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Subject: China, North Korea, and the US

BOTTOM LINE UP FRONT

I predict that prior to the 2020 elections the United States and China will conclude negotiations for China to oversee reunification of the Korean Peninsula and implement a more capitalist economic / political model in North Korea. In return, the United States will acquire agreements to: 1) dismantle or abandon most-but-not-all Chinese man-made islands in the South China Sea; 2) agree to recognize some claims on certain gas / petroleum reserves by ASEAN nations, especially those currently under litigation in International courts; and 3) agree on economic trade that benefits both the US and China.

SITUATION

Since 1962 the Democratic People's Republic of Korea (DPRK) has maintained a policy of aggressively seeking nuclear capability¹. Russia, China, and the US have worked with the DPRK to develop "peaceful" nuclear power, but the DPRK has demonstrated not only the ability to create a controlled nuclear explosion, but has also demonstrated the ability to launch an intercontinental ballistic missile capable of reaching territories under US protection. Current projections are that the DPRK is able to strike the US mainland². Although some sources have expressed doubts regarding the ability of DPRK warheads to survive re-entry, DPRK nuclear capability offers a serious threat to US security.

At the same time, the DPRK situation offers a potential for increased collaboration with China in the areas of trade and reduced regional tension.

RATIONALE FOR US-CHINA COLLABORATION

China: DPRK presents a threat to China Security

Although one of the less-important considerations, DPRK has been working to increase Russia's posture as an international sponsor. Should the DPRK be able to establish a secure and lasting relation with Russia, this would pose an additional threat to China's borders and also to China's influence in the region. However, according to some polls, Russians as a whole do not see DPRK in a favorable light.³

There are economic reasons for enhanced Russian collaboration, chief among which is access to rare-earth metals in North Korea.⁴

¹ <http://www.globalsecurity.org/wmd/world/dprk/nuke.htm>

² <https://www.reuters.com/article/us-northkorea-missiles-usa-assessment/north-korea-can-hit-most-of-united-states-u-s-officials-idUSKBN1AG2J4>

³ <https://www.rt.com/politics/popularity-russians-crisis-ongoing-447/>

⁴ <https://qz.com/1004330/north-korea-is-sitting-on-trillions-of-dollars-on-untapped-wealth-and-its-neighbors-want-a-piece-of-it/>

From a larger perspective, the DPRK has the potential to unite regional powers (including Japan, South Korea, Australia, and the United States) against Chinese political and economic agendas. Given the need for China to continue its economic expansion, this could well be an unacceptable situation.⁵

China: DPRK is encouraging Japanese rearmament

“On the 6th of March 2017, [North Korea](#) launched four ballistic missiles towards the Sea of Japan. [Three](#) of the missiles landed in Japanese territorial waters, which North Korea claimed were launched in preparation to target US military bases in Japan. [Analysis](#) of the missiles and their range has convinced Tokyo that a nuclear strike by Pyongyang is now within the realm of possibility. For great power nations, having a hostile neighbour with missile capabilities is a threat that has to be met. However, due to the fact that the Japanese constitution prevents its military from assuming any offensive capabilities, North Korea gaining missile capabilities is a serious threat to Japanese national security....

“It is time we acquired the capability. I don’t know whether that would be with ballistic missiles, cruise missiles or even the F-35 (fighter bomber), but without a deterrence, North Korea will see us as weak.”⁶

From a historical perspective, the last thing China wants is a militant Japan operating in the region. Their leaders still maintain a historical perspective based upon the “Rape of Nanking”.⁷ Just 10% of Chinese believe that Japan has sufficiently apologized for its actions in World War II.^{8 9}

There continues to be a high level of distrust toward Japan.

China: Refugee problem

China has long been concerned about a massive refugee problem should the DPRK collapse. In recent months, it has increased its border security elements in anticipation of a mass-exodus should war break out with the US and its allies.¹⁰

President Trump has stated that he recognizes the potential negative implications to China’s interests.¹¹

China: Loss of foreign investments

External investment in China is already decreasing; depending upon the source of information, the decrease is steep.¹² Economic sanctions against those supporting the DPRK could have extreme ramifications on the Chinese economy.

⁵ <https://www.bloomberg.com/news/articles/2017-08-14/china-s-economy-slips-some-as-factory-output-investment-slow>

⁶ <https://mironline.ca/north-korean-missile-crisis-dawn-japanese-rearmament/>

⁷ <https://www.theguardian.com/world/2014/dec/13/china-remembers-nanjing-massacre>

⁸ <http://www.pewglobal.org/2016/09/13/hostile-neighbors-china-vs-japan/>

⁹ <https://www.rt.com/news/357776-japan-military-budget-record/>

¹⁰ <http://www.cnn.com/2017/07/25/asia/china-north-korea-border/index.html>

¹¹ <http://www.scmp.com/news/china/diplomacy-defence/article/2102736/trump-says-he-understands-china-doesnt-want-50-million>

¹² http://www.koreatimes.co.kr/www/news/biz/2016/09/488_214191.html

China: A reunited Korean peninsula under American influence

Since the Korean War in the 1950's, a major concern for the Chinese has been existence of a united Korean Peninsula.¹³ Should a US attack in collaboration with South Korea result in a re-unified Korea, this would place an existential threat in China's backyard. When you add on the antipathy and, in some cases outright hostility between the Korean and Chinese peoples, this is not to be tolerated.¹⁴

United States: DPRK presents a threat to United States security

"In September 2016, North Korea conducted its fifth successful underground nuclear weapons test. Today, Pyongyang has upwards of thirty nuclear warheads, but its capacity to manufacture uranium-235 increases its warhead stocks at a rate of two per annum. This rate of growth increases, as does its robust ballistic missile arsenal. The North Korean People's Army (KPA) has approximately six hundred short-range ballistic missiles that are road-mobile and can range throughout South Korea. It has three liquid fuel variants: Hwasong (HS)-5/SCUD-B, HS-6/SCUD-C, and HS-7/SCUD-D and SCUD-ER; and one solid fuel variant: Toksa/KN-02. Its arsenal includes about two hundred medium-range ballistic missiles of two road-mobile variants that can target Japan: Nodong is liquid fueled, and Pukuksong-2/KN-15 is solid fueled. The KPA has approximately fifty road-mobile variants of intermediate-range ballistic missiles (IRBM) that can range Guam: Musudan is liquid fueled, and HS-12/KN-17 is solid fueled. It has road-mobile, liquid fueled intercontinental ballistic missiles (ICBMs) that can range Chicago (HS-14/KN-20 and HS-13/KN-08), but neither variant has been operationally deployed."¹⁵

On September 3, 2017, escalation of the nuclear situation continued as North Korea announced it had completed a hydrogen bomb test¹⁶.

United States: Desire to reduce the cost of US investment in international security

The Trump Administration has pronounced conflicting objectives with regard to international policy. However, during Mr. Trump's candidacy and during his initial months as President he and his Administration have strongly called for more self-reliance by US allies. Although recent months have indicated support for NATO and SE Asian allies, he has advocated for reduced foreign entanglements.¹⁷

¹⁸ ¹⁹ ²⁰

From Wikipedia²¹:

During the campaign, Trump "repeatedly defined American global interests almost purely in economic terms," with the nation's "roles as a peacekeeper, as a provider of a nuclear deterrent

¹³ https://www.washingtonpost.com/news/worldviews/wp/2013/02/12/why-china-still-supports-north-korea-in-six-little-words/?utm_term=.6597bc000003

¹⁴ https://en.wikipedia.org/wiki/Anti-Korean_sentiment_in_China

¹⁵ <http://www.armyupress.army.mil/journals/military-review/online-exclusive/2017-online-exclusive-articles/north-korea-policy/>

¹⁶ <http://www.foxnews.com/world/2017/09/03/quake-in-north-korea-may-have-been-nuclear-test.html>

¹⁷ <http://foreignpolicy.com/2017/03/01/trump-sticks-to-a-protectionist-isolationist-script-in-first-big-speech/>

¹⁸ <http://www.politico.com/magazine/story/2016/05/founding-fathers-2016-donald-trump-america-first-foreign-policy-isolationist-213873>

¹⁹ <https://www.nytimes.com/2017/02/15/world/europe/jim-mattis-nato-trump.html?mcubz=0>

²⁰ <http://foreignpolicy.com/2016/11/11/under-trump-u-s-allies-in-asia-may-look-to-themselves-for-security/>

²¹ https://en.wikipedia.org/wiki/Foreign_policy_of_the_Donald_Trump_administration

against adversaries like North Korea, as an advocate of human rights and as a guarantor of allies' borders" being "quickly reduced to questions of economic benefit to the United States." He repeatedly called for allied countries, including Germany, Israel, Japan, Saudi Arabia, and South Korea, to pay the United States for helping protect their nations, and suggested that his willingness to defend a country might depend on how much that country was willing to "pay us to save them." Trump and his team continued that theme as president, emphasizing their view that other countries need to increase their financial commitment to their own defense or compensate the United States for providing it.

Paralleling Mr. Trump's call for NATO to provide more investment for its own defense, the Trump Administration has called for more investment in defense from Asia / Southeast Asia allies.²²

United States: Desire to project strength in Asia / Southeast Asia

The Trump Administration has developed a collaborative and, in some ways, assertive projection of influence in the Asian / Southeast Asian region. Trump understands that failure to exert influence would result in the South China Sea becoming a virtual "Chinese Lake"²³, and his Administration has sought increased alignment with ASEAN members. For example, in May, Secretary of State Tillerson called on ASEAN countries to cut ties with North Korea.²⁴

Additionally, President Trump has conducted multiple calls with China and Japan to address the Korean threat.²⁵

"At the broadest level, the increasingly critical economic importance for the United States of the Asia-Pacific region as a market, investment destination, and source of capital and technology, combined with the fact that the region contains several close, long-standing democratic friends and allies, provides the rationale for a continued strong, active U.S. security presence. The purpose of that presence should be to maximize the conditions for long-term, beneficial Asian economic growth; to prevent the emergence of a hostile force that could use Asia's strengths to threaten America; to keep open highly beneficial trans-Asian trade, investment, and technology routes to other regions; to support the security and prosperity of regional friends and allies; and to prevent the region from becoming a source of terrorism, WMD proliferation, and other global threats."²⁶

United States: Desire to increase more favorable trade relations with China

During his candidacy, Mr. Trump called out China on numerous occasions for trade and monetary policies.

"In a [2015 speech announcing his candidacy](#), the Republican accused China of dumping exports and of devaluing its currency, the yuan. He says that his administration would bring [trade cases against China](#) in U.S. courts and at the World Trade Organization, as well as designate China a [currency manipulator](#).

²² <http://foreignpolicy.com/2016/11/11/under-trump-u-s-allies-in-asia-may-look-to-themselves-for-security/>

²³ <https://qz.com/948176/to-be-tough-with-china-on-trade-trump-needs-to-be-tough-on-the-south-china-sea/>

²⁴ <http://www.reuters.com/article/us-usa-asean-northkorea/tillerson-urges-asean-to-cut-north-korea-funding-minimize-ties-idUSKBN1802E1>

²⁵ http://www.huffingtonpost.com/entry/north-korea-focus-of-trump-calls-with-japan-china_us_595a3427e4b02734df336cd4

²⁶ <http://carnegieendowment.org/2017/01/19/managing-asia-s-security-threats-in-trump-era-pub-67746>

Trump says that if China continues these and other illegal activities, including its alleged theft of U.S. trade secrets, he will impose heavy tariffs on Chinese goods coming into the United States."²⁷

In April of this year, he reversed his stance, supposedly due to China's assistance with the DPRK.²⁸ However, on 21 August President Trump signaled that he was considering options that might result in a trade war with China over intellectual property rights.²⁹

President Trump has openly stated that China will get a better trade deal if China helps remediate the situation in North Korea.³⁰

AN OUT-OF-THE-BOX SOLUTION?

North Korea requires an adult-in-the-room to guide them away from their failed economic policies. China could serve as that mentor if they have the desire to do so, and has the encouragement from other regional and international stakeholders.

Although not currently expressed in any discussions regarding North Korea, one out-of-the-box solution might be for China to take more assertive control of the DPRK's economy. Something along the lines of China's approach to absorbing Hong Kong might work.

The DPRK would most likely resist this approach. Among other things, the DPRK would need to stop spending 25% of its GDP on weapons and defense. However, if China were to absorb North Korea, its need for defense could be cut significantly, allowing it to invest in its people instead of its nuclear weapons.

Absorbing North Korea, like China absorbed Hong Kong, could solve multiple problems and provide additional trade opportunities for the US... both with North Korea and China. This approach contains challenges. First, North Korea's society is much more draconian than China's, and would need to be loosened up to even approach the economic policies of the mainland. From a pragmatic perspective, China would need to purge the existing ruling class.

However, were China to implement a Hong Kong-like free-trade system... which China is rapidly adopting throughout the country and evidenced by China becoming the world's third largest economy... this would appeal to the thoroughly-capitalist South Korea and the region's stakeholders in Japan, Thailand, Vietnam, and Australia. Not only would this open new trade markets, but appeal to those seeking a lessening of tension in the region. Although not everyone agrees, some economists believe that free/open trade lessens the threat of war:

"International trade creates a network of human contacts. Phone calls, emails, faxes and face-to-face meetings are an integral part of commercial relations between people of different nations. This human interaction encourages tolerance and

²⁷ <https://www.cfr.org/interactives/campaign2016/>

²⁸ <http://www.cnn.com/2017/04/16/politics/donald-trump-china-currency-manipulators/index.html>

²⁹ <https://www.vox.com/policy-and-politics/2017/8/21/16143350/trump-china-section-301-trade>

³⁰ <https://www.nytimes.com/2017/04/11/world/asia/trump-china-trade-north-korea.html?mcubz=0>

respect between people of different cultures (if not toward protectionist politicians).”³¹

For the fundamental concern about international security, if China assumes responsibility for North Korean defense, this allows them to take control of the DPRK’s nuclear weapons and impose strict controls over the DPRK’s army. Although China is untrusted in the region, such an approach falls under a category of “the lesser evil.”

Working “the Deal”

The United States and its allies will not accept Chinese dominance over the Korean peninsula without compensation. In order to gain international support, China will need to offer benefits to international stakeholders. Some of these might include:

- Ceding mineral rights (e.g., oil reserves in the South China Sea) to regional powers that are currently contested.
- Increased trade opportunities
- Direct action to reduce intellectual property theft
- Withdrawal from man-made islands in the South China Sea

South Korea will be in an interesting position. There is much distrust of China, but having China absorb North Korea presents several benefits and opportunities:

- The threat of war with North Korea is potentially eliminated
- If China, which is a capitalist nation, takes over there will be opportunities to acquire new product markets (expanding the ones in both China and Korea) and better access to North Korea’s natural resources
- While reunification is not a mandate, this provides a much better path than is currently available

³¹ <https://www.cato.org/publications/commentary/peace-earth-free-trade-men>

ASSESSMENT

There is much to gain by collaboration with China. Questions remain about “winners” and “losers” in the deal. And remember, from Trump’s perspective it’s all about THE DEAL.³² Key components of his philosophy are:

Component	Description
1	Think big
2	Protect the downside and the upside will take care of itself
3	Maximize your options
4	Know your market
5	Use your leverage
6	Enhance your location
7	Get the word out
8	Fight back
9	Deliver the goods
10	Contain the costs
11	Have fun

I believe that an agreement between the United States and China could be achieved with the following agreements. For the sake of simplicity, Component 7 (Get the word out) and Component 11 (Have fun) have been removed from consideration. It’s assumed that no matter what President Trump does he’ll Tweet about it, and probably have fun doing so.

³² https://www.amazon.com/Trump-Art-Deal-Donald-J-ebook/dp/B000SEGE6M/ref=sr_1_1?ie=UTF8&qid=1504453805&sr=8-1&keywords=the+art+of+the+deal

"The Deal Components"

Agreement Component	Think big	Protect the downside and the upside will take care of itself	Maximize your options	Know your market	Use your leverage	Enhance your location	Fight back	Deliver the goods	Contain the costs	Benefits to China	Benefits to US
Allow China to assert leadership role in Korean re-unification	Green	Yellow	Yellow	Green	Green	Red	Red	Yellow	Green	Enhances national security Reduces military strength in China's backyard Increases China's control over Yellow Sea	Allows US to withdraw from South Korea and threat of DPRK military Reduces requirement for funding of military in region; makes assets available for assignment elsewhere. Reduces likelihood of expensive war in the region. NEGATIVES: cedes Korean peninsula to Chinese dominion. May be construed as US retreating from its treaty obligations.
China implements a Hong Kong economic / political model in North Korea	Green	Green	Yellow	Green	Yellow	Green	Yellow	Green	Green	China uses North Korea to expand economic demand for internal products. It also gains more control over heavy metal mining. The Hong Kong model has already been accepted by the West, and implementation will be unchallenged by world powers.	This can be presented as "increasing capitalism" in the region. At worst, it will be an improvement over the current DPRK economic model. This creates a new market for the US in the region. With Chinese oversight to the peninsula, US investments are commercial rather than governmental in nature.
China agrees to some-but-not-all of ASEAN natural resource claims in South China Seas	Green	Green	Green	Green	Green	Green	Green	Green	Green	Lowers threat posture to regional players, providing them with economic rationale to look-the-other-way when China exerts its muscle against South Korea. NEGATIVES: Loss of petroleum fields; however, number and location of these fields is "negotiable", which means that China may well triumph in the end.	Even though it is a strong possibility that China will be denied its claims by the UN, the US comes across as the defender of ASEAN mineral rights. Additionally, it allows the US to assert regional influence. In this situation, it is likely that the US will be called upon to provide some form of military defense. If the US pulls out of South Korea, the cost may be minimal.
China withdraws from most-but-not-all man-made islands in SCS	Green	Green	Green	Green	Green	Green	Green	Green	Yellow	The UN has already denied China's sovereignty over these islands. This allows China to trade a non-existent benefit for one they care about.	Perceived as a "win" by the US and its allies, at no cost to them. NEUTRAL: May result in higher investment in military defense.

CONSIDERATIONS

1. The DPRK presents a realistic threat to South Korea, Japan, Guam, Australia, and Hawaii.³³
2. The DPRK has maintained that its development of nuclear weapons is for the purpose of deterrence.³⁴
3. The DPRK is a country whose GDP is difficult to assess. However, there are continued reports of mass starvations over the past decades.³⁵
4. The Kim regime spends ~25% of GDP on the military, “by far the highest percentage relative to GDP of any country in the world.”³⁶
5. South Korea, though having worked to develop a rapprochement with North Korea in July of this year³⁷, is now taking a more aggressive tone.³⁸
6. Discerning precise foreign and security policy decision-making mechanisms is difficult for any country, and particularly so for China, where such processes remain largely closed to outside scrutiny.³⁹ China’s objectives with regard to North Korea include:
 - a. Prevent a massive invasion of DPRK refugees should the present regime fail⁴⁰; and
 - b. Use the DPRK as a means to assert Chinese influence in the region.
7. China is heavily invested in DRPK. “China–North Korea trade has also steadily increased. Trade between the two countries peaked at \$6.86 billion in 2014. Bilateral trade increased tenfold between 2000 and 2015, according to figures from the Seoul-based Korea Trade-Investment Promotion Agency.... China provides North Korea with most of its food and energy supplies and accounts for upwards of 90 percent of North Korea’s total trade volume.”⁴¹
8. China’s building boom over the past 20 years has produced “ghost cities” where nobody lives, but serves to provide state-funded opportunities for the construction industry. Recent reports indicate that the construction industry is losing steam. Chinese investment in North Korea continues to provide an arena to exploit excess capacity and offers an opportunity for demonstration of Chinese ability to create infrastructure for its allies.⁴²
9. “The United States should also make a new approach to China. To enlist China in the effort to bring about a stable and nonnuclear Korean Peninsula, U.S. officials should propose a dialogue

³³ <http://www.bbc.com/news/world-asia-17399847>

³⁴ Op. cit. Bolton article. “Pyongyang maintains that it needs a deterrent to possible South Korean, Japanese and American military aggression against North Korea. But this argument has lost its credibility. The north has always argued that while they're interested in economic reform, they need to leverage the security threat because they're not certain that the intentions of the rest of the world are really benign in terms of negotiating with North Korea. The problem, though, is that since 1994 there is a record of engagement with North Korea by South Korean, Japan, the United States, Europe and Australia. It would be very difficult to survey all of these countries that have engaged North Korea and argue that they have not credibly communicated that their intentions are benign. So this argument that the north continues to put forward, while it still may be credible to them, is becoming less credible to the rest of the world.”

³⁵ <http://metro.co.uk/2017/07/25/north-korea-on-the-brink-of-a-catastrophic-famine-says-the-un-6804562/>

³⁶ <http://www.newsweek.com/north-korea-starving-nuclear-missiles-641188>

³⁷ <https://www.theatlantic.com/news/archive/2017/07/korea-talks/533838/>

³⁸ <https://www.youtube.com/watch?v=dPmOCZdrt6w>

³⁹ <http://www.cnn.com/2017/07/25/asia/china-north-korea-border/index.html>

⁴⁰ <http://www.cnn.com/2017/07/25/asia/china-north-korea-border/index.html>

⁴¹ <https://www.cfr.org/background/china-north-korea-relationship>

⁴² [https://www.usip.org/sites/default/files/China%27s North Korea Policy.pdf](https://www.usip.org/sites/default/files/China%27s%20North%20Korea%20Policy.pdf)

on the future of the Korean Peninsula to demonstrate that it is in both countries' security interests to find a comprehensive resolution to the problem."⁴³

10. The Korean people have a historic distrust of China. This will complicate initiatives for reunification where China is the commanding influence.
11. Other than with Koreans in their fifties and older, there is no significant support in any strata of ROK society to pay the costs required to achieve reunification, let alone to make advance investments through taxes or other material measures to offset reunification costs.⁴⁴
12. Korea is demonstrating a desire for enhanced relations with China. This is associated with two factors:
 - a. A recognition that China is the only regional force capable of mitigating the threat from DPRK.
 - b. A recognition that relations with the US are not as secure as they once were. President Trump's Administration has given conflicting signals. President Trump has repeatedly complained about Korea Free-Trade Agreement, and indicated that he might withdraw from it.⁴⁵
13. China no longer runs under Mao's collectivism, and has one of world's largest market-driven economies. Although the State controls many aspects of the Chinese economy, one can make a compelling case that China thrives on capitalism. In fact, China embraces capitalism.⁴⁶
14. President Trump will be facing a difficult campaign in 2020, with adversaries from both the Left and Right. A remarkable achievement regarding enhanced security in the Korean peninsula would be beneficial to his re-election efforts. For max effectiveness, this means that something must be announced no later than the August / September / October 2020 timeframe.

⁴³ <https://www.cfr.org/report/sharper-choice-north-korea>

⁴⁴ <http://www.armyupress.army.mil/Portals/7/Hot%20Spots/Documents/North-Korea/North-Korea-3.pdf>

⁴⁵ <http://www.breitbart.com/big-government/2017/09/02/wsj-trump-administration-weighs-withdrawal-south-korea-trade-pact/>

⁴⁶ <http://www.pewresearch.org/fact-tank/2014/10/10/chinas-government-may-be-communist-but-its-people-embrace-capitalism/>