China-Korea Relations:
Waiting Game

Scott Snyder, Senior Associate
Pacific Forum CSIS/The Asia Foundation

The second half of the year brought no opportunity for a fourth round of Six-Party Talks. The focal point for Chinese diplomatic efforts this quarter was the visit of North Korea's number two, President Kim Yong-nam, who met with all of China's senior leaders – with apparently inconclusive results. ROK President Roh Moo-hyun also met with PRC President Hu Jintao in Santiago in November and with Premier Wen Jiabao in Ventiane in December to press the case for continued six-party diplomacy with North Korea, but to no avail in the absence of cooperation from the DPRK.

The refugee issue has taken on a higher profile as outside parties increasingly single out China for failing to recognize and provide humanitarian treatment to North Korean refugees crossing into China. Tensions surrounding the North Korean refugee issue have escalated with the passage in the U.S. Congress of the North Korean Human Rights Act, a near doubling of refugee arrivals in South Korea to almost 2,000 in 2004, and more aggressive Chinese efforts to intimidate and deter third-party brokers who assist North Korean refugee efforts, including the embassies that have provided safe passage to North Korean refugees. The trade relationship between China and South Korea is becoming increasingly complex, as China poses greater competition for South Korean products in third-country markets and was one of nine parties pressing to open South Korea's rice market as required by WTO regulations. Nonetheless, South Korean exports to China remain the primary reason the South Korean economy did not experience a recession in the second half of 2004.

No News is Bad News: Six-Party Talks Still on Hold

The lack of a six-party meeting during the second half of 2004 can only be categorized as a setback for Chinese diplomacy on the Korean Peninsula, given the tone set by China's self-congratulatory statements following earlier rounds of the talks. A disturbing sign for the future of the talks is that they have not resumed despite the PRC's good-faith efforts to persuade DPRK counterparts at the highest levels to continue to participate in the six-party process. The PRC's senior party leader Li Changchun went to the DPRK in September and met with Kim Jong-il in an apparently failed effort to draw North Korea back to the negotiating table. In early October, there were press reports that the PRC has come to the view that the DPRK has indeed attempted to enrich uranium, increasing

support for the view that the North's uranium enrichment activities could not be swept under the rug as part of any deal on North Korean denuclearization. Chinese high-level delegations to Pyongyang and visits by DPRK senior officials to Beijing, including most notably the visit of DPRK President Kim Yong-nam for discussions with the PRC's top leadership, appear to have yielded no tangible progress. At the APEC meeting in Santiago, President Bush met with President Hu and other leaders, who all agreed that the way to make progress on the North Korean nuclear crisis is to pursue the Six-Party Talks.

Despite apparent agreement on the sidelines of the APEC meeting that Six-Party Talks are the only way to go, subsequent efforts in late November and early December to get the talks back on track have not yet born fruit, presumably because Secretary of State-designate Condoleezza Rice must assemble a new team to lead U.S. diplomacy, including a likely review of policy toward the Korean Peninsula and personnel involved with Six-Party Talks. Many of the heads of delegations to the talks are being transferred to new positions, with a second-generation team of negotiators appointed to take their places in the New Year. Meanwhile, patience is waning while the DPRK's delay is filling in gaps among other parties without necessitating much of a diplomatic effort by the United States, where the second Bush administration doesn't start until January and which continues to focus primarily on Iraq.

But there is no sign that North Koreans are ready to come back to the negotiating table in Beijing, raising questions about whether there will be another round of Six-Party Talks at all. At the third round of talks in June, the U.S., South Korea, and North Korea all tabled opening proposals designed to move toward the goal of denuclearizing North Korea. Oddly enough, the effect of the presentation of U.S. and North Korean opening positions seems to have been to dry up any political will that might have existed to come back to the negotiating table for a fourth round.

It is still premature to say that the six-party process is dead, but the lengthy pause raises some dilemmas for all parties concerned. The challenges for Chinese diplomacy may be the most interesting and complex. On the one hand, the PRC is widely seen as the party that has the most leverage and ability to persuade North Korea to continue to at least come to the six-party meetings, if not to influence the DPRK to yield to the demands of the international community. The PRC's capacity to host the talks underscores that leverage. However, sponsorship of the Six-Party Talks has also proven to be a costly venture for the Chinese, as the DPRK has received tangible rewards for just showing up at earlier rounds. How much can the PRC rightly be expected to provide North Korea to simply show up at meetings without seeing progress toward a solution to North Korea's nuclear challenge to the international community?

So what if diplomacy fails to restrain North Korea's nuclear development efforts? Despite intermittent rumblings from Bush administration hardliners that the issue should go to the UN Security Council, China would clearly have the deciding vote on whether to allow the six-party process to fail or whether anything could be accomplished at the Security Council in any event. But the Six-Party Talks were established by the Chinese precisely to prevent the type of failed diplomacy that occurred with Iraq to replicate itself

on the Chinese border. So how imaginable is it that the Chinese would allow the Six-Party Talks to fail? For Chinese eying the dangers of instability on its border, continued talk – no matter how empty – is preferable to an escalation that might result in either military conflict or instability in the DPRK.

If the Six-Party Talks are simply a safety net for all parties concerned, it would be enough for everyone just to have another meeting – if only the North Koreans would go along with the game. The risk is that the talks themselves become a pretext for delay and an escape valve for the DPRK to continue nuclear weapons development, albeit at a rather deliberate rate. Are the Chinese in fact hoping the Bush administration may conclude that it is enough for now, given the enormous distraction and challenge of democracy-building in Iraq and continued proliferation pressure from Iran, to keep Kim Jong-il in the six-party box rather than pursue further confrontational tactics or try to raise expectations and expend the energy necessary to pursue a near-term solution on the Korean Peninsula?

China's Other Headache: Refugees

If North Korean nuclear issues weren't enough of a challenge, the PRC's policy toward North Korean refugees is also drawing criticism as part of an increasingly active campaign by South Korean and U.S. NGOs to focus attention on human rights conditions in North Korea. The U.S. Congress unanimously passed the North Korean Human Rights Act, which President Bush signed into law in October. The law itself provides authorization for modest funding for refugee assistance efforts and directs the U.S. to be willing to accept North Korean refugees if they choose for whatever reason not to go to South Korea. But the passage of the law raised hackles with progressive South Korean legislators and provided a moral boost for U.S. and South Korean human rights and refugee assistance efforts in China. South Korean conservative opposition legislator Hwang Woo-yea has been particularly critical of the Chinese government, which in turn warned him in a telephone call from the PRC Embassy in South Korea in December not to support such efforts. This action was deemed interference in South Korean politics, and Hwang has also drawn support in criticizing Chinese handling of the matter from U.S. Sen. Sam Brownback.

China's response to the refugee problem has been straightforward and pragmatic, in light of its relationships with both North and South Korea: cooperate to allow refugees who make contact with foreigners or who enter diplomatic compounds safe passage while strengthening efforts to detain refugees near the border and return them to North Korea in accordance with longstanding bilateral practice. This solution honors the spirit of China-DPRK cooperation, but it is in direct violation of international human rights treaties to which China is a signatory. Those treaties condemn *refoulement*, or the return to their home countries of individuals who may be at risk for political persecution. Chinese authorities initially turned a blind eye to South Korean humanitarian efforts to respond to the plight of North Korean refugees in northeastern China, but gradually they have enforced harsher measures against South Korean and other foreign activists who have entered the PRC and given the refugees a helping hand in their efforts to force entry into

diplomatic compounds. An alternative has been for refugees to make treks of thousands of miles across China to Mongolia or Southeast Asia, where it has been possible to arrange for transit to South Korea, usually with the help of "refugee brokers" or human rights NGOs. A charter plane transit to Seoul last July of over 468 North Korean refugees who made the trek through China allegedly to Vietnam has also led to strengthened PRC border controls aimed at preventing North Korean refugees from illegally transiting remote Chinese borders via third countries en route to Seoul. Almost 2,000 North Korean refugees have arrived in South Korea in 2004, compared to 1,281 in 2003.

Chinese authorities have responded negatively to efforts to help North Korean refugees that have tried to gain publicity at the expense of the PRC government. From last year, Chinese authorities have taken an increasingly strict attitude toward foreign citizens caught helping North Korean refugees, with several representatives from South Korean and Japanese human rights NGOs serving prison terms for their efforts to help North Korean refugees. As organized forced entries into foreign embassy compounds and foreign schools in Beijing have escalated over the past two years, the diplomatic compound area of Beijing has been transformed from sleepy and pleasant tree-lined avenues to a kind of armed camp, with barbed-wire fences blocking the sidewalks from the walls of embassy compounds. In October, Chinese authorities stepped up efforts to halt this practice, preemptively detaining almost 70 North Korea refugees and repatriating them to North Korea. Forty-four North Korean refugees were held up in the Canadian Embassy in Beijing for two months while PRC authorities demanded exit interview opportunities and decided to build a second fence around the Canadian embassy compound. Chinese public security officials detained and carried away a number of North Korean refugees who had entered the South Korean consulate property but had not entered the building in December. The net effect of these actions is that it is now more difficult for North Korean refugees to find their way to South Korea, despite the upward trend in the number of refugees actually arriving in Seoul.

Taking Stock of China-Korea Economic Relations

Over the course of 2003 and 2004, China-Korea trade has grown tremendously in line with the breath-taking growth of China's trade relationships with every other country in the region. China's growth has rippled outward and raised the tide of economic growth for all of its neighbors, with mixed effect and implications for the future of these relationships. Korean perceptions of China's economic growth have shifted from unbridled optimism (South Korea's exports topped $200 billion for the first time in 2004 driven by double-digit growth in exports to the PRC) to a mixture of opportunism and wariness as export opportunities to China have been the single engine pulling the Korean economy forward. Korean firms in many industries simply cannot compete with China's low labor costs, and the establishment of the Kaesong Industrial Zone is envisioned as one way of supporting South Korean sunset industries against Chinese competition through use of North Korean labor. The result of China's labor cost advantage has been a hollowing out of Korean industry and unprecedented levels of investment by Korean firms in plants based in China (the completion of POSCO's Suzhou Automotive

Processing Center and LG Chem's Guangdong-based petrochemicals factory are the latest examples this quarter) to take advantage of China's low labor costs. Korea's competitiveness in third country markets is increasingly challenged by products from China, but some of those products are from Korean-invested and Korean-owned factories.

One downside of China's intense competition: Samsung no longer rolls out latest prototypes of mobile phones at trade shows to avoid illegal cloning by Chinese competitors. Reported cases of industrial espionage against South Korean firms, usually from Chinese upstart competitors, continue to rise. LG Economic Research Institute has reported that the number of high-tech industrial espionage cases increased to 22 in 2004 from only six cases during the previous year. Another challenging trend is China's own foreign direct investment in Korea, usually focusing on high-tech firms that could yield technology benefits in the long run for Chinese domestic production efforts. Shanghai Automotive successfully concluded one such agreement to purchase Ssangyong Motors in October after satisfying Ssangyong's labor union with guarantees of additional investment and job guarantees as part of the purchase agreement.

A widely anticipated revaluation of the Chinese currency could change the playing field yet again, with mixed effects for Korean exporters depending on whether they are focused on China as an export market or on third country markets in which the competitiveness of China-sourced products would be affected. As one examines the complicated and intertwined China-South Korea economic relationship, a key question is whether the share of Chinese exports produced by Korean firms now based in China is sufficient to make up for the losses in market share of products "made in Korea." The other question is the extent to which Korean investments in plant in China are positioned to gain a foothold in the Chinese domestic market. Korea has performed well in exports to high-growth sectors such as mobile telephone sets and automobiles, but the growth in those sectors in China's domestic market is already beginning to slow as the PRC government attempted to cool China's torrid growth rate in 2004. South Koreans are hoping that the next frontiers in the Chinese market will be the home shopping and online gaming markets, both of which play off South Korea's cutting-edge experience with IT applications.

Finally, another manifestation of the complexity and change in the economic relationship between South Korea and China can be seen in the fact that China was one of nine rice exporting countries with whom South Korea negotiated the liberalization of its rice market under the World Trade Organization (WTO). China was not even a member of the WTO when the current rice liberalization went into force during Uruguay Round negotiations, but now China provides additional pressure to that of the United States, Thailand, Vietnam, and others for South Korea to open its market to foreign rice. In fact, given the types of rice grown among exporters, China stands to gain the most from Korean agricultural liberalization and thus represents the greatest threat to Korean farmers. In international negotiations strongly contested by South Korean farmers, South Korea took steps to open its rice market, agreeing to import 7.9 percent of the total average of rice consumed in South Korea by 2014.

China-Korea Relations: Outlook for 2005

The Chinese relationship with the Korean Peninsula has become considerably thornier over the course of the past year. The heady days of up to 50 percent per-year growth in the China-South Korea trade relationship have probably run their course. As the rate of growth in bilateral trade slows, it will become more difficult to ignore the downsides and frictions of the bilateral economic relationship or to contain bilateral political frictions. As the momentum of the economic relationship slows, there will also be less excuse to gloss over political disputes between South Korea and China over refugees, historical issues, or other disagreements in the relationship. The political jolt South Koreans received from China's claim to the ancient Goguryeo Kingdom last summer has introduced a much more realistic tone into South Korean thinking about China's motives and methods as the PRC seeks to consolidate its rise in regional influence. One would do well to expect a more contentious, contradictory, and complex China-South Korea relationship in 2005 after many years dominated by the heady euphoria that accompanied the bilateral economic boom.

Although the economic balance has tipped Chinese calculations of national interest decisively in favor of Seoul, Beijing still perceives important stakes in the disposition of the relationship with the Northern part of the Korean Peninsula. The second North Korean nuclear crisis has served to throw into relief some extraordinarily challenging dilemmas for the PRC as it manages its regional and international relations. China's leaders have carefully and prudently weighed the PRC's interests and have sought to restore and strengthen its influence in its relationship with Pyongyang through endless shuttle diplomacy between rounds of Six-Party Talks. The DPRK's heightened economic dependence on China certainly constrains Pyongyang's options, but it does not necessarily make North Korea any more cooperative. Stuck between North Korean guerrilla resistance against Chinese diplomatic efforts and American assumptions that China should do more to bring North Korean clients to heel, the PRC will likely find out in 2005 whether there will be an adequate return on their investment of diplomatic capital that has been made through the establishment of the Six-Party Talks.

Chronology of China-ROK Relations
October-December 2004

Oct. 4, 2004: *Kyodo News Agency* reports, the PRC has confirmed to other parties in the Six-Party Talks its assessment that the DPRK has a uranium enrichment program.

Oct. 18-20, 2004: DPRK Prime Minister Kim Yong-nam meets with Chinese leaders in Beijing and Tianjin to discuss ways to expand China-DPRK cooperation and friendship.

Oct. 21, 2004: POSCO announces that it has begun production at the POSCO Suzhou Automotive Processing Center Company in Jiangsu Province. The factory is the largest in China with an annual production capacity of 200,000 metric tons.

Oct. 23-30, 2004: *China Daily* reports the visit to the DPRK of a delegation from the Chinese People's Volunteer Army to hold memorial activities, set up a China-DPRK education effort, promote China-DPRK commercial connections, and establish long-term communication channels for veterans between the two nations.

Oct. 25, 2004: Some 18 North Korean refugees attempt to enter the ROK consulate in Beijing. Only three can take shelter inside, the others are arrested by Chinese security police or flee.

Oct. 26, 2004: Goguryeo Research Foundation meets to discuss China's motives in pressing its claims to the historical origins of Goguryeo Kingdom.

Oct. 27, 2004: PRC police raid a North Korean refugee shelter in Beijing and take into custody over 65 defectors believed to be planning a forced entry into a diplomatic compound or international school in Beijing.

Oct. 28, 2004: Shanghai Automotive Industry Corporation signs a final deal with creditors of Ssangyong Motors to take over the operation, spending about $500 million to acquire a controlling 48.9 percent stake in the company.

Oct. 30, 2004: The Korea Institute for Industrial Economics and Trade warns that Korean automotive parts makers will face stiffer competition with Chinese counterparts as Chinese companies pursue export-oriented strategies.

Nov. 7, 2004: PRC Vice Minister of Commerce Zhang Zhigang announces that his ministry has proposed the joint publication of a white paper on logistics development with South Korea and Japan. The paper is designed to smooth commodity flows in Northeast Asia.

Nov. 9, 2004: PRC Foreign Minister Li Zhaoxing and DPRK Vice Foreign Minister Wu Dawei meet Deputy Foreign Minister Kim Yong-Il of the DPRK to discuss cooperation between the two neighbors, the Six-Party Talks, and the Korean Peninsula nuclear issue.

Nov. 9, 2004: Reports circulate that the PRC has forcefully repatriated over 70 North Koreans captured while planning a forced entry into diplomatic compounds in Beijing.

Nov. 9, 2004: ROK Ministry of Construction and Transportation assigns new Taiwan flight routes to Korean Air and Asiana to resume regular flights to Taipei that had been suspended since the ROK's diplomatic recognition of the PRC in 1992.

Nov. 10, 2004: NCsoft Corporation, the world's largest online game company, offers commercial release of its popular online game Lineage II in the PRC.

Nov. 16, 2004: LG Chem Company announces that it has set up a plant in Guangzhou to manufacture petrochemicals for industrial products, such as auto and electronic components.

Nov. 18, 2004: Vice President of the Presidium of the DPRK Yang Hyong Sop meets with a delegation led by PRC Vice President of the China Association for International Friendly Contact Xing Yunming in Pyongyang.

Nov. 19, 2004: ROK President Roh Moo-hyun meets with PRC President Hu Jintao at the APEC meeting in Santiago to discuss ways to reconvene the Six-Party Talks as quickly as possible.

Nov. 22, 2004: PRC Minister of Education Zhou Ji and PRC Ambassador to the ROK Li Bin attend a ceremony for the opening of the Confucius Institute in Seoul, the first overseas PRC government-sponsored Chinese language school. State Councilor Chen Zhili met ROK Prime Minister Lee Hai-chan to discuss bilateral educational exchanges.

Nov. 29, 2004: PRC Prime Minister Wen Jiabao, South Korean President Roh, and Japan's Prime Minister Koizumi Junichiro, meeting on the sidelines of the ASEAN Plus Three meeting in Vientiane, Laos, release a joint action strategy for trilateral coordination to promote stability and development in Northeast Asia.

Nov. 30, 2004: Shanda Interactive Entertainment Ltd., China's largest online game service provider, acquires 28.95 percent of Korean software developer Actoz Soft Co. for $91.7 million.

Dec. 1, 2004: LG Phillips LCD Co., the second-largest producer of liquid crystal displays, announces plans to invest $5.1 billion to build the world's largest plant for flat panel televisions in China.

Dec. 3, 2004: ROK Foreign Ministry officials criticize PRC decision to issue commemorative postage stamps featuring historic relics from the Goguryeo dynasty.

Dec. 9, 2004: Representatives of the national fishery associations meet in Beijing and sign a plea for members to refrain from resorting to violence in fishing and marine emergencies.

Dec. 17, 2004: South Korea agrees to give nine rice-exporting countries greater access to its market in exchange for a 10-year extension of current tariff waivers. Negotiations on opening of the South Korean rice market were conducted over many months with nine different rice exporting countries, including China and the U.S.

Dec. 22, 2004: Canadian government confirms that 44 North Korean refugees who entered the Canadian embassy compound Sept. 29 have safely left for a third country.

Dec. 28, 2004: China Cultural Center, originally suggested during former PRC Prime Minister Zhu Rongji's visit to Seoul in 2000, opens in downtown Seoul. It is the fourth of its kind, following centers in France, Egypt, and Malta.