



China-ROK Relations: Deepening Intimacy and Increased Economic Exchange

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Although North Korean leader Kim Il-sung only a few years ago resisted the idea of being “naked” to American demands for nuclear inspections, ROK Foreign Minister Hong Soon-young and his Chinese counterpart Tang Jiaxuan apparently have no such hesitations when it comes to showing some skin; the steadily deepening Sino-South Korean relationship in the last quarter of 1999 was marked by a relaxed and intimate round of “spa diplomacy.” Conducted at the resort of Ichon outside Seoul during the Chinese foreign minister’s visit to South Korea, the meeting followed closely on the heels of Minister Tang’s early October meetings in Pyongyang. President Kim Dae-jung saw Chinese Premier Zhu Rongji at the ASEAN Plus Three meetings in Manila at the end of November, along with Japanese Prime Minister Keizo Obuchi, in an unprecedented three-way breakfast meeting. The primary theme of that discussion was exploring new opportunities for regional economic exchange and cooperation in line with efforts to foster an expanded East Asian economic community. With the South Korean economy in full recovery from its financial crisis, the fourth quarter of 1999 also saw renewed emphasis on South Korean investment in China, with a mixed but cautiously positive response in Seoul to near-term opportunities that may accrue from the successful conclusion of U.S.-China negotiations that had marked the last major barrier to China’s entry into the World Trade Organization (WTO).

Steadily Deepening a Strategic Relationship: Beijing Steps Up Diplomatic Efforts toward the Korean Peninsula

Consultations between the Chinese and South Korean foreign ministers have become routine, but Foreign Minister Tang’s first official arrival in Seoul for business and bathing was much anticipated due to the sensitive situation on the Korean Peninsula at the time. The anticipation was heightened by the fact that Minister Tang held discussions with counterparts in Pyongyang in early October in the immediate aftermath of both the Perry Report and a second meeting between Hyundai Chairman Emeritus Chung Ju-yong and North Korean leader Kim Jong-il. China’s own diplomatic efforts with Pyongyang -- following the resumption of high-level diplomatic contacts with Beijing in June when President Kim Yong-nam visited Beijing -- are also at a sensitive stage, with the next logical step being an exchange of leadership visits that would appropriately involve North Korea’s reclusive Supreme Commander Kim Jong-il. Add the continuing sensitivities in Beijing regarding South Korean NGO efforts (such as statements critical of PRC government policy toward North Korean refugees following a major NGO conference held in Seoul in mid-October or lobbying efforts with the UN High Commission on Refugees led by former Seoul mayor Kim Sang-chul, Secretary General of the Commission to

Help North Korean Refugees), and renewed South Korean interest in expanded investment opportunities in China, and it is understandable that informal hours of soaking and talking were preferable to, if not even more constructive than, another stuffy hotel or office meeting.

China's more active posture toward the Korean Peninsula in recent months reflects both its own legitimate strategic interests and a greater sense of wariness -- in the context of a clearly limited near-term U.S.-China relationship -- regarding the extent to which China may be affected negatively by a strong U.S. influence on the Korean Peninsula that might extend even to Pyongyang. At the same time, Beijing is the informal link in the chain of shared interests currently encircling Pyongyang that will ultimately determine whether North Korea will respond positively to U.S., South Korean, and Japanese engagement policies. As North Korea diversifies its diplomacy and explores its alternatives to negotiation with the United States, one traditionally appealing approach for Pyongyang might be to play off the major powers (these days the United States and China) against each other to see what the market will bear. But there are limits to what China is likely to offer as the price for deepening leadership contacts with Kim Jong-il, even if such contacts might be used to leverage improvements in China's relationship with Seoul. For South Korea, the primary objective is to avoid being caught in any crossfire between Beijing and Washington while enhancing its own political and economic relationship and strategic influence with Beijing in ways that will also assure a stable and gradual process leading ultimately to Korean reunification.

The symbolism of intimacy and partnership surrounding the Tang visit reflects just one more step in the development of a steadily deepening relationship between Seoul and Beijing. This is reflective of the extent to which South Koreans value an improved relationship with a neighboring power whose diplomatic and economic influence is clearly on the rise. But the informality of this meeting, which suggested a special relationship, had other uses as well. First, it kept sensitive issues out of the official record. China preserved the flexibility of an enhanced relationship with Seoul without formally running afoul of North Korean sensitivities to Beijing's deepening contacts with South Korea. Delicate China-North Korea border issues and the North Korean refugee situation could be discussed without violating principles of "noninterference in internal affairs" on the one hand or facing official stonewalling from Beijing on the other.

Second, it allowed both sides to probe problematic issues. Under what circumstances, if any, might South Korea find itself persuaded to join the U.S. theater missile defense (TMD) program, and how would China respond? Are defector/refugee issues involving transit of North Korean refugees through China being handled satisfactorily? How can the activities of South Korean NGOs in Northeastern China be handled so as to prevent damaging the official relationship? In which technology-sensitive sectors will China allow South Korean investment? How can South Korea restore flight links with Taiwan without running afoul of "one China" principles embodied in the official PRC-ROK relationship? It may be premature to say that any of these types of questions were discussed and answered definitively, but the understanding gained from informal discussions provides context that can help to avoid costly official blunders that might weaken the relationship. Tang's visit also provided an opportunity for the South Korean government to renew its invitation for a year 2000 visit by Premier Zhu Rongji, the only Chinese leader among the top seven politburo members who has not yet visited Seoul.

Multilateral Economic Diplomacy and the ASEAN Plus Three Meeting

Another historic development this quarter involving Sino-South Korean relations was the initiation of a trilateral meeting among the leaders of Japan, South Korea, and China on the sidelines of the ASEAN Plus Three meeting held in Manila at the end of November. The trilateral meeting was apparently a Japanese initiative, with the Chinese leadership initially resisting the idea but subsequently acquiescing to participation with the stipulation that security issues would be formally excluded from the discussion in favor of a focus on fostering economic cooperation. The call for such a meeting was definitely in line with Kim Dae-jung's active advocacy of regional and multilateral dialogue, a building block for a future Asian community as well as a possible rear-guard action in response to the emergence of regional economic blocs in other parts of the world. The very limited economic cooperation agenda seemed to be productive as a vehicle for muting confrontational tendencies between Japan and China.

One result of the meeting is that the group gave its support to a nascent dialogue involving think tanks of the three countries, including the Beijing-based Institute for World Development, either the Korea Development Institute (KDI) or the Korea Institute for International Economic Policy (KIEP), and a Japanese private think tank to be determined. Among the initial areas of focus will be the implications of China's entry into the WTO and how to foster industrial cooperation in selected areas, including the trade, fisheries, maritime, and environmental sectors.

Open Season for Expanding Trade and Investment

Both in official government-to-government talks and through a wide range of private sector efforts, the economic component of the relationship between South Korea and China has been given a jump-start after briefly faltering in the context of the Asian financial crisis. Since economic opportunity has been the primary driver for the relationship, it is significant that momentum has returned to Sino-South Korean economic and investment relations. Starting virtually from scratch a decade ago, China is now South Korea's second largest destination for South Korean investment and its third largest trading partner, and South Korean firms are increasingly seeking to target the over 60 million Chinese urban middle-class with incomes over \$5,000 per capita, according to Daewoo Economic Research Institute.

The greatest interest among South Korean businesses currently appears to be in the telecommunications sector, where there were several reports of progress in establishing linkages during this quarter. Samsung Electronics linked up with Hebei Century Mobile Telecom for a \$31 million contract to provide CDMA (code division multiple access) mobile phone service, LG Information and Communications is seeking to establish a CDMA joint venture in Guangzhou, and South Korean internet firms are also seeking partnerships in China. The South Korean government has lobbied China to open up CDMA business -- expected to be a vast, rapidly developing sector in China -- to Korean firms. Seoul has also sought to retain a foothold in the Chinese auto assembly market as well as explore opportunities for Korean companies to develop high-speed railroads in China. Efforts to support Daewoo Motors automobile parts assembly operations seem particularly ill fated given questions surrounding Daewoo's future as part of arduous debt refinancing negotiations. Even financial problems may be a vehicle for expanding Sino-Korean economic cooperation; the Korea Asset Management Corporation,

highly-praised as an efficient vehicle for holding and repackaging remaining assets from bankrupt Korean companies during the financial crisis, signed an agreement to share asset management experience with China's Cinda Asset Management Corporation.

The tourism business between Korea and China continues to boom. With over one-quarter of all Korean overseas travelers choosing China as their destination, only Japan -- the preferred destination for thirty percent of Korean travelers -- receives more Korean visitors. By June of next year, South Korea will be the first destination to which the Chinese government will allow unrestricted tourism, opening up tourism opportunities in South Korea to Chinese from all provinces, beyond the citizens from the nine cities or provinces currently approved to visit South Korea. The expectation is that with the lifting of these restrictions, the number of Chinese visitors to South Korea will double to 700,000 from the 350,000 anticipated in 1999. The 260,000 Chinese visitors who have come to South Korea by the end of October were the third largest national group behind Japanese and Americans among tourists to South Korea.

There is a concerted effort to expand the number of ferry and commercial routes between China, South Korea, and the Russian Far East. By April of next year, Inchon-Yantai, Mokp'o-Lianyungang, and Sokcho-Hunchun car ferry routes are projected to open, stimulating more intense commodity "suitcase" trade among struggling but vibrant small and medium-sized merchants. At the height of the Korean financial crisis, the suitcase ferry trade, often involving customs inspectors turning a blind eye to formal small-scale violations of customs law, became an arduous but important lifeline for survival among some displaced and unemployed Korean workers. In addition, Korean Airlines (KAL) is negotiating to open air routes from Seoul to Hainan Island and Guizhou, while Asiana is seeking to open a new route from Seoul to Xi'an in April. If one considers that the softening of public attitudes toward Japan has accompanied unrestricted tourism by Koreans to Japan, one might similarly expect that loosening restrictions on Chinese travel to Korea could have a significant impact on Chinese public perceptions of South Korea that may bolster the pace and depth of government-to-government relations between Beijing and Seoul.

Korean Assessments of China's WTO Admission

Koreans greeted China's likely admission to the WTO following the successful conclusion of U.S.-China WTO negotiations with mixed feelings, reflecting differing perceptions of the benefit or harm of China's accession based on sectoral interests. Low-cost, labor intensive industries and labor groups are apprehensive that China's market opening will only bring more competition and pressure to move jobs to lower-wage destinations such as China in the long-term, but on the whole the South Korean industrial sector is well placed to take direct advantage of tariff reductions that will expand South Korean access to the Chinese market. For instance, China's compliance with WTO-mandated tariff reductions are projected to boost sales in South Korea's textiles sector by five percent. The Korean Institute for International Economic Policy (KIEP) projects a \$1.7 billion increase in South Korea's trade balance that would be derived from lower Chinese tariffs in line with WTO standards. Although the electronics and apparel sectors will be hurt by Chinese competition in third markets, Korean automobile manufacturers, petrochemical exports, and high-end steel products exports to China may increase as China lowers tariffs.

South Korea's Strategic Objective: Avoiding Having to Choose Among Friends

As the economic relationship between China and South Korea grows, the concrete costs of possible tension or confrontation between the United States and China become more worrisome. South Korea's stakes in the avoidance of a confrontation that would split the region will continue to grow in tandem with the economic relationships between Chinese and South Korean private sectors. South Korea's private sector would be hard-pressed to give up those tangible economic benefits for the sake of coming into line with possible U.S. political demands in times of tension or confrontation. The possibility of being forced to choose between China and the United States in the event of confrontation or discord is increasingly viewed in the category of worst-case scenarios to be avoided at all costs.

One concept that has been entertained by some South Korean specialists is the idea that Seoul may play the role of "internal" balancer, perhaps quietly mediating difficult issues between Washington and Beijing during times of high tension to ensure that the situation does not get out of hand. However, the effective pursuit of such a role might involve making precisely those hard choices that any South Korean leadership may most seek to avoid. It also presumes that the task and objective of the United States in the use of its influence is to provide "external" balance, but the balance is precisely what would be at stake if the United States and China were to develop a confrontational relationship.

Another possible objective of South Korea's foreign policy as it considers responses to a possible downturn in Sino-U.S. relations might be to seek to insulate its core foreign policy objectives from the most negative effects of such a downturn. For instance, the widespread assumption that good U.S.-China relations are necessary for progress to be made in reducing inter-Korean tensions raises the question of how to delink major power relations from the inter-Korean relationship, particularly if one assumes continued difficulty in the relationship between Washington and Beijing. During the Cold War such a task was impossible and even Korea's historical geographic location as the vortex of major power confrontation suggests the challenging nature of such an exercise.

There is simply no possibility of insulation or Hermit Kingdom-style isolation for South Korea, a country that depends so heavily on external trade relations for its economic growth. Rather, the diplomatic challenge for South Korea in the future will be to effectively use its economic and diplomatic influence to constrain the options of its friends without doing irreparable damage to its respective relationships with Washington and Beijing. At the same time, Seoul's decisive influence on the security environment in Northeast Asia, at least for the foreseeable future, will lie not in its neutrality, but in the ability of Washington and Seoul to continue making the alliance work effectively. If that relationship is sufficiently secure that Seoul continues to have an overriding stake in maintaining the alliance, American interests are unlikely to be threatened—and could be enhanced—by continued improvement in the Sino-South Korean economic relationship.

Chronology of China-ROK Relations

October - December 1999

Oct 5-9: PRC Minister of Foreign Affairs Tang Jiaxuan makes an official visit to Pyongyang.

Oct 15: International Conference of NGOs held in Seoul.

Oct 22: President Kim Dae-jung endorses the establishment of a new East Asian regional economic and security cooperation mechanism in speech to the East Asia Vision Group.

Nov 25: Korea Asset Management Company (KAMCO) signs memorandum of understanding (MOU) with China's Cinda Asset Management Corp. on the provision of bad asset disposal techniques and business cooperation.

Nov 27-28: President Kim Dae-jung attends ASEAN Plus Three meeting in Manila, has three-way meeting on economic issues with Japanese Prime Minister Keizo Obuchi and Chinese Prime Minister Zhu Rongji.

Dec 10-12: PRC Foreign Minister visits Seoul for consultations with South Korean officials including ROK Foreign Minister Hong Soon-young.

Dec 17: Commission to Help North Korean Refugees Secretary-General Kim Sang-chul meets with UN HCR officials to discuss UN efforts to respond to the situation on the North Korea-China border.