



**China-Korea Relations:**  
**Political Fallout from North Korea's Nuclear Test**

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The North Korea's Oct. 3 announcement and Oct. 9 test of a nuclear device provided the catalyst for regional diplomacy this quarter, including enhanced scrutiny and a possible reevaluation of China's strategic relationship with North Korea. Near-term Chinese responses to North Korea's test included public rhetorical condemnation of North Korea's "brazen" act, a Chinese decision to back a stronger-than-expected UN Security Council resolution that imposes limited sanctions on North Korea, stepped-up speculation among Chinese and international analysts about how China might effectively utilize its economic leverage to rein in North Korea, and enhanced efforts to manage diplomatic fallout from the test by re-establishing direct dialogue with Kim Jong-il and through efforts to re-establish multilateral dialogue through Six-Party Talks.

North Korea's nuclear test also stimulated intensive high-level Chinese meetings with South Korea (although South Korea's diplomatic influence was further constrained by regional responses to North Korea's test). President Roh Moo-hyun met Hu Jintao during a Beijing summit one week after North Korea's test. Incoming UN Secretary General and former South Korean Foreign Minister Ban Ki-moon, who could not have been selected for the post without China's support, made a special visit to Beijing in November to discuss the response to North Korea's test prior to departing for New York to take up his new post. Despite a steady increase in Chinese-South Korean trade, investment, and tourism, the tone of China's relations with South Korea has become more sober due to persistent sensitivities in Seoul regarding China's Northeast Asian history project and rising anxieties about slowing growth of South Korean exports to China and rising imports of cheap Chinese industrial goods, among other issues.

**Kim Jong-il tests China's patience**

North Korea's Oct. 3 announcement and subsequent conduct of a nuclear test Oct. 9 was foreshadowed over a year and a half earlier by North Korea's Feb. 10, 2005, claim that it was a nuclear weapons state. Kim Jong-il determined that the moment had come to prove that claim. Intelligence surveillance had picked up preparations for a nuclear test in August following North Korea's July 5 missile tests, and the Chinese government secretly solicited analyst opinion regarding the impact of a North Korean test on China's regional security environment. Although the test has been widely interpreted in the

context of a DPRK standoff with the U.S., the test also contained an explicit message to China regarding the limits of Beijing's capacity to restrain North Korea.

While North Korea's Oct. 3 announcement showed flagrant disregard for international efforts to prevent North Korea from testing a nuclear device, it also revealed a desire to mitigate the seriousness of the provocation. First, the announcement itself was different from the circumstances surrounding the July 5 missile tests, which had been unannounced despite the danger that a missile test might have for those in the vicinity of the launches. Second, the announcement of the test underscored that North Korea "will never use nuclear weapons first, but strictly prohibit the threat of nuclear weapons and nuclear transfer" in an attempt to provide rhetorical reassurance to North Korea's neighbors. Third, the statement emphasized North Korea's intent to conduct the test "under conditions where safety is firmly guaranteed" to assuage Chinese and other neighbors' concerns that environmental damage could result.

While some Chinese analysts perceived the test as inevitable and driven by North Korea's longstanding desires and assessed a U.S. military response as unlikely, others argued North Korea had been driven to test by U.S. intransigence and unwillingness to engage in bilateral negotiations. Following North Korea's announcement that it would test, the Chinese government publicly called upon the DPRK to "remain calm and exercise restraint" and joined a unanimous vote backing a UN Security Council presidential statement Oct. 6 expressing "deep concern" about North Korea's intention to test. These statements made China vulnerable once again to the possibility that the North's escalations would cause China's leaders to lose face, revealing the limits of China's capacity to restrain North Korea. Following the worsening of China-DPRK relations in the wake of the North Korean missile tests and China's decision to support UN Security Council Resolution (UNSCR) 1695 condemning them, Chinese diplomats appeared helpless to prevent North Korea's near-term pursuit of further crisis escalation measures by the time of the Oct. 3 announcement.

The Chinese government's frustration over North Korea's ignoring China's private and public admonitions spilled over in the official reaction to North Korea's test. Beijing expressed its "resolute opposition" to North Korea's "brazen" or "flagrant" act, a description previously reserved only for U.S. provocations. China's Ambassador to the UN Wang Guangya signaled the need for "punitive actions" through the UN Security Council as evidenced by China's support for a resolution that included limited sanctions on sales to North Korea of nuclear and missile components, some types of conventional weapons, and luxury goods, while insisting that implementation of the resolution would remain in the hands of each state and adopting partial application of the UN Charter's Chapter 7 provisions in such a way as to exclude any application of military force in implementing its provisions. The Oct. 14 adoption of UNSCR 1718 condemning North Korea's nuclear tests was unprecedented in the speed of its reaction and in the lengths to which China was willing to go to punish North Korea while excluding the most onerous international sanctions. While not "protecting" North Korea from sanctions, China's support for a resolution that fell short of advocating a military response successfully protected Chinese interests in maintaining regional stability.

While China supported the UNSCR, the PRC was also quick out of the blocks to restore both bilateral and multilateral diplomatic mechanisms for dealing with North Korea. State Councilor Tang Jiaxuan went to Washington, D.C. to meet with President Bush and other senior administration officials, and then visited Pyongyang for a face-to-face meeting with Kim Jong-il on Oct. 19. That visit served to restore communication channels with Kim Jong-il despite China's strong criticism, while also jump-starting indirect communication between the U.S. and DPRK with the objective of revitalizing the Six-Party Talks. Tang returned to Beijing to meet Secretary of State Condoleezza Rice during her consultations in Tokyo, Seoul, and Beijing during the week of Oct. 18-21, following the passage of UNSCR 1718.

Although Tang was quoted in his Oct. 21 meeting with Rice that his visit to Pyongyang was "not in vain," his report did not appear to contain any new pledges from Kim not to pursue further escalation. However, by the end of October, China had succeeded in shoring up U.S. and North Korean commitments to pursue multilateral negotiations by bringing together Assistant Secretary of State Christopher Hill and his counterpart DPRK Vice Minister Kim Gye-gwan for bilateral talks. At those talks, the two negotiators announced that both parties would return to Six-Party Talks and that U.S. "financial measures" against the DPRK would be addressed as part of the agenda for those meetings.

China again hosted Vice Minister Kim and Assistant Secretary Hill at the end of November in Beijing, where the U.S. put forward its most explicit pledges to date that the U.S. would address North Korean concerns about international sanctions, provide North Korea with economic and security guarantees, and lay the groundwork for a permanent peace on the Korean Peninsula in return for North Korea's denuclearization. These new proposals were no doubt aimed in part at demonstrating to China that the U.S. had done everything possible to induce North Korea back to diplomacy in anticipation that China's support for a harder line approach would be critical if North Korea once again rejected the denuclearization path foreshadowed in the Sept. 19, 2005 Joint Statement by the six parties. Two weeks after this exchange the Chinese announced that the "second phase" of round five of Six-Party Talks would convene during the week of Dec. 18, but the meeting broke after four days of discussions with no apparent progress. Presumably, the PRC had also signaled to North Korea the need for a return to the framework outlined by the Joint Statement and the need for simultaneous actions by the U.S. and North Korea to defuse the situation and give hope and momentum to the diplomatic negotiation process. But there was no evidence that North Korean negotiators were empowered to act on the more detailed offer that the U.S. put forward at the end of November. The lack of progress has led to greater frustrations over dialogue efforts involving North Korea.

### **China's North Korea diplomacy: which tools are being used and to what end?**

Following the DPRK nuclear test, Chinese leaders have assessed that a nuclear North Korea is not in China's interest and may raise tensions that could jeopardize the stability necessary for economic development. Part of the Chinese calculation is related to the impact of a nuclear North Korea on security concerns in Japan and speeding Japan's

remilitarization. A nuclear North Korea also heightens the risk that a nuclear accident or even the threat to use a nuclear weapon could be directed at China. In the event that a nuclear device might be detonated by nonstate actors, North Korea would be a potential object of military retaliation, further threatening China's core national security interests. North Korea's nuclear weapons pursuits have to this extent challenged China's core national security interests, heightening the stakes in an internal debate among Chinese scholars over whether Chinese and North Korean interests have diverged sufficiently that China should withdraw its support for the North. This debate has stimulated considerable attention on the types of leverage China might be willing to use to rein in the DPRK and bring Pyongyang forward along the path of denuclearization.

The core variable in the debate over how to deal with North Korea is the extent that pressure can be utilized to bring the DPRK to heel without creating bigger problems that would accompany North Korea's destabilization. State Councilor Tang Jiaxuan has observed that "taking a tough stance against a unique country like [North Korea] will only make it more obstinate." Nonetheless, China did take steps to "punish" North Korea by supporting UNSCR 1718 and imposing its own bilateral pressure on North Korea. However, the specific measures China has used are subject to speculation since Chinese diplomats feel that the best way to deal with North Korea is through actions, not through diplomatic warnings or use of public rhetoric.

At an earlier stage in the crisis, China used economic incentives to induce North Korea to enhance cooperation with China while also attempting to promote economic reforms, including an enhanced role for markets and private sector actors. But economic assistance at the central and local levels also proved useful in gaining the attention of the top leadership and guaranteeing North Korea's participation in bilateral and multilateral diplomacy. However, the failure to restrain North Korea from conducting missile and nuclear tests has revealed clearly that Pyongyang's leadership regards Chinese assistance to North Korea as in Beijing's own interests and has not offered the necessary quid pro quos.

Another complicating factor in the Sino-DPRK economic relationship is that the energy and food that China offers to North Korea in fact are dual-purpose incentives, serving the mutual interests of both parties. China's provision of food supports the central leadership while forestalling the possibility of refugee flows to China that might occur in the midst of a severe food shortage. China's growing energy needs have also changed the nature of its assistance to North Korea, as recently established Chinese joint venture investments in North Korea's coal mining and hydro-electric sectors primarily serve to meet Chinese energy needs rather than meeting North Korea's suppressed demand, and a production shut-off might have less direct effect on North Korea than on China. To Chinese analysts, the utilization of such sanctions looks more complicated than the overall logic of North Korea's high dependence on China for energy and food needs might suggest.

In line with UN sanctions, it has been reported that the PRC ordered Chinese banks in Dandong to block North Korean financial transactions shortly after adoption of UNSCR 1718. Those restrictions were apparently dropped shortly after the North Koreans

announced that they were ready to return to the Six-Party Talks. There have also been unconfirmed reports that China temporarily minimized deliveries of crude oil to North Korea through an oil pipeline and that Chinese supplies of diesel fuel to North Korea were suspended in October. However, it is highly likely that whatever temporary sanctions might have accompanied China's implementation of the UN resolution were used as incentives to induce North Korea's to return to the Six-Party Talks. Although the PRC has indicated its strong preference to continue the six-party process, progress through coordinated joint actions by the DPRK and the U.S. has become essential to the continuation of talks. Whether China is able to use these tools to leverage not only North Korea's participation in Six-Party Talks but to compel a North Korean strategic decision to pursue denuclearization (and to coordinate commensurate U.S. actions) is the fundamental question of the six-party diplomacy.

### **China-South Korea consultation: Roh missing-in-action**

As China mobilized for action on multiple fronts, South Korean diplomacy in response to North Korea's nuclear test appeared to be immobilized by indecision and domestic political conflict. The timing of North Korea's nuclear test appeared to be made to order for enhanced China-ROK coordination, coming only four days before Roh Moo-hyun traveled to Beijing for a summit with Hu Jintao. But that meeting appeared to offer only the usual blandishments and affirmations of the need for "a peaceful resolution of the standoff based on the firm principle of a nuclear-free Korean Peninsula." Other subjects addressed during Roh's one-day visit to Beijing included trade issues and South Korean concerns about China's treatment of historical issues related to the Goguryeo kingdom, which is treated in Korean textbooks as an ancient precursor to Korea.

The summit barely rated coverage amid diplomatic activity on other fronts, including the passage of UNSCR 1718 the day after the Roh-Hu summit. While Roh and Hu agreed on the need to reinvigorate the six-party process and that the UN resolution should not aggravate tensions with North Korea, China's position toward the North appeared to have shifted more than the Roh administration anticipated. Prior to the test, China often appeared to use South Korea's position to determine the limit beyond which China would not make demands of North Korea. But following the test, China's position became tougher than that of South Korea, leaving the South out of sync with other participants in the Six-Party Talks. This situation put Chinese diplomats in an awkward position of coaxing South Korean counterparts to stiffen their response to North Korea's provocative actions.

UN Secretary General-designate Ban Ki-moon also visited Beijing at the end of October, days before he was to step down as foreign minister, for consultations on the North Korean nuclear issue. Since China's support for Ban's candidacy was essential to his selection as the new UN Secretary General, South Korean leaders and the newly selected Ban will no doubt be expected to return the favor in one form or another. To the extent that the UN Security Council is required to take further actions related to North Korea, Ban's selection will make Seoul feel slightly less isolated but is unlikely to enhance the capacity of the UN to play a political role in resolving the dispute.

Rising North Korean nuclear tensions have had little effect on what is likely to be a banner year for China and South Korea on the economic front. South Korean exports topped \$300 billion for the first time in 2006 on the strength of steady 11.7 percent growth in exports to China over the first 10 months of the year. Slightly over one-fifth of South Korea's overall exports go to China. China was South Korea's top destination for foreign direct investment at slightly over \$10 billion, or 26.2 percent of South Korea's overall foreign investment. South Korea has consistently been among the top five foreign investors in China in recent years.

### **Festering South Korean anxieties and China's rise**

North Korea's nuclear test has contributed to a widespread mood of hopelessness in South Korea, exacerbated in part by South Korea's own political calendar and widespread dissatisfaction with the Roh administration. Although China's rapid economic growth has been a major contributor to South Korea's rosy export performance, China has grown rapidly as a major South Korean tourist destination, and the "Korean wave" of exports in the pop culture sphere has enjoyed remarkable successes in China in recent years, foreboding regarding China's rising influence has begun to temper the optimism that characterized South Korean views of China through 2004. In the political sphere, chronic irritants include China's perceived manipulation of history related to the Goguryeo kingdom, the recalcitrant role of China as the main transit country for North Korean refugees, many of whom are trafficked, beaten, mistreated, or returned to North Korea by Chinese officials, and as a source of tainted food imports or other political irritations that strike the South Korean public as arrogant or dismissive of South Korean national pride. In the economic sphere, China's growing strength in manufacturing sectors previously dominated by Korea such as steel, electronics, shipbuilding, and transportation constitute a perceived threat as China climbs the development ladder. The following are among the specific issues that drew media attention this quarter:

- A Chinese diplomat refused to show his ID card or take a drunk-driving breathalyzer test at a Seoul Metropolitan Police checkpoint in mid-December, causing an eight-and-one-half hour standoff. News of the incident enraged South Korean internet users and the public, which perceived invocation of diplomatic privilege as an expression of arrogance.
- China continues to be a primary source of narcotics for drug traffickers operating in South Korea. The Seoul Metropolitan Police Agency arrested over 224 people for drug trafficking and sales in mid-December.
- The Korea Food and Drug Administration announced in November that it was testing flatfish imported from China for excessive levels of nitrofurans, a cancer-causing chemical.

- Hyundai Research Institute released a December report analyzing a shift in China's economic policy toward "qualitative growth," posing new challenges for Korean exports and investment strategies that have focused on using China as a production base for international markets. More restrictive Chinese investment policies designed to heighten Chinese competitiveness will require revamped strategies or relocation to places such as Vietnam and India.
- Korea International Trade Association Chairman Lee Hee-beom expressed concern that the decline in growth of South Korean exports to China from 30 percent during 2003-2005 to 11.7 percent through the first 10 months of 2006 may result from China's increased production capability and competitiveness. Lee cited semiconductors, computers, liquid crystal displays, mobile phones, steel, and synthetic fiber as sectors in which enhanced Chinese production is challenging South Korea's competitive advantage.
- Increased Chinese steel production is reversing the previous trend in which South Korea mainly exported steel to China to a new trend in which Chinese production priced 15 to 20 percent cheaper than South Korean steel products is being imported to major Korean consumers. South Korean exports of steel products to China have dropped by 14.4 percent to 3.4 million tons, while Chinese imports to Korea have increased by 46 percent to 8.4 million tons through the first 10 months of 2006. South Korean steel makers may retaliate by requesting anti-dumping investigations against Chinese producers.

### **China's strategic choices and a nuclear Korean Peninsula**

Absent North Korean and U.S. commitments to take simultaneous concrete actions to implement the Sept, 19, 2005 Joint Statement, the prospects for continuation of six-party dialogue will be increasingly in doubt. Following the North Korean nuclear test, China temporarily pursued a new course with North Korea that raised the stakes of non-cooperation and nonparticipation in the six-party dialogue. But as the dialogue process resumed, China reverted to its previous mediating role, placing the onus for progress – and the blame for failure – back on the U.S. and North Korea. State Councilor Tang Jiaxuan, in a meeting with a Japanese parliamentarian in late December, is reported to have argued that "an expected crucial achievement was not made due to mutual distrust between the U.S. and North Korea." The Bush administration will expect China to utilize its remaining leverage with North Korea to deliver a constructive North Korean response, but in turn will be expected to meet the Chinese expectation for simultaneous, corresponding actions on the U.S. side.

Otherwise, China will risk the possibility that additional North Korean crisis escalation tactics, including worries about the possible transfer of fissile materials to the highest bidder, will further catalyze Japan's remilitarization and threaten regional stability. Further North Korean escalation of tensions may alternatively serve to heighten a sense of common strategic purpose among great powers if they can overcome mutual strategic distrust in response to the shared costs of North Korea's tactics. North Korea's strongest

card remains the unknown cost of managing regime transition and the short-term risks that such a transition may entail for all parties. Unlike the end of the 19<sup>th</sup> century, when the Korean Peninsula was the object of rivalry among imperial powers, a nuclear North Korea is a “hot potato” that no single neighbor of Pyongyang will want to “own” without sharing both the risks of intervention and the costs that would accompany destabilization. The greatest leverage the leadership of a nuclear North Korea can exert remains the uncertainty that would likely accompany Kim Jong-il’s demise.

### **Chronology of China-Korea Relations October-December 2006**

**Oct. 3, 2006:** North Korea says it will conduct a nuclear test to prop up its self-defense against “growing U.S. hostility against the communist regime.”

**Oct. 6, 2006:** The UN Security Council adopts a statement warning North Korea to refrain from conducting a nuclear test.

**Oct. 9, 2006:** The Korea Shipowners’ Association expresses concern that Busan port is losing its competitive edge against rapidly rising competition from Shanghai and Shenzhen, which are attracting container ships from Busan, the fifth busiest port in 2005 with over 11.8 million TEU in volume.

**Oct. 9, 2006:** North Korea announces that it has safely and successfully conducted its first test of a nuclear bomb. A 3.58-3.7 magnitude tremor was detected in the North’s northeastern Hamkyong Province. Subsequent analysis yields estimates that the yield from such an explosion would be less than one kiloton, raising questions whether the device worked properly or was intentionally designed to minimize yield and avoid environmental contamination.

**Oct. 13, 2006:** ROK President Roh Moo-hyun travels to Beijing for a one-day summit with PRC President Hu Jintao, Premier Wen Jiabao, and National People’s Congress Standing Committee Chairman Wu Bangguo. The two presidents agree to support “appropriate and necessary measures” by the UN Security Council in response to North Korea’s nuclear test.

**Oct. 14, 2006:** UNSCR 1718 unanimously imposed limited sanctions on North Korean nuclear and missile parts procurement, conventional weapons, and luxury goods following North Korea’s nuclear test.

**Oct. 11-19, 2006:** State Councilor Tang Jiaxuan travels as Hu Jintao’s special envoy to Washington, Moscow, and Pyongyang for consultations following North Korea’s nuclear test. In Pyongyang, he is the first high-level official to meet with Kim Jong-il following North Korea’s test.



**Oct. 20, 2006:** State Councilor Tang briefs Secretary of State Rice on his meetings in Pyongyang with Kim Jong-il.

**Oct. 26, 2006:** A ceremony is held as part of Korean Air's strategy to make China its "second home market" following agreements between China and South Korea to gradually open their skies.

**Oct. 27, 2006:** South Korean Foreign Minister/UN Secretary General-designate Ban Ki-moon discusses the North Korean nuclear standoff with President Hu and PRC Foreign Minister Li Zhaoxing during a visit to Beijing.

**Oct. 31, 2006:** At the invitation of PRC Vice Minister Wu Dawei, Assistant Secretary of State Chris Hill and DPRK Vice Minister Kim Gye-gwan meet in Beijing and agree to return to six-party dialogue and to include discussions of U.S. Treasury "financial measures" related to the DPRK as part of the talks.

**Nov. 4, 2006:** South Korean Ministry of Culture and Tourism sponsors "Feel the K-pop in Shanghai" with leading K-pop stars including Fly to the Sky, SG Wannabe, and V.O.S., and Typhoon.

**Nov. 11, 2006:** Korea Trade-Investment Promotion Agency announces that China will enforce tougher trade restrictions on processed and manufactured products from Nov. 22 to restrict South Korea's use of China as a production base for third-country manufactured goods exports and to create more value-added products for the Chinese market.

**Nov. 13, 2006:** Hyundai Steel, Korea's second largest steel producer, is reported to be considering requesting an anti-dumping investigation of Chinese mills that have undercut Hyundai's market share in steel H-beams.

**Nov. 17, 2006:** Chinese Minister of Commerce Bo Xilai and ROK Trade Minister Kim Hyun-chong agree to a feasibility study on a China-South Korea free trade area (FTA) at the official level in early 2007.

**Nov. 17, 2006:** PRC Ambassador to South Korea Ning Fukui says his country will consult with a concerned country, apparently referring to North Korea, before seeking UNESCO World Heritage status for Mount Paekdu on its border with the North.

**Nov. 18-19, 2006:** Presidents Roh and Hu discuss the North Korean nuclear issue at the APEC meeting in Hanoi, Vietnam.

**Nov. 20, 2006:** The Korea Food and Drug Administration (KFDA) announces it will inspect cultivated flatfish imported from China for nitrofurans, a carcinogen.

**Nov. 30, 2006:** The Bank of Korea announces that China was the largest destination for South Korean foreign direct investment in 2005, amounting to \$10.1 billion, or 26.2 percent of South Korea's overall investment.

**Dec. 6, 2006:** Korea Iron and Steel Association reports that ROK exports of steel products to China dropped by 14.4 percent to 3.4 million tons, while Chinese imports to the Korean market have increased by 46 percent to 8.4 million tons through October as a result of improved Chinese steel production quality and price competitiveness.

**Dec. 9, 2006:** Hyundai Research Institute warns of risks to South Korean investors in China arising from Chinese efforts to focus on "qualitative growth" by promoting technology transfers as conditions for entry of foreign direct investment, enhancing international competitiveness of domestic companies and encouraging them to move up the technology ladder.

**Dec. 12-13, 2006:** Chinese diplomats remain overnight in their cars as a result of the driver's refusal to take a breathalyzer test in an eight-hour standoff with Seoul Metropolitan Police authorities. News of the incident infuriates South Korean netizens.

**Dec. 14, 2006:** Seoul Metropolitan Police Agency announces the arrest of 224 people on charges of trafficking narcotics from China following a 40-day crackdown on drug trafficking.

**Dec. 18-21, 2006:** Ssangyong Motors Labor Union representatives travel to Shanghai in hopes of meeting with controlling shareholders at Shanghai Automotive Industry Corp. (SAIC) regarding restructuring and investment plans for Ssangyong's plant in Korea.

**Dec. 21, 2006:** Samsung Electronics, the world's third-largest cell phone producer, announces that it has struck a deal with Beijing Airway Communications to launch a Korean mobile Internet platform, called WiBro, in China.

**Dec. 18-22, 2006:** The "second phase" of the fifth round of Six-Party Talks is held in Beijing, but no apparent progress is made during these negotiations.

**Dec. 26, 2006:** In a meeting with Japanese Diet Speaker Kono Yohei, PRC State Councilor Tang Jiaxuan argues that "an expected crucial achievement was not made [in six party talks] due to mutual distrust between the U.S. and North Korea."