

China-Korea Relations:

Navigating the Swiftly Shifting Currents

by Scott Snyder

Korea Representative, The Asia Foundation¹

After almost one year of intensive expansion in the Sino-South Korean economic and political relationship, this quarter there was a breather and old themes re-emerged. Chinese President Jiang Zemin visited Pyongyang for the first time in over a decade to re-consolidate relations with the DPRK and to repay two successive visits by North Korean Chairman Kim Jong-il to Beijing in May of 2000 and to Shanghai in January of this year. Although Jiang's trip was overshadowed by Chairman Kim's anachronistic three-week pilgrimage to Moscow in August, the visit re-solidified the DPRK-PRC relationship and re-confirmed Chinese commitments to assist the DPRK economically. It was also an indirect catalyst for renewed inter-Korean dialogue.

On the Sino-South Korean economic front, this quarter provided an important opportunity to assess the long-term future of the economic relationship. South Korean business redoubled its rush to take advantage of its proximity to the only island of sustained growth in the global economy. However, this quarter also saw the public emergence of second thoughts among South Korean researchers who began to see clouds on the horizon, mainly in the form of China's rising competitiveness, which threatens to become a force that could eventually overtake South Korean competitiveness in key sectors of the global market. The dark side of rapid growth in Sino-South Korean ties was evident in the form of increased drug smuggling from China, illegal entries by an increasing number of ethnic Korean Chinese using fake Korean passports, frustrations over perceived unequal treatment of ethnic Korean Chinese when they returned to Korea, and continuing under-the-surface tensions on how to manage North Korean refugees.

1. The opinions expressed in this article are those of the author and do not necessarily represent the views of The Asia Foundation.

Bear Hugs and Mao Suits: Reconsolidating the PRC-Russian-North Korean Axis?

In combination with Kim Jong-il's nearly month-long sojourn in Russia, President Jiang's three-day return visit to Pyongyang – the first by Jiang in over a decade – appeared anti-climactic. The visit did represent the formal mending and consolidation of a relationship that had been troubled in recent years, and it appears that Chairman Kim was able to reap rather substantial benefits in the form of diesel fuel and an additional commitment of 200,000 tons of food. President Jiang could also indirectly take credit for catalyzing renewed inter-Korean dialogue by stimulating a proposal from the North for ministerial talks on the eve of Jiang's arrival in Pyongyang. Whether by accident or by design, Pyongyang's proposal for renewed dialogue breathed new life into the Sunshine Policy just as it was being dismantled in Seoul by political opposition in the form of a no-confidence vote against ROK Unification Minister Lim Dong-won.

President Jiang is also known to have brought messages from the South designed to facilitate renewed inter-Korean contacts. China's own interests are served not by recreation of a Cold War Northeast Asian axis, but by defusing DPRK-U.S. tensions in ways that will help win over neighbors in the event of U.S.-PRC confrontation, especially on issues such as missile defense. China seemed to be more an innocent bystander to Kim Jong-il's retrograde diplomatic strategy than a willing participant, although many analysts have argued that it is necessary for Kim to strengthen relations with Moscow and Beijing, to the extent possible, before he can confidently pursue diplomatic opening with Seoul, Tokyo, and Washington. Of course, the proof for such theories lies in the hands of Kim himself: he will provide it when he pursues pro-active diplomatic initiatives toward those three capitals. This theory also perhaps unnecessarily belittles the importance of the Sino-DPRK relationship as a critical source of material and psychological support for the DPRK's survival and steps toward opening that are increasingly necessary to assure that objective.

South Korea's Precarious Role

During the third quarter, the Sino-South Korean trade relationship celebrated a symbolic milestone as the PRC finally surpassed Japan as the second largest recipient of exports from South Korea, with a \$10.69 billion share over the first half of the year compared to Japan's \$10.37 billion. As a result of weak economic growth in the United States, China has also surpassed the U.S. as the leading destination for Korean foreign investment during the first half of 2001. China received almost 12 percent of all Korean exports as of this past July on the strength of Korean exports in organo-metallic compounds, electrical goods, petroleum, steel products, and textiles. The Korean trade surplus with China totaled almost \$10 billion, a chronic source of irritation on the Chinese side of the bilateral relationship.

There are a number of industrial sectors in which Korea currently enjoys great advantages over Chinese counterparts. Exports to China across many of these sectors, such as semi-conductors, steel, automobile production, chemical fiber, textile production, electronic sub-components manufacture, and even possibly telecommunications, may be

areas in which China's sustained ability to acquire foreign direct investment (FDI), substantial technology transfer, modern plants, and significant know-how regarding international best practices through joint venture operations may turn China into a fierce competitor that can overwhelm Korean competitiveness in key foreign markets, including the United States.

Public reports from Korean think tanks during the third quarter of this year began to take note Korea's potential lack of future global competitiveness in combination with China's emergence as a stiff competitor in many of these market categories. For instance, the Korea International Trade Association (KITA) released a report that showed Korea with a narrow advantage in the number of categories of products it produces as measured by export volume. According to the study, China was rapidly catching up in a wide range of areas, including freezers, tires, glasses frames, dairy products, microwave ovens, and television tubes, and had surpassed Korea during the past year in almost 10 percent of the product categories measured.

A separate study by the Korea Center for International Finance (KCIF) warned that four-fifths of all Korean exports to China are dependent on products used in the manufacture of Chinese export goods and expressed concern that the combination of Japanese technology and Chinese labor could squeeze intermediate economies such as South Korea. KCIF noted that China's export growth had dropped from 28 percent last year to only 8.8 percent in the first six months of this year. The Korea Trade-Investment Promotion Agency (KOTRA) predicted that exports to China would slow even further during the last half of 2001, and a September report from the LG Economic Research Institute revealed that FDI to the ROK shows a low technology transfer effect. As a result Korea is a less attractive destination for foreign investment than China. The report asserted that Korean-bound FDI usually was focused on expanding market share rather than on attracting technology transfer or on inducing investment.

Now that Beijing is officially hosting the 2008 Summer Olympics, the Bank of Korea predicts that infrastructure related projects will add 1-3 percentage points to China's GDP and that bilateral Sino-South Korean trade will soar to over \$100 billion by 2008. Korea's competitive shares in the Chinese communications, petrochemical, and auto sectors are predicted to rise, while China will benefit from a lowering of Korean tariffs on Chinese agricultural goods. However, the Korea Economic Research Institute (KERI) downplayed the economic benefits likely to accrue to South Korea from China's hosting of the 2008 Olympics, noting that China's domestic information and environmental technology sectors were developing rapidly, and warned that Korean competitiveness in the Chinese market lags behind Japan, Taiwan, and the United States.

The Drive to Gain a Foothold for China's Entry into the WTO

One of the major drivers for ROK companies to expand into China during the past several years has been the perception that China's entry into the World Trade Organization (WTO) will lead to a playing field that would be more favorable to foreign participants than in the past, when Beijing could protect its own markets with impunity while serving as a low-cost manufacturing base for export items to the rest of the world. In the rush to establish Chinese production facilities, Korean firms are quickly cannibalizing the competitiveness of their own domestic production, dramatizing the need for industrial restructuring inside South Korea. Current plans inside South Korea call for a 30 percent cut in domestic production in chemical fiber production, even while the industry faces dumping charges by China and Korean overseas investment in chemical fiber production facilities in China continues to expand. Hyundai Heavy Industries and Daewoo Heavy Industries and Machinery have captured almost 45 percent of the Chinese market for excavators, defeating other international rivals on the strength of installment plans and after-sales service in China.

Korean telecom sectors are scurrying to submit plans for joint ventures by Oct. 15, and Hyundai Merchant Marine has attempted to pre-position itself to exploit China's transportation network along major riverways, establishing over 15 local offices in China to manage its river transport network.

Korean companies continue to be interested in the telecommunications sector, particularly in building the infrastructure for China's future Internet needs. Korea Telecom is linking up with Chinese partners China Unicom and China Telecom to promote ADSL (asymmetrical digital subscriber lines) in China, and Samsung and LG Electronics retain hopes of playing a major role in development of China's CDMA (code-division multiple access) mobile telephone system in major Chinese cities. Samsung Electronics has concluded a deal to supply cable TV modems and high-speed ADSL. One measure of the emerging importance of the information technology (IT) sector in Sino-South Korean trade is the recent decision to post a director-general level IT specialist at the ROK Embassy in Beijing. However, those hopes may have also been clouded by unverified media reports that Qualcomm, the originator of CDMA-technology, may undercut Korean makers by making direct-royalty deals with Chinese manufacturers that would potentially cut Korean CDMA developers out of a large portion of the market.

Will South Korean Cultural Exports Have Staying Power?

One interesting phenomenon that has emerged over the past year has been the unprecedented popularity in China of South Korean cultural products, from pop stars to movies to Korean-produced computer games. As a result of the "Korean wave" of popularity among young Chinese fans, some pop music groups have been able to realize unprecedented album sales due purely to the fact that the developing Chinese market is so much bigger than the Korean domestic pop music sector. In Taiwan, it has been reported that plastic surgeons receive requests from women for surgery to look more like

famous Korean actresses. South Korean music groups such as H.O.T., Clon, N.R.G., and Ahn Jae-wook have performed in China and Taiwan to sell-out crowds, and young, upwardly-mobile Chinese girls are joining package tours to Korea to attend concerts and meet heart-throb musical idols. A forthcoming Korean-directed historical epic entitled “Musa,” or “warrior,” is set in China and blends a Chinese and Korean cast that will hit movie screens shortly. And Andre Kim’s often-flamboyant fashions have recently been featured in Hong Kong, where several prominent actresses are modeling his artistic creations.

The “Korean wave” is sufficiently important commercially that it has drawn the attention of the Korean government, which is moving to support and extend Korean penetration of the Chinese pop culture market by promoting tourism sites in Korea that highlight Korean contributions in music and computer gaming culture. Since Korea’s \$8 billion music market is tiny by Chinese standards – and the Chinese middle class is still emerging – one assumption behind Korean marketing efforts to China is that it is possible to sustain an international fan base. The Korean government and private sector are supporting “Korean wave” projects, including emphasis on the joint marketing of music albums, videos, and games in Korean and Chinese languages as well as the proposed establishment of a “Korean Wave” building near Tongdaemun designed as a meeting point for Chinese tourists to experience trends in Korean culture.

Clouds on the Horizon

A number of problems have persisted in the Sino-South Korean relationship, all of which are likely to continue to be a drag on the relationship. The immigration flows of ethnic Korean Chinese to Korea that have developed as a result of the relative prosperity of Korean society have stimulated significant interest among ethnic Korean Chinese in opportunities for short-term work assignments, educational opportunities, illicit business, and legal or illegal immigration paths. In addition, issues of how to deal with North Korean refugees and South Korean non-governmental organization (NGO) efforts to assist North Korean refugees in China are sources of tension in the political relationship. Persistent difficulties with tainted shipments of Chinese sea and fish products to Korea continue to beset the trade relationship. All of these problems are by-products of the success of the economic relationship, but they may occasionally blow up into major political problems that must be managed by the two governments.

During this quarter, one focus has been the inequality of the 1999 Act on Overseas Koreans, a measure that eased requirements for overseas Koreans to return and gain work in Korea. However, the provision of the act defined overseas Koreans as ethnic Koreans who had previously been citizens of the Republic of Korea (i.e., since 1948), excluding Koreans who had left the country prior to that time to move to China, Russia, or Japan. The Korean Sharing Movement and other South Korean NGOs have advocated and demonstrated on behalf of the 100,000 Korean Chinese currently living in South Korea, about 60 percent of whom are illegal immigrants. Many of these visitors from China are reported to have suffered human rights violations in the course of gaining work in the South. The Ministry of Justice responded by announcing in July that it would develop

more humane policies for ethnic Koreans from China and would crack down on exploitation by Koreans in recruitment and labor to minimize human rights violations. The South Korean government has also uncovered a trafficking ring that provided cash to South Koreans who “lose” South Korean passports in China that are then used to smuggle ethnic Koreans living in China.

Another growing problem in the Sino-South Korean relationship involves illicit smuggling of drugs and people from China. Drug smuggling cases uncovered by the Korean Customs Service have skyrocketed by over 700 percent this year, and 95 percent of drugs smuggled into Korea are introduced either from China or Thailand. During the first half of this year, Korean authorities confiscated over 58 kilograms of *hiroppon* (heroin), an increase of 180 percent over the same period in the year 2000.

Finally, the issue of North Korean refugees and their treatment is always a potentially explosive issue in Sino-South Korean relations, as South Korean activists and human rights NGOs continue their activities to develop an “underground railroad” whereby North Korean refugees may arrive in South Korea via China and other countries. The ROK government has attempted to limit damage to the official Sino-ROK relationship from this issue by denying political asylum to most North Korean defectors who arrive at consulates in Shenyang, Beijing, and Shanghai, forcing North Korean refugees to travel via the Mongolian desert and border crossings from southern China to South Korean embassies as far afield as Bangkok and Hanoi in order to arrive safely in Seoul.

However, one North Korean defector family succeeded in defecting to the offices of the UN High Commissioner for Refugees in Beijing in late June. Although China acted quickly to defuse this potential diplomatic stand-off on the eve of the International Olympic Committee’s decision to award Beijing the 2008 Olympics by sending the family to a third country and then on to Seoul, there has been a severe crackdown on North Korean refugees in Jilin Province during the last quarter as part of China’s domestic “Strike Hard” campaign against illegal activities across China. The international public and media attention given to China’s campaign to crack down on North Korean refugees will remain one source of leverage that South Korean NGOs may continue to use in an attempt to embarrass the Chinese leadership into showing greater flexibility in treatment of North Korean refugees; however, China’s own domestic political considerations thus far appear to have trumped attempts to utilize international pressure in this way. With the award of the 2008 Olympics to Beijing and heightened tensions in the run-up to the PRC’s leadership transition, look for the issue of human rights for North Korean refugees in China to play a heightened role as a “hot potato” in the PRC’s relations with both parts of the Korean Peninsula.

Chronology of China - Korea Relations July-September 2001

July 10, 2001: South Korean Ministry of Justice announces that it would develop more humane policies for Korean Chinese and would work to stop corrupt practices and minimize human rights violations in the areas of labor and recruitment.

July 24, 2001: South Korean Foreign Minister Han Seung-soo and Chinese Foreign Minister Tang Jiaxuan meet on the sidelines of the ASEAN Regional Forum (ARF) in Hanoi and agree that Seoul and Beijing should exert joint criticism to pressure Tokyo into revising its controversial history textbooks.

July 29, 2001: The ROK Ministry of Construction and Transportation announces plans to resume negotiations with Taiwan over the reopening of the air route between the two countries, which was suspended in 1992 when South Korea established diplomatic ties with China.

Aug. 7-11, 2001: Taipei Mayor Ma Ying-jeou visits South Korea for talks with Seoul Mayor Goh Kun and other officials.

Aug. 8-12, 2001: Twenty-two executives of the ROK Federation of Korean Industries (FKI), led by FKI Chairman Kim Kak-choong, visit China to inspect the country's latest economic developments and discuss bilateral cooperation toward the 2008 Beijing Olympics.

Aug. 17, 2001: Korean chemical fiber manufacturers announce that they will send a delegation to China in a move to narrow losses from a Chinese dumping investigation on Korean polyester fibers and polyethylene terephthalate chips.

Aug. 21, 2001: Seoul establishes the China Experts Forum, consisting of about 30 prominent representatives from government, business, and academia, to develop long-term strategy to enhance trade and investment between the two countries.

Aug. 28, 2001: South Korean consulate-general opens in Guangzhou to assist Korean companies operating in the region and help arrange personnel exchanges.

Aug. 28, 2001: ROK Ministry of Culture and Tourism announces measures to support the export of Korean pop culture to China and East Asia.

Sept. 3-5, 2001: PRC President Jiang Zemin makes his first visit to Pyongyang in over a decade, symbolically restoring the PRC-DPRK relationship to normal status.

Sept. 4, 2001: Korean Customs Service announces that surveillance on drug smuggling will be toughened at Incheon International Airport.

Sept. 7, 2001: Korea Center for International Finance warns that a slowdown in the growth of China's exports would take a huge toll on Korea since more than 80 percent of Korea's exports to China are used in the manufacture of Chinese export products.

Sept. 25, 2001: NITGen (www.nitgen.com) signs contracts to export \$16.5 million worth of fingerprint identification solutions to China.

Sept. 25, 2001: According to the Korean International Trade Association (KITA), Chinese products exported to global markets are rapidly challenging or surpassing their rival Korean products in competitiveness across the board.