



**China-Korea Relations:
A Dark Turn in Political Relations**

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China played a key role in resurrecting the Six-Party Talks from near death through a Feb. 13 agreement in which North Korea would shut down its reactors for 50,000 tons of heavy fuel oil and disable its reactors for an additional 950,000 tons of heavy fuel oil or the equivalent. The deal had stalled by the end of the quarter over the return of North Korean funds frozen at the Macau-based Banco Delta Asia (BDA) to the account owners. This glitch underscored the extent of North Korea's financial and political isolation from China as well as the distance between Beijing and Pyongyang, especially on economic matters. During bilateral working group meetings with the United States in New York in early March, DPRK Vice Foreign Minister Kim Gye-gwan publicly vented frustrations about China, even while Kim Jong-il maintained the facade of Sino-DPRK friendship through a rare visit to the PRC Embassy in Pyongyang during the first full moon following the Spring Festival.

China-South Korea coordination in the six-party process and through three-way dialogue with Japan on the sidelines of the ASEAN Plus Three Meeting continued to develop. South Korea proposed to institutionalize tripartite consultations among the three foreign ministers. China-South Korea trade and investment grew to new highs amid a mounting list of irritations and obstacles. These challenges included disputes over the handling of North Korean refugees, worsening pollution from China, historical and territorial spats, concerns over changes in Chinese investment rules, and shifts in the balance of China-South Korea trade and investment relations.

Six-Party Talks and China-Korea relations

The Six-Party Talks remain a focal point for observing key aspects of China-DPRK interactions. This quarter the nature of interaction changed somewhat as the U.S.-DPRK bilateral dialogue took on new life. Bilateral talks in Berlin led to the revival of a six-party process no longer solely dependent on Beijing's efforts to lure North Korea back to the negotiating table. At the same time, Chinese and U.S. priorities on the need for denuclearization of the Korean Peninsula had never been in greater alignment than in the months following North Korea's October nuclear test.

Chinese officials still played an active role in facilitating the completion of a six-party implementing agreement by reconvening talks in Beijing shortly following the U.S.-DPRK Berlin meeting. The PRC even formally pledged to provide North Korea with energy assistance in return for disabling its nuclear reactor and allowing IAEA inspectors to return to Pyongyang, and Beijing benefited from a tangible result of longstanding Chinese efforts to promote the six-party process. Meanwhile, PRC economic relations with the DPRK appeared to have returned to normal. As thanks, Vice Minister Kim Gye-gwan immediately attempted to create distance between the U.S. and China while attempting to draw the DPRK closer to the United States. Kim was reported to have asserted at an unofficial session on the sidelines of March 6-7 bilateral working group discussions in New York that the U.S. reliance on China to try to resolve the nuclear issue had not worked and that China was “trying to use” the DPRK. Predictably, the North Koreans walked out on the latest round of Six-Party Talks on March 22 even before the Chinese had officially called a recess.

Whatever has gone on behind the scenes in the China-DPRK relationship, Kim Jong-il's March 4 visit to the PRC Embassy in Pyongyang and his receipt of a “verbal personal message” from PRC Ambassador Liu Xiaoming has put a good face on the relationship. The visit restored China's regular habit of engineering quarterly direct contact with Kim Jong-il that had started in the context of the second North Korean nuclear crisis in early 2003. The failure of Chinese authorities to meet Kim Jong-il between the July 5, 2006 North Korean missile test and the Oct. 9, 2006 nuclear test appears to have been a low point in the relationship, but Kim Jong-il's meeting with Special Envoy Tang Jiaxuan October 2006 restored contact prior to Kim's latest visit to the PRC Embassy. Some reports raise the possibility that Kim's embassy visit might foreshadow plans by Kim to visit China later this year.

Back to reality: China-South Korea economic relations

2006 marked new heights for China-South Korea trade and investment, but the torrid 30 percent annual growth that had characterized the trade relationship since China's entry into the World Trade Organization (WTO) in 2001 shrank to more normal levels. South Korean exports to China increased to just under \$70 billion, a 12.2 percent increase over 2005, while Chinese exports to South Korea grew by over 25 percent to \$48.5 billion. For the first time, South Korea's trade surplus with China began to shrink, a fact that had drawn notice late in 2006 as a worrisome sign of lagging competitiveness vis-à-vis China in third-country markets. South Korean banks are opening branches in China; Hana Bank has been particularly active in China's northeastern provinces. In the other direction, there are rumors that two Chinese banks may now be interested in purchasing the Korea Exchange Bank. A survey by the Korea International Trade Association showed that over one-quarter of Korean firms in China are losing money on their operations as a result of management difficulties and labor problems, increased tax audits, or the appreciation of the Chinese yuan against major currencies.

South Korean investment in China also continued to grow in 2006, but represented a smaller proportion of South Korea's overall foreign direct investment than in previous years. South Korean overseas investment more than doubled to over \$18.5 billion and Chinese-bound foreign investment increased by 27.9 percent to \$4.5 billion. But China's portion of South Korea's overall investment dropped to 24 percent, compared to 44.6 percent in 2004. New regulations in China restricted investments in labor-intensive sectors in favor of more technology-intensive sectors that would involve a greater transfer of technology or know-how to Chinese workers. The Korea Trade Investment Promotion Agency (KOTRA) warned Korean investors to fully study the changing conditions of China's business environment and to manage the risks associated with investments in a January report. China also continued to enhance its international competitiveness in sectors such as steel and shipbuilding, sectors in which South Korea has been a global leader in recent years.

Nonetheless, South Korean export and production continued to thrive in selective sectors within China. Hyundai continued to expand its production in hopes of boosting its market share in the Chinese automobile and truck market, while Korean tire manufacturers have had great success in expanding their market share. Hankook Tire Company has 25 percent of tire sales in China (up from 5.4 percent in 1998 when it entered the market), while Kumho has 15 percent of China's tire market, the third largest market share.

Samsung announced that it would cede production of "white goods" such as household appliances to local Chinese rivals. Despite their price advantage, Chinese manufacturers of household goods are having surprising trouble in the Korean market due to their inexperience with after-sale service arrangements that are standard in Korea. Likewise, Pusan Port has faced increasingly stiff competition from newer Chinese ports that have come on-line in recent years, dropping from the third busiest port in the world during 2000-2002 to fifth. New Chinese ports at Yantai and Weihai may take as many as 2 million TEU containers from Korea's Pusan and Kwangyang ports by 2011.

China exerts a powerful attraction for Korean exporters, but it is difficult to escape China's magnetic field. Even as South Korean negotiators were ramping up for a final push to conclude a Korea-U.S. free trade agreement, it was announced that China and South Korea would launch a feasibility study to explore a China-South Korea free trade agreement.

A 9 percent drop in the Shanghai stock market caused a 2.45 percent downturn on the KOSPI, South Korea's stock index, in early March. But the impact of Chinese economic developments on the South Korean equities market is nothing new, and the effect on the KOSPI was less than on many other markets. In fact, South Korean equity markets are increasingly taking in stride periodic Chinese government efforts to rein in China domestic economic growth after experiencing several "China shocks" in recent years following Chinese government announcements designed to cool the domestic economy.

Mounting challenges in the China-South Korea relationship

This quarter was marked by a series of negative events that highlight the chronic political problems between China and South Korea. The first incident involved a South Korean fisherman, Choe Uk-il, who had been held in North Korea since 1975. Choe's family arranged a broker to make the dangerous trek to North Korea to bring Choe out. He arrived in Yanji on Dec. 25 and had a reunion with his wife on New Year's Eve, but when his wife attempted to call a South Korean consular official in Shenyang in an attempt to arrange passage to Seoul, the official repeatedly asked her how she got his mobile phone number and seemed disinclined to help, leaving Choe unprotected and at risk of repatriation to North Korea if he were caught by Chinese security authorities. Finally, South Korean authorities provided Choe with a safe place to stay in Shenyang while PRC authorities reviewed the case, and he arrived in Seoul in less than one month.

A tape of the conversation between Choe's wife and the South Korean consular official in Shenyang enraged public opinion, stimulated strong criticism of the Foreign Ministry for its handling of the situation, and reminded the South Korean public of previous cases in which South Korean consular officials had ignored pleas for help from a South Korean prisoner of war who had escaped from the North. The South Korean consulate in Shenyang failed to provide protection to North Korean family members of long-time South Korean prisoners of war who had come to Seoul last year. Those family members were at a safe house in Shenyang last October, but while the South Korean consulate attempted to arrange safe passage for them to Seoul, Chinese police authorities raided the safe house and repatriated the family members to North Korea despite South Korean requests that they be allowed to come to Seoul. (Testimony by North Korean defectors reveals that repatriation under such circumstances is a virtual death sentence since North Korean authorities will assign refugees who have come into contact with South Koreans to labor camps where the work is so hard they are likely to die within months.) This development contravened an informal understanding between South Korean authorities and Chinese counterparts by which South Korean authorities would notify and turn over refugees for a Chinese internal investigation prior to their travel to Seoul. But since the repatriation of the defector families last fall and in light of increasing South Korean public criticisms of the Foreign Ministry, South Korean officials are extending protection in sensitive defector cases and notifying Chinese authorities after the fact that individuals are under South Korean consular protection.

An even more challenging case involved the daughter of a South Korean prisoner of war who sought to bring her father's remains from China to South Korea late last year, but was prevented by Chinese authorities. She went public with her criticisms at a forum hosted by the opposition party in early February. Although she was able to come from China to Seoul with her two children, Chinese authorities confiscated the remains. Despite her requests for assistance from South Korean consular officials, the Chinese authorities handed over the remains to North Korea.

Increasingly, North Korea's borders are porous enough that money paid to brokers determines whether and how quickly an individual in North Korea can depart Pyongyang and arrive in Seoul. But the journey remains fraught with danger and there are numerous risks; dubious brokers may swindle victims; refugees may be robbed, raped, or enslaved; or Chinese public security authorities may capture and repatriate North Koreans. South Korean citizens such as prisoners of war or victims of North Korean kidnapping face peculiar dangers since the South Korean government has a responsibility to protect those citizens, but often can not make proper representations to the Chinese government without the opportunity to research and verify the subject's claims to South Korean citizenship. Yet refugee conditions are so precarious that they can not easily make their case or gain urgent assistance from South Korean government officials who are discouraged by Chinese authorities from assisting North Korean refugees.

Another diplomatic tempest occurred during the winter Asian Games held in South Korea in early February. Irked by China's campaign to host the 2018 Winter Olympic Games at Mount Changbai (known to Koreans as Mount Paektu) near the China/North Korea border, five South Korean female short-track speed skaters held up a sign during the medal award ceremony stating that "Paektusan is our land." This incident led the South Korean Ministry of Foreign Affairs and Trade to make an official apology in response to Chinese official protests since South Korea has no claim to that territory, which is on the border of China and North Korea. The Chinese government has recently shut down South Korean-operated hotels at Mount Changbai and sought to list the mountain as a UNESCO World Heritage site. Given recent disputes over whether the ancient Goguryeo kingdom belongs to Chinese or Korean history, South Korean passions over the mountain that is regarded as the historic birthplace of the Korean race run high. The incident also foreshadowed renewed difficulties over territorial issues that might ensue after Korean reunification and highlighted South Korean irritation at affronts derived from China's "rising power" mentality.

Yet another case of Chinese diplomatic pressure from the PRC Embassy in Seoul on a South Korean domestic matter resulted in the cancellation of a New Year's gala performance scheduled for Jan. 6-7 at the National Theater of Korea. The sponsors from an overseas Chinese broadcasting company, the New Tang Dynasty Television (NTDTV), are considered unfavorable by the Chinese Communist Party, and had been denied media access to cover the APEC Summit in Busan in November 2005.

In mid-February, a fire set by a Chinese-Korean inmate at the Yeosu Detention Center took the lives of eight Chinese detainees, raising concerns about the treatment of illegal immigrants in detention in South Korea. PRC Ambassador Ning Fukui raised concerns following the incident and urged the Korean government to provide adequate compensation for victims and to discipline responsible immigration authorities.

Chronic environmental concerns over the annual "yellow dust" from western China across the Korean Peninsula are an ongoing concern in South Korea, despite increased inter-governmental efforts among South Korea, China, and Japan to address the issue through projects coordinated among the respective ministries of environment. Each

spring South Korea's Meteorological Association attempts to provide environmental alerts based on wind patterns, since the yellow dust directly affects the elderly and school children. South Korean schools have even closed in response to the alerts and those at risk of respiratory ailments are urged to stay inside on yellow dust alert days. In 2006, there were four yellow dust alerts lasting a total of 11 days. The yellow dust contains carcinogenic heavy metals and is blamed for an increase in respiratory disease and higher rates of defective products in the precision manufacturing industry. A recent study by the National Institute of Environmental Research revealed that sulfur dioxide emissions in South Korea's coastal areas is four times higher than the level reported on Japan's western coast and more than 10 times higher than the level found on the North Pacific, highlighting the health impact of pollutants and acid rain caused by China's industrialization. This environmental problem has also been the focal point of NGOs such as the Korea-China Future Forest Association, through which young South Koreans travel to Inner Mongolia to plant trees as part of a reforestation campaign.

South Korea opened a new visa category under the Foreign Workers' Employment Act during the first week in March for ethnic Koreans in China and Russia who want to work in or visit South Korea. The new regulation allows qualified overseas ethnic Koreans with family ties to Korea to work in a greater number of sectors and to exercise other rights in South Korea on a broader basis than immigrants in other visa categories. The Ministry of Justice anticipated that over 275,000 ethnic Koreans will apply for the visa. Ethnic Koreans who do not have relatives in Korea will be required to pass a state-run Korean language test. The H-2 visa will allow ethnic Koreans to stay and work in Korea for up to three years on a single-entry basis or five years on a multiple-entry basis. A previous attempt to ease visa regulations on ethnic Koreans from China and Russia in 2001 and 2002 had faced objections from PRC authorities and was ultimately ruled unconstitutional by South Korea's constitutional court, but since this new law does not extend citizenship rights to overseas Koreans, it is not expected to run into opposition this time.

From "Plus Three" to "Three-Party"

The Chinese, South Korean, and Japanese leaders have had regular "Plus Three" meetings on the sidelines of the ASEAN Plus Three meetings in recent years. Usually those meetings have focused on prospects for deepening economic cooperation, although the status of Six-Party Talks has also drawn attention in recent years. The meeting was not held in 2005 due to Chinese and South Korean negative responses to Prime Minister Koizumi Junichiro's visit to Yasukuni Shrine; the meeting resumed in January 2007 with Wen, Roh Moo-hyun, and Abe Shinzo at the ASEAN Plus Three meeting in Cebu. At the three-way summit, Wen Jiabao emphasized the need for more regular high-level contact among the three countries, and Roh proposed regular annual high-level meetings among foreign ministers from the three countries to discuss regional issues rather than dealing with them only in a bilateral context. Such a forum would mark the second regular tripartite meeting among ministers; the other is an annual tripartite meeting of environment ministers from the three countries. This would be the first meeting among officials focusing on international political and diplomatic issues.

Following the meeting in Cebu, ROK Foreign Minister Song Min-soon met leaders in Beijing in late January to discuss developments related to the Six-Party Talks as well as economic and cultural cooperation issues and issues related to South Korean citizens escaping North Korea and China's management of North Korean defectors. To address the latter issue, Minister Song is reported to have requested that China approve an expansion of ROK consular personnel in Shenyang from the current staff of four. ROK Army Chief of Staff Park Heung-ryul and PLA Gen. Ge Zhenfeng announced enhanced military cooperation and exchanges during Gen. Ge's late January visit to South Korea.

The future of China-Korea relations

Looking back on the 15 years since normalization of China's relations with South Korea, the relationship has developed a vibrancy and intensity that few could have predicted in 1992. PRC Prime Minister Wen Jiabao is set to make his first official visit to South Korea as prime minister in early April to open "Korea-China Friendship Year." But as the two countries move closer, there is no doubt that the future issues may be more difficult than those of the past – even the past itself keeps showing up as an issue in the relationship in the form of territorial and history disputes.

Progress with the Six-Party Talks has served to make South Korean visions of a regional security mechanism more real, even while practical implementation of the Feb. 13 agreement still appears to deliver less influence to South Korea than many South Koreans had envisioned. The mechanisms for cooperation on practical issues such as the environment have developed in response to the emergence of difficult problems. As China and South Korea move closer to each other, new conflicts require new structures for managing new issues, as illustrated this quarter by the impromptu protest by South Korean athletes over Mount Paektu/Mount Changbai. The future of North Korea will be another decisive factor in shaping China's long-term relationship with the Korean Peninsula.

Chronology of China-Korea Relations January-March 2007

Jan. 3, 2007: The National Theater of Korea cancels a "2007 Seoul Spectacular" New Year's gala sponsored by the overseas Chinese New Tang Dynasty Television (NTDTV) under pressure from the Chinese government.

Jan. 4, 2007: The South Korean public is enraged by media reports of a recording of a conversation between the wife of abducted fisherman Choe Uk-il and an ROK consular official who asks how she got his mobile telephone number. The case highlights chronic difficulties on the part of the South Korean Foreign Ministry in safeguarding rights of South Korean citizens who have escaped from North Korea.

Jan. 14, 2007: Roh Moo-hyun, Wen Jiabao, and Abe Shinzo meet on the sidelines of the ASEAN Plus Three summit in Cebu. Roh proposes Gimpo-Shanghai direct air service and the institutionalization of a three-way meeting among South Korean, Japanese, and Chinese foreign ministers.

Jan. 16, 2007: South Korean fisherman Choe Uk-il returns to South Korea from China 31 years after his detention in North Korea.

Jan. 18, 2007: South Korean media strongly criticizes the ROK Foreign Ministry for revelations that it failed to safeguard the families of South Korean prisoners of war in Shenyang who sought to come to South Korea. Chinese police raided their hotel and repatriated the families to North Korea.

Jan. 25, 2007: The Korea Trade Investment-Promotion Agency urges South Korean companies to weigh the risks of China's changing business environment carefully before making investments in China.

Jan. 25, 2007: Top army commanders from South Korea and China announce plans to enhance military cooperation and improve military exchange programs during the visit to South Korea of PLA Deputy Chief of the General Staff Gen. Ge Zhenfeng.

Jan. 25-27, 2007: ROK FM Song Min-soon visits Beijing to meet Chinese counterpart Li Zhaoxing and other Chinese leaders on Six-Party Talks and other bilateral issues.

Jan. 29, 2007: South Korea's opposition Grand National Party seeks a National Assembly probe into recent incidents in the course of handling North Korean refugee cases at the South Korean consulate general in Shenyang, China.

Jan. 31, 2007: Five female South Korean short-track silver medalists raise signs reading "Mount Paektu is our territory" at a medal awards ceremony during the Winter Asian Games in Chuncheon, South Korea, triggering Chinese demands for an apology from South Korean Foreign Ministry counterparts.

Feb. 5, 2007: Twenty North Korean guards are reported to have fled to China after having been accused of bribery for helping defectors.

Feb. 6, 2007: The daughter of a South Korean prisoner of war criticizes the South Korean government for its failure to assist her in bringing her father's remains from China to South Korea.

Feb. 7, 2007: Korea and China signed an agreement to actively cooperate to promote establishment of electronic governance systems.

Feb. 8-13, 2007: The PRC hosts the third session of the fifth round of Six-Party Talks, and announces a Feb. 13 agreement on initial measures to be taken to implement the Sept. 19, 2005 Joint Statement.

Feb. 11-13, 2007: Media sightings of Kim Jong-il's oldest son Kim Jong-nam in Beijing en route from Macao to Pyongyang stimulate speculation about North Korean succession and China-DPRK relations.

Feb. 11, 2007: A Chinese-Korean detainee is suspected to have started a fire at the Yeosu immigration detention center that claimed the lives of nine foreign inmates.

Feb. 13, 2007: Korea International Trade Association (KITA) projects that China will become the largest exporter in the world and the largest exporter to South Korea this year.

Feb. 14, 2007: Yellow dust from China arrives on the Korean Peninsula, one month earlier than previous years.

Feb. 22, 2007: Korea Meteorological Association issues its first nationwide warning on yellow dust from China. This warning occurs almost one month earlier than usual.

Feb. 25, 2007: Former Chinese Ambassador to Korea Li Bin has come under investigation by the PRC government for leaking state secrets. Li Bin is alleged to have revealed to news media information related to Kim Jong-il's January 2006 visit to China.

Feb. 26, 2007: The Korea Intellectual Property Office announces that its patent registration system takes less than nine month to register a technology patent, a measure that is anticipated to help prevent technology infringement by foreign competitors, especially from China.

March 1, 2007: South Korea's National Institute of Environmental Research reveals results of a study that shows emissions of sulfur dioxide in coastal areas surrounding South Korea are four to 10 times higher than in other parts of the North Pacific due to China's industrialization.

March 4, 2007: Kim Jong-il visits the PRC Embassy in Pyongyang on the occasion of the first full moon following the Spring Festival at the invitation of PRC Ambassador Liu Xiaoming and receives a "verbal message" from Hu Jintao.

March 5, 2007: The South Korean Ministry of Justice begins implementation of a new H-2 visa for ethnic Koreans from China and the former Soviet Union that provides more flexible work rules and entry guidelines and other privileges in South Korea.

March 6, 2007: South Korean Ministry of Education and Human Resources Development announces that from 2012 South Korean high school textbooks will include information on South Korea's historical and territorial disputes with China and Japan.

March 20, 2007: The South Korean Ministry of Foreign Affairs and Trade (MOFAT) announces the launch of a joint feasibility study with Chinese counterparts of the desirability of a China-South Korea FTA.

March 19-22, 2007: The PRC hosts the sixth round of Six-Party Talks, but is forced to call a recess as a result of failure by the U.S. and DPRK to resolve financial issues surrounding Macao-based Banco Delta Asia.

March 21-23, 2007: The China National Symphony Orchestra holds two concerts at the Seoul Arts Center Concert Hall and the Sejong Center for the Performing Arts in honor of the 15th anniversary of China-ROK diplomatic normalization.

March 28, 2007: China receives the first DPRK military delegation to visit in over six months – the longest interval between military exchanges reported in PRC media over the past year – according to *Xinhua*. The last military delegation, headed by the deputy chief of staff of the DPRK army, visited in late September 2006, before the DPRK nuclear test.

March 29, 2007: Amnesty International sends a letter to ROK President Roh Moo-hyun criticizing Korea's forcible deportation of migrant workers following a fire in February at the Yeosu detention facility that took the lives of nine migrant workers.