

China-Korea Relations:

## A Turning Point for China-Korea Relations?

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The debate over the history of the relationship between Korea and China dramatically took center stage this quarter – not as part of the official commemoration of the 12<sup>th</sup> anniversary of normalization between the Republic of Korea and the People’s Republic of China in August – but as part of an escalating dispute between Seoul and Beijing over the origins and legacy of the Goguryeo kingdom (37 B.C. to 668 A.D.). PRC claims that Goguryeo is part of China’s history and a decision by the PRC Ministry of Foreign Affairs to excise all references to the history of Korea prior to 1948 engendered a caustic public reaction in Seoul. The first major political dispute to arise between Seoul and Beijing since the decision to normalize in 1992 (aside from the “garlic wars” trade dispute of 2002; see *Comparative Connections*, October 2002) led to a number of high-level exchanges designed to calm the situation while continuing to coordinate efforts to keep alive six-party talks.

Despite continued benefits from the “Korean Wave” in China in various sectors, the sensitive South Korean reaction to the Goguryeo history dispute also reflects increasing worries in Seoul on the economic front: twelve years of dramatic double-digit growth in trade and investment between the two countries has resulted in increasing South Korean dependence on exports to China both through trade and as a destination for South Korean investment. However, Chinese firms are rapidly closing the technological gap with South Korea not only in low-end manufacturing but also in sectors such as IT, automobiles, and high-tech sectors that represent the core of South Korea’s export trade earnings.

### History wars

In response to a PRC-government supported “Northeast Asian History Project” launched in February of 2002, the Republic of Korea government established its own Goguryeo Research Foundation in March of this year (see *Comparative Connections*, April 2004), setting the stage for potential confrontation over historical and territorial issues. In an attempt to defuse the crisis, the PRC Ministry of Foreign Affairs (MFA) decided in early August to eliminate website references to Korean history prior to the formal establishment of the ROK government in 1948 as a way to avoid offending Korean sensitivities on the Goguryeo issue. This action inadvertently became the object of a huge public backlash in South Korea, where the decision to unilaterally “erase” pre-

modern Korean history led for the first time to a harsh reassessment of China's rise and its implications for the Korean Peninsula.

The elimination of pre-modern Korean history from the MFA website catalyzed broader consideration in South Korea of what Chinese textbooks and museum displays are teaching about the Goguryeo kingdom. South Koreans have been particularly sensitive to China's treatment of Goguryeo in part because South Korea's standard historical texts have always referred to the period during which Goguryeo existed as the "Three Kingdoms" period. Some longstanding Korean traditions including horsemanship and archery (a skill in which South Korea again demonstrated Olympic dominance in Athens) are attributed as special legacies of the Goguryeo kingdom. During the three kingdoms period of Korean history, Shilla, Paekche, and Goguryeo all fought for dominance on the Korean Peninsula (with critical interventions by China's Tang dynasty), eventually resulting in the early unification of Korea under Shilla leadership. The assignation of Goguryeo as a historical precursor to either Korea or China is misleading in the sense that it projects a modern concept of the nation-state backward historically to a time when the concept was not operative in Asia; however, it is also easy to understand why Koreans would reject alternative historiographies given the influence of Goguryeo as a longstanding core aspect of South Korea's own curriculum.

The decision by the PRC Foreign Ministry to remove content on Korean history from its website unilaterally brought to the surface for the first time Korean public anxieties about China's rise as a strategic threat, stimulating a reassessment of conventional wisdom that had previously viewed China almost solely through the lens of economic opportunity. One opinion columnist concluded that "China's hegemonic ambition has been exposed." National Assemblymen from both parties joined hands to support a resolution criticizing the PRC and mobilized committees to monitor the issue. The South Korean public reaction put tremendous pressure on an embattled ROK Ministry of Foreign Affairs and Trade (reeling from public criticism of the beheading of a Korean citizen in Iraq in June) to resolve the issue satisfactorily. The PRC also had an incentive to cooperate in finding a solution to the problem before the visit to Seoul of Jia Qinglin, the number four official in the Chinese leadership hierarchy and chairman of the Chinese People's Political Consultative Conference, to celebrate the tremendous bilateral economic accomplishments and mark the 12<sup>th</sup> anniversary of the normalization of the China-South Korea relationship.

In the run-up to that visit, PRC Vice Minister Wu Dawei (former PRC ambassador to the ROK) was dispatched to Seoul to negotiate a resolution to the dispute. After intensive negotiations, the two sides announced a five-point verbal agreement designed to manage the Goguryeo issue in a manner sensitive to South Korean concerns and to prevent the issue from affecting other aspects of the relationship. The agreement includes a pledge by China to remove its claim to Goguryeo from Chinese history books, but did not lead to an immediate restoration of Korean historical information on the Chinese Foreign Ministry website. The agreement was successful in limiting the issue as one that would bring further immediate damage to the relationship and probably represented the best that could be done in a short period of time, although it was criticized by many South Koreans as a

stopgap measure and as not binding on the two sides and therefore limited in its capacity to prevent recurrence of the issue.

South Korean specialists predict that the Goguryeo incident could have a lasting impact on China-South Korea relations beyond the dramatic public opinion shift away from China toward the United States revealed in a *Korea Herald* poll conducted in August. That poll showed a majority of ruling party members now focusing on the U.S. as South Korea's most important relationship compared to 63 percent who deemed China to be South Korea's most important partner just last April. (U.S. officials could not be more pleased by China's assistance in repairing the U.S.-ROK alliance!) Another indicator that the China-South Korea honeymoon period may be coming to an end came in the form of a September decision to finally sign an aviation agreement with Taiwan, allowing flag carriers to resume direct service between Seoul and Taipei. There are rumors that the Dalai Lama may finally find his way to Seoul after years of South Korean obeisance to Beijing's stern requests on the matter. Although the closest affinity among modern-day Koreans to the Goguryeo kingdom is among North Koreans – and despite the fact that this row originated with a petition to UNESCO approved in July to recognize Goguryeo tombs and murals in North Korea as having World Heritage status as special cultural sites for historical preservation purposes – the DPRK leadership was unusually restrained on a sensitive history issue related to Korean nationalism, an implicit acknowledgement of the extent of North Korean dependence on the PRC for its own survival.

### **Six-party talks: dead or alive?**

The most serious political issue in China-Korea relations this quarter was a non-event. Despite a visit by senior PRC party leader Li Changchun to Pyongyang for talks with senior North Korean leaders including Central Defense Commission Chairman Kim Jong-il, the DPRK refused to participate in the fourth round of six-party talks, originally promised by the end of September. DPRK officials provided a whole host of reasons why they couldn't come to Beijing in September, including the U.S. failure to change its "hostile policy" toward the DPRK and North Korean dissatisfaction with the proposal offered by the United States at the June round of six-party talks. The only reason for delay that DPRK representatives flatly denied – and the one that has been most plausible to outside observers – is that the DPRK wants to wait until after the U.S. presidential election before resuming its participation in the six-party talks. The postponement itself does not necessarily signify any great lost opportunity that can not be picked up following the U.S. elections; however, the lack of progress has raised questions among observers about the utility or capacity of the talks in and of themselves to satisfactorily resolve the North Korean nuclear issue.

Another worrisome factor is Beijing's failure – despite the offer of more free aid in connection with Li Changchun's visit to Pyongyang – to induce the DPRK leadership to fulfill its commitment to participate in the September talks as originally pledged. While Beijing still counts its sponsorship of the six-party talks as a diplomatic success, there are also widely divergent views now heard among scholars in Beijing on how best to deal

with North Korea. The Tianjin-based *Strategy and Management* journal published a sharply critical view that Beijing should end its “unconditional support” for an “unappreciative” North Korea. Although public expression of that view itself was apparently not appreciated by PRC authorities who subsequently shut down the journal, it is no longer uncommon to hear such sentiments from Chinese academics who have lost patience with North Korean intransigence.

Revelations in September of South Korea’s own undeclared experiments from the year 2000 involving lasers to reprocess uranium also became a pretext for North Korea to boycott the talks, prompting Chinese suggestions that the South Korean experimentation with reprocessing might also be included on the six-party agenda. Although the South Korean experiments should have been declared as part of Seoul’s International Atomic Energy Agency (IAEA) obligations in the year 2000, South Korean authorities voluntarily cooperated with IAEA inspectors under the Additional Protocol and continue to allow IAEA inspections of the matter to ensure that there have been no additional breaches in South Korea’s commitments under the Nuclear Non-proliferation Treaty (NPT). In the long-term, South Korean cooperation with the IAEA will be a defining difference with the North’s approach to its nuclear obligations, indirectly putting more pressure on the North to handle the issue in a manner consistent with international norms under the NPT.

### **Security loopholes: refugees and cyberattacks**

Several critical “loopholes” remain in the delicate management of China-Korean relations as they relate to North Korea. One is the chronic issue of refugees. Due to a tightening of PRC government policy toward North Korean refugees while simultaneously maintaining international cooperation on the issue where absolutely necessary, there are some new developments in management of refugees from North Korea who seek resettlement in the South. First, intolerant PRC government policies toward the plight of North Korean refugees has pushed them farther afield. At the end of July, over 460 North Korean refugees came from Southeast Asia to Seoul aboard two charter flights. Due to intolerant and repressive PRC government policies, these refugees transited the whole of China and found their way to Indochina before it was possible for them to seek asylum in South Korea. Following the entry of 43 North Korean refugees disguised as construction workers into the Canadian Embassy in Beijing, the PRC has demanded that refugees who seek asylum at diplomatic compounds in China be turned over to the police for debriefing before they will be allowed to depart the PRC. Such a demand is hardly borne of humanitarian motives, and has thus far been resisted. It remains to be seen what impact the North Korea Human Rights Act will have on this situation.

A second security loophole in China-South Korea security relations appeared with an early July cyberattack on South Korean government systems that apparently emanated from the PRC. The attack was sophisticated and surprisingly successful, infecting at least 278 computers at 10 government agencies with Trojan horse-type viruses such as “PEEP Trojan” and “Backdoor Revacc” that allowed hackers to access computer data when the user opens the files. The source of the attacks is alleged to be connected to the Chinese

People's Liberation Army. ROK officials have asked for cooperation from the PRC to pursue the investigation. Given the DPRK's reported world-class computer hacking capacity as well as South Korea's increasing reliance on computer infrastructure, incidents targeting sensitive ROK government materials deserve careful scrutiny and cooperation to the extent possible with PRC counterparts.

### **Korean fears of China's economic tsunami**

Another factor behind South Korea's sensitive reaction to the Goguryeo dispute is a dramatic dip in Korean confidence about prospects for the future of the China-South Korea economic relationship. China's economic growth and the accompanying rise of bilateral trade and investment from South Korea have constituted an unprecedented opportunity. China-Korean bilateral trade through August of 2004 was on a double-digit growth pace from 2003 at \$43.9 billion, and South Korean investment in China for the first seven months of 2004 totaled over \$4.12 billion. However, South Korean fears of China's emergence as a competitor in third-country markets and concerns about the rapid erosion of South Korea's comparative advantage over China in high-tech sectors are rising sharply this year, casting continued growth in China-South Korea economic relations in a very different light.

The ROK Ministry of Finance and Economy announced in September that companies will be required to seek approval before transferring technology overseas as a way of limiting the loss of comparative advantage in the communications and electronics sectors. Such regulations stem from cases of technology leakage identified by the South Korean government estimated to cost over \$38 billion in lost revenues for the Korean economy. The high-tech sector, including semiconductors, high-tech electronics, computers, and related telecommunications equipment, has led South Korea's export growth in recent years, representing almost 40 percent of South Korea's total exports.

Despite continued expectations for double-digit growth in the high-tech sector, the Korea Development Institute has documented a sharp decline in IT exports in recent months. Samsung Economic Research Institute recently forecast that new Chinese products in these sectors may undercut South Korea's price advantage at comparable levels of quality in only a few years, dramatically slowing South Korean export growth prospects through new competition. The rapid rise in China's high-tech competitiveness is squeezing South Korea in international markets and contributes to the further hollowing out of South Korea's own high-tech manufacturing base as investment continues to seek to exploit China's comparative advantage in labor costs. According to the PRC Ministry of Commerce, China's high-tech exports grew in the first six months of this year by 58 percent over 2003, and high-tech exports now represent 38 percent of China's total exports, which is already roughly proportional to Korea's share of high-tech exports as a portion of overall exports.

Another Chinese challenge to South Korean high-tech dominance comes in the form of rising inward direct investment by Chinese firms who seek to purchase South Korean companies in technology-intensive sectors, spurring worries that such transfers will

eventually weaken South Korea's national competitiveness. For instance, Shanghai Automotive Company was selected as the leading candidate to take over ailing Ssangyong Motor Company in July, following a failed bid by another Chinese company, the China National Bluestar Corporation. There is strong interest among Chinese companies in the acquisition of Orion Electric Company, which has developed leading edge plasma display products. And Chinese UTStarcom Inc. has contracted to purchase a spin-off company of Hynix Semiconductor Inc., which developed CDMA-based applications with ROK government assistance. Newly proposed legislation in the South Korean National Assembly would strengthen the review process for foreign investments in technology intensive sectors.

### **The Korean wave and the opportunities afforded by China's growth**

In the 12 years since the PRC and ROK normalized diplomatic relations, the main story line has been unprecedented economic opportunity that has transformed the relationship. Thirty percent annual growth in trade has bolstered the relationship and obscured many problems thus far. Even despite emerging problems, the dominant theme is that growth has driven unprecedented opportunity over the past decade, mostly in positive ways. Beyond the intensification of China-South Korea economic ties, a great strength of the relationship remains the cultural affinity and growth of person-to-person interactions. Over 2 million South Koreans traveled to China in 2003 and 500,000 Chinese came to South Korea. China's university language programs have been inundated with over 30,000 Korean students, who constitute the majority of enrollments in many of the major university language programs. Korean Air Lines and Asiana compete vigorously for expanding flights to all parts of China.

The South Korean culture and entertainment industries have remained successful in appealing to Chinese audiences, with knock-on effects for South Korean consumer products from mobile phone sets to cosmetics, now perceived as reliable, affordable, and high quality. South Korean popular culture tested its popularity last July in the Great Hall of the People, the seat of power for the Chinese Communist Party, where an audience of almost 7,000 viewed a spectacular Andre Kim fashion show and concert with leading South Korean pop stars BoA, Lee Jung-hyun, NRG, and Dongbangshingi. However, with the intensification of bilateral ties at every level, conflicts are also inevitable. As new conflicts emerge, one test of the relationship – now that the honeymoon phase is waning – will be whether institutional structures are sufficient to manage the relationship and minimize political conflict on tough issues like history, refugees, hacking, and the high-stakes task for Korea of overcoming divisions on the Korean Peninsula while living in a region in which two powers, China and Japan, are simultaneously rising.

## **Chronology of China-Korea Relations July-September 2004**

**July 14, 2004:** A series of hacking incidents that penetrated 211 computers at 10 different ROK government agencies was reported to have emanated from China, sparking a major government investigation and raising ROK concerns about cybersecurity.

**July 15, 2004:** “Korean Wave 2004,” showcasing Korean culture with an Andre Kim fashion show and leading Korean pop stars such as BoA, Lee Jung-hyun, Kang Ta, NRG, and Dongbangshingi, held at the Great Hall of the People in Beijing.

**July 23, 2004:** Shanghai Automotive Industry Corporation is selected as the preferred bidder to take over Ssangyong Automotive Company from its creditors. Bidding was reopened last June after a bid by China National Bluestar Corporation failed due to Ssangyong Motor Company labor union opposition.

**July 27, 2004:** Shanghai Automotive President Hu Mao Yuan signs memorandum of understanding to buy Ssangyong’s 48.9 percent stake and offers reassurances to labor union leaders regarding his intent to secure jobs and steady investment in the company.

**Aug. 5, 2004:** South Korean Director General for Asia-Pacific Affairs Park Joon-woo is dispatched to Beijing to discuss the PRC Ministry of Foreign Affairs’ decision to delete pre-1948 references to Korean history from its official website, among other issues.

**Aug. 7, 2004:** Fifty-two ruling and opposition party members issue a resolution in response to China’s historical claims regarding the Goguryeo kingdom.

**Aug. 9, 2004:** ROK government officials and lawmakers agree to form an inter-agency committee to respond to China’s historical claims regarding Goguryeo.

**Aug. 11, 2004:** ROK Prime Minister Lee Hae-chan authorizes the Cabinet to pursue efforts to respond to the Chinese claim to the Goguryeo Dynasty as part of its history.

**Aug. 16, 2004:** A *Korea Herald* survey of South Korean National Assembly members shows 80 percent as naming the U.S. as Korea’s most important diplomatic relationship, with 5.7 percent of members choosing China. Only 12 members of the ruling party chose China, in contrast to an April poll in which 63 percent of ruling party members identified China as South Korea’s most important diplomatic partner.

**Aug. 17, 2004:** Shanghai Automotive Company begins conducting due diligence on the Ssangyong Motor Company in preparation for its purchase from Ssangyong’s creditors.

**Aug. 23, 2004:** Vice Foreign Minister Wu Dawei visits Seoul and negotiates a five-point verbal accord with ROK counterparts to bring under control the dispute over historical interpretations of the significance of the Goguryeo kingdom as part of China’s and Korea’s respective national histories.

**Aug. 24, 2004:** The 12<sup>th</sup> anniversary of the establishment of normal relations between the Republic of Korea and the People's Republic of China.

**Aug. 26, 2004:** Chairman of the Chinese People's Political Consultative Conference Jia Qinglin arrives in Seoul for consultations marking the rapid expansion of China-South Korea economic relations.

**Sept. 1, 2004:** Seoul and Taipei sign an aviation agreement to reopen regular airline services by national flag carriers for the first time since 1992.

**Sept. 9, 2004:** Hyundai Motor Company announces plan to complete the construction of a second passenger car plant by late next year at a site near Beijing.

**Sept. 12, 2004:** Central Defense Commission Chairman Kim Jong-il meets in Pyongyang with a senior communist party delegation from the PRC led by Li Changchun, who informs the DPRK leadership that China would continue to provide development assistance to North Korea.

**Sept. 17, 2004:** Author Scott Snyder and SoRhym Lee are married in Seoul.

**Sept. 18, 2004:** LG Chem Ltd. announces plans to double its production capacity in China of polyvinyl chloride and acrylonitrile butadiene styrene, two key petrochemicals with a wide range of industrial uses, to 1 million tons and 700,000 tons, respectively.

**Sept. 18, 2004:** ROK Ministry of Finance and Economy announces that government approval will be required before hi-tech companies can invest overseas or to be acquired by foreign firms. The regulation is motivated by growing fears that investment in and from China is eroding South Korea's comparative advantage in key hi-tech industries.

**Sept. 24, 2004:** ROK government confirms that 107 metric tons of sodium cyanide, a key ingredient in the manufacture of nerve gas, was sent to North Korea via China in 2003.