

China-Korea Relations:

All Eyes on Beijing: Raising the Stakes

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With North Korea's Feb. 10 announcement that it would indefinitely suspend its participation in the Six-Party Talks, a series of intensive bilateral and multilateral consultations regarding the North Korean nuclear weapons program took center stage this quarter. China's diplomacy with both Koreas intensified accordingly. PRC-DPRK diplomacy reached the highest levels, with an exchange of messages between President Hu Jintao and Central Defense Commission Chairman Kim Jong-il and the scheduling of a visit by Hu to the DPRK for later this year through an invitation conveyed by DPRK Prime Minister Pak Pong-ju during his March visit to Beijing.

There was a simultaneous intensification of diplomatic contact between Beijing and Seoul, with South Korea and all other parties looking to Beijing to find a way to reverse the DPRK position on the Six-Party Talks. These intensive consultations took place at the same time that a series of diplomatic setbacks occurred in the PRC-South Korean relationship, including the forcible shutdown of a press conference on North Korean refugees that South Korean National Assemblymen tried to hold at a Beijing hotel, the repatriation to North Korea of a South Korean prisoner of war, and increasing signs of bilateral economic tensions.

Beijing's long-term strategy of hedging its bets on the Korean Peninsula through a vibrant relationship with South Korea appeared to be paying handsome dividends as South Korean President Roh Moo-hyun, in response to rising bilateral tensions with Japan, suggested that South Korea may step outside the constraints of the U.S.-ROK alliance to play a strategic balancing role in the region. In short, no parties in the regional nuclear poker game in Northeast Asia actually had to show their cards this quarter, but North Korea raised the stakes and every other party matched North Korea's bet and remained in the game; it remains to be seen who is bluffing and who holds a winning hand.

North Korea Plays Hard to Get

North Korea's unilateral suspension of its participation in the next round of Six-Party Talks in Beijing has put the China-North Korea relationship into the spotlight as never before. No other party has sufficient leverage to convince the DPRK to return to dialogue. While Beijing's position is enhanced by the fact that all the other parties to the talks are depending on Beijing's diplomatic skills in dealing with the DPRK, it is by no

means clear whether or how the PRC might use the tools at its disposal to discipline and entice North Korea back to the negotiating table. The Brookings Institution's Jing Quan has characterized the principles of PRC diplomacy toward North Korea as "inheriting tradition, facing the future, good neighborliness and friendship, and strengthening cooperation." The U.S. has consistently pressured Beijing to make North Korea's denuclearization a priority, emphasizing that a nuclear North Korea inherently jeopardizes the fundamental PRC goal of regional stability. Beijing may agree that the nuclear issue should be resolved, but not necessarily on U.S. terms – that there may be a difference in priority between regional stability and the denuclearization of North Korea. Thus, the longer North Korea stays away from the Six-Party Talks, the more contentious the issue of how to deal with North Korea may become as part of the U.S.-PRC relationship, with negative ramifications for a South Korea that does not want to be forced to choose between Washington and Beijing.

Immediately following the DPRK's Feb. 10 announcement, the call went out to Beijing to bring North Korea back to the table. Following a rumored delay in the scheduling of a high-level visit to Pyongyang by Wang Jiarui of the CCP International Liaison Department until after Kim Jong-il's birthday on Feb. 16, the Wang delegation visited North Korea Feb. 19-21 and delivered an unusually public message from PRC President Hu. The public aspects of Hu's message emphasized China's interest in regional stability, the denuclearization of the Korean Peninsula, and resolution of any DPRK concerns about its own security (presumably in that order), and that it was in the interests of both the DPRK and the PRC to resolve these issues peacefully through negotiations. Chairman Kim took the opportunity of Wang's visit to state that North Korea remains committed to pursuing denuclearization, but presented several conditions for North Korea's return to the talks, including a retraction of the Bush administration's characterization of the DPRK as an "outpost of tyranny," and other unspecified actions that would signify that the U.S. no longer is pursuing a "hostile policy" toward North Korea.

Following the Wang Jiarui visit to Pyongyang, representatives from the U.S., Japan, and South Korea met in Seoul to analyze the various reports that China had provided from the meeting, and Beijing dispatched Ambassador Wu Dawei to Seoul and Ambassador Ning Fukui to Washington in late February and early March, respectively, to provide more details regarding the conversations with Kim Jong-il in Pyongyang. Secretary of State Condoleezza Rice's mid-March visit to Japan, South Korea, and China provided further opportunities for more detailed discussion about how to coordinate diplomacy toward North Korea, but Secretary Rice also stated that the U.S. "can not wait forever" to resolve this issue, revealing U.S. frustration with North Korea, and, by extension, with China's failure to deliver a firm commitment by North Korea to return to the talks.

Aside from China's shuttle diplomacy with North Korea, many outside observers want to know more about the mix of carrots and sticks that China might have used or might be willing to consider using as part of its diplomacy toward North Korea. It is widely recognized that the PRC supplies 80-90 percent of North Korean energy and food needs. (China has recently announced a cut-off of poultry imports from North Korea, but this

was in response to reports that North Korea was urgently combating bird flu.) Bilateral trade figures for 2004 show that trade between China and the DPRK increased by over 35 percent to \$1.38 billion (or 44 percent of the DPRK's recorded trade volume of \$3.11 billion), while the DPRK's bilateral merchandise trade with South Korea and Japan declined. A highly publicized temporary cut-off of an oil pipeline between the PRC and North Korea two years ago had been cited as one factor that originally brought North Korea to the table. The question of which tools China might use to bring North Korea back to the table has drawn a wide range of speculation within and outside of China. ROK Ambassador to the PRC Kim Ha-joong has publicly assessed that China has sufficient economic leverage to decisively influence North Korea's behavior, implying that such leverage should be used.

What more would China be willing to do short of imposing the type of sanctions that would punish North Korea without destabilizing the North Korean regime, and to what extent would South Korea cooperate with such an approach? Increasingly, it is possible to detect undertones of strategic distrust in Seoul over China's motives in providing economic assistance to North Korea. Some see South Korea's economic ties with North Korea as a strategic counterweight to China's economic dominance in North Korea, but it is also possible to imagine that North Korea could revert to its familiar game of playing China and South Korea against each other to get resources.

China-South Korean Economic Relations: Strong, but Signs of Conflict

The China-South Korean economic relationship continued to grow apace in 2004 as the foundation for deepening cooperation and close ties between the two countries. South Korean exports to the PRC grew by more than 42 percent to over \$48 billion, representing almost 20 percent of South Korea's total exports. The South Korean Ministry of Finance and Economy reported that South Korea's outward foreign direct investment expanded by 36.8 percent to \$7.94 billion in 2004 on the strength of \$3.63 billion of investments in China. Over 2.34 million Koreans visited China in 2004, a 48 percent increase over 2003. Over 50,000 Koreans are estimated to be studying in China and over 10,000 Chinese students are in South Korea.

South Korean firms such as the LG Corp., which has captured a significant share in China's domestic market through sales of "white goods," (refrigerators, microwaves, air conditioners, etc.) and SK Corp., whose oil refinery operations have benefited significantly from China's surging fuel demand, are beneficiaries of China's continued growth and project significant growth for 2005. Ssangyong Motor Company hopes to take advantage of its new status as part of Shanghai Automotive Group to expand exports to China. Hyundai Heavy Industries has won a contract from China's Cosco Asia to build four 10,000 TEU-plus container ships, some of the largest container ships in the world.

Other issues have also intruded on a virtually unblemished record of economic accomplishment. Hyundai is following in the footsteps of Toyota and General Motors-Daewoo in exploring legal means to redress copyright infringement issues with Chinese

local competitors. South Korea is losing market share in Japan while China's share of the Japanese import market has increased dramatically in recent years, and the same trend can be seen in many third-country markets around the world. South Korea's investment in China continues to erode its domestic manufacturing base. China is increasingly resorting to import restrictions or anti-dumping tariffs against South Korean items.

China-South Korean Political Relations: Turbulent Ride

Aside from the booming economic relationship, South Korea continues to recognize and accommodate Chinese strategic interests on the Korean Peninsula, despite occasional hiccups that dramatize the differences between the two sides. A statement by Prime Minister Wen Jiabao praising South Korea's policy toward North Korea as "reasonable" in a meeting last January with South Korean Prime Minister Lee Hae-chan on the sidelines of a global conference on tsunami relief in Jakarta stands in stark contrast to U.S.-ROK tensions over the nuclear issue. The South Korean and PRC foreign ministers agreed in late February to enhance coordination on the North Korean nuclear issue, in addition to the intensive consultations involving Deputy Foreign Minister Song Min-soon and his counterpart PRC Ambassador Wu.

There remain many unresolved issues in the ROK-PRC relationship, such as the ongoing Koguryeo kingdom dispute and Beijing's heavy-handedness on South Korea's interaction with Taipei. (It was only in March of this year that Taiwan's flag carriers resumed operations to Seoul following the suspension of flights when Seoul normalized relations with Beijing.) The issue that flared up this quarter was China's handling of refugees, and the violent treatment that the PRC government gave opposition party South Korean legislators who tried to hold a news conference on the issue last January in Beijing. A four-person delegation of National Assemblymen including Kim Moon-soo visited northeastern China to collect information on the whereabouts of a missing South Korean pastor rumored to have been abducted in 1999 by North Korean public security forces, presumably with the tacit cooperation of Chinese authorities.

Upon their return to Beijing, the South Korean lawmakers organized a news conference at the Beijing Great Wall Sheraton Hotel in Beijing, but it was interrupted when Chinese agents literally pulled the plug in the conference room, shutting off electricity, and physically removed reporters and aides to the lawmakers on the pretext that the South Korean lawmakers had not applied for the appropriate permission to hold a news conference. The unceremonious treatment outraged South Korea's opposition and occasioned a formal protest from the South Korean Ministry of Foreign Affairs and Trade. However, the South Korean government also quickly determined that it would not strain ties with China over such an "unexpected variable." The incident also provided a concrete example of the limits of expression and differences between the South Korean and Chinese political systems.

Less than two weeks later, it was determined that the Chinese authorities deported to North Korea an escaped South Korean prisoner held in North Korea since the Korean War, 72-year old Han Man-tack. Han had crossed the border in order to meet family

members from South Korea. The South Korean government was notified regarding this issue on Dec. 30 and responded to Beijing, but apparently not in time to prevent Han's deportation to North Korea. Rather than recognizing his past status and the fact that he was originally a South Korean citizen, the PRC authorities treated him as an illegal immigrant, despite prior agreements that the PRC will "fully comply" with South Korea when North Korean refugees are identified as POWs. Media reports on these issues are drawing attention and negative emotional reactions from the South Korean public; these reports have increased worries in Seoul that China's rising regional dominance may not be totally benign.

Seoul between China, Japan, and the U.S.

President Roh has drawn critical attention to strategic developments in Northeast Asia through his recent speeches in response to a complex set of emerging issues. Although the subjects of these speeches were the issue of "strategic flexibility" for U.S. forces in Korea, the territorial dispute between Japan and South Korea, and the unwillingness of some in Japan to acknowledge Japan's negative historical legacy as part of the process of moving on to the future, President Roh has also raised a critical issue that overshadows the decisions of all the players in managing the North Korean nuclear crisis: how will Asian countries relate with each other after the North Korean threat is gone?

For most countries in the region, the answer to this question is related almost exclusively to figuring out how to get relations with China right. But for South Koreans, the strategic preoccupation that immediately comes to mind is how to manage relations with a rising Japan. In fact, given South Korea's strategic location, South Korean diplomacy must figure out how to do both.

This task is complicated by the fact that South Koreans perceive their U.S. allies as oblivious to the ways that changes in Japan are perceived as threatening to South Korean security. South Koreans also carry a psychological burden that stems from South Korea's dependence on the alliance with the U.S. despite South Korea's economic independence and global stature. There will have to be fundamental changes in the nature of the U.S.-ROK alliance relationship if it is to be sustained in the future.

In addressing the issue of "strategic flexibility," President Roh has underscored the obvious point that South Korea will remain in control of the situation on the Korean Peninsula – without ruling out the possibility of U.S.-South Korean cooperation. Given the magnitude of South Korean strategic interests in its relationship with China, however, it is true that South Korea is in a different position from that of Japan. Whether or not U.S. needs truly contradict South Korean strategic imperatives vis-à-vis China remains to be seen.

South Koreans have quietly and nervously watched developments in the U.S.-Japan alliance during the past three years, but did not want to challenge them for fear of undermining South Korea's own interests in maintaining good relations with Washington. Another factor has been that Japan's level of cooperation in its alliance

with the United States has served as a de facto benchmark for what South Korea feels that it needs to do on issues such as dispatching troops to Iraq. Despite many initial misgivings, South Korea performed but made the process so unsatisfying for both sides that no one has a sense of satisfaction from that cooperation. But the issue of the future of the U.S.-Japan alliance, and of Japan as a normal nation, is one that deserves to be on the agenda of discussion as part of the U.S.-ROK alliance and as part of enhanced trilateral exchange among the U.S., Japan, and South Korea.

So where does China fit in? President Roh seems to want to break a downward cycle of conflict between China and Japan by “balancing” in some form – or at least by taking preventive actions to forestall a conflict in which South Korea would inevitably suffer some consequences. And China has managed its diplomacy toward South Korea relatively well despite its heavy-handed approach to dealing with Taiwan and the refugee issue. So there are some who don’t feel “at home” with the United States and Japan, but are China and Russia really the natural friends and allies of the Korean Peninsula? Today’s South Korea will not face the calamity of the 19th century again, but it may have tough choices to make to prevent and delimit the regionwide impact of 21st century tensions.

Given the complexity of the situation that South Korea will face, it is not surprising that President Roh has delivered some contradictory messages. These messages are particularly confusing to U.S. colleagues who have the benefit of distance from a tough Northeast Asian neighborhood. In fact, one sometimes feels that there is nothing South Korea would like better than to move to Europe. After all, the past few months have uncovered sharp conflicts between South Korea and all of its neighbors. Even the desire to just get along with brothers in North Korea is stymied by North Korean refusal to talk to the South. But the important thing is that after several years of domestic political navel-gazing, a new generation of South Korean leaders is waking up to the tremendous regional challenges it will face in coming years.

President Roh campaigned on a peace and prosperity platform. That platform incorporated many ideals, but managing the reality of South Korea’s current situation may not conform to those ideals. It will require great understanding, foresight, diplomatic skill, and greater emotional control among the South Korean public to meet many of these challenges. Ultimately, South Korean pragmatism and good survival instincts are likely to prevail.

Chronology of China-Korea Relations January-March 2005

Jan. 5, 2005: Chinese premier Wen Jiabao praises Seoul's approach toward the North Korean nuclear issue during a meeting in Jakarta on the sidelines of a tsunami relief conference with South Korea's PM Lee Hae-chan. Suggesting closer bilateral cooperation, Wen also said Seoul's "peace and prosperity" policy was "essential" to both peace on the Korean Peninsula and the success of the Six-Party Talks.

Jan. 7, 2005: Korea International Trade Association (KITA) announces that China either imposed import restricting measures or initiated antidumping investigations on 21 Korean items last year.

Jan. 10, 2005: Four lawmakers from the opposition Grand National Party (GNP) travel to Yanji in northern China, where North Korean agents allegedly abducted a South Korean pastor in 2000.

Jan. 11, 2005: The Agricultural and Fishery Marketing Corp. (AFMC) announces that kimchi imports surged by 152.9 percent to 72,600 tons in 2004 from 28,700 tons in 2003, hitting an all-time high, due mainly to rising demand for low-priced Chinese kimchi.

Jan. 12, 2005: As GNP lawmakers start a news conference in a Beijing hotel about North Korean refugees, microphones and lights are turned off and security officials charge in, pushing and shoving lawmakers and about 50 reporters out of the room.

Jan. 13, 2005: South Korean Foreign Ministry summons Chinese Ambassador Li Bin and demands an explanation for Chinese actions in shutting down a news conference by ROK legislators at a Beijing hotel. The Chinese government says domestic law bans news conferences not approved in advance.

Jan. 14, 2005: Opposition GNP accuses China of "diplomatic arrogance" for manhandling GNP lawmakers who tried to hold a news conference in Beijing, and demands the Roh government punish Seoul diplomats responsible for policy on Chinese affairs.

Jan. 17, 2005: Sohn Jin-bang, chief of LG Electronics' Chinese holding company, states that LG Electronics will make a strong push to increase its electronic appliance sales in China by 50 percent from last year's \$10 billion.

Jan. 19, 2005: Seoul City Government announces its new Chinese name, "(soual)," which means "a leading city." The name is intended to replace the traditional Chinese language reference for Seoul, "han-cheng."

Jan. 23, 2005: Hyundai Heavy Industries announces it has won a contract to build the world's largest container ships from China's Cosco Asia, beginning the era of building container ships that can carry more than 10,000 TEUs of cargo.

Jan. 24, 2005: Ssangyong Motor, South Korea's fourth-largest automaker, announces it will end its debt workout programs, five years after it fell into financial turmoil following the Asian economic crisis and following the successful purchase of Ssangyong by the Shanghai Automotive Group.

Jan. 25, 2005: KITA announces that Korea's direct investment in China amounted to \$6.25 billion last year, more than twice the \$2.72 billion two years earlier.

Jan. 27, 2005: ROK Deputy FM Song Min-soon meets with Chinese Ambassador Li and states Seoul's objection to the fast return to the DPRK of Han Man-tack, a refugee from North Korea who also was a former South Korean soldier taken prisoner during the 1950-53 Korean War.

Jan. 30, 2005: According to KITA, North Korea's economic reliance on China grew last year, with bilateral trade between the two states hitting a record \$1.38 billion, up 35.4 percent from a year earlier.

Jan. 31, 2005: Kyonggi Provincial Governor Sohn Hak-kyu announces that his provincial government will develop a multi-complex showbiz village called "Hallyu-wood," to expand the current popularity of Korean culture sweeping Japan, China, and Southeast Asia.

Feb. 10, 2005: DPRK announces the "indefinite suspension" of its participation in Six-Party Talks until conditions change, asserts it has "manufactured nuclear weapons."

Feb. 11, 2005: KITA announces that China's share of the Japanese import market soared to 20.7 percent last year from 14.5 percent in 2000, while South Korea's share of Japan's imports dropped from 5.4 percent in 2000 to 4.9 percent last year.

Feb. 13, 2005: Hyundai Motor announces it is working closely with 10 law firms in China to toughen its stance against copyright violations by Chinese automakers.

Feb. 16, 2005: ROK ruling Uri Party announces intent to sign a memorandum of understanding to increase cooperation with China's Communist Party.

Feb. 17, 2005: ROK ambassador to the PRC Kim Ha-joong says in Seoul that China has bigger influence than others might expect on North Korea, if it is willing to use that influence to settle the North Korean nuclear issue.

Feb. 17-19, 2005: ROK Deputy FM Song Min-soon travels to Beijing for consultations with his counterpart, PRC Ambassador Wu Dawei. Newly appointed envoy for Six-Party Talks Ambassador Chris Hill has separate consultations in Beijing with Wu.

Feb. 19-21, 2005: PRC CCP international liaison department head Wang Jiarui meets with Kim Jong-il and other top North Korean officials to discuss the North Korean nuclear standoff and DPRK reluctance to return to the Six-Party Talks. He delivers a letter from Hu Jintao on China's policy objectives and the Six-Party Talks.

Feb. 22, 2005: Finance officials from China, Japan, and South Korea meet counterparts from ASEAN to discuss ways to counteract the weak dollar.

Feb. 26, 2005: South Korea, the U.S. and Japan meet to discuss North Korea's suspension of participation in Six-Party Talks, compare notes on the visit of Wang Jiarui to Pyongyang, and urge China to step up efforts to persuade Pyongyang to return to the talks.

March 1, 2005: Taiwanese airlines, including China Airlines, EVA Air, Far Eastern Air Transport, TransAsia Airways, and UNI Airways, resume regular flights to South Korean cities, ending 13 years of suspended service.

March 2, 2005: Jiang Zhiwei, of the Shanghai Automotive Industry Corporation that recently took over Ssangyong Motors, announces that Ssangyong has successfully completed the restructuring process, and is ready to become a top automaker in Asia.

March 2-3, 2005: Chinese chief negotiator Wu Dawei holds meetings in Seoul with South Korea's FM Ban Ki-moon, Vice FM Song Min-soon, and Unification Minister Chung Dong-young in a drive to get North Korea back to the negotiating table. Ambassador Wu also meets Ambassador Chris Hill, newly appointed senior U.S. representative to the Six-Party Talks.

March 8, 2005: President Roh Moo-hyun in a speech at the Air Force Academy commencement ceremony clarifies that South Korea will not allow U.S. troops to become involved in any dispute in Northeast Asia without the consent of the government.

March 22-28, 2005: DPRK PM Pak Bong-Ju embarks on a week-long visit to China at the invitation of counterpart PRC PM Wen Jiabao. PM Pak is reported to have brought an invitation for PRC President Hu to visit the DPRK later this year.

March 22, 2005: South Korean President Roh declares that South Korea will play a "balancing role" to help ensure peace and prosperity in Northeast Asia and on the Korean Peninsula, possibly signaling a shift away from the U.S. and toward China.

March 24, 2005: Samsung Fire and Marine Insurance, South Korea's largest non-life insurer, becomes the world's first insurance company to establish a subsidiary in China, according to the ROK Financial Supervisory Commission.

March 30-April 2, 2005: ROK Defense Minister Yoon Kwang-ung visits China to meet with PRC counterparts and tour major Chinese military facilities.