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China-Korea Relations: Embracing the ROK Economically and the DPRK Politically

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The last quarter of 2009 raised hopes for developments in China's relations with both Koreas. Chinese Vice President Xi Jinping received head-of-state treatment during his mid-December visit to South Korea. In Seoul, Xi presented a series of proposals to further the China-ROK strategic cooperative partnership, including pressing for a free trade agreement. President Lee Myung-bak and Premier Wen Jiabao held bilateral talks on Oct. 10 in Beijing on the sidelines of the China-ROK-Japan trilateral summit, which Lee used to promote his "grand bargain" on North Korean denuclearization.

There were also several exchanges between China and the DPRK. In early October, Premier Wen led a large delegation to Pyongyang and proposed a comprehensive set of deals with North Korea. As the first Chinese premier to visit Pyongyang in 18 years, Wen was warmly hosted by Kim Jong-il. Following Wen's visit, the director of the United Front Department of the Workers' Party of Korea (WPK) and Pyongyang's official in charge of inter-Korean relations, Kim Yang-gon, made a five-day trip to China. President Hu Jintao reportedly extended a formal invitation to Kim Jong-il to visit China "at a convenient time" at his meeting with Choe Thae-bok, secretary of the WPK Central Committee and one of Kim's closest aides, who led a WPK delegation to Beijing in late October.

Building a China-ROK partnership

Vice President Xi Jinping's delegation of 58 officials that visited Seoul included senior officials from the Foreign Ministry, National Development Reform Commission, Ministry of Commerce, Ministry of Culture, Policy Research Office of the Chinese Communist Party Central Committee, and the China Development Bank. During the four-day visit, Xi met with a range of senior political and economic leaders including President Lee Myung-bak, Prime Minister Chung Un Chan, National Assembly Speaker Kim Hyong-o, Grand National Party (GNP) Chairman Chung Mong-joon, Democratic Party (DP) Chairman Chung Sye-kyun, the South Korea-China Friendship Association, and Gyeongsangbuk-do governor Kim Kwan-Yong.

Xi presented a four-point proposal to further China-ROK ties, including expanding high-level contact and political trust, expanding trade and economic cooperation, increasing personnel exchanges, and strengthening coordination in multilateral frameworks including a China-ROK-Japan dialogue. Xi also put forward a four-point proposal for expanding China-ROK trade, including stabilizing trade and investment, pursuing respective advantages for a "win-win

outcome,” strengthening international trade cooperation, and strengthening cooperation on a low-carbon economy.

South Korean experts noted that the purpose of Xi’s visit, which was part of his official Asian tour to Japan, South Korea, Myanmar, and Cambodia, was not to discuss substantive technical issues in the China-ROK relationship but to boost his diplomatic profile and experience as the presumed next leader of China. While Xi addressed a wide range of topics including current concerns of North Korean denuclearization, bilateral trade, and climate change, he did not stray from China’s existing positions on the issues.

Although the visit was primarily symbolic, Xi’s red carpet treatment underscored the importance South Korea attaches to its relationship with a China whose role and influence in regional affairs is likely to continue to grow. The appointment of Yu Woo-ik, the former presidential chief of staff and one of President Lee’s closest aides, as the new ROK ambassador to China signals the growing importance Seoul is attaching to Beijing. In his Dec. 28 arrival speech at the ROK Embassy in Beijing, Yu noted that China will “play a leading role” in shaping the political and economic situation in Northeast Asia in the 21st century. Yu had earlier indicated that while businesses have led progress in China-ROK relations to date, “now the government needs to play a role for improving our ties.”

Recent China-ROK bilateral diplomacy reflects movement toward the strategic cooperative partnership forged between Presidents Lee and Hu in 2008. On the sidelines of the China-ROK-Japan summit in Beijing in October, Lee and Premier Wen Jiabao signed an economic cooperation agreement that aims to double annual bilateral trade to \$300 billion by 2015 from the current \$145 billion and agreed to strengthen cooperation on other bilateral and global efforts such as the upcoming China-ROK trade expositions and the G20 summit Seoul is hosting in 2010. At the trilateral summit, President Lee promoted his “grand bargain,” which calls for “one-step denuclearization” in return for massive incentives (referred to by China as the “great exchange”) for North Korea. Lee also declared that “now is a good time for North Korea to give up its nuclear ambitions.”

China-DPRK relations in the aftermath of Wen Jiabao’s Pyongyang trip

High-level China-DPRK exchanges marked the 60th anniversary of diplomatic ties despite UN sanctions against North Korea for its missile and nuclear tests earlier this year. Premier Wen Jiabao’s visit to Pyongyang in early October was the high point in those commemorations. *KCNA* reported that Chairman Kim Jong-il personally greeted Wen at Sunan airport upon his arrival on Oct. 4 and that he accompanied Wen in several public appearances.

China has highlighted Wen’s success in securing Kim’s promise of a “conditional return” to Six-Party Talks pending progress in direct negotiations with Washington, although Kim’s remarks made clear the North’s interest in direct US-DPRK dialogue rather than Six-Party Talks. The fact that Wen did not gain any additional movement by Kim compared to what North Korea had already committed to during Dai Bingguo’s visit the previous month raises questions about Chinese influence in Pyongyang, especially in light of rumors that Wen’s visit to Pyongyang was in question over the issue.

South Korea seems concerned that Beijing's package of bilateral economic cooperation deals in trade, tourism, the software industry, and almost \$20 million in aid made during Wen's visit may hinder the implementation of UN Security Council (UNSC) sanctions. Some Chinese observers suggest that North Korea's unusual reception for Premier Wen was based on its calculations of economic need. They also point out that Wen's package did not promise any significant renewed aid or economic rewards, especially since China also has an interest in encouraging North Korea to undertake economic reforms.

According to the *Chosun Ilbo*, despite the lack of progress on the nuclear issue, one highlight of the Kim-Wen meeting was a secret agreement to restore intelligence ties and strengthen defense cooperation against South Korea, the US, and Japan through cooperation between traditional intelligence agencies including the DPRK External Liaison Department and Operational Department. Pyongyang reportedly asked China to share intelligence on defectors and anti-DPRK activities in China while China asked for the North's cooperation in fighting drug-trafficking and currency-counterfeiting. The head of North Korea's Public Security Bureau, Ju Sang-song, paid a visit to Beijing in the weeks following Wen's visit, giving some credence to this speculation.

Premier Wen's visit sparked heated debate on popular online forums in China that demonstrated a growing divide in Chinese public opinion on relations with North Korea. While some users expressed clear support for the official party line, referring to North Korea as "our socialist companion" and indicating that "when the whole world is isolating them, our premier is there to give them hope," others called the North "a gangster country" that "doesn't deserve our help," noting the threat of North Korean nuclear weapons to China and the world.

Rodong Sinmun at the end of December noted that the China-DPRK friendship "entered a higher level" in the "Friendship Year" of 2009, during which the two countries held more than 40 events and exchanged more than 120 delegations. North Korean state media has highlighted efforts to advance bilateral defense ties to bolster the China-DPRK military alliance, but has avoided discussion of the nuclear issue. As President Obama began his Asian tour aimed to strengthen cooperation on North Korean denuclearization, a military delegation led by Gen. Kim Kong-gak and the first vice director of the General Political Bureau of the Korean People's Army visited China. In Pyongyang on Nov. 24, Chinese Defense Minister Liang Guanglie held talks with Kim Yong-chun, minister of the DPRK People's Armed Forces and vice chairman of the National Defense Commission, as part of his three-nation tour to North Korea, Japan, and Thailand. Liang claimed that "the Sino-Korea friendship sealed in blood will last forever" and pointed to "the Korean people's deep emotional attachment of friendship toward the Chinese people." In early November, a DPRK Air Force delegation led by Maj. Gen. Kim Kwang-su met senior Chinese military officials in Beijing to discuss bilateral exchanges on the sidelines of the multilateral "Air Force Peace and Development Forum" that convened top officials from 34 countries including ROK Air Force Chief of Staff Gen. Lee Kye-hoon as part of the celebration of the 60th anniversary of the People's Liberation Army (PLA) Air Force.

China's economic engagement with UN-sanctioned North Korea

In response to questions that Chinese aid to North Korea may undermine international efforts to enforce UNSC Resolution 1874, Chinese Ambassador to South Korea Cheng Yonghua has indicated that China separates “normal economic cooperation with North Korea” and “the contents of the UN resolution” while also noting that as a standing UNSC member China “has a heavy responsibility for the implementation of the UN resolution.” Many US experts do not expect Beijing to alter its strategy of economic cooperation with North Korea despite global concerns about the North's nuclear program, given recent long-term bilateral economic deals that are not linked to progress in denuclearization.

Concerns about the likely trend of Chinese influence as North Korea's biggest trading partner have heightened since October when the Chinese Customs Administration apparently stopped publishing official trade statistics on North Korea. This move has fueled speculation that Beijing will attempt to obscure data about the bilateral economic relationship with North Korea while UN sanctions are in effect. The latest official Chinese data indicate China-DPRK trade grew 40 percent between 2007 and 2008, reaching \$2.8 billion in 2008. *KCNA* reported that People's Security Minister Ju Sang-song and Chinese counterpart Meng Jianzhu signed an agreement on Dec. 17 “on the offer of aid materials,” but did not specify the details.

One issue that has drawn attention in South Korea is China's influence over North Korea's vast mineral resources. An ROK Unification Ministry report in October indicated that since the inauguration of the Lee administration and suspension of inter-Korean projects, China has replaced South Korea as the major investor in North Korea's mining industry, where the estimated \$5.94 trillion worth of mineral reserves is believed to be one of the largest in the world. According to the Korea Trade-Investment Promotion Agency, 41 percent of the \$1.13 billion in total North Korean exports in 2008 were sales of mineral resources. Mineral exports to China increased over 13-fold from \$15 million in 2003 to \$213 million in 2008, apparently driving the increase in North Korea's total foreign trade in 2008 to its highest level since 1990.

South Korean media reports in early November indicated that the DPRK military has taken over state-owned trading companies that promote natural resource exports to China. Analysts have suggested that the Korean Peoples Army (KPA) has taken precedence over other ministries as well as the party to control hard currency-earning exports. The KPA has reportedly turned to China as a source of foreign currency given the decline in arms sales since the imposition of UN sanctions in 2006 and again in 2009. Despite suggestions that Chinese plans to cultivate the North as its “natural resource base,” the extent of Chinese influence over North Korean resources is debatable. Other reports have suggested that North Korea is withdrawing from Chinese mining investments due to reluctance of DPRK leaders to accept excessive Chinese influence in North Korea. The military is believed to be suspicious of the broader security implications of opening mineral resources to foreign investment while Chinese investors in the North's mining industry complain of unpredictable regulations and an erratic power supply. Many analysts still argue that due to its lack of infrastructure and capital, North Korea will be unable to fully free itself from dependence on China as it tries to develop its mineral industry.

Another area of interest in China-DPRK economic cooperation is the growth of special development zones along the border as part of China's strategy to boost bilateral and regional trade, and revive the economies of its northeast provinces. One example is the Tonghua-Dandong Economic Zone, which will reportedly include most of the western half of the China-DPRK border as a joint agreement between Dandong in Liaoning Province, through which almost 60 percent of China's trade with the North passes, and Tonghua in Jilin Province. The construction of a cross-border bridge over the Yalu River, reportedly discussed during Wen Jiabao's October trip to Pyongyang, is believed to support such projects. The zone is among new development areas in northeast China that extend to the DPRK border and account for a significant portion of provincial economic output. In November, China also launched the Changchun-Jilin-Tumen pilot zone in the Tumen River delta to promote cross-border economic cooperation in Northeast Asia.

High expectations for China-ROK trade

Rebounding South Korean economic growth has boosted prospects for China-ROK trade, especially in light of bilateral promotional efforts including the Shanghai Expo and Visit China Year in 2010 and Yeosu Expo and Visit Korea Year in 2012. International Monetary Fund data in October showed that the South Korean economy has made the fastest recovery among G20 countries, resulting in an upward revision in its growth outlook. A Nomura Securities report in December forecasted 5.5 percent growth for the economy in 2010, 0.5 percent higher than official estimates based on expectations of continued depreciation of the Korean *won* and Chinese economic growth. The ROK Ministry of Knowledge Economy (MKE) has announced a target of 12.5 percent average annual growth of exports over the next six years. South Korean exports are projected to reach \$410 billion in 2010 compared to \$393 billion in 2009.

In a December policy report to President Lee, the MKE is targeting large, emerging markets including China, as part of a strategy to bring total foreign trade to \$1.3 trillion and to make South Korea the world's 8th largest trading nation by 2014. The ministry forecasts that China will grow by an average 8.2 percent between 2008 and 2020. South Korean producers have also made favorable projections for China. Leading construction equipment maker Doosan Infracore Co. has forecasted that excavator sales in China, estimated to reach over 14,000 units for the whole of 2009, will increase by up to 20 percent in 2010, with total construction equipment sales likely to increase by 33 percent to reach \$1.7 billion. China is Doosan's biggest foreign market, accounting for over 25 percent of total excavator sales, and Doosan Infracore China Co. (DICC)'s plant in Yantai, Northeast China, can produce 17,500 excavators annually.

The Shanghai World Expo will be held in 2010, to be followed by the Yeosu 2012 World Expo. China and South Korea have anticipated that these two events will be important vehicles for promoting trade and cultural ties since the two cities signed a four-year cooperation agreement. At a November meeting in Kunming to discuss the two events, ROK Culture Minister Yu In-chon and Chinese counterpart Shao Qiwei agreed to simplify immigration requirements, exchange tourism delegations, and reopen a bilateral tourism promotion council that was disbanded in 2002. The ministerial meeting is one of several agreements from the August 2008 summit between Presidents Lee and Hu. Seoul is now pushing for a visa waiver agreement with Beijing to attract Chinese tourists.

Vice President Xi Jinping's December visit to South Korea highlighted China's renewed pursuit of FTA talks with Seoul. Xi noted at his meeting with President Lee that bilateral trade would double by 2013 with the signing of an FTA, which "coincides with both countries' interests." Officials from both sides appear to support the idea of a free trade deal. High-level officials at a November conference of the China-South Korea Investment Cooperative Committee indicated that trade cooperation would be focused on a range of sectors including not only manufacturing, which accounted for 70 percent of South Korean investment in China in 2008, but also such new industries as green energy and high technology. Accelerated efforts to pursue an FTA strategy are expected to counter the recent downturn in China-ROK trade during the global crisis, which has set back the goal of achieving a bilateral trade volume of \$200 billion by 2010.

There is some concern in South Korea that China's aggressive pursuit of FTAs in the region, including with Taiwan, ASEAN, Australia, and trilaterally with South Korea and Japan, is driven by economic and strategic goals of leading a China-centered "Asian community." Other experts like Korea Institute for International Economic Policy China specialist Yang Pyoung-seob suggest that China's renewed interest in FTA talks with South Korea is primarily an indication of Chinese recovery from the financial crisis. China-based South Korean companies have expressed concern about South Korea being left out of China's pursuit of Asian FTAs, arguing that an FTA is urgently needed if Korean companies are to survive in the Chinese market. However, some Korean analysts suggest that FTA negotiations will likely face challenges as China is now paying more attention to economic interests as well as existing strategic considerations of using a China-ROK FTA as a counterweight to the US-ROK alliance. The Chinese Ministry of Commerce has warned that China's 2010 trade outlook is shadowed by rising competition and protectionism, noting that the number of investigations launched against Chinese products and the money involved reached record high levels as of the end of November.

China-ROK FTA talks have stalled since 2007 due to concerns from South Korean industries as well as the US that a closer China-South Korean trade relationship would undermine US interests. In a Nov. 24 *China Daily* article, Lu Jianren of the Chinese Academy of Social Sciences argued that, despite opposition from Chinese industries including the auto, chemicals, and steel industries in particular, "South Korea should be blamed for the stagnancy of a free trade agreement ... Official negotiations on such a deal cannot start until the nation eases off negative factors rising domestically and beyond." Still, South Koreans see Xi Jinping's interest in FTA talks in Seoul as significant given that he is being touted as China's next president. A Dec. 15 op-ed in the *JoongAng Daily* argued that progress in China-ROK trade talks will likely boost Seoul's pending bilateral trade talks with Japan and other potential regional initiatives such as a China-ROK-Japan FTA and the East Asian Community.

Conclusion: Changing regional and global dynamics

Current efforts to advance the China-ROK partnership may be challenged by potential conflicts of interest, especially as major domestic transitions unfold in the region. According to Shen Shishun of the China Institute of International Studies, Northeast Asian cooperation still lags behind Southeast Asia "largely out of political reasons ... China, Japan and South Korea should seize the opportunity when the current Japanese ruling party is prone to Asia and is willing to

force a community in East Asia.” Regional leaders appear optimistic in their outlook: Xi Jinping stressed hopes to realize the Korea-China FTA and East Asian Community “in the not so distant future” and Secretary General of Japan’s ruling Democratic Party Ozawa Ichiro at a lecture in Seoul noted that Northeast Asia is moving from “animosity and competition” to “amity and cooperation.” But as Seoul rushed to accommodate Xi Jinping as China’s heir apparent, South Korean observers wondered if China and Japan were competing to draw Korea to their side in “a new hegemonic battle in Asia,” or whether South Korea was ready to meet new regional and global changes and play a new role as regional mediator or coordinator. Many South Koreans also believe that an East Asian Community cannot be realized without resolving the North Korean nuclear issue, which will require alignment of priorities with China.

China’s growth and global influence has made ROK officials increasingly cautious about how to balance diplomacy between China and the US. Beijing may feel uncomfortable about Seoul’s recent moves to emphasize its “comprehensive, strategic relationship” with the US, such as pledges to redeploy troops to Afghanistan upon US request. South Korean analysts stress the need for Seoul to remain in line with US-China global cooperation efforts while articulating a clear position. This coordination is especially important on North Korea given the convergence of basic interests of denuclearization, stability, and reform and opening of North Korea. After Wen Jiabao’s October trip to Pyongyang, ROK Foreign Minister Yu Myung-hwan affirmed that Seoul expects China to clarify its economic plans toward the North with respect to commitments under UNSC Resolution 1874, raising the question as “a matter to be discussed between South Korea and China as well as in the US-China and Japan-China dialogue.” Although Wen’s visit appeared to mark renewed efforts to rebuild the bilateral relationship, the decisive factor as always remains how North Korea decides to respond.

Chronology of China-Korea Relations **October - December 2009**

Oct. 5, 2009: President Hu Jintao calls for a stronger China-DPRK alliance in a message in Chinese and DPRK state media.

Oct. 4-6, 2009: Premier Wen Jiabao visits North Korea and meets Chairman Kim Jong-il and other senior officials.

Oct. 9-10, 2009: The China-Korea-Japan trilateral summit is held in Beijing. President Lee Myung-bak and Premier Wen Jiabao hold bilateral talks on the sidelines.

Oct. 10, 2009: ROK Trade Minister Kim Jong-hoon and Chinese counterpart Chen Deming in Beijing agree to advance efforts to sign a China-ROK free trade agreement.

Oct. 15-20, 2009: Kim Yang-gon, director of the Worker’s Party of Korea United Front Department, visits China.

Oct. 16, 2009: Samsung Electronics Co. announces it will invest \$2.23 billion to build a Liquid Crystal Display (LCD) plant in Suzhou.

Oct. 19, 2009: South Korea's Lotte Shopping Co. agrees to take over Chinese supermarket operator Times for up to \$630 million and buys a 72.3 percent stake in the Chinese company.

Oct. 20, 2009: South Korea's leading maker of power cables, LS Cable Ltd., gains approval of state-run China Nuclear Power Engineering Co. to enter China's nuclear power market.

Oct. 21, 2009: South Korea's Nice Investors Services Co., China's Dagong Global Credit Ratings Co., and Japan's Ratings & Investment Information Inc. agree to launch a shared regional credit rating system to better appraise Asian companies and bonds.

Oct. 26, 2009: China announces that it will stop releasing official trade data on North Korea.

Oct. 27-31, 2009: Choe Thae-bok, secretary of the DPRK's Worker's Party of Korea Central Committee, leads a delegation in Beijing to meet Chinese counterparts.

Oct. 29-Nov. 2, 2009: Chinese vessel *Zhenghe* carrying 365 naval cadets docks at South Korea's Jinhae port as part of its Asia trip aimed to boost regional ties.

Nov. 3, 2009: LG Display Co. and Guangzhou city establish a \$1.33 billion joint venture, LG Display China, and agree to invest \$4 billion in an 8th generation LCD plant in Guangzhou.

Nov. 3, 2009: Grand National Party Secretary General Chang Kwang-keun meets Wang Jiarui, head of the Chinese Communist Party's International Liaison Department, in Beijing and urges China to cooperate on repatriating detained ROK prisoners of war.

Nov. 3-7, 2009: DPRK Air Force Maj. Gen. Kim Kwang-su leads a delegation to Beijing to attend 60th anniversary celebrations of the Chinese Air Force and meet senior officials.

Nov. 5-10: ROK Air Force Chief of Staff Lee Kye-hoon visits Beijing and meets Chinese counterpart Xu Qiliang.

Nov. 10, 2009: The ROK Ministry for Food, Agriculture, Forestry and Fisheries and Chinese counterpart agree on a fishing quota balance of 60,000 tons each by 2013 by cutting back on fishing activities in each other's exclusive economic zones.

Nov. 13, 2009: Chinese authorities begin investigating the death of a North Korean consul in Shenyang whose body was discovered in late October.

Nov. 17, 2009: A DPRK military delegation led by Gen. Kim Jong-gak visits China.

Nov. 18, 2009: Officials of the ROK Ministry of Land, Transport, and Maritime Affairs meet Chinese counterparts in Beijing and agree to conduct joint research on the Arctic Ocean.

Nov. 18-22, 2009: ROK National Assembly Speaker Kim Hyong-o visits Beijing and meets National People's Congress Standing Committee Chairman Wu Bangguo and President Hu Jintao.

Nov. 19, 2009: ROK Culture Minister Yu In-chon and Chinese counterpart Shao Qiwei meet in Kunming and agree to expand tourism exchanges.

Nov. 22-26, 2009: Chinese Defense Minister Liang Guanglie visits Pyongyang and meets Kim Jong-il and his DPRK counterpart Kim Yong-chun.

Nov. 23, 2009: ROK Knowledge Economy Minister Choi Kyung-hwan attends a bilateral investment cooperation committee meeting in Beijing and urges China to refrain from implementing excessive anti-dumping measures against ROK petrochemical products.

Nov. 25, 2009: “Visit Korea Year 2010-2012” is launched in Shanghai.

Nov. 29, 2009: The Chinese Ministry of Commerce announces that China will review anti-dumping measures against chloroform imports from the EU, ROK, and US.

Dec. 12-22, 2009: ROK and DPRK officials tour southern China’s Qingdao, Suzhou, Shenzhen, and Yenpong, Vietnam, to conduct a survey of factories for Kaesong joint industrial complex.

Dec. 15-19, 2009: Ju Sang Song, DPRK minister of People’s Security, visits China and meets State Councilor and Public Security Minister Meng Jianzhu.

Dec. 16-19, 2009: Chinese Vice President Xi Jinping visits South Korea as part of his Asian tour to Japan, South Korea, Cambodia, and Myanmar.

Dec. 19, 2009: Hyundai Motor Co. and Baotou Bei Ben Heavy-Duty Truck Co. agree to launch a 50-50 joint venture in 2010 worth \$400 million.

Dec. 26, 2009: Yu Woo-ik is appointed ROK ambassador to China.

Dec. 31, 2009: The Chinese Ministry of Commerce announces it will re-examine anti-dumping measures against optical fiber imports from South Korea and Japan.