



**China-Korea Relations:  
Hu Visits the Two Koreas**

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Completion of the Sept. 19 Joint Statement at the Six-Party Talks set the stage this quarter for top-level Chinese diplomatic interaction with the two Koreas. PRC President Hu Jintao made successive visits to Pyongyang and Seoul in October and November. Hu's visit to Pyongyang at the end of October was the first visit by a Chinese president since Jiang Zemin's visit in September 2001, and his state visit to Seoul in conjunction with the APEC meeting in Busan was his first as president of the PRC. Both visits boosted China's diplomatic aims and strengthened China's relations with Pyongyang and Seoul, respectively. But the visits also highlighted the economic, diplomatic, and policy gaps in China's relationships with the two Koreas and shed new light on the difficulty of reaching a satisfactory solution to the DPRK's ongoing nuclear development efforts.

The economic balance sheet illustrates the differences in China's relationship with the two Koreas: Hu's visit marked an intensification of China-DPRK economic ties, with reports of PRC pledges of up to \$2 billion in investments in the DPRK within the next few years to enhance stability and promote economic reform in North Korea, while indirectly stimulating greater PRC-DPRK trade that could expand as much as 30 percent to \$2 billion in 2005. During Hu's visit to Seoul, South Korea formally gave the PRC "market economy" status. The PRC-ROK bilateral trade balance will reach over \$100 billion for 2005, three years earlier than had been anticipated. In addition, South Korea has emerged in 2005 as one of the top three leading investors in China. The issue of North Korea's counterfeiting of U.S. dollars also involves China since U.S. sanctions on a bank located in Chinese-controlled Macao became a central challenge for Chinese diplomats responsible for overcoming an emerging stalemate in the Six-Party Talks.

Despite continued growth in the bilateral trade volume, tensions reemerged with the outbreak of public and symbolic "kimchi wars" over phytosanitary standards for South Korean imports of kimchi made in China. There were also a number of private-sector developments in the automobile and high-tech sectors that illustrate the complexity and likely challenges that intensified bilateral trade relationships may bring to the China-South Korean economic relationship.

## **Hu's the man on the state visit to Pyongyang**

President Hu Jintao's long-delayed visit to Pyongyang was designed to consolidate and stabilize China-DPRK ties. The achievement of the Joint Statement removed the primary obstacle that had reportedly delayed the Chinese leader's visit since April, allowing Hu to visit Pyongyang without the need to bring back nuclear concessions or to twist DPRK Chairman Kim Jong-il's arm on any immediate issues. The visit also marked the culmination of several years of concerted Chinese efforts to cultivate stronger political and economic ties with the DPRK leadership, including quarterly visits by senior PRC figures since 2003 designed to ensure direct communication and policy coordination with Kim Jong-il and the DPRK's top leadership.

Hu received the red carpet treatment from Kim Jong-il that has been reserved for Hu's predecessor Jiang Zemin and ROK President Kim Dae-jung: a personal airport greeting and send-off from the chairman himself, an adoring welcoming crowd of Pyongyang citizens that numbered in the tens of thousands, a special performance of the Arirang festival, a visit to the Chinese-backed joint venture Taean Friendship Glass Factory, and meetings with all the DPRK top brass, reportedly including a special introduction to the man rumored to be Kim Jong-il's chosen successor, his second son Kim Jong-chol. However, Chinese observers interpreted the fact that Hu's visit was combined with a visit to Vietnam illustrates that while China-DPRK ties had recovered, they were no longer as "special" as in the past.

Hu is reported to have promoted four principles for developing bilateral relations with the DPRK: 1) forging closer high-level contacts and exchanges, 2) expanding and enriching the scope and substance of cooperation, 3) promoting economic and trade ties, and 4) conducting active coordination for common interest. Hu's visit furthered the first objective, and it is reported that he mobilized many resources in pursuit of the second and third objectives, effectively restoring the China-DPRK relationship to its highest point since China normalized relations with South Korea in 1992.

Notable forms of expanded Chinese cooperation with the DPRK that coincided with Hu's Pyongyang visit included a new pattern in China's management of North Korean refugees who enter South Korean schools or other facilities not protected by diplomatic immunity. In the past, China had informally allowed North Korean refugees who came under South Korean protection at such facilities safe passage to Seoul, but in September the Chinese authorities took into custody North Korean refugees who had sought asylum at a South Korean school in Yentai and repatriated them to the North. There are rumors that China's cooperation with North Korea following the Hu visit includes the renewal of China-DPRK military cooperation in the form of Chinese supply of spare parts for aging North Korean military equipment.

President Hu's visit highlighted China's latest gift to Kim Jong-il: the Taean Friendship Glass Factory, an investment reportedly worth \$24 million. PRC Councilor Wu Yi had been in Pyongyang only weeks earlier on the Oct. 10 anniversary of the founding of the DPRK to jointly open the glass factory with Kim Jong-il and to remove any difficult

issues in the way of Hu's visit. The Taean Friendship Glass Factory symbolizes a new Chinese emphasis in its relations with the DPRK, shifting from aid to investment and joint ventures with DPRK counterparts designed to promote economic stability in the DPRK, to consolidate Chinese economic influence in North Korea, and to promote economic reforms according to the Chinese model. For instance, the PRC has also backed a China-DPRK joint venture bicycle factory in Pyongyang. However, even some Chinese analysts wonder whether China's partners in the DPRK share the priority put on reform and whether it is possible to induce true economic reform in North Korea under the current leadership.

The task of "conducting active coordination for common interest" presumably would include a clear understanding between China and the DPRK that North Korea would commit itself to fulfilling its denuclearization as promised in the Chinese-brokered Joint Statement that concluded the fourth round of the Six-Party Talks. However, Kim Jong-il's public commitment only extended to continued participation in the six-party process. The language of "coordination for common interest" might suggest that Hu expects no sudden surprises from Kim Jong-il's handling of the nuclear issue, although some Chinese analysts suggest North Korean surprises are unavoidable as a way for the North to demonstrate its independence from China. It remains to be seen whether the Chinese are willing to use their influence more actively to compel North Korean cooperation at the talks in the context of consolidated PRC-DPRK ties.

Finally, the October Hu visit to Pyongyang was important to both sides in light of the fact that Hu was scheduled to visit Busan in November for the annual APEC meeting. Thus, Hu's visit to North Korea prior to going to South Korea for APEC preserved a sense of balance in China's relations with the two Korea.

### **Hu in Seoul: taking comprehensive, cooperative partnership to a new level**

Hu returned to the Korean Peninsula three weeks after his visit to Pyongyang for a state visit with ROK President Roh Moo-hyun and the annual meeting of APEC. The Hu-Roh summit came one day prior to Roh's meeting with President George Bush in Gyeongju and two days prior to the APEC summit meeting in Busan. Although Hu's state visit to Seoul seemed to have been downplayed in the Korean press, it provided interesting protocol challenges in comparison with both Hu's reception in Pyongyang and with the Roh-Bush meeting the day after in Kyongju.

On the one hand, Hu's state visit to Seoul was subdued in comparison with the all-out reception he had received from Kim Jong-il only three weeks earlier. On the other hand, Roh received Hu for a state visit in Seoul, but Roh only dropped by Gyeongju on the way to Busan the next day for a summit meeting with Bush. One might argue that the comparative handling of the two visits – and the results, a PRC-ROK Joint Communiqué vs. a U.S.-ROK Joint Statement – represents a slight to the U.S. alliance. Alternatively, one might argue that the two visits were handled properly in light of the comprehensive economic ties that Seoul and Beijing now enjoy, evident tensions in the U.S.-ROK

alliance relationship, and the stakes that Seoul has in working with Beijing to manage the danger of instability in North Korea.

The China-ROK Joint Communiqué emphasized that the “comprehensive, cooperative partnership” that had been affirmed during President Roh Moo-hyun’s July 2003 visit to Beijing has developed beyond expectations and that it is time to take the relationship to a new level by continuing to expand and deepen exchanges and cooperation. Hu and Roh welcomed the Six-Party Talks Joint Statement and encouraged the concerned parties “to demonstrate sincerity and flexibility, implement the statement in earnest, and continue to make progress in advancing the process of talks.” The Chinese side welcomed progress in inter-Korean reconciliation and expressed appreciation for South Korean efforts to promote peace, stability, and regional cooperation, as South Korea expressed “full understanding and respect” for China’s position that Taiwan is “an inalienable part of Chinese territory.”

Both leaders affirmed the desirability of deepening political contacts at the highest levels among executive, legislative, and party representatives of the two countries, pledged to strengthen coordination among foreign affairs departments, and “to continue strengthening dialogue and contact between the two nations in the realms of national defense and security and to expand exchanges between the two militaries.”

The Joint Communiqué cited the *Joint Research Report on Medium- and Long-Term Development Programs for China-ROK Economic Cooperation and Trade* as a roadmap for continuing to develop the bilateral economic relationship, welcomed the fact that bilateral trade would reach \$100 billion in 2005 (approximately 20 percent share of the ROK’s projected \$500 billion trade volume for 2005), three years earlier than anticipated, and set the goal of doubling trade to \$200 billion by 2012, the 20<sup>th</sup> anniversary of the normalization of China-South Korean relations.

The Joint Communiqué also mentioned South Korea’s designation of China as a market economy, cited private efforts to prepare for a bilateral FTA, mentioned efforts to redress China’s chronic trade deficit with South Korea, stressed the need for continued cooperation to manage bilateral investment, and encouraged a wide range of cooperative efforts in the fields of information technology, bioengineering, environmental technology, energy, and logistics. Finally, the two leaders designated 2007, the 15<sup>th</sup> anniversary of diplomatic normalization, as a year of China-ROK exchanges, resolved to facilitate youth exchanges, and tourism, including Chinese air routes to Jeju Island, and pledged to expand consular representation to Gwangju and Xian.

The day after the Roh-Hu summit, Hu addressed the ROK National Assembly, laying out his vision for the relationship and for China’s rise and regional role. Hu asserted that “Sino-South Korean relations have entered the best stage in history,” suggested that the relationship between China and South Korea is a model of peaceful coexistence between countries with different social systems, that the economic relationship is a model for “mutually beneficial, win-win, and common development,” that the two countries should be “friends that can learn from and complement each other,” and that “Sino-South

Korean ties have gone beyond the scope of bilateral relations against the backdrop of a multi-polar world and economic globalization.”

Although not addressed publicly in specific terms, no doubt Hu also consulted with Roh and others about specifics of his visit to Pyongyang, the parallel positions of South Korea and China on how to address North Korea’s denuclearization and the response to Prime Minister Koizumi Junichiro’s continued visits to Yasukuni Shrine, and the future development of an East Asian community. It is also notable that the ROK government deferred to Chinese wishes on Taiwan representation at the APEC summit meeting, declining Chen Shui-bian’s choice of National Assembly Speaker and KMT member Wang Jyn-ping in favor of former economics minister and Chen Shui-bian’s special advisor Lin Hsin-i.

### **Kimchi wars: a cloud on the economic horizon**

The beginning of the quarter suggested the possibility of real economic and political trouble in the China-South Korea relationship, as the spat over phytosanitary standards and Chinese imports hit a new low over possible contamination of Korea’s national staple, which has increasingly arrived on Korean dinner tables with the “made in China” label. There was a near doubling of kimchi imports to South Korea in the first nine months of 2005, with commercial restaurants in the lead to purchase the cheaper imported kimchi brands.

Korean concerns over contaminated food products from China spilled over from seafood to kimchi in mid-September as an opposition legislator revealed that kimchi made in China might have higher than allowable lead content. By mid-October, the Korean Food and Drug Administration revealed that Chinese imported kimchi contained parasite eggs in higher than expected levels, most likely in connection with Chinese use of animal manure as fertilizer for growing cabbage. The products in question were recalled and destroyed. The national outcry among South Korean consumers dried up kimchi imports and probably confirmed Chinese suspicions that the Korean press and protectionist farmers were trying to manipulate Chinese access to the Korean kimchi market.

Follow-up investigations revealed two facts that undercut Korean consumer reaction and damaged the position of the Korea Food and Drug Administration. First, it was revealed that Korean-made kimchi also contained ringworm eggs, albeit at lower quantities than the Chinese imports. Second, most of the increase in kimchi imports from China was led by Korean companies who had relocated their production operations to China, so the problem with Chinese kimchi production also involved production by Korean companies that sought to take advantage of China’s lower labor and production costs.

Nonetheless, the news reports took a toll that finally stimulated a response from the Chinese government. In early November, the PRC announced its own concerns about contamination of Korean-made chili paste sold in China, imposed sanctions on a number of Korean producers, and also expressed concerns about the safety of some materials used in Korean-made cosmetics that enjoy rising popularity in the Chinese market.

However, it turned out that none of the Korean companies cited by China was exporting to the Chinese market! The incident stimulated questions about the standards of the Korea Food and Drug Administration and served to intensify China-ROK governmental coordination to institutionalize more effective food safety and quarantine procedures as part of bilateral trade.

The 2005 “kimchi wars” are reminiscent of the 2000 China-ROK “garlic wars,” which occurred just prior to China’s entry into the World Trade Organization (WTO). At that time, the stakes were higher as there was no global mechanism to address bilateral trade disputes between China and South Korea. China’s heavy-handed response linked South Korean telecommunications imports to the garlic exports, effectively forcing the South Korean government to stand down. Despite the existence of an institutional framework for managing China-ROK trade disputes through the WTO, China’s resort to unilateral measures during the latest incident showed a mixture of sophistication and heavy-handedness. The sanction of Korean companies not doing business in China was a cost-free face-saving measure, but the linkage of Korean consumer safety concerns over kimchi to questions about the safety of Korean cosmetics appears to be overdrawn and smacks of tactics used by China during the garlic wars. It remains to be seen whether such tactics will haunt the China-ROK trade relationship in the future.

### **Private sector challenges**

A wide range of predominantly private sector developments deserve brief mention as future issues for the rapidly growing China-South Korean economic relationship.

- Shanghai Automotive Industry Corp. (SAIC) – South Korean union leaders from Ssangyong Motors responded poorly to SAIC’s announcement that the latest Ssangyong model would be produced in China. Labor union leaders sought a meeting in December with SAIC Chairman Hu Maoyuan following fruitless negotiations with Ssangyong Motor President Jiang Zhiwei over possible restructuring and technology transfers to China. SAIC’s Korean investment is proving a valuable tool for Chinese executive learning on the subject of labor-management relations.
- Korean farmers in Hong Kong – Hundreds of militant Korean farmers in Hong Kong to protest WTO talks held in mid-December were detained after failing to observe the terms of peaceful demonstration set down by Hong Kong police authorities. Families of the farmers protested “human rights” violations by Hong Kong police during their detainment and a South Korean vice minister flew to Hong Kong to negotiate the release of the farmers. Chinese authorities attempted to expeditiously resolve the unwanted “export” of Korean protest methods, which drew the lion’s share of international coverage during the Hong Kong WTO negotiations.
- Hyundai Motor Company investment in China – Hyundai Motors had a banner year with strong inroads into the China market, increasing sales an average of

approximately 50 percent in 2005 on the strength of expanded production in Beijing and Shanghai; however, Hyundai and supporting auto parts suppliers that moved facilities to China face difficulties with technological processes walking out the back door to Chinese competitors and Chinese government negotiators who demand technology “offsets” in return for expanding production lines and facilities in China. An internal inspection team found that a Chinese local partner company of Hyundai had shared confidential data with Chinese competitors. South Korean corporations in the IT and other sectors continue to face challenges from Chinese efforts to steal South Korean technology and undercut South Korea’s comparative advantage in the market.

- The “South Korean wave” of cultural exports to China continues to bolster South Korea’s brand image and export competitiveness to China, but signs of a backlash have emerged on Chinese concerns that South Korean exports have become too successful in China. SK Communications opens Cyworld mini-homepage features in China and expects to reach 1 million subscribers by the end of 2005.

### **Prospects for 2006**

The immediate diplomatic challenge for Chinese policymakers as they look to 2006 is how to break the stalemate in Six-Party Talks resulting from North Korean efforts to link the U.S. sanctions on Macao-based Banco Delta Asia under the Patriot Act to a continuation of the six-party negotiations. These sanctions add a new dimension to China-DPRK-U.S. interactions since the bank in question is ultimately under the control of Chinese authorities, who certainly would have known in advance about the U.S. action under the banner of fighting terrorism. But it is also easy to imagine that the easiest access of DPRK high officials and companies to international capital would be through China-based banks, including the Bank of China. So the effectiveness of such sanctions will depend on China’s cooperation – or at least acquiescence – to further actions that the U.S. might take under antiterrorism provisions. At the same time, to the extent that DPRK illegal activities become public – and it is easy to imagine that U.S. dollars are not the only money that a DPRK counterfeiting operation would be able to master – China most likely will not oppose sanctions. Thus, China’s cooperation is crucial, but the fact that U.S. authorities are initiating the action gives China a form of plausible deniability regarding responsibility for such actions.

From a strategic perspective, Chinese leaders are very satisfied with the rapid development of China-South Korean economic ties and want to show off the relationship with South Korea as evidence of mutually beneficial cooperation between differing social systems. South Korea has benefited from China’s economic growth, but South Korea’s future economic prospects appear to be increasingly tied to China’s economic future. For this reason, South Korean access to the Chinese consumer market will become increasingly important as international export competition grows. A Chinese economic slowdown would also have serious ramifications for South Korean economic prospects.

But will South Korea's ties to the Chinese economy have implications for South Korea's political and security orientation? Although there is little evidence that Chinese strategists are seriously attempting to exploit closer China-South Korean economic ties for political purposes, some see South Korea's alliance with the U.S. as an obstacle to the development of a deeper China-South Korean relationship. And some South Korean analysts are increasingly uncomfortable with the extent of South Korea's economic dependence on China. The next year may show whether South Korean deference to Chinese political preferences emerges as an inhibiting factor in managing U.S.-ROK alliance relations.

### **Chronology of China-Korea Relations October-December 2005**

**Oct. 3, 2005:** Korean shipbuilding companies announce plans to increase steel imports from China to address a shortage of steel sheets.

**Oct. 8-1, 2005:** PRC Vice Premier Wu Yi visits Pyongyang to join celebrations of the 60<sup>th</sup> anniversary of the Korean Worker's Party, meets with North Korean leaders including DPRK Chairman Kim Jong-il, and participates in ceremonies marking the opening of the Taean Friendship Glass Factory, a China-DPRK joint venture.

**Oct. 10, 2005:** ROK Ministry of Foreign Affairs and Trade announces that the Chinese government deported seven North Korean defectors back to North Korea in late September after they sought asylum at a South Korean school in Yantai, China Aug. 29.

**Oct. 11, 2005:** Korea Food and Drug Administration announces that kimchi imported from China has lead contents well below internationally recognized permissible level for vegetables, ending a consumer scare.

**Oct. 11, 2005:** ROK MOFAT announces that China has handed over to South Korea eight North Korean defectors who entered a South Korean school in Qingdao, China.

**Oct. 10-12:** Eighth Chinese World Chinese Entrepreneurs Convention is held in Seoul, including over 3,100 Chinese businessmen and over 500 Korean counterparts.

**Oct. 15, 2005:** *KCNA* releases text of telegram from Hu Jintao to DPRK Defense Commission Chairman Kim Jong-il, which states that "China will continue strengthening the bilateral friendly cooperative relationship between the parties, governments and peoples of the two countries under the spirit of maintaining tradition, seeking future-oriented relationship and enhancing friendly cooperation."

**Oct. 19, 2005:** Following Japanese Prime Minister Koizumi Junichiro's Oct 17. visit to Yasukuni Shrine, ROK Ministry of Education announces that it seeks a three-way meeting among education ministers from China and Japan to address alleged distortions in history textbooks in the three countries.

**Oct. 21, 2005:** Korea Food and Drug Administration announces that it has found parasites in kimchi imported from China.

**Oct. 24, 2005:** ROK MOFAT reveals that the Chinese government has warned the Korean embassy in Beijing that it could retaliate against ROK government reports that have raised fears over the safety of Chinese products.

**Oct. 25, 2005:** Hyundai Motor Company internal investigation reveals that a Chinese partner involved with computer simulation tried to sell confidential technologies to Chinese competitors.

**Oct. 26, 2005:** ROK Ministry of Commerce, Industry, and Energy announces that ROK machinery exports have surged 31 percent in the first nine months of 2005. Demand from China accounted for one-third of South Korean machinery exports.

**Oct. 26, 2005:** ROK Foreign Minister Ban Ki-moon downplays impact of safety concerns about kimchi imported from China on China-ROK relations.

**Oct. 28-30, 2005:** PRC President Hu makes state visit to Pyongyang, meets DPRK Central Defense Commission Chairman Kim, signs accord on economic and technical cooperation, and visits the Taean Friendship Glass Factory.

**Oct. 29, 2005:** Vice Foreign Minister Li Bin visits Seoul to brief counterpart ROK Vice Foreign Minister Song Min-soon on President Hu's visit to the DPRK and to discuss the anticipated fifth round of Six-Party Talks.

**Oct. 31, 2005:** PRC government announces a ban on 10 types of food products from major Korean manufacturers of kimchi, chili paste, and meat barbeque sauces.

**Nov. 3, 2005:** Korea Food and Drug Administration finds that 3.2 percent of Korean domestic kimchi manufacturers (16 out of 502 companies) contain parasite eggs.

**Nov. 7, 2005:** Ssangyong Motor Co. announces that it plans to focus on a Chinese joint venture to develop a new car in China rather than increasing domestic production.

**Nov. 9, 2005:** KCNA reports that Kim Jong-il has visited the recently commissioned Pyongyang Joint Venture Bicycle Factory, a joint venture with the Tienjian Leading Digital Trade Company, Ltd.

**Nov. 9, 2005:** Ssangyong Motor Co. labor union leaders announce a vote on whether to strike in response to Shanghai Automotive Industry Corporation plans to build a joint venture plant in China that labor leaders fear would result in plant closures and technology transfers to a China-based production plant.

**Nov. 9-11, 2005:** Fifth round of Six-Party Talks held in Beijing.

**Nov. 16, 2005:** PRC President Hu and ROK President Roh Moo-hyun hold summit meeting in Seoul as part of PRC state visit to South Korea.

**Nov. 17, 2005:** PRC President Hu addresses ROK National Assembly in Seoul.

**Nov. 18, 2005:** ROK government and ruling party decides to send food inspectors to Chinese facilities to check sanitation of kimchi and other agricultural products.

**Nov. 18-19, 2005:** ROK President Roh hosts APEC leaders in Busan.

**Dec. 2-3, 2005:** Vice Foreign Minister Song Min-soon meets with counterparts in Beijing to discuss how to resolve the impasse in Six-Party Talks resulting from North Korean objections to U.S. sanctions against Macao-based Banco Delta Asia for involvement with alleged counterfeiting and drug running activities by North Korean companies.

**Dec. 4, 2005:** Police arrests two Korean brokers for arranging illegal transplants of human organs in China.

**Dec. 13, 2005:** ROK President Roh meets PRC Premier Wen Jiabao on the sidelines of the East Asian Summit in Kuala Lumpur.

**Dec. 20, 2005:** POSCO announces that it will cut prices on 13 steel products by up to 17 percent in response to low-cost competition from Chinese steel producers.

**Dec. 24-27, 2005:** PRC Premier Wen affirms China's policy of developing friendly and cooperative relations with the DPRK during meeting with a DPRK delegation led by Cabinet Vice Premier Ro Tu-chol in Beijing. During his visit, Ro and Chinese counterpart Zeng Paiyan sign agreement on the joint development of offshore oil wells.

**Dec. 29, 2005:** ROK Vice Foreign Minister Song Min-soon states that the issue of North Korean counterfeiting is up to the U.S., North Korea, and China to resolve.