

Monday, 11 January 2010, 02:51

SECRET SECTION 01 OF 02 SHENYANG 000005

SIPDIS

PASS TO EAP/CM, EAP/K, INR

EO 12958 DECL: TEN YEARS AFTER KOREAN UNIFICATION

TAGS CM, ECON, EFIN, EIND, EMIN, ENRG, PGOV, PINS, PREL

SUBJECT: FURTHER INSIGHTS ON PRC-DPRK TRADE: DECISIONS, DISPUTES, AND

BACK-DOOR DEALS

REF: A. 10SHENYANG 003 B. 09SHENYANG 167

Classified By: Consul General Stephen B. Wickman for Reasons
1.4 (b) and (d)

1. (S) Summary: XXXXXXXXXXXXX told Poloff XXXXXXXXXXXXX that [Kim Jong-il](#) has recently reversed decisions and struggled to implement policies, showing increasing indecisiveness. XXXXXXXXXXXXX, XXXXXXXXXXXXX also reported that the children of high-ranking DPRK and Chinese officials hijack deals and aid projects for their own aggrandizement. Chinese state electric companies are currently bidding to build the grid for the DPRK's planned large-scale increase in power generation and transmission capacity, but apart from the goal to build 100,000 new apartments in Pyongyang, few of the DPRK's other objectives for 2012 will likely be achieved. Construction of the bridge from Dandong to Sinuiju, seems set to begin in 2010, however, [China](#) paying for both the bridge and a road on the DPRK side. XXXXXXXXXXXXX added that North Koreans having connections and/or money, continue to receive permission to work in Northeast China, despite reports of a recent general recall. End Summary.

PROMISING THE MOON TO "THE SUN"

2. (S) XXXXXXXXXXXXX PolOff met again with XXXXXXXXXXXXX. XXXXXXXXXXXXX said that Kim Jong-il has become increasingly indecisive since his stroke and other health problems. XXXXXXXXXXXXX pointed to a recent decision to recall students, scholars, and scientists working or studying in China as a result of a single student's defection in Beijing. XXXXXXXXXXXXX said business and trade groups with interests in Northeast China had pressured Kim Jong-il to reverse the decision, which he apparently did, and companies in Northeast China are currently developing "positions needing to be filled" to enable those who left the country to get new visas.

3. (S) According to XXXXXXXXXXXXX, *not only does Kim Jong-il decide to reverse policies on his own, but officials also chart their own course as different factions competing for*

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Kim's attention, making it difficult for Kim to set a firm, clear direction. Wary of China's increasing hold on precious minerals and mining rights in the DPRK, many North Korean officials oppose mineral concessions as a means to attract Chinese investment. However, the former Consul General of the DPRK's Shenyang Consulate, in an effort to fund the construction of the plan to build 100,000 new apartments in Pyongyang, continues to offer mining and fishing rights to Chinese investors. He attracted more than RMB 12 billion in investment, more than enough to protect himself from the direct attacks of these opponents. According to XXXXXXXXXXXX, over-reporting of actual value is a common phenomenon on the part of North Koreans charged with securing foreign investment. For instance, a commitment of RMB 10 million is reported to Pyongyang as a commitment of USD 10 million or more and the actual sum (the RMB 10 million) is reported as a first tranche. After the initial investment is realized, the central government is told that the foreign investor demands further preferences in order to inject more money. The reporting officials count on the central government either taking additional steps to attract the extra investment or doing something to upset the Chinese investor. In the latter case, the official can blame the lack of realizing the investment on political factors out of his control. XXXXXXXXXXXX provided no examples of the DPRK central government acquiescing to the demand for additional concessions.

PRC-DPRK INVESTMENT DISPUTES: NOT JUST WITHIN THE DPRK

4. (S) XXXXXXXXXXXX said Chinese state-owned enterprises have placed restrictions on investing in [North Korea](#) but that a number of privatized Chinese companies in which the state remains a significant shareholder have invested in the DPRK. Disputes with North Korean counterparts develop all the time, XXXXXXXXXXXX noted. Saying: "It was hard to say" how such disputes are resolved, XXXXXXXXXXXX gave the impression they are seldom, if ever, resolved. Investment disputes related to North Korea also

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occur between competing investors in China. According to XXXXXXXXXXXX, for example, two Chinese companies - Shandong Guoda Gold Company, Ltd. and Zhejiang-based Wanxiang Group - are battling for access to Huishan Copper Mine, the biggest copper mine in the DPRK. Huishan, near the DPRK-China border is rich in gold, silver, and other valuable metals as well. Though MOFCOM approved both joint-venture deals, each company

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wants to be the sole developer. XXXXXXXXXXXXX believes Wanxiang, which has close ties to Premier Wen Jiabao, will likely win out, Shandong Guoda receiving a payment to quietly go away. Without naming names, XXXXXXXXXXXXX also suggested the strong possibility that someone had made a payment (on the order of USD 10,000) to secure the Premier's support.

PRINCELINGS BEHAVING BADLY

5. (S) According toXXXXXXXXXXXX, the children of high-ranking North Korean and Chinese officials hijack the most favorable investment and aid deals for their own enrichment. When the child of a high-ranking official hears of a Chinese aid proposal to North Korea, he will travel to North Korea to convince the relevant official to follow his instructions for implementing the aid project. He will then use his connections to request proposals from Chinese companies to develop the project, returning to North Korea to convince the relevant official to select the favored company. At each step, money changes hands, and the well-connected Chinese go-between pockets a tidy sum. For the offspring of officials in the DPRK, there are also ample opportunities to work in China. In a typical situation, a DPRK official will alert another official to an opportunity for the second official's child to work in China for a DPRK-Chinese joint venture. After signing a contract, according to XXXXXXXXXXXXX it is a cheap, easy process to obtain the necessary permit from the Chinese provincial Bureau of Labor and Social Security. He said the system is similar to the "ting xin, liu zhi" system in China in the 1980s, in which officials retained their government position with a suspended salary while going to work for a private company.

6. (C) XXXXXXXXXXXXX has seen a number of similarities between the DPRK and China since his first visit in 1998. He compared the impact of the famine on North Koreans to the impact the Great Leap Forward (GLF) had on Chinese in the countryside. Both incidents forced individuals to lose faith in the government's ability to provide a basic standard of living and created a sharp instinct for self-preservation. He also sees similarities between the GLF and current plans in the DPRK to become a strong country by 2012. During his previous meeting with XXXXXXXXXXXXX spoke of plans to build 100,000 apartments in Pyongyang by 2012. North Korea also plans to increase electricity generation capacity by building coal-fired power plants and hydropower plants, and to increase transmission capacity by extending grids to all secondary cities. Chinese electric companies are currently bidding on the grid projects.

Despite the need for increased electricity in North Korea, XXXXXXXXXXXXX said it is almost impossible that North Korea will reach its goals in the next few years. The focus more likely will be on the apartment blocks as these are big, physical things that people can see as a mark of progress. XXXXXXXXXXXXX believes the long-planned bridge from Dandong to Sinuiju will begin construction next year and that China will pay for the entire project, including a highway on the North Korean side of the border (Ref B).

WICKMAN