

## Chapter 9

# Competition for Influence: The Impact of the Nuclear Issue on International Business in North Korea

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### ABSTRACT

*This chapter explores the impact of the North Korean nuclear issue on international business from South Korea and China, two countries which have much at stake but whose engagement strategies have transformed in response to Pyongyang's continued pursuit of nuclear weapons. From the onset of the nuclear crisis in 2002, North Korea's foreign trade has evolved to become overly dependent on China which has major implications for South Korea, whose own economic ties have witnessed a decline. These two countries represent not just different approaches to the nuclear issue but also emerging competition for influence over North Korea with a view to the long-term future of the Korean Peninsula.*

### INTRODUCTION

When the nuclear crisis broke out on the Korean Peninsula in 2002, the expectation was that North Korea's pursuit of nuclear weapons would position it on a path toward further isolation and economic hardship. This was particularly the case given that the leadership in Pyongyang stuck to its *songun* or military-first politics that offered few economic opportunities and required its population to sacrifice its limited resources toward the development of a nuclear deterrence (Ha & Jo, 2012).

The picture today is somewhat different from what may have been expected at that time. Far from being completely isolated, North Korea has opened up somewhat to the outside world, albeit through China, and in recent years has even experienced a degree of economic growth (Noland, 2015). Much of this is to do with crucial business ties between North Korea and China and the way in which the ongoing nuclear crisis has shaped this bilateral relationship. Even more importantly has been its effect on inter-Korean relations which at the onset of the nuclear crisis offered so much hope and expectation. Crucially though, Pyongyang's nuclear program remains active and has even advanced.

DOI: 10.4018/978-1-5225-1031-4.ch009

This chapter will explore the impact of the nuclear crisis on international business in North Korea by specifically examining the question of how did the emergence of the nuclear issue shape the economic engagement efforts by South Korea and China. While this chapter is predominantly focused on the cases of China and South Korea, their experiences provide important lessons for businesses from other countries. Furthermore, there are even implications for similar cases of economic engagement strategies with outlier states.

Developing an accurate understanding of international business on the Korean Peninsula is very crucial for the future. Much of this is due to the fact that the cases of South Korea and China represent not just different approaches to the nuclear issue, but also emerging competition for influence over Pyongyang with a view to the long-term future of the Korean Peninsula. In seeking to address the question mentioned above, this chapter will present the background to the crisis, then it will outline the engagement efforts by South Korea and China, before addressing the current situation and providing policy recommendations for the future.

## **Background to the Crisis**

The nuclear issue came at a critical moment in East Asia's geopolitical situation. The previous confrontation over North Korea's nuclear program in the early 1990s had been resolved with the Agreed Framework signed in 1994. This placed a freeze on its nuclear facilities in exchange for heavy oil shipments and the construction of two nuclear reactors through the newly-established Korea Energy Development Organisation. However, suspicions remained among U.S. officials about ongoing nuclear activities while the North Korean leadership was frustrated at the lack of progress with the construction of the nuclear reactors. When the newly inaugurated Bush administration decided to adopt its "Bold Approach" toward Pyongyang in 2002, it confronted the North Koreans on intelligence that suggested there was a secret Highly Enriched Uranium (HEU) program underway in violation of the Agreed Framework (Pritchard, 2007).

This set in motion a series of events that resulted in North Korea expelling international inspectors, withdrawing from the Non-Proliferation Treaty, and restarting its nuclear program by removing fuel rods from its Yongbyon nuclear power plant. After frantic diplomatic activity, the Six-Party Talks were launched as a forum to resolve the issue. Evidently, this multilateral forum was an approach by the Bush administration to avoid direct bilateral talks with Pyongyang (Pritchard, 2007, p. 57). The outcome was that, unlike the previous confrontation over North Korea's nuclear program in the early 1990s, regional countries such as China and South Korea now had a role to play in resolving this new crisis and as shall be shown utilized their economic strength to further political interests.

The Six-Party Talks had many frustrations and successes, but in the end they failed to disarm North Korea as it continued to test four nuclear devices (2006, 2009, 2013, and 2016). Simultaneously, Pyongyang has also developed its missile technology through a number of attempts at what it labels as "peaceful efforts" to place a satellite in orbit (2006, 2009, 2012 and 2016). Each test represented a new phase in the crisis, and the 2009 nuclear test signalled the end of the Six-Party Talks process as the North Korean regime exited from of the process. These tests also had a dramatic impact on the shape of international business in North Korea that had to adapt and change to these new developments. This is particularly the case for the way in which the economic engagement strategies from the two most important countries China and South Korea responded. The next section will explain how South Korean firms were unable

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