



China-Korea Relations:

Kim Jong-il Pays Tribute to Beijing – In His Own Way

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With prospects for renewed Six-Party Talks diminishing, Kim Jong-il's unannounced visit to China in January appears to have been a turning point for the Korean Peninsula and the North Korean nuclear issue. The rumors began as soon as Kim's special train was sighted crossing the border into China Jan. 10, sparking a week of "Where's Waldo" speculation and media sightings of Kim in various parts of China. Despite the rumors, Chinese officials followed precedent and kept mum until Kim's departure on Jan. 18. The fact that Kim's route overlapped with that of Deng Xiaoping's famous 1992 southern tour stimulated further speculation about North Korean efforts at economic reform. Chairman Kim got the red carpet treatment: he was accompanied throughout his visit by all nine members of the Central Committee of China's Politburo, and capped the trip with a meeting with President Hu Jintao in Beijing. But unlike Korea's tributary relationship with the Middle Kingdom in dynastic times, Chairman Kim seemed to come with empty suitcases, prepared more to pack and take home China's reward for good behavior than to offer gifts of his own.

China's embrace of Kim has produced considerable angst in South Korea, which fears that North Korea will become "China's fourth northeastern province," and thwart South Korean hopes for enhanced influence and eventual unification with North Korea. South Korea's "China threat" usually refers to China's rapid erosion of critical Korean technological advantages even as China's overall growth remains a boon to South Korean producers in many sectors. South Korean businesses face the dilemma of figuring out how to benefit from China's rise, while fending off its effects on Korea's competitiveness.

Six-star hospitality for the Dear Leader

Kim Jong-il's fourth visit to China in six years drew considerable media attention despite an itinerary that was shrouded in secrecy and announced only as Kim departed for home. Even after the fact, substantive briefings on the week-long visit were hard to come by. There were multiple meanings built into the interactions, and participants may have chosen to interpret what they saw and heard in their own way, missing or choosing to ignore intended signals. Coming on the heels of an October visit by President Hu Jintao to Pyongyang, the visit marked the culmination of a series of regular interactions since 2003 between Chairman Kim and top Chinese leaders who have attempted to reconstruct

the relationship – and induce (rather than force) a dependence that might constrain the North Korean leadership from taking actions contrary to China’s interests in regional stability. Although Chinese analysts assert that the relationship would never revert to the nostalgic interaction of the 1950s, the consolidation of the relationship shores up North Korea’s economic stability as well as reduces the chance of potential “surprises.”

While in China, Kim and his entourage visited six cities over eight days, including Guangzhou, Shenzhen, and Zhuhai in Guangdong province, Wuhan and Yichang in Hubei, and Beijing. He was reportedly accompanied by representatives of China’s top leadership at every stage of the visit, including Vice Premier Huang Ju during his tour of Hubei Province, former Guangdong Provincial Secretary Li Changchun in Guangdong, and by Zeng Qinghong during his visit to Shenzhen. In Beijing, Kim had meetings with President Hu, Premier Wen Jiabao, and National People’s Congress Standing Committee Chairman Wu Bangguo. All Standing Committee members of the CPC Central Committee Political Bureau, many of whom had undertaken individual visits to Pyongyang within the past three years to meet with Kim, were involved in the visit in some way. Kim Jong-il’s official itinerary included a heavy focus on visits to industrial, agricultural, and educational facilities, including the Shenzhen Nanshan Science and Technology Park, Guangzhou City University, Changfei Optical Fiber and Optical Cable Company, and the Institute for Crop Sciences under the auspices of the Chinese Academy of Agricultural Sciences.

The biggest challenge in analyzing the visit is to separate speculation driven by reports of Kim Jong-il sightings by Japanese media armed with telephoto cameras from the reality of what Kim and his entourage were doing and saying. For the record and in more unreserved terms than during previous visits, Kim provided expressive compliments to his hosts on the economic progress accomplished over little short of three decades. It was reported that Kim had “trouble sleeping at night” during his visit, pondering how to apply reforms to North Korea to generate the results he witnessed in Guangzhou. In his official toast offering thanks to Hu Jintao for arranging the visit, Kim said that he was “deeply impressed” by China’s “shining achievements” and “exuberant development,” especially China’s hi-tech sector.

The PRC top leadership made every effort to provide Kim and his entourage an opportunity to fully experience the fruit of China’s reforms in hopes that Kim would follow the Chinese path to reform, or at least to contribute to North Korea’s own reform path by benefiting from observing and applying some of China’s accomplishments. Given the level of China’s leadership involved, there must have been continuing attempts to choreograph the visit, delivering messages of encouragement and constraint in various ways, and hinting that Kim might perpetuate his regime’s survival and prosperity through more aggressive reform. Although there was little direct confrontation over the North’s nuclear program, there is likely no diplomatic tool available that the international community can count on if this visit fails to rein in the North Korean leadership from its worst nuclear impulses. It remains doubtful whether the Chinese diplomatic bar is high enough to satisfy desires of others, including those of the United States.

Another message of the trip was the PRC's commitment to underwriting regional stability to safeguard the conditions for China's peaceful development. By promoting a much deeper trade, investment, and financial relationship with North Korea, Chinese leaders brought Kim Jong-il into a closer embrace so as to limit the damage he might inflict from adventurist pursuits or crisis escalation that might derive from North Korea's isolation. Through provision of tangible guarantees of stability through development assistance, enhanced trading opportunities, and expanded investment in North Korea, Chinese leaders intended to partially offset the security dilemma the North faces in its confrontation with the U.S. by providing some support and reason for confidence to North Korea's reluctant reformers. However, it is unclear whether state-to-state management of the economic relationship or vibrant private cross-border trade that has already sprung up at the local level between China and North Korea would be the defining factor in finding the right balance between stability and reform.

While Kim Jong-il's appreciation for Chinese accomplishments may send a message to reformers in North Korea, the vagueness of that message presents the same problem that existed in January 2001 following Kim Jong-il's trip to Shanghai: what does the Dear Leader mean by "reform"? One result of the visit five years ago was that North Korea dispatched specialists to study architecture in Shanghai, but it is still unclear the extent to which the North Korean political system would feel challenged by attempts to "get under the hood" of North Korea's economy and introduce substantive changes that go beyond the external forms of development that Kim clearly seeks to incorporate and show off in Pyongyang as part of North Korea's "Arirang" nationalist narrative.

Kim no doubt sought answers from Chinese leaders on key questions that will influence North Korean priorities: what economic commitments will the PRC make to sustain the North Korean system, and in what forms will they come? How can the PRC help protect North Korea from threatening noises and actions from Washington, including the U.S. efforts to protect the global financial system from counterfeiting and money laundering? How will China assist the DPRK in its efforts to normalize diplomatic relations with the U.S., and for what price in terms of "guaranteeing North Korea's regime stability" and curbing North Korea's nuclear development program? Presumably, Kim sought firm commitments from Chinese leaders for assistance negotiated every five years as a basis upon which to make North Korea's own economic plans.

Reportedly, Kim Jong-il was not altogether happy with everything he heard during his visit. Surely, China sent clear signals regarding North Korean counterfeiting and money laundering practices, which may well extend to counterfeiting of Chinese currency and threatens to compromise China's own international reputation in the banking sector. South Korean media reported that a close associate of Kim allegedly involved with illicit financial activities was briefly detained in Macao and released during the visit to Guangdong province, a clear signal of China's intolerance for these types of activities. Chinese regulatory authorities in Macao continue to freeze North Korean cash in Banco Delta Asia accounts, with no sign of a plan for determining which accounts were legitimate and which were involved in money-laundering.

There are expectations in Beijing that North Korea will live up to its pledges to attend the six-party dialogue, and presumably to begin negotiating specific denuclearization commitments. It remains to be seen how long China will tolerate North Korea's use of U.S. "sanctions" – actually just a U.S. warning followed by a Chinese regulatory action – as a pretext to delay returning to Six-Party Talks. But subtle Chinese hints to the U.S. requesting it to save face for North Koreans and create an atmosphere for resuming the talks directly challenge Washington's claim that the counterfeiting question is a matter of law, not political negotiation. China will probably have to come up with some other way of patching up the process.

China's handling of Kim Jong-il's trip also carried with it a message to the U.S.: gradual reform of North Korea, yes, regime collapse, no. And nukes are not the top priority in China's eyes; the North's economic stability is paramount. Expanded economic support for North Korea through direct assistance, a growing trade relationship, closer political ties, and a trade deficit that served as a supplemental form of economic assistance to North Korea's government were all signs of China's determination to hold in place North Korean comrades rather than risk regime collapse or transformation by the Bush administration.

The Japanese press worked overtime to reveal the details of Kim Jong-il's itinerary; it focused on Kim Jong-il's personal life and discussed prospects for succession. Japanese magazines published news that Kim's new "wife" accompanied him on a "honeymoon" to Beijing and published in-depth speculation on the roles of his immediate offspring amid ongoing succession rumors. The visit also spawned rumors about Kim's health and possible medical check-ups in China to deal with symptoms of diabetes, including expected renal failure. These are sensational reports, until one remembers that Kim Il-sung lived for almost two decades with a giant gargoyle on his neck that attracted intense speculation, but never proved fatal.

Reports that Kim Jong-il's second son, Kim Chong-chol, accompanied his father on the trip to Beijing reinforced succession rumors. During the visit, it was reported that Kim's brother-in-law Jang Song-taek, who returned to the public eye as first deputy chief of the Workers' Party Central Committee after a two-year absence, would lead a 30-member delegation to China to further explore implications for North Korean reform. That visit took place under tight media restrictions at the end of March, following the route taken by Kim Jong-il in January. It is not yet clear what lessons the North might be ready to apply from the latest examination of China's reform path, but most bets are that it will be cautious and gradual in its application.

Watching from the sidelines: South Korean anxieties

While the U.S. issued warnings about North Korea's alleged counterfeiting and money laundering and China sought to enhance its economic influence in North Korea, South Korea was left on the sidelines. Inter-Korean relations are apparently stalemated, there is slower than expected progress in expanding the Kaesong Industrial Complex, and a growing perception that Chinese entrepreneurs are ahead of the game when it comes to

exploiting North Korea's remaining economic resources. South Korea is shut out by politics and the North.

South Korean officials speculated on prospects for further North Korean reform and opening, based on efforts that followed Kim's January 2001 visit to Shanghai. There was also concern that there would be movement in developing a Sinuiju Economic Zone that might compete with or distract from the Kaesong Industrial Complex.

While China's trade with the North increased to almost \$1.6 billion, the inter-Korean trade relationship struggled to catch up, registering almost \$1.1 billion in trade during 2005. Much of this growth was on the strength of the opening of the Kaesong Industrial Complex, but South Koreans eyed growing reports of Chinese joint ventures in North Korea, including a bicycle factory, investments in the coal and natural resource sectors, and plans to build transportation infrastructure, including a new highway from Hunchun to Rajin. Although all these efforts are in their early stages, South Korea has redoubled efforts to convince the North to expand cooperation with South Korea both inside and outside Kaesong.

Another effect of China's enhanced relations with North Korea has been to darken the atmosphere in South Korea regarding China's "problematic bond" with the North. Three developments illustrate the souring mood in South Korea. First, South Korea's envoy to Beijing Kim Ha-joong in February publicly advocated that South Korea continue to sustain and rely on the U.S.-ROK alliance, strongly hinting that his experience did not lead him to support enhanced China-ROK strategic cooperation. Second, the Korean Institute for Defense Analysis (KIDA) published a survey showing that a plurality of Koreans (37 percent) regarded China as the biggest threat to South Korea, a dramatic turnaround from earlier surveys that regarded China as Seoul's top diplomatic priority and expressed concern that U.S. policy was the greatest source of regional instability. Third, PRC Ambassador in Seoul Ning Fukui made a speech at KIDA that drew public criticism for comments on "strategic flexibility" of U.S. forces in Korea. Ning stated that if the U.S.-ROK alliance "is targeted towards a third country, China will have no choice but to shift its attention to the matter." While this comment is not so sensitive, the strong South Korean reaction may reflect increasing frustrations that Seoul's longstanding deference to China's regional security interests related to Taiwan and other matters has not been reciprocated in China's policy toward the Korean Peninsula.

Seoul's "China threat"

Despite finishing 2005 with a record bilateral trade volume that topped \$100 billion for the first time, this quarter marked the highest-level expression of concern from Seoul regarding the "China threat." But unlike the rhetoric from Japanese ministers about China's military growth, Seoul's concern is the economic competition that is squeezing South Koreans out of global markets. South Korean Finance and Economy Minister Han Duck-soo publicly warned that South Korean corporations need to cope with the challenge that derives from the closing technology gap between Chinese and South Korean firms. As new Chinese production comes on line, external technology inputs and

low labor costs will continue to squeeze South Korean bottom lines in many sectors. South Korean steel companies are feeling direct effects from enhanced Chinese competition as it moves up the production ladder. Chinese producers are now competing directly with South Korean counterparts to supply South Korean shipbuilders and automakers. Hyundai Heavy Industries and Samsung Heavy Industries are both switching to Chinese suppliers who can offer prices about 10 percent lower than South Korean steelmakers such as POSCO or Dongkuk Steel. Hyundai Heavy Industries will raise the proportion of steel from China to about 15 percent of its overall demand, or up to 500,000 tons, while Samsung Heavy Industry increases its consumption from Chinese producers from 2 to 9 percent of its overall purchases. This is a direct reflection of the improved quality and lower price of Chinese steel production over the past five years.

A report from South Korea's Ministry of Commerce, Industry, and Energy based on a January survey of 300 South Korean companies indicates that over 86 percent of respondents believe that the pace of technology development is faster in China than South Korea, with potentially severe implications for South Korean competitiveness in key sectors. The report assesses that South Korea is less than three years ahead of China in developing appliances containing liquid crystal displays (LCDs), and has only a two-year lead in rechargeable batteries. The gap is even narrower with CDMA mobile phones and communication equipment manufacturing, where South Korea is estimated to have only a one-year lead over China. Korean automobile parts makers have a three-to-eight year lead over Chinese competitors in production of many key parts and systems, and the Korean lead in the shipbuilding sector is estimated at about a decade.

Who is building a “rich and strong nation” in North Korea?

North Korean leaders have thrived on a shrewd combination of rhetorical defiance of the outside world that shrouds its core dependence. On the periphery of the international stage but geostrategically central to major power interests, the North Korean game under Kim Il-sung was to play the Soviets and Chinese against each other while collecting subsidies necessary for its own development. The game has become much more difficult in the post-Cold War decade, as Pyongyang has tried very hard to replace Soviet assistance with a flow of income from the U.S. and the international community that is derived from the threat of its nuclear development program. The Bush administration has not been willing to play that game, leaving Kim Jong-il precariously dependent on China.

China's economic rise has assured the North Koreans that there probably will be enough crumbs from the table that North Korea can keep itself alive under China's growing shadow. In the absence of a true major power competition on the Peninsula between China and the U.S., South Korea has been a satisfactory substitute donor, and Kim has done well to tap strategic anxieties about China's dominance, but a U.S. donor would offer Kim greater room for maneuver. If current trends continue, North Korean leaders will remain dependent on Chinese economic support but will still have a nuclear capacity that could be sold as part of a strategy of breaking away from Chinese dependence. Or Sino-U.S. cooperation – rather than geopolitical competition – could finally squeeze the North to make a choice between survival and nukes. Chinese policy remains profoundly

in favor of the status quo on the Korean Peninsula, despite a gnawing anxiety that North Korea's weakness may render the status quo unsustainable. What will trigger a new chapter in efforts to maintain that balance, and when, how, and whether one might finally reach the tipping point, are subjects to be addressed in future issues of *Comparative Connections*.

Chronology of China-Korea Relations

January-March 2006

Jan. 10-18, 2006: DPRK Defense Commission Chairman Kim Jong-il makes a secret week-long visit to China, accompanied by every member of the Central Committee of the Chinese Politburo and follows the route taken by Deng Xiaoping during his famous "southern tour" of 1992.

Jan. 12, 2006: Korea Customs Service announces that South Korea's merchandise trade with China in 2005 reached \$100.6 billion.

Jan. 16, 2006: Taiwanese and Chinese media outlets decide to drastically cut the number of Korean dramas to be shown in China and Taiwan respectively in 2006.

Jan. 16, 2006: ROK National Intelligence Service announces the detention of two former Samsung Electronics employees who sought to smuggle critical LCD panel technology to China to build their own factory in Shenzhen.

Jan. 17, 2006: South Korean Ministry of Justice announces that over 10.3 million Koreans traveled overseas in 2005, with 28.7 percent of travelers visiting China.

Jan. 20, 2006: South Korean government issues a travel warning for Koreans traveling to Qindao and Shenyang following reports of murders, robberies, and kidnappings targeting Korean citizens in those cities.

Jan. 28, 2006: National Defense Commission Chairman Kim Jong-il hosts a Lunar New Year's banquet for Chinese embassy staff in Pyongyang.

Jan. 30, 2006: Christian Council of Korea (CCK) closes down the Commission to Help North Korean Refugees (CNKR) on the basis of reports that activists sought profits from its programs to assist North Korean refugees transiting China en route to South Korea.

Feb. 14, 2006: ROK Ministry of Justice announces plans to issue new employment visas from July for ethnic Koreans living in China and Russia.

Feb. 14-18, 2006: Chinese Vice Minister Wu Dawei visits Pyongyang in a failed attempt to jumpstart the Six-Party Talks.

Feb. 20, 2006: ROK National Institute of Environmental Research reports that rainfall in Seoul has become more acidic as a result of air pollutants traveling from China.

Feb. 21, 2006: The Korea Iron and Steel Association releases data showing that a quarter of China's steel exports came to Korea, while South Korean steel exports to China declined by over 24 percent during the past year.

Feb. 23, 2006: A *Korea Times* opinion poll reveals that 40 percent of respondents believe that China should be South Korea's top priority, while 60 percent believed that South Korea should declare neutrality in the event of a cross-Strait conflict where the U.S. wants to employ "strategic flexibility" to intervene in such a conflict.

March 1, 2006: ROK Ministry of Commerce, Industry, and Energy releases a survey showing that China is cutting into the technology advantage enjoyed in a wide range of sectors by South Korean firms.

March 8, 2006: ROK Minister of Trade Kim Hyun-chong expresses doubts about the possibility of a ROK-PRC free trade agreement.

March 9, 2006: ROK Ministry of Government Administration and Home Affairs announces that it will invite 11 government officials from China to study Korea's past rural development policies; i.e., the *Saemaul* ("New Village") movement.

March 11, 2006: Ssangyong Motors Company announces that it is considering cost cutting measures by sourcing components via a subsidiary of its owner, the Shanghai Automotive Industrial Corporation (SAIC).

March 18, 2006: A 30-member delegation led by first deputy chief of the Workers' Party Central Committee Jang Song-taek arrives in China to view China's economic reforms, following the same route as Kim Jong-il's visit in January.

March 20, 2006: Korea Institute for Defense Analysis poll shows that 38 percent of South Koreans consider China to be the biggest security threat Korea will face within 10 years, followed by Japan (23.6 percent), North Korea (20.7 percent), and the U.S. (14.8 percent).

March 20, 2006: ROK Financial Supervisory Commission announces that two Chinese companies will list shares on the Korea Stock Exchange by July.

March 21, 2006: Finance and Economy Minister Han Duck-soo urges South Korean corporations to improve their technical capacity to counter a threat from rising Chinese technological competitiveness in an address at the 11th Asia Economic Panel meeting.

March 22, 2006: ROK military announces plans to revise defense laws related to cyber-warfare to address cyber-warfare capabilities from China and North Korea.

March 23, 2006: Seoul Metropolitan Police Agency announces that four people were arrested smuggling fake Korean cigarettes from China containing higher than average levels of harmful substances.

March 25-26, 2006: The Hong Kong Trade Development Council sponsors seven leading Hong Kong universities for recruiting students held at the Korean Student Fair.

March 27-28, 2006: ROK Financial Supervisory Commission Chairman Yoon Jeung-hyun hosts a two-day seminar on trilateral financial supervisory cooperation among supervisory authorities of China, Japan, and South Korea on how to implement an early warning system for financial instability, monitor hedge funds, and implement Basel II.

March 28, 2006: Ssangyong Motor CEO Choi Hyung-tak announces that the company would no longer build a jointly invested plant with its parent company, Shanghai Automotive Industry Corporation (SAIC) in China, following speculation that the Chinese government had rejected an application to build an auto plant in China.