

China-South Korea Relations:

Can China Unstick the Korean Nuclear Standoff?

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China's hosting of the second round of six-party talks in Beijing at the end of February marked the high point of China's Korea diplomacy in the first quarter, stimulating a flurry of follow-up diplomatic contacts and shuttle diplomacy involving China and the two Koreas. PRC Foreign Minister Li Zhaoxing made his first visit to Pyongyang on March 25-27, further extending high-level contacts with the top DPRK leadership that now seem to occur about once per quarter. The ROK's newly appointed Foreign Minister Ban Ki-moon visited Beijing on the heels of Li's visit to Pyongyang in an exchange that has enmeshed the PRC as a critical intermediary in peninsular affairs, which is part of China's more assertive mediating role in the six-party talks. But to what end will China play this more active role?

In the meantime, an extended squall over competing interpretations of the historical significance and attachments of the Koguryo kingdom has heated up amid competing attempts by China and the DPRK (backed by South Korean scholarship and the ROK government) to claim the kingdom as part of its history. And competition over raw materials is introducing a new element of competition between South Korea and the PRC over procurement and import of raw materials such as iron ore and other primary items that fuel economic growth in both countries. Despite South Korea's increasing dependence on expanded exports to China for growth, China is competing with South Korea as both an export competitor and an importer of raw materials in third-country markets.

Middle Kingdom mediation: a new stage for the PRC or diplomatic quagmire?

Chinese diplomats declared victory following the second round of six-party talks in Beijing, having succeeded in actually holding a second meeting and extracting a pledge to continue the dialogue in spite of perceived recalcitrance from both Pyongyang and Washington. This meeting and the release of a chairman's statement – not even a joint statement among the parties – apparently constituted success in Beijing's eyes, although some reports suggested that the respective positions of the United States and the DPRK may have widened during the course of the meeting. In a ceremony set to be carried live on Chinese television, PRC Foreign Minister Li Zhaoxing was to announce a joint statement among the parties agreeing to working-level talks and to a third round of six-party talks by the end of June. The statement affirmed the interest of all parties in a

peaceful settlement of the issue through dialogue and committed their efforts to achieve a “nuclear-weapon-free Korean Peninsula,” but failed to include a commitment to “complete, verifiable, irreversible disarmament” by the DPRK, which insisted that it should be allowed to continue development of nuclear energy for peaceful purposes. A last-minute objection by the DPRK side kept Foreign Minister Li and the other delegations cooling their heels, delaying the closing ceremony for several hours. North Korean objections caused the joint statement to be reduced to a chairman’s statement, but that didn’t stop the Chinese from declaring the second round of talks as a major diplomatic success.

There have been a number of suggestions that the six-party talks could become a standing Northeast Asian dialogue on regional issues – if only the principal parties could stand to actually meet and resolve issues with each other. Neither Washington nor Pyongyang has behaved as Beijing had hoped, but China’s professional diplomats soldiered on in their affirmations of China’s indispensable (and now inextricable) mediating role. Despite the humiliation of waiting to preside over the closing ceremony, Foreign Minister Li got right back into action with a late March round of shuttle diplomacy to Pyongyang for follow-up meetings with Chairman Kim Jong-il and a subsequent meeting in Beijing with the ROK’s new foreign minister, Ban Ki-moon. The primary agenda for Li’s consultations with both Koreas was how and when to begin the working-level round of six-party talks, which had once again been delayed by DPRK hesitancy despite agreement at the plenary session to move forward. Working-level talks are likely to begin next quarter, but it is already doubtful that a plenary would follow as pledged in June.

China’s mediation efforts have become the safety net that provides reassurance to all the parties: as long as the six-party talks exist and are inching forward, regional perceptions are that a process is underway and that the second North Korean nuclear crisis can be resolved through negotiation, no matter how intransigent the positions of the parties may appear. However, the initial expectations of Beijing’s new leadership that the talks are part of a more modern, assertive, and constructive regional diplomatic initiative are probably higher. The talks have been a vehicle for substantive cooperation with the U.S. on nonproliferation and for involving Beijing in intensive diplomatic activity with both Pyongyang and Seoul, enhancing Beijing’s stature in the region and avoiding any economic spillover from an escalation of tensions over North Korea’s nuclear program.

Beijing’s once-distant and irregular diplomacy with Pyongyang has become considerably more active as Beijing has sought to address tensions on the Korean Peninsula. After a lengthy period during which there was virtually no exchange with the DPRK at senior levels, Jiang Zemin made his first visit as PRC president to Pyongyang in September of 2001. But former Foreign Minister Qian Qichen’s visit in the first quarter of last year marked a shift in the direction of regular senior-level visits by PRC officials to Pyongyang. Since Qian’s visit, CCP Party Liaison Dai Bingguo, Chairman of the Supreme People’s Assembly Wu Bangguo, and now Foreign Minister Li have all met and personally discussed the North Korean nuclear issue with North Korea’s Kim Jong-il within the past year.

Ironically, the second North Korean nuclear crisis has intensified and regularized high-level contacts between the DPRK and the PRC, despite the likelihood that these two former fraternal socialist brothers no longer see eye-to-eye on very much. China-DPRK trade relations have been stable and are arguably more important to North Korea's survival than they were last year, as the DPRK's procurement of high-end items from Japan has dried up due to stricter Japanese border controls and restrictions on DPRK vessels. A more active PRC diplomacy toward North Korea – and China's strong efforts to involve the DPRK in two rounds of six-party talks, have also been accompanied by Chinese pledges to provide significant economic and energy assistance, including a reported pledge to build a \$50 million bottling plant in Pyongyang. The PRC has stepped up other forms of economic assistance to North Korea as an incentive to keep North Korea coming to the talks, even while contributing to Pyongyang's isolation as it pursues its nuclear program.

The PRC and South Korea have maintained parallel positions toward North Korea's nuclear development efforts, agreeing that the DPRK must give up its nuclear program but focusing on making a deal with North Korea to give up its nuclear weapons development efforts. In this respect, South Korea's position is closer to China's than that of the U.S., but this similarity has not yet driven South Korea and China to jointly pursue their objectives, as South Korea continues to work in the context of trilateral coordination with the U.S. and Japan. The administration of ROK President Roh Moo-hyun appreciates Beijing's constructive role as host and intermediary of the six-party talks, but may secretly harbor some jealousy of China's mediating role, a task that some Roh advisors had aspired to play prior to President Roh's election and inauguration. Another factor that has distanced Beijing and Seoul has been sporadic differences over China's handling of North Korean refugees, most recently dramatized by reports that some refugees were staging hunger strikes in Chinese detention facilities to protest their imminent forced return to North Korea. China's economic and political influence have increased considerably over the course of the past year, as South Koreans believe that China is likely to be the most important country to the future of the Peninsula.

Contending national histories over who 'owns' Koguryo

With the establishment in March of the South Korean government-funded Research Center for Koguryo History, there are now competing state-funded efforts in China and South Korea, respectively, to claim the Koguryo Dynasty (37 B.C.-A.D. 667) and the Manchurian Balhae (Bo-hai) Kingdom (698-926) as part of Korean and Chinese national historical narratives, respectively. The Chinese-sponsored five-year "Northeast Asia History Project" was launched in February 2002. This controversy was originally triggered by a North Korean request to UNESCO seeking to add Koguryo mural paintings to the World Cultural Heritage list in 2001. While the DPRK request has been held up due to questions about the condition of the murals, the PRC requested UNESCO recognition for Koguryo-era castles and tombs in spring 2003. PRC efforts drew a strong South Korean public reaction and criticism from South Korean NGOs regarding the South Korean government's failure to stop the PRC from claiming Koguryo as part of its own history. NGO criticisms were heightened following comments from Culture Minister

Lee Chang-dong that this is a matter that should be dealt with through academic, not political channels. The Seoul Museum of History hosted an international conference on the Koguryo-era artifacts at the end of March to examine the various claims and condition of the materials in question.

There is historical argumentation on both sides to make the case for Koguryo as a part of either Chinese or Korean history. This dispute is made more complex by the fact that the modern concept of the nation-state is very different from the way that these states related to each other in earlier periods, before there was even a unified Chinese or Korean rulership. The historical significance of tributary relationships between the old Korean dynasties and their Chinese counterparts may ultimately have little bearing on the current situation, and is not likely to be decisive in determining territorial legitimacy today. Nonetheless, Chinese historical projects have been deemed useful as a way of enhancing the legitimacy of China's claims in areas such as Tibet where ethnic minorities are dominant and there is a historical call for self-determination. Although ethnic Koreans have been referred to as one of China's model minorities, periodic irredentist claims by Korean nationalists based on the geographical coverage of Koguryo or Parhae archaeological relics have clearly gotten under the skin of Chinese authorities from time to time. Whether the Chinese claim to Koguryo is a reaction to a particular strain of Korean nationalism or a preemptive strike on an issue that could be considerably more contentious if the Korean Peninsula were to be unified again, a historical battle royal has been joined, to the benefit of Chinese and Korean historians and archaeologists who will now be funded at much more generous levels than might have otherwise been the case!

China's raw material imports: a new economic threat to Korea

2003 was a banner year for South Korean exports to China, which surpassed the U.S. as South Korea's number one export market. China was also the number one destination for South Korean FDI, with \$2.49 billion invested. The bad news is that the 47 percent rise in exports to \$35.1 billion accounted for 98 percent of South Korea's GDP growth. South Korea's trade surplus with the PRC increased to a record \$13.2 billion. Without China as an export market, South Korea's economic growth would have been virtually flat.

South Korean overdependence on China for its economic growth is raising a variety of concerns. First, China's leadership is trying to keep its economic growth from spinning out of control, and efforts to slow the pace of growth in China will have negative implications for South Korea's GDP. Second, China's role as a global manufacturing center continues to contribute to a hollowing out among South Korean small- and medium-sized firms, many of which are relocating to China to maintain competitiveness of labor costs. Third, China is increasingly becoming a competitor with South Korean exports in third-country markets.

Finally, China's voracious demand for raw materials to fuel its own economic growth is leading to supply shortages and forcing up the prices of raw materials on world markets, with implications for South Korean cost competitiveness and ability to obtain the imports

for its industrial growth and exports. China's demand for iron ore, the key ingredient in steel manufacturing, grew by over 18 percent to over 407 million tons, accounting for 30 percent of global trade. China's consumption of cement and coal represented one-half and one-quarter of global demand, respectively. The resulting shortages have driven increases in the price of iron ore, coal, lumber, oil, and other raw materials that are also influencing the cost of finished steel products, as major steel producers scramble to secure their own long-term supply contracts to avoid future shortages and governments impose restrictions on exports of critical industrial materials in light of China's increased demand.

The price hike in raw materials driven by China's growth has mixed effects on Korea. On the one hand, the increased cost of raw materials is driving manufacturing and steel import costs up in sectors such as automobile manufacturing and shipping, leading to cost overruns. Steel prices for shipbuilding increased by about 30 percent last year, partly as a result of the raw materials supply squeeze, narrowing profit margins for some delivery contracts. On the other hand, China's increased import demand for such products underlies Korea's record export growth. In the shipbuilding sector, demand from China and new orders for double-hulled oil tankers and LNG tankers have driven record growth in the Korean shipbuilding sector, which represented 40 percent of the global market and is fully booked through 2006.

China's rapid economic growth in 2003 and its establishment as a key manufacturing center driving the global economy is likely to have implications that Korea, like the rest of the world, is only beginning to comprehend. China is surpassing the U.S. as a market for exports from Korea, Japan, and other Asian countries. The implications of a Chinese slowdown would have global reverberations as China becomes a critical piece of the global supply chain.

Chronology of China-South Korea Relations January-March 2004

Jan. 7, 2004: Comments by Culture Minister Lee Chang-dong that the debate over the history of the Koguryo dynasty should be handled through private means ignite strong criticisms from Korean NGOs that the ROK government is failing to defend Korea's position and history.

Jan. 29, 2004: ROK Ministry of Finance and Economy announces that China was Korea's preferred foreign investment destination, with investments of \$2.49 billion representing 45.8 percent of South Korea's total overseas investment.

Feb. 10, 2004: Korea Industrial Technology Foundation forecasts that China will narrow its technology gap with South Korea in mobile phones and flat-panel displays within the next six years.

Feb. 12, 2004: ROK Financial Supervisory Commission and the China Banking Regulatory Commission sign an MOU to promote cooperation in regulating Korean and Chinese banks that establish overseas branches in each other's countries.

Feb. 13-15, 2004: PRC Vice FM Wang Yi consults with South Korean officials including ROK FM Ban Ki-moon in Seoul in preparation for the second round of six-party talks.

Feb. 25-28, 2004: Second round of six-party talks is held in Beijing.

March 1, 2004: South Korea's state-funded Research Center for Koguryo History is established with an annual budget of \$9 million.

March 6, 2004: PRC FM Li Zhaoxing mentions at a press conference that a possible visit to South Korea by President Hu Jintao is being discussed by the two governments.

March 14, 2004: Korean authorities in Cheju Island seize six PRC fishing boats for operating in Korea's exclusive economic zone.

March 19, 2004: PRC officials release freelance photographer Seok Jae-hyun on parole. Seok had been jailed in the PRC for 14 months on charges of assisting in "human trafficking" as part of an effort to send North Korean refugees by boat from Yantai, China to South Korea.

March 23-25, 2004: PRC FM Li travels to Pyongyang to meet with senior DPRK leaders, including National Defense Commission Chairman Kim Jong-il.

March 25, 2004: Reports indicate about 100 North Korean refugees launch a hunger strike at a Chinese detention facility in the border city of Tumen.

March 26-27, 2004: International conference on historical interpretations and artifacts from the Koguryo Dynasty held in Seoul.

March 28-30, 2004: ROK FM Ban meets with Chinese FM Li in Beijing to discuss progress in dealing with the North Korean nuclear crisis.