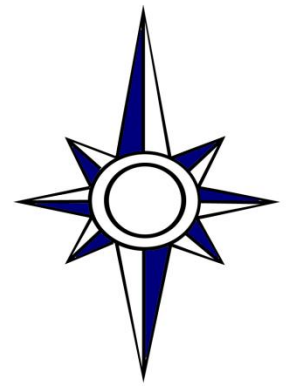


Comparative Connections

A Quarterly E-Journal on East Asian Bilateral Relations



China-Korea Relations:

Consolidating Ties with New DPRK Leadership

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China reaffirmed its traditional friendship with a revamped leadership in Pyongyang that emerged from the historic Workers' Party of Korea (WPK) conference that re-elected Kim Jong-il as party and state leader. Kim Jong-il visited Northeast China, holding his second summit with President Hu Jintao this year. Immediately after Pyongyang's party conference, Secretary of the WPK Central Committee Choe Tae-bok led a senior party delegation to Beijing to brief President Hu and other officials. Meanwhile, China-ROK relations remain strained following the March 26 *Cheonan* incident, marking the lowest point in bilateral relations since diplomatic normalization in 1992. The third China-ROK high-level strategic dialogue was held in Beijing. China and South Korea also held their first preliminary round of free trade agreement talks. Beijing promoted resumption of the Six-Party Talks, sending Special Representative for Korean Peninsula Affairs Wu Dawei to meet counterparts in Pyongyang and Seoul.

China-DPRK exchanges under Pyongyang's changing leadership

The Workers' Party of Korea (WPK) held its first party conference in 44 years in Pyongyang on Sept. 28. The conference reached decisions on three main agenda items including the reelection of Kim Jong-il as general secretary of the WPK, revision of the WPK Charter, and election of the new central leadership of the WPK, with Kim's third son Kim Jong-un elected as one of the two vice chairmen of the Central Military Commission, according to DPRK state media. A month earlier, Kim Jong-il made a five-day "unofficial trip" to Northeast China on Aug. 26-30, his sixth known visit to China since 1994 and second this year after his May summit with President Hu in Beijing. Hu presented four proposals to strengthen China-DPRK ties, including to: maintain high-level contacts, deepen economic and trade cooperation, reinforce strategic coordination, and strengthen communication in international and regional affairs. Kim also visited Jilin and Heilongjiang provinces during his visit, touring local enterprises representing China's "harmonious development," according to Chinese state media.

With the consolidation of Pyongyang's new leadership on Sept. 28, Beijing and Pyongyang moved swiftly to reaffirm their traditional friendship through party-to-party exchanges. Two days after the WPK conference, Secretary of the WPK Central Committee Choe Tae-bok led a party delegation to Beijing on Sept. 30-Oct. 2 for a series of briefings with Chinese officials, including President Hu Jintao, head of the International Department of the Communist Party of China (CPC) Central Committee Wang Jiarui, and member of the CPC Central Committee Political Bureau Liu Yunshan. According to official reports, Hu asserted that North Korea "will see new achievements in their national construction under the new WPK leadership," while Choe

indicated that Kim Jong-il's decision to send a senior delegation to Beijing following the party conference demonstrates "the importance the DPRK attaches to the consensus reached by leaders of the two countries."

Mending China-ROK security ties

As China and North Korea prepared to reaffirm party and state ties, China and South Korea held the third Vice-Ministerial Strategic Dialogue between their Foreign Ministries in Beijing on Sept. 29. ROK First Vice Minister of Foreign Affairs and Trade Shin Kak-soo met China's Vice Foreign Minister Wang Guangya as well as Dai Bingguo, a top foreign policymaker, on the sidelines. The meeting produced a statement of close cooperation "under the joint strategic objectives of denuclearizing North Korea and pursuing peace and stability on the Korean Peninsula." However, no mention was made of the issues that have overshadowed denuclearization talks, such as China's failure to support Seoul's international investigation of the *Cheonan* sinking and Beijing's negative response to US-ROK military drills in July, which have revealed fundamental gaps in China-ROK political and security relations. In addition, it was unclear to what extent they discussed North Korea's political transition even though Pyongyang's party conference was held a day before the meeting and China continues to engage the DPRK politically and economically despite international sanctions.

China reacted strongly to the four-day US-ROK *Invincible Spirit* naval and air exercises held July 25-28, which were designed to send a "clear message" to Pyongyang in response to the *Cheonan* sinking. The military exercises took place weeks after the July 9 UN Security Council Presidential Statement condemning the attack without naming North Korea, the release of which suffered much deliberation and delay due to Chinese reluctance to issue a statement directly condemning North Korea for the sinking. In the run-up to the exercises, China's party newspaper, *People's Daily*, featured a series of articles quoting Chinese military leaders including People's Liberation Army (PLA) Deputy Chief of the General Staff Gen. Ma Xiaotan, who in early July affirmed that China "strongly opposed" the exercises. The paper featured a five-point criticism a week later by Gen. Luo Yuan, deputy secretary general of the PLA Academy of Military Sciences, stating that "The drill area selected by the United States and South Korea is only 500 kilometers away from Beijing. China will be aware of the security pressure from military exercises conducted by any country in an area that is so close to China's heartland."

An editorial in the *Global Times* argued that "Whatever the explanations the US and South Korea offered, the military drills surrounding China's offshore sea obviously have the intention of targeting China." It further warned of the implications for US-China relations, indicating that "Seoul may not have fully realized the consequence of upsetting China-US ties," and that "a stronger South Korea-US alliance might jeopardize the trust of Seoul with its neighbors." While South Korean analysts appear wary of such consequences, the change in the location of the exercises from the Yellow Sea to the East Sea/Sea of Japan, which appeared to be a concession to China, seemed to raise ROK concerns about US accommodation of an increasingly assertive China.

Despite the impact of *Cheonan* incident on regional relations, China has continued diplomatic exchanges with the two Koreas and other parties to seek the resumption of Six-Party Talks. China's Special Representative Wu Dawei visited North Korea on Aug. 16-18 and met Foreign Minister Pak Ui-chun, Director of the International Affairs Department of WPK Central Committee Kim Yong-il, and Vice Foreign Ministers Kim Kye-gwan and Kim Song-gi. A week later, Wu met ROK officials in Seoul on Aug. 26-28, including counterpart Wi Sung-lac, Vice Foreign Minister Shin Kak-soo, and Senior Secretary to the President for Foreign Affairs and National Security Kim Sung-Hwan. At the International Atomic Energy Agency (IAEA) directors' meeting in Vienna on Sept. 14, China's Permanent Representative and Ambassador to the UN and other international organizations Hu Xiaodi called for advancing Six-Party Talks as a "fundamental" solution to the Korean nuclear issue and a step toward establishing a permanent peace regime on the peninsula and a security mechanism in Northeast Asia.

South Korea assesses China-DPRK engagement

Occurring at the same time as former US President Jimmy Carter's visit to Pyongyang for the release of detained US citizen Aijalon Gomes, Kim Jong-il's Changchun visit has been interpreted as evidence that Pyongyang prioritizes cooperation with China over enhancing diplomatic ties with the US. However, ROK President Lee Myung-bak positively assessed Kim's China trip in terms of its potential impact on North Korea's reform and opening in remarks released by the Blue House that reflected an effort to refute the impression of Seoul's firm opposition to Chinese engagement of Pyongyang. The Changchun meeting had heightened speculation in the ROK media about DPRK efforts to secure Chinese support of a Kim leadership succession. Some South Korean analysts viewed the Hu-Kim summit as part of Chinese efforts to expand its regional clout and influence in North Korea as the DPRK economy is faced with new sanctions, recent flood damage, and mounting US-ROK political and military pressure after the *Cheonan* incident. According to Yang Moo-jin of the University of North Korean Studies, North Korea "has no one but China to turn to" as its major political and economic donor, which China sees "as a chance to tighten its influence over North Korea."

US and South Korean observers saw the Hu-Kim meeting as primarily focused on economic and trade exchanges given a deteriorating North Korean economy and Pyongyang's growing dependence on Chinese support. President Hu reportedly emphasized China's reform and opening experience as a desirable path for North Korea to follow. Although Kim's trip appeared intended to secure Chinese aid in the absence of international and ROK assistance and to legitimize a third-generation power transition in North Korea, it did not suggest real progress in multinational denuclearization talks. DPRK media reports did not cite Kim's hopes for an early resumption of Six-Party Talks as highlighted in the Chinese state media, but included Kim's statement on implementing the "historical mission to hand over the baton of Chinese-North Korean friendship to the next generation."

North Korea appeared to take several steps to reaffirm its priority on maintaining good relations with China ahead of its party meeting. *Rodong Sinmun* released a series of articles from mid-September focusing on the significance of relations with China, including editorials on current bilateral relations in their "Golden Ages," the historical legacy of the Chinese and DPRK "elder revolutionary generation," Northeast China's social and economic development experience, and

Kim Jong il's pledge to strengthen the China-DPRK traditional friendship. The issuing of new national stamps in September commemorating the DPRK's National Pavilion Day at the 2010 Shanghai Expo and the "60th anniversary of the entry of the Chinese People's Volunteers into the Korean front" also represents important state efforts to affirm long-term ties with China.

China's trade and economic ties with North Korea

According to Chinese Customs data, China-DPRK trade in the first half of 2010 amounted to \$1.29 billion, a 16.8 percent annual increase. North Korea imported \$940 million in goods from China and exported \$350 million during the period, a 25.2 percent increase in imports and 1.1 percent decline in exports. North Korea now has a \$590 million trade deficit with China, a 48.5 percent increase over the previous year, with flour imports rising by 383 percent. While costs increased by 76 percent due to soaring prices, North Korea's crude oil imports from China remained the same. Minerals and other natural resources continued to account for a large portion of DPRK exports to China. Since trade with China and South Korea make up the bulk of Pyongyang's external revenue, North Korea is anticipated to more actively seek trade with China to make up for losses in inter-Korean trade. The Korea Trade-Investment Promotion Agency indicates that China accounted for 79 percent of North Korea's foreign trade in 2009 (excluding inter-Korean trade).

China has also reportedly extended humanitarian aid to a flood-stricken North Korea amid expectations of a worsening food crisis this year. On Aug. 26, the *Korean Central News Agency* reported China's decision to send an unspecified amount of "emergency relief materials" to North Korea to support recovery from flood damage, noting President Hu's message of sympathy to Kim Jong-il. China's trade and aid ties with North Korea continue to raise concerns about the effects of those ties on international sanctions and about Pyongyang's growing economic dependence on China. According to DPRK state media, China's Ambassador to North Korea Liu Hongcai and DPRK Minister of Foreign Trade Ri Ryong Nam signed a bilateral economic and technical cooperation agreement in Pyongyang on July 29, a week after US announcements of new sanctions. The Chinese Foreign Ministry did not comment.

China-DPRK economic cooperation projects in the border regions are apparently underway, with China's designation on Sept. 3 of Jilin province as a pilot region for international trade and logistics. At the sixth Northeast Asia Trade Expo in Changchun on Sept. 2, a representative of Jilin's Yanbian Korean Autonomous Prefecture signed a bilateral economic cooperation agreement with Kim Su-yol, chairman of the Rajin-Sonbong special city People's Committee. According to its local paper on Aug. 19, the Chinese border city of Dandong launched a pilot program to manage export deals in China's currency in an attempt to boost exporters' confidence in trade deals with the North. Although the program will allow approved Dandong exporters to officially carry out business in *renminbi*, the transactions will also depend on the ability of DPRK importers to deal legally in Chinese currency. Local Customs data have indicated that up to 70-80 percent of Chinese exports to the North pass through Dandong.

China's border regions appear to be taking additional steps to improve transport infrastructure that will boost trade with the North. On Sept. 28, China completed a highway to Jilin's border city of Hunchun, shortening travel from the Changchun capital and linking Tumen city. Deputy

Governor of the Yanbian Korean Autonomous Prefecture Li Jinhao has noted that the highway will improve trade ties with North Korea by enhancing logistics to Hunchun, a point of export to DPRK. In July, North Korea reportedly leased the rights to use Chongjin port to a Yanbian-based Chinese state company while allowing the company to use the Tumen-Chongjin railroad as part of the agreement. The deal is expected to facilitate trade from Tumen city, and the firm is reportedly investing 10 million *yuan* (\$1.48 million) in construction at Chongjin.

“Double-dip recession” and China-ROK trade and investment

South Korean trade officials warn that ROK exports may face serious challenges in the latter half of 2010 given external uncertainties including concerns about a double-dip recession in the US. Official ROK figures project 5.8 percent annual growth in 2010 for South Korea and about 9 percent in the second half of 2010 for China, which recently replaced Japan as the world’s second biggest economy. Despite steady recovery in South Korea, a Ministry of Finance report in September pointed to increased risks stemming from economic slowdown in major trading partners including China. However, ROK analysts expect Beijing to introduce a series of steps to boost domestic consumption from which China-dependent exporters in South Korea such as steelmakers, automakers, chemical producers, and tech companies, will likely benefit. Analysts also predict that China’s declining trade surplus since July is an indicator that stable Chinese domestic demand will drive the global economy. Beijing launched a campaign in early September to boost imports in an effort to address its trade imbalances, focusing on advanced technology and key equipment.

Total China-ROK trade reached \$141 billion in 2009, accounting for 20.5 percent of South Korea’s total external trade and exceeding the country’s combined total trade with the United States and Japan. According to the Ministry of Knowledge Economy, South Korea’s IT exports jumped an annual 26.5 percent in August to \$13.4 billion, with China (including Hong Kong) as the biggest IT export destination accounting for \$33.12 billion in goods in the January-June period. In August, China replaced South Korea as the biggest market for Hyundai Motor Co., which sold 376,554 cars in China during January-July compared to 370,295 in South Korea, an 18 percent year-on-year increase. China became the world’s biggest auto market in 2009, posting new car sales of 13.6 million units compared to 10.4 million units in the US. In addition, market reports in July revealed that China replaced South Korea as the world’s top shipbuilding country during the first half of 2010.

After establishing its China desk earlier this year, the Korea Trade-Investment Promotion Agency (KOTRA) set up a new Foreign Direct Investment (FDI) Policy Center in an effort to attract Chinese investment on Aug. 30. China’s direct investment in South Korea reached \$160 million in 2009 according to the Ministry of Knowledge Economy, representing only 0.3 percent of China’s total \$200 billion foreign investment. But Chinese investment in South Korea is projected to reach \$1 billion in 2012 and \$2 billion in 2015, becoming the biggest source of FDI in South Korea. Chinese Vice President Xi Jinping at the World Investment Forum in Xiamen announced plans to boost foreign investment and develop China’s multinational companies, given that China is now the world’s fifth biggest foreign investor with total outbound FDI of \$56.5 billion in 2009 according to the PRC Ministry of Commerce.

Meanwhile, the ROK Ministry of Justice in July announced measures to ease visa restrictions on Chinese visitors in a bid to attract China's growing middle-class consumers to South Korea, where the number of Chinese visitors reached 1.21 million in 2009, up 48 percent from 585,000 in 2005. Steps included issuing more one-year multiple entry visas, providing visas to transit passengers, and easing rules on tourist group visas. A Chinese Ministry of Public Security report on July 9 indicated that South Korean tourists represented the largest number of foreign tourists in China during the first half of 2010, totaling 1.95 million, a 30 percent increase from the same period last year, and accounting for 15.5 percent of total foreign tourists in China.

Prospects for a China-ROK free trade agreement

A major trade concern for South Korea is the impact of the China-Taiwan Economic Cooperation Framework Agreement (ECFA), which was reached in late June and will cut tariffs in manufacturing and service sectors. Within weeks of the agreement the Ministry of Knowledge Economy set up a specialized task force to examine the effects of the free trade deal on Korea and to develop policy responses. The ECFA will likely disadvantage ROK companies in terms of price competitiveness against Taiwanese rivals, hitting the petrochemicals, electronics, and machinery sectors from 2011 when the deal is expected to be implemented.

South Korea and China began preliminary talks on their own bilateral FTA on Sept. 28 in Beijing. Lee Tae-ho, director of the FTA Policy Bureau of the ROK Ministry of Foreign Affairs and Trade, met Yu Jianhua, director general of international trade and economic affairs of China's Ministry of Commerce, in Tokyo in late September. China and South Korea concluded their joint feasibility study on an FTA in May 2010, signing only a Memorandum of Understanding (MoU) pledging to hold additional discussions on sensitive issues. The Korea Institute for International Economic Policy indicates that South Korea's agricultural and fisheries sectors are expected to face serious losses from a China-ROK free trade deal, including a decline in production of up to 20 percent of 2005 levels by 2020.

Conclusion: post-Cheonan China-Korea relations

China's response to the *Cheonan* incident sparked intense debate in South Korea regarding Chinese strategic intentions while reinforcing Chinese concerns about strengthened US-ROK alliance cooperation. South Korean analysts have suggested enhancing inter-Korean ties on the one hand or intensifying multilateral approaches on the other as strategies to counteract pressure from China. After the Hu-Kim summit, some ROK experts pointed to an emerging opportunity for reengaging Pyongyang and for Seoul and Washington to initiate an "exit strategy" from the *Cheonan* sinking. The Sejong Institute's Lee Sang-hyun argued that Seoul should play an active "diplomatic mediator" role to ease peninsular tensions and growing US-China military confrontation in the region, calling for the creation of a "permanent and stable" institution for dealing with Korean Peninsula security matters.

The *Cheonan* incident most importantly revealed the relative weakness of China-ROK political and security relations and strategic coordination despite close trade ties. This contrasts sharply with Beijing's renewed political ties with the current leadership in Pyongyang and increasing trade and economic exchanges at a time of stalled inter-Korean relations. However, the extent to

which China will be able to convince North Korea to return to multilateral denuclearization talks or follow China's example of economic reform and opening remains unclear.

Chronology of China-Korea Relations July - September 2010

July 2, 2010: The ROK Ministry of Knowledge Economy establishes a task force to examine the effects of the China-Taiwan Economic Cooperation Framework Agreement on ROK trade.

July 5-8, 2010: The Shenyang municipal government, Korea Chamber of Commerce, and ROK Consulate in Shenyang host the Global Korean Business Convention during Shenyang's annual "South Korea Week" festival.

July 5, 2010: Samsung Electronics builds its 100th elementary school in China under a project launched in 2005 to support underprivileged areas of China.

July 6, 2010: Newly elected Premier of the DPRK Cabinet Choe Yong Rim meets China's Ambassador to the DPRK Liu Hongcai in Pyongyang.

July 6, 2010: The DPRK's *Rodong Sinmun* praises China's disaster relief efforts in response to the flooding crisis in southern China.

July 9, 2010: The Korea-China Friendship Association and Korean Committee for Cultural Relations with Foreign Countries mark the 49th anniversary of the signing of the China-DPRK Treaty of Friendship, Cooperation and Mutual Assistance.

July 7, 2010: South Korea and China hold working-level trade talks in Tangshan, Hebei.

July 9, 2010: China's Ministry of Public Security reports that South Korea accounted for the biggest number of foreign tourists in China in the first half of 2010.

July 18, 2010: Reports show that China replaced South Korea as the world's top shipbuilding country during the first half of 2010.

July 19, 2010: Leading ROK steelmaker POSCO and China's Jilin province agree to cooperate in the steel, auto, construction, and energy sectors.

July 20, 2010: The ROK Ministry of Knowledge Economy announces South Korean plans to invest 40 billion *won* (\$33 million) of its national carbon fund in a biomass power generation plant in central China.

July 23, 2010: ROK Finance Minister Yoon Jeung-hyun and Chinese counterpart Zhang Ping hold bilateral talks in Seoul.

July 27, 2010: The ROK Ministry of Justice announces South Korea will relax visa requirements for Chinese tourists.

July 29, 2010: Chinese Ambassador to North Korea Liu Hongcai and DPRK Minister of Foreign Trade Ri Ryong Nam sign an economic and technical cooperation agreement in Pyongyang according to DPRK state media.

Aug. 8, 2010: The DPRK navy seizes a ROK fishing boat with four ROK and three Chinese crew members for alleged trespassing into the DPRK's exclusive economic zone.

Aug. 8, 2010: China's Deputy Public Security Minister Liu Jing visits Pyongyang.

Aug. 16-18, 2010: China's Special Representative for Korean Peninsular Affairs Wu Dawei visits North Korea and meets Foreign Minister Pak Ui-chun, Director of the International Affairs Department of the WPK Central Committee Kim Yong-il, and Vice Foreign Ministers Kim Kye-gwan and Kim Song-gi.

Aug. 25, 2010: DPRK state media reports China will provide emergency relief aid to flood-stricken areas of North Korea.

Aug. 26-28, 2010: Wu Dawei visits Seoul and meets ROK counterpart Wi Sung-lac, Vice Foreign Minister Shin Kak-soo, and Senior Secretary to the President for Foreign Affairs and National Security Kim Sung-Hwan.

Aug. 26-30, 2010: Kim Jong-il visits Northeast China and meets President Hu Jintao in Changchun.

Sept. 1, 2010: Crew members go missing from a suspected Chinese fishing boat that sinks in the Yellow Sea after colliding with a ROK cargo ship.

Sept. 2, 2010: China's Ministry of Transport sends two airplanes to search for missing crew members aboard a suspected Chinese fishing boat that sunk after colliding with a ROK cargo ship in the Yellow Sea.

Sept. 3, 2010: Chinese Embassy in Pyongyang holds a reception commemorating the 65th anniversary of World War II; DPRK Foreign Minister Pak Ui-hun attends.

Sept. 2, 2010: Yanbian Korean Autonomous Prefecture and Rajin-Sonbong People's Committee sign an economic cooperation agreement at the sixth Northeast Asia Trade Expo in Changchun.

Sept. 4, 2010: The DPRK State Stamp Bureau issues a new postage stamp marking the DPRK's National Pavilion Day at the 2010 Shanghai Expo.

Sept. 7, 2010: DPRK authorities confirm the release of four ROK and three Chinese crew members of a ROK fishing boat seized on Aug. 8.

Sept. 8, 2010: DPRK state media recognizes the role of Chinese volunteers in the Korean War.

Sept 8, 2010: Kim Jong-il sends a message to thank President Hu for his message on the flood damage in Sinuiju.

Sept. 9, 2010: President Hu sends a congratulatory message to Kim Jong-il on the 62nd anniversary of the founding of the DPRK.

Sept. 11, 2010: DPRK issues souvenir stamps to mark the “60th anniversary of the entry of the Chinese People’s Volunteers into the Korean front.”

Sept. 13, 2010: *Rodong Sinmun* hails China-DPRK relations as entering their “Golden Ages.”

Sept. 14, 2010: The 2nd Forum of the DPRK-China University Presidents is held in Pyongyang, gathering 37 representatives from 14 Chinese universities and 21 representatives from 11 DPRK universities.

Sept. 15, 2010: *Rodong Sinmun* hails the history of China-DPRK traditional friendship.

Sept. 16, 2010: *Rodong Sinmun* hails Northeast China’s social and economic development.

Sept. 26, 2010: *Rodong Sinmun* reports Kim Jong-il’s pledge to strengthen China-DPRK traditional friendship.

Sept. 28, 2010: North Korea holds the Workers’ Party of Korea Conference.

Sept. 28-29, 2010: ROK and China hold the first round of preliminary FTA meetings in Beijing.

Sept. 29, 2010: China and ROK hold the 3rd high-level diplomatic strategic dialogue in Beijing, led by China’s Vice Foreign Minister Wang Guangya and ROK counterpart Shin Kak-soo.

Sept. 30-Oct. 2, 1010: A Workers’ Party of Korea delegation led by Choe Tae Bok, secretary of the WPK Central Committee, visits China.