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North Korea and China: A Difficult History, Part III

In Part I of our report, we reviewed the Minsaengdan Incident and a broad examination of the Korean War. In Part II, we completed our analysis of the war, discussed the Kim regime's autarkic policy of *Juche* and outlined the impact of the Cultural Revolution on North Korean/Chinese relations.

This week, Part III will cover the controversy surrounding North Korea's dynastic succession, the end of the Cold War and the ideological issues with Deng Xiaoping. Finally, we will recap the key insights from this history and the impact on American policy toward the DPRK. We will conclude, as always, with market ramifications.

China and Dynastic Succession

In 1980, Kim Jong-il was appointed as leader of the DPRK at the Korean Worker's Party (KWP) central committee meeting, succeeding his father. China denounced the decision, calling hereditary succession a vestige of feudalism. For North Korea, this denigration was difficult to accept. Until China lost control of the Korean Peninsula during the First Sino-Japanese War in 1894-95, China conferred legitimacy on Korean royal appointments. Thus, criticism from China regarding Kim Il-sung's decision to bestow succession on his son was seen as a violation of North Korean sovereignty.

China and Deng

Deng Xiaoping modernized China's economy, moving away from Marxism to what is probably best described as a form of state capitalism. The evolution of the Chinese economy was seen as deviant by Kim who viewed Soviet Marxism as the standard for socialist states. China's decisions to allow markets to flourish and engage in trade with the free world were seen as traitorous to the cause of socialism. By the end of the 1980s, the Berlin Wall had fallen, the Soviet Union had collapsed and the Chinese economy had begun a period of rapid growth. Thus, North Korea's criticism of China's socialist "deviancy" looked rather foolish.

Perhaps the event that made clear how irrelevant North Korea's economy was to China occurred in 1992 when the PRC officially established diplomatic relations with South Korea. This action made it clear that the Chinese communist affiliation with North Korea didn't trump China's ambitions to expand its economic relationships. Overall, recognizing South Korea signaled to the Kim regime that North Korea wasn't all that important to Beijing.

What This Means

In the past two reports, we have conducted a deep dive into the history of Chinese and North Korean relations since the late 1940s. The decision to engage in this analysis was prompted by the Person article mentioned in Part I.¹ In examining Person's source material, we were able to access declassified reports, often from Eastern European communist officials who were visiting North

¹ <http://www.38north.org/2017/09/jperson092617/>

Korea and reported their experiences to their superiors. The following insights emerged from our research.

China likely resents the North Korean narrative of the Korean War. North Korea has rewritten history to claim it nearly single-handedly won the Korean War. If China had not intervened in the conflict, Kim Il-sung would have gone down in a horrific defeat, due primarily to his own incompetence. As noted in Part I, Kim had overextended his supply lines in hopes of a smashing, quick victory. MacArthur's landing at Inchon, taking advantage of Kim's military mistakes, nearly succeeded in unifying the peninsula under the South Korean government until Chinese forces entered the war. It should be noted that Mao Anying, Mao Zedong's oldest son, died in the conflict, killed by an airstrike in November 1950. Thus, the historical distortions by North Korea must gall Chinese leaders.²

North Korea is especially sensitive about sovereignty. The Korean Peninsula has been threatened or occupied for centuries by outside forces, primarily China and Japan. Western nations began trading and testing the resolve of Koreans during the mid-1800s. During Japanese domination from 1910 until the end of WWII, Japan not only occupied Korea but attempted to suppress Korean culture. This harsh occupation continued throughout WWII and, during the war, Japan conscripted thousands of Koreans to fight for the Imperial Japanese Army. It also forced an estimated 200k women into sexual slavery as "comfort women." Thus, after WWII, Koreans wanted to rid themselves of all outside

² This isn't to say that governments don't distort history. After all, Winston Churchill said, "History is written by the victors," and those who win wars try to make the conflict into a noble event.

domination and become fully independent of outside forces.

This desire for independence led to the official policy of *Juche*, which has slowed North Korean economic development. *Juche* has also led the North Korean government to isolate itself in other ways. North Korea played the Soviets and the Chinese against each other to gain support. North Korea has accused South Korea of being an American puppet state; the Kim regime almost seems to hold North Korea's relative poverty compared to its southern neighbor as a badge of honor because it built its economy without outside support. Of course, as we discussed in Part II, North Korea did receive significant aid from both China and the Soviet Union. However, it prefers to focus on its own bootstrapping.

Thus, any negotiations with North Korea that appear to denigrate its position in the world or its power are bound to be fraught with risk. North Korea harbors a deep sense of foreign humiliation and does not take kindly to outsiders forcing it to act in a certain fashion. Consequently, there is a low likelihood of success in getting North Korea to make concessions if they are seen as humiliating.³

International Marxism did not overcome nationalism. Marx believed that the universal message of international socialism would overcome tribal nationalism. In this analysis, the proletariat of the world was oppressed by international capitalists. And so, overcoming capitalism would need to be

³ Russian President Putin described this resistance as the willingness to "eat grass." See: <https://www.usnews.com/news/world/articles/2017-09-05/putin-north-korea-will-eat-grass-before-giving-up-nukes>

an international effort.⁴ Under Lenin, the Bolsheviks attempted to maintain that international emphasis. However, Stalin was really a Soviet nationalist and wanted to dominate his “near abroad” to protect the core state of Russia. Simply put, Stalin proved to be an orthodox Russian regional hegemon who wanted to protect Russia by extending its area of influence. This is a time-honored geopolitical imperative of Russian leaders. The goal is to force an invader to extend supply lines before reaching Moscow and rely on the Russian winter to defeat an enemy.

So, Stalin captured Eastern Europe, tried to extend Soviet influence beyond the Caucasus and wanted China to protect its southeastern flank. The Soviet narrative at the time was that Moscow was the leader of the Eastern Bloc and other nations in the bloc should follow its lead. However, behind this internationalist narrative was essentially thinly veiled Russian nationalism. Even Stalin had mostly given up on international communism by the mid-1920s. He first coined the idea of “socialism in one country” when he noticed that European communist revolutions were unable to overthrow governments.⁵

By the mid-1960s, Mao had concluded that the U.S.S.R. was not the vanguard of

⁴ See the Communist Manifesto, 1848, in which Marx says, “Working men of all countries unite...you have nothing to lose but your chains.”

<https://www.marxists.org/archive/marx/works/1848/communist-manifesto/ch04.htm>

⁵ Giving up on international communism put Stalin at odds with Leon Trotsky, who Stalin eventually assassinated in August 1940. It’s interesting to note that Stalin funded Chiang Kai-shek’s Kuomintang party (KMT) during the early stages of China’s revolt against Western imperialists. Stalin wanted the fledgling communists to join the KMT to gain control of China; Trotsky opposed this and wanted Mao to remain separate from the KMT.

international socialism but instead Soviet Marxism was merely an instrument of Russian imperialism. In other words, membership in the communist bloc was nothing more than being a vassal state of Russia. This is when Mao began to oppose “Soviet imperialism” and talked about China as being the “initial stage of socialism” at a CPC conference in 1958. His successors began to talk about “socialism with Chinese characteristics.” Initially, China had a cult of personality tied to Mao but the horrors of the Cultural Revolution led Deng to create a system of power transfers that led to a line of mostly technocratic presidents.⁶ The personality cults continued in North Korea and Cuba.

In the end, nationalism was too strong for communist ideology to overcome. Thus, being a communist state didn’t necessarily mean that one would get along with another communist state. The near war between China and the Soviet Union was one of the clearest examples, but others abound. Yugoslavia was communist but conducted policy in variance to the Soviet Union. Just because China and North Korea are Marxist in theory doesn’t mean they necessarily have commonality.

Communist states were drifting toward authoritarianism well before the fall of the Berlin Wall. Marxist economics never really worked well. Without prices to send signals to consumers and producers, communist economies were plagued with misallocation of resources and malinvestment. Eventually adopting markets while shunning democracy was a natural progression. In the West, there is a belief that “eventually” any state adopting markets will also become democratic. However, that hasn’t necessarily worked out

⁶ There is some speculation that this pattern ended with Xi Jinping.

in practice. We note that even Mao began to move beyond the communist nations with regard to diplomatic and economic relations. As noted above, recognizing Franco's Spain in 1973 and expelling Chile's ambassador under Allende were clearly a broadening of China's relations. For strict internationalist-leaning socialists, these actions are shocking. However, if communism eventually evolves into market-based authoritarian states, Mao's actions were a precursor to communist states moving to authoritarian regimes.

The U.S. policy of outsourcing North Korea to China is probably ill-advised.

North Korea isn't central to U.S. foreign policy. As we noted earlier, Dean Acheson excluded the Korean Peninsula from America's security perimeter, leading Kim Il-sung to conclude that he could invade South Korea without triggering U.S. involvement. The U.S. did get involved as part of a foreign policy based on the containment of communism. But, the Korean Peninsula wasn't necessarily seen as geopolitically critical. Thus, administrations since the 1950s have always defended South Korea but have not wanted to become more deeply involved.

One of the tensions faced by democracies is that citizens tend to think of nations in personal terms. In other words, they think countries have friends and enemies. For the most part, nations have interests and thus, under certain conditions, a country can cooperate with an "enemy" to achieve goals. U.S. history is full of such examples. Roosevelt cooperated with Stalin to defeat Hitler; within a short time after WWII, the U.S. and U.S.S.R. were at loggerheads again. The U.S. didn't recognize the PRC for decades only to make the change under Nixon. Although Iran and the U.S. don't recognize each other diplomatically, the

former agreed to protect allied pilots that may have been forced to land in Iran during the first Gulf War.

While those engaged in foreign policy might recognize that there are times when one may harm a "friend" and support an "enemy," the general public struggles with such ideas. Thus, it is difficult to "sell" politically the notion of cooperating with nations that are seen as being diametrically opposed to Western values, ones that oppress their citizens and thwart U.S. foreign policy goals. Nixon was only able to normalize relations with China because he had built credibility as a hardliner on communism. Roosevelt was able to forge relations with Stalin because of the goodwill he had developed by steering the U.S. through the Great Depression.

North Korea represents one of those situations where the political costs of normalizing relations isn't justified by the perceived geopolitical benefit. Thus, North Korea has an incentive to constantly raise the stakes with U.S. policymakers in a drastic bid to gain attention. This "acting out" has put the U.S. in the position of rewarding bad behavior.

However, the historical analysis of the first two parts of this report make it quite clear that China doesn't really like North Korea and would prefer to treat it as a vassal state, something that the North Koreans won't accept. Although China clearly has significant economic leverage over North Korea, it has very little political leverage. That doesn't mean that China can't affect Pyongyang's behavior but its influence isn't nearly as expansive as the U.S. believes. North Korea will resist China's attempts to influence its behavior at every turn.

Interestingly enough, if the U.S. engaged North Korea directly, it might actually work to change relations. This isn't to say the U.S. and North Korea can become "friends." On the other hand, if we want China to exercise control, making North Korea even a neutral power with regard to the U.S. would certainly catch China's attention. China tolerates North Korea because it's an effective buffer and prevents the U.S. from having an allied power on one of its borders. Thus, China has an incentive to support the status quo; at the same time, it doesn't have enough influence to prevent North Korea from behaving badly (e.g., developing nuclear weapons). If the U.S. made moves for bilateral negotiations, it just might de-escalate current tensions and prompt China to stop supporting the status quo.

Ramifications

It is highly improbable that the Trump administration (or any administration, for that matter) will try to normalize relations with North Korea. The Kim regime's behavior is belligerent and normalizing relations could encourage other nations to behave in a similar fashion.

At the same time, given the deep contempt China and North Korea have for each other, it is highly unlikely that outsourcing the North Korean problem to China will work. North Korea fears China will simply try to colonize it, and China has ample evidence that North Korea isn't a reliable ally.

Thus, geopolitical risks regarding North Korea will likely remain elevated. Given the mercurial nature of Kim Jong-un, the potential for an unexpected escalation of tensions remains high. Like many binary geopolitical factors, it is difficult to protect portfolios from a major event. We see no reason to expect that North Korea won't soon develop a deliverable nuclear weapon; that doesn't mean Kim will automatically attack the U.S. mainland or other holdings in Asia, but it does give North Korea a credible deterrent.

As a result, we expect the periodic flight to safety assets will occur when tensions escalate. Thus, Treasuries, gold and the yen will tend to rise when fears increase.

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