

China-Korea Relations:

## The Insatiable Sino-Korean Economic Relationship: Too Much for Seoul to Swallow?

by Scott Snyder  
Representative, the Asia Foundation/Korea

Despite booming economic and tourist exchanges between Seoul and Beijing, some serious economic friction came to the fore in the last quarter. Officials in Seoul are getting a rather nasty taste of Beijing's inflexibility on several political issues that may become serious turning points in the Sino-Korean relationship if not handled effectively. Although the dispute over China's dumping of garlic in the South Korean market was settled this quarter--allowing resumed Korean exports of hundreds of millions of dollars worth of polyethylene and mobile phone equipment in exchange for an import quota ceiling on Chinese garlic exports to Korea--a new, potentially even more damaging dispute over lead fragments found in crab and blowfish imports from China has created a firestorm of indignation among the Korean public in late August over safety of imported Chinese seafood. These complaints are balanced by continued Korean interest in developing China's information technology (IT) sector, the possibility of China's inclusion in a future Northeast Asian free trade area, and the initiation of practical trilateral consultation on financial coordination issues among South Korea, China, and Japan. However, Chinese pressure to block the long-awaited visit of the Dalai Lama, the renewal of direct economic links between the ROK and Taiwan, and China's continued detention of scores of ethnic Korean Chinese citizens hired by Korea's National Intelligence Service are among the prickly issues that are being suppressed or postponed in anticipation of Chinese Premier Zhu Rongji's upcoming October visit to Seoul in conjunction with the ASEM (Asia-Europe Meeting).

### **The Bitter Aftertaste of the Garlic Dispute**

Only about six weeks were required for Seoul and Beijing to reach a settlement in mid-July of its biggest trade dispute to date, a dispute over Chinese garlic which had flooded the Korean market in 1999, with a ten-fold increase in Chinese market share to 35% of the ROK's garlic market in only one year. In response to Korea's punitive 315% tariffs on garlic imports from China, Beijing had slapped a ban on imports of polyethylene and mobile phone equipment, two rapidly growing sectors for South Korean exporters to China that dwarf the size of the garlic trade, causing losses of almost \$100 million to Korean companies during the period of the dispute. Beijing's strategy worked, as Korean polyethylene and mobile phone equipment companies quickly mobilized to put pressure

on government officials in Seoul to make rational economic concessions. However, the dispute also left a bad taste in the mouths of working-level ROK government officials, who reportedly found their Chinese counterparts to be utterly uncompromising and parochial in their approach to these trade issues. This “preview” experience does not appear to bode well for the PRC government’s ability to adapt to the requirements that will accompany World Trade Organization (WTO) entry.

The compromise on garlic was essentially an ROK concession to allow continued garlic imports up to limits slightly less than 1999 levels. The first 20,000 tons of frozen or pickled garlic imports from China are allowable at the usual 30% tariff, while imports in excess of that quota would be subject to a 315% punitive tariff, and up to 11,895 tons raw garlic imports from China would be permitted subject to a 50% tariff. The agreement essentially attempts to cap Chinese garlic imports in order to contain future damage to Korean garlic growers, but accepts the share of the Korean market that Chinese growers have already captured during the past year. The rapid resolution of the garlic dispute was a triumph of economic rationality, but with a heavy price to be paid by Korean garlic growers.

PRC Ambassador to the ROK Wu Dawei projected that, with the garlic war over, more than 1.5 million people would travel between China and South Korea and that bilateral trade would reach \$32 billion this year, continuing a blistering double-digit pace of growth despite the temporary interruption in Korean exports of polyethylene and mobile phone equipment. It also re-opens the Korean push for expanded market share in China’s telecommunications sector, with the Korean Ministry of Information and Telecommunications actively working to push for greater access to the Chinese market by Korean firms through adoption of a CDMA (code-division multiple access) mobile network to go along side China’s dominant GSM (Global Service for Mobile Communication) system. Unfortunately, the garlic dispute was relatively easy to resolve compared to the wide range of agricultural and trade disputes that have already emerged to beset Sino-Korean economic relations in the third quarter.

### **Crabby South Korean Consumers Reject More Iron in Their Diets**

No sooner was the garlic dispute settled than a new scandal involving Chinese seafood imports arose, this time involving scraps of iron metal inserted into crabs and blowfish, ostensibly to increase the price by weight of the various seafood products. Examination of boxes of crabs and blowfish bound for the ROK have revealed a significant number of cases in which lead pellets or scraps have contaminated seafood imports. The revelation in late July that at least 874 Chinese blue crab and 75 blowfish imports had been contaminated with unhealthy metals provoked a firestorm in Seoul, emptied Korean crab restaurants, and incited protests against the ROK government’s customs and quarantine practices and against Chinese food imports by a number of consumer groups. Womenlink, a civic group active in promoting women’s issues, organized demonstrations and released a statement complaining that “the recent series of incidents involving tainted food have driven us to suspect the safety of all food products at markets. We may have to run metal detectors over the seafood on dinner tables.” The problem is compounded in

the view of the public by Korea's increasing dependence on seafood imports from China, which constitutes over 41 percent of seafood imports according to the ROK Ministry of Maritime Affairs and Fisheries.

Beijing and Seoul have launched investigations into the source of the lead-filled seafood products and appear to have narrowed possible suspects to Chinese export houses or fishermen possibly based in Dandong, China (apparently excluding the possibility that Korean importers may have used the lead to increase the value of the product). One Korean importer, 43-year-old Yang Won-se, was arrested but he denied any knowledge that the seafood he was responsible for importing had been contaminated. PRC Ambassador Wu denied sole Chinese responsibility for export of lead-contaminated seafood to Korea in a September 8 speech to a forum of ROK National Assembly members, suggesting that additional investigations would be needed to determine responsibility for the incidents.

The major concern with Korea's increasing dependency on Chinese food imports is the need to guard against the wide range of scams that may constitute a threat to public health in the ROK. For instance, in addition to the use of lead pellets to increase the weight of seafood products, Chinese exports to Korea recently included 2,000 tons of white sesame seeds that had been coated with toxic tar-based dyes so that they might pass as more expensive black sesame seeds, along with herbal medicines that have been mixed with stones, bricks, lead pellets, and nails. In addition, there is growing ill feeling in Korea over Chinese protectionism targeted against imports of Korean ginseng to China, a long-time leader in international market share.

### **China Information Technology and Telecoms Gluttony: The Bright Side of Sino-ROK Trade Relations**

Despite the growing number of Sino-ROK agricultural disputes, the relationship continues to be driven by a combination of perceived opportunity to capture a place in the growing China market and Korea's geographic location and ability to produce cost-competitive, dependable consumer goods for the growing Chinese middle class. Location may be less important in a globalized world, but to the extent possible Korean companies are seeking to use it to their advantage as a means of getting into the China market. The best example is the bustling demand for ferry and container shipping services between Korea and China as a result of limited international port capacity in China. Sixteen new container vessels are to be put into service by the end of the year, linking Korea's Mokpo with China's Yonun and linking Incheon with China's Yontae city. The Korea International Trade Association projected Chinese demands for large consumer goods such as washers, freezers, and televisions to skyrocket, and Korean *chaebol* have gained a significant market share in production low-cost dependable household goods that are being sold to Chinese consumers.

The South Korean IT financial bubble during the first half of the year has burst, but the shake-out is still in process. In the meantime, one way of strengthening one's competitive edge both to survive and make oneself attractive to venture investors in the

Korean IT sector is to form alliances and become a player in the Chinese IT market, particularly in light of China's anticipated accession to the WTO. One example of the interest in promoting links between Korean and Chinese ventures is an agreement between the Korea Overseas Trade Association (KOTRA) and its Chinese counterpart, the China Council for Promotion of International Trade (CCPIT), to link website databases of Korean and Chinese companies respectively. A major joint Sino-South Korean IT Forum was held in Seoul at the end of August with participation from major Chinese IT players. Among the featured speakers were Song Jun, President of Tsinghua University Enterprise Group; Sun Jianguang, member of the Chinese Academy of Engineering; and Fang Fang, CEO of Asia2B Holding Ltd. in Hong Kong. Major tie-ups announced during the third quarter included a joint venture consulting firm between Beijing-based CAPI Venture led by Majia, the son of a well-known Chinese economist Ma Hong, and UTC Venture, a Korean counterpart. Dacom and Shanghai Telecom have also agreed to build a high-speed 45M broadband network connecting Korea and China. MPM.com also will supply China's Founder group with 80,000 MP3 players during the next year.

### **Expanding the Economic Pie: ROK, Japan, and PRC Explore Regional Cooperation**

A great deal of discussion on regional economic cooperation has taken place in the aftermath of the Asian financial crisis, with two main trends developing that may involve trilateral cooperation among South Korea, Japan, and China. The first initiative is focused on expanding regional trade cooperation and has led to specific proposals for a free trade zone including South Korea and Japan. In the course of ROK-Japan discussions, however, the Korean vision that has been put forward has usually also included Chinese participation. The latest example is a proposal for a Yellow Sea-Rim Free Trade Belt that was pushed by the ROK Ministry of Commerce, Industry, and Energy at a meeting with local officials from Kyushu in Japan and has also been actively promoted by the Minister of Commerce, Industry, and Energy Shin Kook-hwan. The Ministry has also expressed interest in working with China and Russia to conduct a feasibility study on developing a natural gas field in Irkutsk, Russia that could be used to supplement Korean and Chinese energy needs.

The second area of potential cooperation has focused on financial sector collaboration and has become the primary direct follow-on from the Japan, ROK, PRC breakfast meeting among leaders that was held at the ASEAN Plus Three meetings in Manila last November. A three-way economic research project was finally launched in September in Beijing to explore possibilities for regional environmental, financial, and trade cooperation, particularly in the context of China's entry into the WTO, which will be led by the Korea International Institute of Economic Policy, Dentsu Institute, and the Development Research Center under the State Council of the PRC.

### **Anticipating Zhu Rongji's Visit: A Sweet or Sour Moment for the Sino-Korean Relationship?**

Much of the activity and seeming lack of activity on the political front during this quarter must be seen in light of governmental preparations for the upcoming October bilateral meetings with Premier Zhu, the last member of China's ruling elite to visit Seoul, in the context of the ASEM meeting. The Korean government has used the anticipated visit as leverage in its search for a satisfactory result of investigations into Chinese exports of lead-contaminated seafood to Korea. Seoul will also continue to press hard for Zhu to authorize expansion of CDMA technology as an acceptable market standard in China's mobile phone sector, a decision that would benefit companies such as Samsung Electronics, LG Information and Communications (LGIC), and other Korean exporters who recorded 55% increase in exports over last year's performance in the first half of the year. On the other hand, South Korea has conceded on a wide range of issues in anticipation of Zhu's visit and as part of the ongoing broader perception that China's supporting role is critical to the success of Kim Dae-jung's engagement of North Korea. Most notably, the ROK government has once again stepped back from giving the green light to South Korean Buddhist organizations to invite the Dalai Lama for a first-ever visit to Korea, after having explained to Chinese counterparts on a number of occasions last spring that the South Korean citizenry has increasingly demanded that the government allow the Dalai Lama to visit. The ROK government has also put off restoration of direct air links with Taiwan following the election of President Chen Shui-bian in deference to Chinese wishes.

Perhaps the most apt symbol that Sino-ROK competition has gotten out of hand involved some ugly behavior following a 1-0 win by the South Korean national team in a "friendly" match held in Beijing last July, where several South Korean spectators were physically assaulted by angry Chinese fans, sparking a diplomatic protest by the Korean Embassy in Beijing. Despite "friendly" relations, the current mood is one of bitter competition and occasional confrontation just below the surface. The ROK government has thus far kept quiet an ongoing dispute with the PRC over the fate of dozens of ethnic Korean Chinese nationals who are being held for suspected ties to South Korea's National Intelligence Service, and has (for the time being) successfully defused further public clashes over South Korean non-governmental organization activities involving North Korean refugees in China despite occasional continued arrivals of North Korean defectors in Seoul via a "third country." The ROK government has also proposed negotiating an extradition treaty as an increasing numbers of South Koreans who have fled from prosecution have taken up residence in China. One provocative factoid is that China has replaced the United States as Korea's most contentious trading partner, according to the Korea Commercial Arbitration Board.

ROK President Kim Dae-jung himself will be eager to sustain Chinese cooperation and support for his Sunshine Policy, both in the form of encouraging Chinese interest in and support for the inter-Korean railway project that, if implemented, would reconnect ROK rail traffic through North Korea to China's northeast. Beijing's interest in the project was demonstrated through its offer to assist with minesweeping in preparation for reconnecting the railroads in North and South Korea, but that request was turned down by the ROK government. Despite visionary talk about re-establishing a South Korean link to the Trans-Siberian Railroad, only the link between South Korea and China

through North Korea is likely to have any practical economic significance in terms of regional economic integration or trade facilitation. Kim Dae-jung has also publicly commended the Chinese reform experience as a potential model for North Korea's leadership to consider following. Beijing continues to be an important venue for convening inter-Korean dialogue in various forms, the latest and most intriguing of which comes in the form of a joint inter-Korean research center on possibilities for practical economic cooperation involving officials from the ROK Ministry of Commerce, Industry, and Energy.

A more serious issue is how President Kim raises the issue with Premier Zhu of Chinese support for the inter-Korean peace process through a "two-plus-two" formula, whereby the two Koreas would negotiate a peace treaty to be guaranteed principally by the PRC and the United States. This discussion will be particularly interesting for a variety of reasons, including the potential impact of such a discussion on the Sino-U.S. relationship and the Korean need for positive U.S.-PRC cooperation on Korean issues as part of Kim Dae-jung's inter-Korean reconciliation strategy. Most significantly, President Kim's meeting with Zhu Rongji will be the first major top-level meeting following the initiation of inter-Korean cooperation. This factor may change the nature and balance of the strategic relationship between Beijing and Seoul, but to what extent and with what effect remains to be seen.

## **Chronology of China-Korea Relations July-September 2000**

**July 11, 2000:** Former ROK Foreign Minister Hong Soon-young is formally appointed as the ROK's new ambassador to the PRC.

**July 12, 2000:** Korea Overseas Trade Association (KOTRA) President Hwang Doo-yun and China Council for Promotion of International Trade Chairman Yu Xiaosong sign agreement allowing database information sharing regarding Korean and Chinese companies between Korea's Silkroad 21.com and China's China Products.com.

**July 14, 2000:** Trade dispute over Chinese garlic exports to South Korea.

**July 15, 2000:** Representatives from KOTRA and the China External Trade Association (CETRA) held their first trade promotion meeting in Taipei since the ROK cut ties with Taipei in order to normalize relations with the PRC in 1992.

**July 28, 2000:** ROK national soccer team wins friendly match against Chinese national team in Beijing, sparking altercations and drawing diplomatic protest from the Korean Embassy in Beijing.

**Aug. 3, 2000:** Weekly flight service is established between Beijing and Cheju Island.

**Aug. 3, 2000:** ROK and PRC governments sign a fishing pact designed to clarify limits of commercial fishing areas near the mouth of the Yangtze and adjacent to Cheju Island, respectively.

**Aug. 28, 2000-Sept. 4, 2000:** ROK Joint Chiefs of Staff Chairman Cho Yung-kil leads a week long nine-person delegation to the PRC at the invitation of his PLA counterpart Gen. Fu Quanyou, the first-ever visit to China by a Chairman of the ROK Joint Chiefs of Staff.

**Aug. 31, 2000:** Korea-China IT Forum is held in Seoul.

**Sept. 4-5, 2000:** Japan, ROK, and PRC Environment Ministers agree to launch a November workshop on “yellow dust” from China at Fourth Ministerial Conference on Environment and Development held in Japan.

**Sept. 4-6, 2000:** The Ministry of Commerce, Industry, and Energy proposes the formation of a Yellow Sea-rim Free Trade Belt at a meeting with Japanese counterparts in Kyushu, Japan.

**Sept. 5, 2000:** South Korea, China, and Japan-based research institute heads discuss strengthening economic cooperation between the three Northeast Asian countries in Beijing.

**Sept. 5-6, 2000:** Agreement is signed to conduct feasibility study among the ROK, PRC, and Russia on the development of the Irkutsk natural gas oilfield and pipeline by the year 2008.

**Sept. 8, 2000:** PRC Ambassador to the ROK addresses a forum of the National Assembly Asia Pacific Policy Studies, led by Rep. Moon Hee-sang of the ruling Millennium Democratic Party, touching on the issue of China’s tainted seafood imports and the PRC’s objections to a visit by the Dalai Lama to Seoul.

**Sept. 8, 2000:** ROK President Kim Dae-jung proposes to reactivate the Four-Party Talks involving the two Koreas, the United States and China, while in New York at the UN General Assembly meeting with the idea that a “two-plus-two” format would allow for a peace agreement by the two Koreas that would be endorsed by the United States and the PRC.

**Sept. 8, 2000:** Vice Foreign Minister Ban Ki-moon meets with PRC Ambassador Wu Dawei to discuss the Chinese tainted food imports, the prospective visit to Seoul by the Dalai Lama, and other matters following Ambassador Wu’s speech to National Assembly members.

**Sept. 17, 2000:** The Korean Fair Trade Commission recommends that antidumping duties of 26.7% be imposed on Japanese and Chinese batteries deemed harmful to domestic industry.

**Sept. 18, 2000:** ROK government withholds permission for the Dalai Lama to visit Seoul on November 16. Buddhist groups indicate they will pursue the invitation as scheduled by seeking public support to overturn the ROK government decision.

**Sept. 19, 2000:** China Unicom President Yang Xianzu meets with Information and Communication Minister Ahn Byung-yub in Seoul and says that Zhu Rongji would discuss China's CDMA market opening with ROK President Kim Dae-jung during his visit in October.