

China-Korea Relations:
**Middle Kingdom Diplomacy
and the North Korean Nuclear Crisis**

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The quarter started with the first ever meeting between South Korean President Roh Moo-hyun and PRC President Hu Jintao in Beijing, and unfolded with the most assertive Chinese mediating efforts yet to deal with North Korean nuclear tensions, including the hosting of an unprecedented six-party multilateral dialogue that included North Korea, the United States, Russia, Japan, and South Korea in late August. The PRC utilized its long-standing relationships with Pyongyang to maximum effect in an attempt to get North Korea to come to the negotiating table. Intensive China-South Korean consultations included a visit to South Korea by the head of China's Supreme People's Assembly Wu Bangguo and several meetings between the South Korean and Chinese foreign ministers to discuss next steps in capping tensions between North Korea and the United States over the North Korean nuclear development effort.

The only thing more intense than China-Korean political consultations over the North Korean nuclear issue is the continuing boom in China-South Korean trade, which has averaged over 20 percent growth year-on-year. This quarter may well mark the point at which the PRC emerges as South Korea's number one trading partner, surpassing the trade volume of the United States for the first time. South Korean investment and export growth continues apace, but as South Korean industry moves its manufacturing to China, Roh administration's initiative to turn South Korea into the economic hub of Northeast Asia also appears to be ringing hollow.

Mr. Roh Goes to Beijing

The China-South Korea summit meeting in Beijing was the first opportunity for two new leaders to review political and economic objectives in the region with an eye to enhancing the China-South Korean "comprehensive, cooperative partnership." Although President Roh returned from Beijing to mixed reviews over his vague public statements pressing for South Korea's participation in a multilateral dialogue to resolve the North Korean nuclear issue, there was a clear convergence of positions on the desirability of handling this issue through diplomacy. Both Seoul and Beijing have independently pressed the United States and North Korea through their own channels to show greater reasonableness and flexibility in their approaches to the nuclear standoff. China's success

in bringing North Korea to a dialogue that included South Korea has been welcomed in Seoul as a first step toward easing tensions on the Korean Peninsula and eased domestic criticism of President Roh's diplomacy surrounding the North Korean nuclear issue.

Both leaders agreed during their meetings in Beijing to enhance bilateral cooperation in the energy and high technology sectors such as information technology and biotechnology through the establishment of a Korea-China Industrial Cooperation Committee. The bilateral trade volume is predicted to more than double to \$100 billion within five years. At a business luncheon with Korean executives in Beijing, President Roh encouraged South Korean businesses to participate in building China's infrastructure, including projects related to the "Great West Development Project," the 2008 Beijing Olympics, and the 2010 Shanghai exposition. There was also discussion among the two ministers of environment about the need to apply environmental technologies to reduce the negative impact of "yellow dust," which affects the Korean Peninsula each spring.

Several sensitive political issues remained: first, Beijing pushed for a South Korean pledge to continue to deny the Dalai Lama a visit to Korea, contrary to the wishes of Korea's large Buddhist community. Second, Beijing pressed South Korea to recognize the Taiwan issue as "an internal affair of China." Third, the PRC appears to have resisted discussion of the disposition of North Korean refugees or South Korean citizens currently being tried for helping North Korean refugees. The Roh government was strongly criticized in some quarters for failing to obtain the release of South Korean citizens held in China for their efforts to assist North Korean refugees who want to come to Seoul. Finally, it was clear that China was unenthusiastic about Roh Moo-hyun's vision of Korea as a regional hub, given Shanghai's future aspirations and capacity to play such a role.

China's Mediating Role in the North Korean Nuclear Standoff

For Beijing, President Roh's visit to Beijing was the first step in an accelerated effort over the summer to prepare for the next phase of dialogue on the North Korean nuclear issue. Having assessed that it was in China's interest to make every effort to prevent a U.S.-DPRK military conflict following the U.S. war in Iraq, the PRC leadership determined that it could no longer afford to play a passive role in dealing with Korean Peninsular tensions. One fear among Chinese analysts was that a war on the Korean Peninsula might also indirectly serve to strengthen U.S. dominance and complete a military "encirclement" strategy designed to isolate or weaken the PRC.

In view of past ties with North Korea, it was determined Beijing had a "special" and "unique" role to play in resolving the nuclear issues. Although the PRC-DPRK relationship is no longer a relationship among socialist comrades but rather a normal state-to-state relationship, the PRC determined that it could play a credible mediating role. However, the PRC's independent interest in stability on the Korean Peninsula clearly places the avoidance of military hostilities as a higher priority than denuclearization, a significant point of difference between Washington and Beijing. The

PRC's unique diplomatic role includes using old relationships established through traditional party-to-party ties with the DPRK as a means of communicating effectively with the top DPRK leadership. The PRC apparently has also shown itself willing to utilize economic incentives of greater aid to North Korea as part of its strategy, possibly in combination with coercive measures. A notable development that has engendered some media speculation has been China's deployments of People's Liberation Army (PLA) troops at points along the border with North Korea.

Immediately following President Roh's visit to Beijing, Vice Foreign Minister Dai Bingguo, former head of the International Liaison Department of the Central Committee of the Chinese Communist Party, met with top North Korean officials on July 12-14, including six hours of meetings with DPRK Central Defense Commission Chairman Kim Jong-il. According to Chinese press reports, President Hu Jintao sent with Minister Dai his personal letter urging continued talks with the United States over the North Korean nuclear issue. President Hu's letter is reported to have promised China's sincerity in facilitating negotiations to resolve the U.S.-DPRK crisis, an increase in economic aid to the DPRK, and a promise to persuade the United States to make a nonaggression pledge to the DPRK in return for the denuclearization of the Korean Peninsula. It has not yet been revealed whether this message was also accompanied by any explicit Chinese threats of coercive diplomacy similar to the oil pipeline cutoff that occurred in early March, prior to the trilateral meeting hosted in Beijing with the United States and North Korea on April 24-26.

Chairman Kim Jong-il agreed during his meetings with Dai to resume the multilateral dialogue but that bilateral dialogue was a bottom line requirement for moving forward. With this message, Dai then traveled to the United States on July 16-18 to discuss arrangements for a six-party meeting to be held in Beijing, and also convinced the United States to allow a bilateral meeting on the side of the multilateral dialogue. After the PRC conveyed this assurance to Pyongyang, the North Koreans revealed their decision to participate in the talks, but made the announcement via the DPRK Embassy in Moscow on July 31, indirectly expressing their pique with Chinese pressure to accept the multilateral format.

Having successfully convinced all the parties to set a date for the meeting, the PRC continued its shuttle diplomacy with Pyongyang, sending CCP Central Committee member Xu Caihou and deputy head of the International Liaison Department of the CCP Central Committee Liu Hongcai to Pyongyang. On Aug. 19-22, Xu met with Gen. Jo Myong-rok and with Kim Jong-il, who expressed his unhappiness with the United States. In addition to these two delegations, President Hu is also reported to have sent a senior official on a secret mission to Pyongyang to speak directly with Kim Jong-il about his position. Kim is reported to have demanded a written pledge from the U.S. side, placing emphasis on the necessity of a bilateral understanding rather than a multilateral security guarantee. This successful shuttle diplomacy laid the groundwork for the first round of six-party talks held on Aug. 27-29 in Beijing.

Prior to the talks, there were hopes that the PRC might be able to fix a firm date and venue for the second round of talks or announce some form of joint statement, but in the end, the only result was a nonbinding chairman's statement from PRC Deputy Foreign Minister Wang Yi, emphasizing that the nuclear issue should be resolved peacefully, that the security concerns of the DPRK should be taken into consideration through that process, that all parties should avoid actions that might escalate tensions while the talks are ongoing, and that the process for resolving the nuclear issue should involve simultaneous steps.

DPRK frustration with the outcome of the talks has repeatedly been made evident through emotional public statements claiming that the North would not return to the negotiating table unless the United States shows its will to give up its hardline approach toward North Korea, but the DPRK did not take provocative actions as some had predicted on or before the Sept. 9 anniversary of the founding of the DPRK. Satellite evidence showed that the North had ceased operations of its reprocessing plant, but the DPRK subsequently announced that it had completed reprocessing of the spent fuel rods that had been stored under the Agreed Framework. These rods could provide enough plutonium to make 6-8 nuclear weapons. It is impossible to confirm independently the North Korean claim to have finished reprocessing or whether it is a tactic to shape the atmosphere for a second round of negotiations. The DPRK also rejected a visit planned for late September by PRC Supreme People's Assembly Chairman Wu Bangguo, who in early September had also visited South Korea. By the end of the quarter, no date for a second round of talks had been fixed, but despite DPRK rhetoric to the contrary, there were expectations that the next round of talks might take place in early November.

China-ROK Economic Growth in Overdrive

China fever has reached new heights among Korean firms seeking to maximize exports to meet continuously growing Chinese demand for high-end consumer technology goods, intermediary capital goods, automobiles and auto parts, steel, and petrochemicals. The Korea Trade-Investment Promotion Agency reports that on a month-to-month basis, exports to China outpaced exports to the United States for the first time in July, and is likely to displace the United States as South Korea's number one destination for exports by year-end. According to the Korean International Trade Association, South Korean semiconductor exports to the PRC topped \$757 million in January-July of 2003, compared to \$339 million during the previous year. Although the Kia Accent was the most popular small car in China during the first half of this year, selling over 21,000 units, Chinese auto production surpassed that of Korea this year and China's continued growth in capacity is perceived as a potential threat to jobs in the Korean automobile manufacturing sector.

A recent Merrill Lynch report states that "The emergence of the China factor seems to be rewriting the dynamics of the Korean economy." The report states that South Korean low-end consumer companies such as Nong Shim's Instant Noodles, Tong Yang Confectionary Corp. or Shinsegae department store are also benefiting from China's rapid economic growth by moving in to capture local market share. As China emerges as

South Korea's leading destination for exports, the South Korean economy is more immune to global downturns or U.S. economic slowdowns than before.

Another component of the expansion in bilateral trade is related to the South Korean relocation of manufacturing plants in China to maintain competitiveness and take advantage of lower labor costs. A survey by the South Korean Small and Medium Business Administration revealed that four out of 10 small- and medium-size companies are moving or planning to move their production facilities overseas. Eighty percent of the firms seeking to relocate overseas are targeting China.

Another threat to the Korean economy is enhanced competition from China. A flood of low-cost Chinese agricultural products such as garlic has already influenced the trade relationship in past years. Now, Chinese companies such as Haier, China's top electronics manufacturer, are beginning to enter the Korean consumer market. The import of Chinese home electronics into Korea between January and July jumped 22.8 percent from a year earlier, with imports of Chinese washing machines and refrigerators up three to four times the same period last year, according to the Electronic Industries Association of Korea. With expanded capacity now in place at Shanghai and other ports in China, China's economic growth is also threatening business at Busan Port as international shippers opt to ship directly to China rather than transshipping through Busan. The Korean Trade Commission reports that Korea has been the most common target of Chinese antidumping lawsuits in sectors such as optical fiber, stainless steel, cold-rolled steel plates, newsprint, and polyester, with 18 of 23 lawsuits focused on Korea.

Finally, recent discussions over the possible appreciation of the Chinese currency have led to speculation over the possible impact on the Korean economy. Economists predict a mixed impact for Korea, but the net effect appears to be the further strengthening of the China-Korean trade relationship and the further pushing of Korea into China's economic orbit. The LG Economic Research Institute predicts that Korea's trade surplus with China would widen by over \$1.2 billion and would boost Korean exports to the PRC by over \$2 billion, but other analysts worry that *yuan* revaluation might damage Korea's competitiveness in third country markets. The bottom line is that while the Korean dream of being a regional hub increasingly appears to have come too late to translate into reality, the benefits of riding on the back of a rising China may be more than enough to offset the disappointment – if indeed China's economy continues to rise.

Chronology of China-Korea Relations

July-September 2003

July 7-10, 2003: ROK President Roh Moo-hyun visits Beijing and Shanghai for his first set of meetings with China's President Hu Jintao and senior Chinese officials.

July 12-14, 2003: Vice Foreign Minister Dai Bingguo visits Pyongyang for over six hours of talks with National Defense Commission Chairman Kim Jong-il regarding the prospects for dialogue regarding North Korea's nuclear program.

July 16-18, 2003: Vice FM Dai visits Washington to discuss prospects for dialogue regarding North Korea's nuclear program.

July 26, 2003: Taiwan's China External Trade Development Council announces that it would set up an office in Seoul in September.

July 31, 2003: DPRK Ambassador to Russia announces North Korea's willingness to participate in six-party dialogue to be held in Beijing.

Aug. 8-12, 2003: ROK Minister of Culture Lee Chang-dong makes his first visit to Beijing for ASEAN Plus Three Tourism Ministers meeting and to host a music concert featuring many leading K-pop celebrities.

Aug. 13-15, 2003: PRC FM Li Zhaoxing visits Seoul to brief FM Yoon Young-kwan on preparations for the six-party dialogue to be held in Beijing.

Aug. 18-22, 2003: Two PRC delegations headed by Xu Caihou, member of the secretariat of the CCP Central Committee and director of the General Political Department of the People's Liberation Army and Liu Hongcai, deputy head of the International Liaison Department of the CCP Central Committee, travel to Pyongyang for discussions in preparation for six party talks, including meetings with National Defense Commission First Vice Chairman Jo Myong-rok and a photo session with Kim Jong-il.

Aug. 21, 2003: The Korea Electric Power Corporation announces that it has finalized its first contract to build two 50,000-kilowatt power plants in China, at Henan Province.

Aug. 27-29, 2003: PRC hosts first-ever six-party multilateral dialogue on North Korea's nuclear program in Beijing.

Sept. 2-4, 2003: PRC National People's Congress Standing Committee Chairman Wu Bangguo visits South Korea at the invitation of National Assembly Speaker Park Kwan-yong and meets with ROK President Roh.

Sept. 6, 2003: The Chinese government is considering reducing its antidumping tariff for Korean steel products, Korea's Ministry of Commerce, Industry and Energy announces.

Sept. 8, 2003: At an IT ministers' conference on Cheju Island, South Korea, China, and Japan agree on joint research and cooperation in seven information technology fields as part of efforts to turn Northeast Asia into a global IT hub.

Sept. 9-12, 2003: National Security Advisor Ra Jong-il visits China for consultations on the North Korean nuclear issue and regional security matters.

Sept. 29-Oct. 2, 2003: Federation of Korean Industries departs for 50th anniversary celebration of All-China Federation of Industry and Commerce in Beijing and to discuss establishment of Korea-China business council conference.