dynamics that emerge in the process.

6) Bruce Bueno De Mesquita and Alastair Smith, "How Tyrants Endure," *The New York Times*, June 9, 2011.