



**China-Korea Relations:  
Under New Leaderships**

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The appointment of Xi Jinping as general secretary of the Chinese Communist Party on Nov. 15 and the election of Park Geun-hye as president of South Korea on Dec. 19 raised hopes for improvement in China-South Korea relations. Pyongyang's Dec. 12 rocket launch provides an early challenge at the UN Security Council, where South Korea begins a two-year term alongside permanent members China and the US. Xi and Park will face a full agenda that includes management of growing economic ties, policy toward North Korea, and a complex regional environment beset by territorial and historical disputes. Another factor complicating the regional picture is that both leaders face territorial disputes with Japan under returning Liberal Democratic Party (LDP) Prime Minister Abe Shinzo.

**The Xi leadership engages the two Koreas**

Under new President Xi Jinping, China continues its dual policy of friendship with North Korea and coordination with South Korea on DPRK denuclearization and regional stability. Li Jianguo, member of the Chinese Communist Party (CCP) Political Bureau and vice chairman and secretary general of China's National People's Congress Standing Committee, led the first party delegation to North Korea under Xi at the end of November. Li met Kim Jong Un on Nov. 30, accompanied by Wang Jiarui, head of the CCP International Department, who had also met Kim Jong Un in August 2012. Li delivered a letter from Xi to Kim affirming Beijing's "consistent" policy of friendly relations focused on promoting high-level exchanges and strategic communication between the two parties, expanding cooperation in various fields, and strengthening coordination on global and regional issues. Li also met Kim Ki Nam, member of the Political Bureau and secretary of the Workers' Party of Korea (WPK) Central Committee, to discuss bilateral issues and the outcome of China's 18<sup>th</sup> National Congress.

Li's call on Kim Jong Un occurred at the same time that Chinese and South Korean nuclear envoys Wu Dawei and Lim Sung-nam met in Beijing amid concerns over North Korea's preparations to launch a long-range rocket, its second attempt under Kim Jong Un following the failed launch in April. South Korean anxieties about Beijing's future North Korea policy also surrounded the fifth China-ROK High-Level Strategic Dialogue held on Nov. 26, led by PRC Vice Foreign Minister Zhang Zhijun and ROK counterpart Ahn Ho-young. Following the dialogue, the ROK Foreign Ministry reaffirmed "the two countries' strategic goals" of denuclearization and peninsula stability, as well as the need for "frank dialogue and close cooperation." The strategic dialogue was launched as a mechanism for improving foreign policy coordination under the leadership of Hu Jintao and Lee Myung-Bak, but it has produced no joint

measures toward North Korea since it was initiated in 2008, when the two sides upgraded the bilateral relationship to a strategic cooperative partnership.

During a visit to Seoul a week after Xi's election in mid-November, Central Party School Vice President Chen Baosheng attributed bilateral frictions in the 20-year China-ROK relationship to the "lack of mutual political trust," calling for strengthened high-level exchanges and private sector economic and cultural cooperation. In dealing with the North Korean nuclear issue, however, Chen said that there is "no alternative" to the Six-Party Talks. South Korean officials and analysts anticipate few changes in Beijing's North Korea policy under Xi Jinping, who is likely to further China's pragmatic approach of deepening economic ties with South Korea while providing continued political support to the North.

### **Coordinating North Korea policy under Park Geun-hye**

The Chinese Foreign Ministry spokesperson greeted Park Geun-hye's Dec. 19 election with hopes that both sides might work together to further "strategic and political mutual trust." Both China and South Korea appear to see the parallel leadership transitions as an opportunity to turn a new page in the relationship. Chinese news commentaries have acknowledged "regrettable" setbacks in the Sino-ROK relationship during President Lee's conservative leadership, arguing that Park Geun-hye should reorient South Korea's foreign policy toward a "moderate" stance. Although Park's election extends South Korea's conservative rule for another five years, Chinese assessments emphasize her prioritization of economic recovery and inter-Korean reconciliation as factors conducive to stable Sino-ROK relations. Moreover, Park's past interactions with Chinese counterparts, including as Lee Myung-Bak's special envoy following his election five years ago, suggest that she will try to "reset" the ROK's relationship with China. This does not mean that Park intends to weaken the alliance with the US, but rather that she sees no reason to cast South Korea's relations with China and the US in zero-sum terms. Instead, Park's Nov. 12 *Wall Street Journal* column, "A Plan for Peace in North Asia," calls for strengthened China-US cooperation, which would provide South Korea with room for a closer relationship with China.

Chinese analysts such as Zhang Jian of the China Institute of International Studies expect Park to find a "middle path" between Roh Moo-hyun's engagement with the North and Lee Myung-bak's hardline DPRK policy, both of which drew domestic criticism inside South Korea for failing to curb Pyongyang's military ambitions. Yang Bojiang of the Chinese Academy of Social Sciences similarly suggests that Park must find a "pragmatic" "balance" between the approaches of Lee and his two progressive predecessors. According to Cui Zhiying of Tongji University's Korean Peninsula Research Institute, Park faces "little choice" but to pursue a more "flexible" policy toward the North given the widespread discontent with Lee's policy among both progressive and conservative camps in South Korea.

Park Geun-hye has differentiated her approach to North Korea from Lee's hawkish policy since her election campaign, proposing reengagement through a "trust-building process" involving the resumption of communication channels and social and economic exchanges. From a Chinese perspective, Park's openness to resuming dialogue and humanitarian aid are favorable changes to Lee's hardline approach, criticized among Chinese as a source of North Korean belligerence and regional tensions since 2008. The day after her election win, Park held private talks with PRC

Ambassador Zhang Xinsen as well as the ambassadors of the US, Japan, and Russia, highlighting efforts to coordinate regional security priorities in the wake of North Korea's rocket launch.

But Park's promises to reorient inter-Korean relations confront the immediate need for an internationally coordinated response to North Korea's rocket launch, which Park referenced as creating a "grave" security situation for South Korea in remarks the day after winning the election. On Dec. 17, the US State Department spokesperson pledged to seek ways to "further isolate" and "pressure" the DPRK regime "both bilaterally and with our partners going forward," stressing that "not anybody in the Six-Party Talks wants to reward the DPRK for violating its international obligations." South Korean analysts remain skeptical about Park's "ambiguous" vision for inter-Korean reconciliation since her policy promotes "confidence building" but also continues to emphasize deterrence through a strengthened US-ROK alliance, progress on denuclearization as a precondition for dialogue, and a North Korean apology for the military provocations in 2010.

### **Tensions with Japan and Sino-ROK relations**

China and South Korea share simmering territorial disputes with Japan under newly elected conservative LDP Prime Minister Shinzo Abe. These tensions present the most significant challenge to trilateral cooperation since the establishment of the Trilateral Cooperation Secretariat in September 2011. Although Premier Wen Jiabao, President Lee Myung-bak, and Prime Minister Noda Yoshihiko attended the ASEAN Plus 3 Summit in Phnom Penh on Nov. 19, the three leaders did not convene on the sidelines for the first time since 2005, when trilateral talks were suspended due to controversies over Koizumi Junichiro's Yasakuni Shrine visits. About 50 Chinese students protested near the Japanese Embassy in Seoul over the Diaoyu/Senkaku Islands dispute with Japan on Sept. 20.

Abe's reelection as prime minister of Japan on Dec. 26 has raised Chinese and South Korean concerns about the direction of Japanese foreign policy. Park Geun-hye called for Northeast Asian cooperation based on "a correct historical perception" in her Dec. 20 policy address, and Chinese state media featured a Dec. 2 interview with President Lee Myung-bak in which he urged the Japanese government to "correctly recognize history." Park has also called for the establishment of a trilateral dialogue among the US, China, and South Korea as part of her Northeast Asia Peace and Cooperation Initiative, but this proposal is unlikely to be welcome in Japan. The decision by the ROK government to refuse extradition of Chinese citizen Liu Qiang, detained in South Korea since January after protesting Japan's wartime atrocities, drew criticism from Japan.

### **Sino-ROK economic partnership and pragmatic cooperation**

The Chinese market will continue to influence Park Geun-hye's efforts to sustain South Korea's export-dependent economy, which grew by an estimated 2.4 percent in 2012, the slowest pace since 2009. Trade with China expanded by an annual 17 percent to reach \$220.6 billion in 2011, compared to a 34 percent increase from 2009 to 2010. The Hu Jintao-Lee Myung-bak summit in January 2012 emphasized China-South Korean trade and investment ties and launched bilateral FTA negotiations, which began in May.

South Korean business assessments indicate that China's focus on boosting domestic consumption is likely to benefit South Korea's service sectors including the information technology, cultural, medical, and retail industries. Zhang Chunjie of Tsinghua University stated that Park Geun-hye's election makes it likely that Seoul will continue to attach importance to its alliance with the US, but that her economic priorities suggest positive prospects for bilateral and regional cooperation with China.

Despite the escalation of political tensions in Northeast Asia, economic and trade ministers from South Korea, China, and Japan agreed on the sidelines of the ASEAN-related meetings in November to formally launch trilateral FTA talks in early 2013. ROK Deputy Minister for Trade and chief FTA negotiator Choi Kyong-lim expressed hopes that the trilateral FTA will bring "strengthened political cooperation" in addition to commercial benefits. The business and non-governmental sectors have actively pushed for the trilateral FTA despite the emergence of bilateral political disputes. While three rounds of working-level consultations have been held since the May 2012 China-ROK-Japan summit, current tensions are likely to put the brakes on FTA negotiations. On Sept. 19, the PRC Commerce Ministry spokesperson warned that Japan's "purchase" of the Diaoyu/Senkaku Islands would adversely affect China-Japan-ROK FTA talks.

Despite Premier Wen's and President Lee's joint pledge in November to speed up China-ROK FTA talks, experts anticipate a slowing of negotiations under the Park Geun-hye administration, given the anticipated costs of such an agreement to South Korea's farming industry and small and medium-sized enterprises (SMEs) – a sector that Park has promised to nurture. Some analysts argue that China's support for economic integration with South Korea and Japan is driven primarily as a response to US promotion of the Trans-Pacific Partnership Agreement (TPP). The launching of trilateral FTA talks on Nov. 20 coincided with an agreement to initiate negotiations for a new free trade grouping, the Regional Comprehensive Economic Partnership (RCEP), within the ASEAN Plus Six framework (China, Japan, South Korea, India, Australia, New Zealand); an initiative that seems designed to challenge US regional economic influence in favor of a China-centered economic order.

### **Sino-DPRK trade and investment trends**

The Kim Jong Un regime appears to be moving steadily forward in pursuing the joint investment deals with China secured between Hu Jintao and Kim Jong Il. China-DPRK trade totaled \$5.64 billion in 2011 according to Chinese statistics, an annual 62.4 percent increase from 2010. A Korea Rural Economic Institute (KREI) report, however, indicated that North Korea's grain imports from China between January and October 2012 were 23 percent lower than levels during the same period in 2011. Total imports of Chinese grain amounted to 376,431 tons in 2011, a 20 percent increase from 2010 and 85 percent increase from 2009. According to Marcus Noland's recent assessment, Chinese luxury goods banned for export to North Korea under UN Security Council Resolution 1718 continue to flow into North Korea.

On Sept. 22, China's Overseas Investment Federation (COIF) and the North Korea Investment Office (NKIO) of the Joint Venture and Investment Committee of North Korea (JVIC) established a "Special Fund for Investment in North Korea," through which both sides reportedly

plan to develop urban infrastructure projects worth \$159 million, with a long-term goal of investing \$476 million. The Yanbian Haihua Group on Sept. 1 reportedly secured an investment deal on Chongjin port, China's second port leasing deal with North Korea following a 2010 agreement allowing Chinese use of Rajin port. However, coal shipments from Jilin to Shanghai have stopped following several shipments in late 2011. Since September, South Korean media has drawn attention to joint China-DPRK plans to develop several commercial ports along North Korea's eastern coast in addition to Rajin and Chongjin.

Chinese and DPRK officials report modest progress in developing the Rason Economic and Trade Zone and Hwanggumphyong and Wihwa Islands Economic Zone, in contrast to reports of legal impediments to cooperation since the official launching of the zones in June 2011. Jang Song Taek's visit to China and a meeting of the joint steering committee in August 2012 appear to have catalyzed the beginning of basic infrastructure construction. At the 8<sup>th</sup> Northeast Asia Investment and Trade Expo in Changchun in early September, central and local officials from China's Commerce Ministry and the Yanbian Korean Autonomous Prefecture affirmed that the zones have reached an "essential stage" of development based on the principle of "government-guided, enterprise-based, market-oriented and mutually beneficial cooperation." But it is hard to know whether such a statement is being accompanied by actions on the ground. The DPRK state media reported on an opening ceremony for a new management board building at the Hwanggumphyong Economic Zone on Sept. 15, attended by Liaoning Vice Governor Bing Zhiyang, Vice Chairman of the North Phyongan Provincial People's Committee Hong Kil Nam, and other local officials from Sinuiju and Dandong. A two-day private session on the zones was held in Beijing on Sept. 26-27, with participation by major Chinese investors and over 100 DPRK officials from 30 state enterprises seeking to promote investment projects in the North.

The Liaoning provincial government and China Council for the Promotion of International Trade held the first China-DPRK Economic, Trade, Culture and Tourism Expo in the border city of Dandong on Oct. 12-16, drawing together a 500-person delegation from North Korea and over 400 Chinese companies. According to local Chinese media, trade between Dandong and North Korea reached \$1.86 billion in 2011, a third of total China-DPRK trade. North Korea's biggest trade investment company and government agency in charge of overseas labor export attended the expo, with Chinese sources reporting economic cooperation agreements totaling \$1.26 billion. Dandong has attracted domestic and international interest as the construction of the Yalu River Bridge nears completion. Along with the Yalu River Bridge, the construction of bridges to the Hwanggumphyong and Wihwa Islands will support expanded trade, culture, and tourism exchanges. However, while rising labor costs in China make North Korea an attractive investment destination for Northeast Chinese enterprises, Chinese investors remain cautious about signing contracts given the continued impression, reinforced by reporting on surveys of Chinese business with business experience in North Korea by Noland and Haggard, that the business environment in North Korea remains very risky and that North Korean interests lie primarily in securing finance rather than doing business.

### **China-Korea relations under new leaderships and implications for the United States**

Chinese analysts anticipate improved coordination with Seoul on North Korea and broader regional security. There is also a consensus among South Korean foreign policy analysts

regarding the desirability of establishing a more productive and effective relationship with Beijing. But to do so, both sides will have to overcome a number of challenges. First, the Chinese response to North Korea's satellite launch suggests no change in Beijing's position of defending North Korea from international censure through the UN Security Council. This will not become an obstacle to South Korean efforts to restore more effective Sino-South Korean cooperation, but it does serve as a yellow flag regarding the likelihood that an improved Sino-South Korean relationship will depend on Chinese policy approaches to North Korea. South Koreans may anticipate limited changes in China's Korea policy under Xi Jinping, whose remarks on the Korean War at the time of North Korea's leadership transition in 2010 raised concerns over Beijing's conservative leanings toward Pyongyang. In addition to North Korea, Chinese-South Korean maritime disputes strain the PRC-ROK political relationship, as seen in the shooting death of a Chinese fisherman by a ROK Coast Guard in October that prompted active diplomatic mediation from China.

Regardless of South Korean overtures, China will have difficulty managing political relations with South Korea because progress in the relationship with South Korea has been dependent on the quality and nature of three other intermediating relationships: the China-North Korea relationship, the China-US relationship, and the inter-Korean relationship. The upshot is that China will face great difficulties convincing South Korean counterparts that they are being taken seriously.

Second, Chinese security analysts are closely scrutinizing the US-ROK security alliance, and may see an opportunity to capitalize on discord in the Japan-South Korea relationship to pressure South Korea to avoid taking further steps to strengthen trilateral security ties with Japan and the US. China's opposition to Japan-South Korea intelligence sharing was not a factor in the failure of the agreement last summer, but China is watching the situation closely, and is paying particularly close attention to ROK decisions on missile defense. Sensitivity of this matter was revealed in apparently contradictory responses to questions in a joint press conference with US Secretary of Defense Leon Panetta and ROK Minister of Defense Kim Kwan-jin following last October's Security Consultative Meetings.

Chinese analyst Yang Xiyu has further elaborated on China's concerns with the expanded scope of the US-ROK security alliance in a Dec. 31 interview in *The Korea Times*, suggesting that the US-ROK alliance is taking on an anti-China character. Yang called for South Korea to "clearly [define] the coverage of US-South Korea alliance and limit it to defend the South from North Korea. When this is clear, that will significantly reduce the strategic mistrust between China and South Korea." A *Global Times* article acknowledged that South Korea "finds it difficult to balance its ties between these two big powers," but argued that "if Seoul is serious about its strategic partnership with Beijing, it should show that goodwill with actions rather than mere lip service." In more private settings, Chinese officials have reportedly been blunter in linking the quality and scope of the US-ROK defense relationship with prospects for improved China-South Korea relations. It is likely that the US-ROK alliance will increasingly become both a pressure point and a potential sticking point both in the development of the China-South Korea relationship and on the possibility of an expanded regional role for South Korea in East Asian security beyond the peninsula.

## **Chronology of China-Korea Relations** **September – December 2012**

**Sept. 1, 2012:** Yanbian Haihua Group secures investment deal on North Korea's Chongjin Port.

**Sept. 4, 2012:** Vice Chairwoman of the Standing Committee of China's National People's Congress Chen Zhili co-chairs the 7<sup>th</sup> China-ROK Parliamentary Exchange Meeting in Seoul and meets National Assembly speaker Kang Chang-hee and Prime Minister Kim Hwang-sik.

**Sept. 7, 2012:** Chinese officials at the Northeast Asia Investment and Trade Expo in Changchun report on investment progress at the China-DPRK Rason Economic and Trade Zone and Hwanggumphyong and Wihwa Islands Economic Zone.

**Sept. 11, 2012:** ROK Foreign Ministry announces plans to send humanitarian aid to China after a deadly earthquake in Yunnan on Sept. 7.

**Sept. 15, 2012:** *Korean Central News Agency (KCNA)* reports on an opening ceremony for a new management board building at the Hwanggumphyong Economic Zone.

**Sept. 17, 2012:** South Korean media reports that 4 or 5 ports along North Korea's eastern coast are being developed by Chinese and DPRK companies.

**Sept. 19, 2012:** People's Republic of China (PRC) Commerce Ministry spokesperson indicates that Japan's "purchase" of the Diaoyu/Senkaku Islands will adversely affect planned China-Japan-ROK FTA talks.

**Sept. 19, 2012:** PRC Ministry of Public Security extradites a South Korean fraud suspect detained in China in 2007.

**Sept. 20, 2012:** Chinese students protest near the Japanese Embassy in Seoul over the Diaoyu/Senkaku Islands dispute with Japan.

**Sept. 22, 2012:** China's Overseas Investment Federation (COIF) and the North Korea Investment Office (NKIO) under the Joint Venture and Investment Committee of North Korea (JVIC) agree to launch the "Special Fund for Investment in North Korea."

**Sept. 26-27, 2012:** North Korean Committee for the Promotion of Economic Cooperation and China's private GBD Public Diplomacy and Culture Exchange Center give presentations in Beijing on Rajin and the Hwanggumphyong/ Wihwa Islands Economic Zones.

**Sept. 27, 2012:** South Korea hosts a Proliferation Security Initiative exercise in waters off Busan; 7 warships and 11 aircraft from the US, Australia, Japan and South Korea participate.

**Oct. 12-16, 2012:** First China-DPRK Economic, Trade, Culture and Tourism Expo is held in Dandong.

**Oct. 15, 2012:** Vice President of the Chinese People's Institute of Foreign Affairs Lu Shumin, ROK Foreign Minister Kim Sung-hwan, and former Japanese Science and Technology Minister Nakagawa Masaharu attend the Trilateral Cooperation Secretariat's first forum in Seoul.

**Oct. 16, 2013:** A Chinese fisherman is shot to death during a clash between the ROK Coast Guard and Chinese fishing boats.

**Oct. 17, 2012:** PRC Foreign Ministry urges South Korea to carry out fair investigations on the Oct. 16 shooting death of a Chinese fisherman.

**Oct. 18, 2012:** ROK Foreign Ministry spokesperson expresses "regret" over the shooting death of a Chinese fisherman by a ROK Coast Guard.

**Oct. 20, 2012:** PRC Foreign Ministry spokesperson calls for restraint from North and South Korea amid inter-Korean tensions over South Korea's anti-DPRK leaflets.

**Oct. 22, 2012:** Kim Sung Nam, vice director of the Workers' Party of Korea (WPK) International Department, expresses support for China-DPRK traditional friendship and socialist construction in an interview with Chinese state media.

**Nov. 15, 2012:** Kim Jong UN sends a congratulatory message to Xi Jinping on his election as Chinese Communist Party (CCP) general secretary and head of the Military Commission.

**Nov. 17, 2012:** President Lee Myung-bak sends a congratulatory message to Xi Jinping on his election as CCP general secretary and head of the Military Commission.

**Nov. 19, 2012:** Premier Wen Jiabao and President Lee Myung-bak attend the ASEAN Plus Three Summit in Phnom Penh. They hold bilateral talks on the sidelines.

**Nov. 20, 2012:** PRC, ROK, and Japanese economic and trade ministers Chen Deming, Bark Tae-ho, and Edano Yukio on the sidelines of ASEAN meetings agree to launch trilateral FTA talks.

**Nov. 20-22, 2012:** Chen Baosheng, vice president of the CCP Central Party School visits South Korea and meets First Vice Foreign Minister Ahn Ho-young and other senior officials.

**Nov. 26-27, 2012:** First Vice Foreign Minister Ahn visits China for the fifth High-Level Strategic Dialogue in Beijing with PRC Vice Foreign Minister Zhang Zhijun and a meeting with Foreign Minister Yang Jiechi.

**Nov. 29-30, 2012:** Li Jianguo, member of the Political Bureau of the CCP Central Committee and vice chairman and secretary general of the National People's Congress, leads a CCP delegation to North Korea as part of goodwill visits to the DPRK, Laos, and Vietnam.

**Nov. 29-30, 2012:** ROK nuclear envoy Lim Sung-nam visits Beijing for talks with PRC counterpart Wu Dawei.



**Nov. 30, 2012:** PRC Foreign Ministry spokesperson calls for South Korea's impartial handling of Chinese citizen Liu Qiang, detained in South Korea after protesting Japan's World War II crimes.

**Dec. 2, 2012:** President Lee Myung-bak calls for furthering China-ROK ties in an interview with Chinese state media.

**Dec. 2, 2012:** PRC Foreign Ministry spokesperson expresses concern over the DPRK's announcement of satellite launch plans.

**Dec. 4, 2012:** Bank of Korea and People's Bank of China agree to support trade settlements for local companies through the RMB-Won currency swap line.

**Dec. 5, 2012:** China and South Korea hold their first conference on internet cooperation.

**Dec. 7, 2012:** PRC Foreign Minister Yang Jiechi expresses concern over the DPRK's planned rocket launch in a telephone conversation with US counterpart Hillary Clinton.

**Dec. 10, 2012:** PRC Foreign Ministry spokesperson calls for joint efforts on Korean Peninsula stability in response to DPRK's decision to delay its rocket launch due to "technical deficiency."

**Dec. 11, 2012:** Eleven Chinese sailors are rescued from a cargo ship in ROK waters near the DPRK border.

**Dec. 12, 2012:** DPRK launches a satellite into outer space; PRC Foreign Ministry spokesperson expresses "regret."

**Dec. 20, 2012:** Park Geun-hye holds private talks with the ambassadors of China, the United States, Japan, and Russia in Seoul after her Dec. 19 election as president of the ROK.

**Dec. 20, 2012:** China's Foreign Ministry spokesperson pledges to strengthen ties with South Korea under Park Geun-hye. President Hu Jintao sends a congratulatory message to Park.