



China-Korea Relations:  
**Unrestrained Defiance**

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North Korea's July 5 missile tests set the stage for a quarter of active diplomacy designed to prevent Pyongyang from taking additional escalatory actions and to further isolate and punish Pyongyang. To the surprise of many, China signed on to the strongly worded UN Security Council (UNSC) Resolution 1695 that condemned the North Korean missile tests. This followed the failure of last-ditch diplomatic efforts to convince North Korea to exercise restraint and return to the negotiating table.

Diplomatic activity this quarter focused almost exclusively on how China could re-establish high-level communications with North Korea while seeking to revive an effective multilateral channel for addressing North Korea's nuclear challenge. PRC Foreign Minister Li Zhaoxing met with his counterpart Ban Ki-moon several times during the quarter to discuss North Korea, and Roh Moo-hyun placed a rare phone call in late July to Hu Jintao, who counseled patience and restraint on the part of all parties in responding to the situation. Rumors of North Korean plans for a nuclear test gained momentum throughout the quarter and were given official credence by the North Koreans in an official statement Oct. 3. Union leaders from ailing Ssangyong Motors took a page from North Korea's book with a general strike against Chinese management at Shanghai Automotive Corporation, while China's attempts to restrain its booming economy reverberated in the form of slower growth of Korean exports to China.

**North Korea unrestrained: China's diplomatic setback**

North Korea's test of seven missiles of various ranges in the early morning of July 5 (coinciding with Fourth of July Independence Day celebrations in the U.S.) catalyzed a new round of diplomatic activity designed to condemn and further isolate an already isolated state. But the tests themselves proved clearly that isolation alone is not an effective tool for encouraging North Korea to exercise self-restraint. Preparations for the missile test were known to the international community through satellite monitoring weeks prior to the actual test, and catalyzed a range of public and private diplomatic messages prior to the tests to warn North Korea not to proceed. Perhaps most notable was Chinese Premier Wen Jiabao's public statement at the end of June urging North Korea not to conduct a missile test, a statement that implied China's loss of face if North Korea failed to restrain itself. Less than a week later, North Korea defied Beijing and the rest of the international community and went ahead with the tests. One perhaps fatal consequence of this series of interactions is that it proved the limits of international

influence, even from China, to restrain the North Korean leadership from exercising what it sees as its sovereign right to conduct missile (and other) tests.

Given North Korea's direct defiance of the international community, the response from North Korea's neighbors (with the exception of Seoul, which as a result of the missile tests also found itself isolated) was unprecedented and stronger than expected. Japan led efforts at the UN Security Council to forge a resolution condemning the missile tests and imposing an international sanctions regime to prohibit international cooperation with North Korea's missile and nuclear development efforts. Early Japanese drafts of the resolution, backed by the United States, also included Chapter 7 references that would have authorized an international military response to North Korean provocations.

China tabled a much milder resolution and requested additional time to allow Vice Premier Hui Liangyu and Vice Minister Wu Dawei to visit Pyongyang during July 10-15 for diplomatic discussions, ironically as part of a delegation to commemorate the signing of the DPRK-China Treaty of Friendship, Cooperation, and Mutual Assistance. Simultaneously, North Korea's Vice Premier Yang Hyong-sop visited Beijing and met with Hu Jintao, who urged Pyongyang's leaders not to take further escalatory actions and to return to the Six-Party Talks in a rare public deviation from more even-handed Chinese calls for "all parties" to exercise patience and restraint. Following the Chinese delegation's failure to meet with Kim Jong-il or to make diplomatic headway with North Korea, the PRC signed on to the Japan-sponsored UNSC language, but insisted that references to Chapter 7 be dropped. UNSC Resolution 1695, condemning the North Korean missile tests and urging that the international community refrain from assisting North Korean missile and nuclear development efforts, was passed July 17.

One apparent effect of China's sponsorship of the UN resolution was a cooling of China's diplomatic relations with North Korea and a reduction in high-level diplomatic contact between the two leaderships. Unconfirmed reports, primarily from the South Korean media, suggested tougher Chinese measures toward North Korea such as a slowdown in border trade between the Chinese city of Dandong and the North Korean city of Sinuiju and the introduction of new visa requirements for Chinese and North Koreans who travel across the border. The Bank of China had issued internal advisories earlier this year regarding North Korean counterfeiting activities, but there is no way to confirm how extensively actions are being taken against suspected North Korean accounts. Some previously reported projects, including efforts to build a new road between the Chinese border near Hunchun and the North Korean port at Rajin-Sonbong, appear to have been delayed. But *KCNA* reported that an opening ceremony for an ore dressing plant at the Ronghung mine was held in early September. Preliminary reports suggest that Sino-DPRK trade during the first half of 2006 has remained flat, but no figures are yet available for the period following the North Korean missile tests.

China used the timing of a change in its diplomatic representation to North Korea as an opportunity to restore some communication with the North. Ambassador Wu Donghe made the rounds of the senior North Korean leadership in August to pay farewell courtesy calls. Interestingly, China's new ambassador is U.S.-trained expert, Liu

Xiaoming, who made an introductory round of courtesy calls in Pyongyang in mid-September. *KCNA* reported that during Liu's initial meeting with DPRK President Kim Yong-nam, Kim reaffirmed that the DPRK would "make efforts to strengthen the traditional relationship with China." Given the lack of high-level diplomatic contact with North Korea and the priority that China has placed in recent years on maintaining communication with North Korea's top leadership, there is also the possibility that a senior-level envoy could have traveled to North Korea for secret consultations that have not yet been publicly revealed.

A round of diplomatic activity in late August, precipitated by a telephone exchange over North Korea between George Bush and Hu Jintao, unleashed South Korean media speculation that Kim Jong-il would soon be summoned to China for diplomatic consultations. These rumors persisted despite the unlikelihood that Kim would under the circumstances accept any interaction that carried the connotation that he was paying tribute to or taking instructions from Beijing. The speculation was fed by over a week of rumors in early September that North Korean security personnel had visited Beijing and sightings of Kim Jong-il's special train in the border area near Sinuiju. Unification Minister Lee Jong-seok even publicly appealed to Kim Jong-il to visit China on Sept. 7. However, *KCNA* reports on Sept. 7 that Kim Jong-il had given on-the-spot guidance at the Kusong Machine Tool Factory and Kusong Chicken Farm in North Pyongan Province put to rest rumors that Kim might visit Beijing.

### **North Korean missile test and China-South Korea Relations**

China's stern reaction to North Korea's missile tests appears to have caught South Korea off guard. South Korea had called upon China to convince North Korea to come back to the Six-Party Talks and had tried to work with China to revive prospects for negotiations in the run-up to the North Korean missile tests. (Following the missile tests, both Kim Jong-il and Roh Moo-hyun appeared to go into hiding as South Korea isolated itself from efforts to pursue a resolution condemning the tests.) Such consultations represented the most active combined effort by China and South Korea to coordinate their positions during the crisis thus far, but these efforts were overshadowed by North Korea's missile tests.

Less than a week after China's decision to sign on to the UNSC resolution, a July 22 telephone conversation between Roh and Hu Jintao offered Hu an opportunity to underscore China's consistent calls for patience and restraint, and to urge active diplomatic efforts to mitigate tensions and address North Korea's nuclear program. Roh expressed a willingness to work with other concerned parties to resume diplomatic negotiations through the Six-Party Talks. Consultations between South Korea and China on how to revive the six-party process have proceeded on the premise that China would play the primary role in convincing North Korea to come back to the table while South Korea would play the primary role in convincing the U.S. to return to negotiations. They are limited by South Korean suspicions that China is using its economic influence to extend its political dominance in North Korea in ways that might thwart Korean

reunification. The telephone conversation foreshadowed Roh's plans to visit Beijing in mid-October.

South Korea and China also consulted on efforts to convince North Korea to participate in multilateral discussions on the sidelines of the ASEAN Regional Forum (ARF) in late July in Kuala Lumpur. Foreign Ministers Ban Ki-moon and Li Zhaoxing agreed that efforts should be made to convince North Korea to return to the negotiating table and both countries participated in a multi-party meeting to discuss North Korea's nuclear program on the sidelines of the ARF, although the addition of Australia, New Zealand, Canada and several Southeast Asian nations signaled that the dialogue was not intended to replace the six-party process. North Korean Foreign Minister Paek Nam-sun refused to attend, however, and China and Russia subsequently chose not to participate in a similar gathering organized at the initiative of the U.S. on the sidelines of the UN General Assembly meetings in September.

Following the publication of a *New York Times* article signaling a possible North Korean nuclear test in May of 2005, South Korean and Chinese officials provided stiff rhetorical warnings of the isolation North Korea could face if it pursued that course of action. A second round of rumors that North Korea might conduct a nuclear test evoked a similar set of public warnings to North Korea in recent weeks. This time, an Aug. 17 *ABC News* report of "suspicious vehicle movement" and the unreeling of large strands of cable triggered speculation that North Korea may be readying a nuclear test. These rumors were given added credibility by arguments among some analysts that following the North Korean missile tests, a nuclear test might possibly be next on the list as North Korea climbed a "ladder of escalation."

In response to these reports, the question of whether North Korea might conduct a nuclear test was a subject of discussion in an Aug. 22 telephone call between President Bush and President Hu Jintao, and stimulated a public statement on the subject by ROK Foreign Minister Ban Ki-moon that "If North Korea conducts a nuclear test, it will lead to a more threatening situation, shaking the basis of the international community's non-proliferation system far more seriously than the missile issue." China's Assistant Foreign Minister Cui Tiankai was reported on the same day to have indicated to a group of visiting Japanese politicians that China would suspend cooperation with North Korea if there was a North Korean test. Despite these warnings, periodic reports suggest that Kim Jong-il, disillusioned with his Chinese and Russian allies, has decided to proceed with a North Korean test. These reports gain added credibility following North Korea's Oct. 3 statement pledging to test its nuclear capability.

### **Sino-South Korean historical and maritime claims unrestrained**

Despite the ongoing consultations between South Korea and the PRC, a number of historical and territorial conflicts have again emerged as sore points in South Korea's relationship with China. South Korean lawmakers and the public were agitated again by claims made by the Chinese government-sponsored Center of China's Borderland and History and Geography Research that the Balhae and Goguryeo kingdoms are a part of

Chinese history. These claims are considered by South Korea to violate a 2004 agreement that China would refrain from public claims to these kingdoms, while Chinese argue that the papers produced are academic works and are unrelated to government claims. South Korean media responded angrily and a South Korean delegation went on a fact-finding mission to China during the last week of September. Chinese history claims that contradict Korea's traditional historiography focused on the "Three Kingdoms" era of Korean history were decisive in mobilizing anti-China public opinion in the fall of 2004 (see "A Turning Point for China-Korea Relations?" *Comparative Connections*, October 2004), and the recurrence of this issue illustrates ongoing sensitivities to China's activities regarding historical claims.

China has also challenged South Korean claims to a maritime feature located within an area where China's and South Korea's exclusive economic zones (EEZ) overlap known as in Korean as Ieo-do and identified by Chinese as Suyan Rock. The feature is located 149 km to the southwest of Korea's Mara Island and is 245 km from China's Tongdao Island. The feature remains submerged at all times, but South Korea has built maritime scientific facilities and a helicopter landing pad on it. China's State Oceanic Administration announced Sept. 7 that Chinese planes had conducted surveillance activities of the feature.

### **Ssangyong strikers unrestrained: challenges for China's investment in South Korea**

Ongoing tensions between Ssangyong Motors labor union leaders and Chinese management from Shanghai Automotive Industry Corporation (SAIC) boiled over this summer as workers at the Peongtaek factory put down their tools July 14 and called a general strike Aug. 11 to protest management decisions about future production and investment. The dispute arose as a result of a June announcement by Shanghai Automotive that it would move production of Ssangyong Motor's sport utility vehicles to China under a licensing agreement worth \$25 million (10 percent of the true commercial value of the technology, according to critics of the agreement) and would fail to meet commitments to invest in the Korean plant that were made when Shanghai Automotive made its initial investment to take over the company.

During the course of the strike, the labor union and a South Korean civic group named Spec Watch Korea, dedicated to monitoring activities of foreign investors, jointly filed a lawsuit against the board of directors on Aug. 11. The labor union voted to end the strike on Aug. 31, following an agreement by management to drop planned job cuts and a promise to invest \$1.25 billion over the next four years to develop new models and engines. An initial agreement on Aug. 26, including a wage freeze and investment of 1.2 trillion won through 2009, was rejected by the rank and file. The strike resulted in losses of \$400 million and 17,200 units in lost production.

Chinese investment in South Korea may be set to increase in the near future as Lenovo, China's top PC maker, has filed a letter in the Suwon District Court expressing an interest in acquiring the troubled South Korean TriGem computer company. But publicity surrounding Ssangyong's labor-management difficulties has raised fears in Korea that

Chinese shareholders could use acquisitions to transfer core technologies to Chinese competitors.

### **Restraining Chinese economic growth: implications for South Korea**

In recent years, the South Korean equities market has proved to be particularly sensitive to Chinese leadership efforts to keep China's domestic growth under control. But during the last quarter, Chinese efforts to use fiscal measures to tamp down a record 11.3 percent economic growth did not stimulate a big response from South Korean markets. However, these measures are expected to further slow Chinese demand for South Korean exports to around 12 percent through 2006. Bilateral trade is projected to increase by only 10 percent to about \$110 billion.

South Korean concerns continue to deepen as China cuts into South Korea's technology advantage in areas of core production, including shipbuilding, electronics, chemicals, telecommunications, and information technology. South Korean shipbuilders, for instance, have record back orders, especially for large tankers and gas carriers, but newly emerging Chinese shipbuilders are cutting into South Korea's advantage for medium-size ships. Hyundai is being challenged in the domestic China market as Toyota ramps up its marketing efforts in China. The Korean share of the online computer gaming market in China has dropped to about 40 percent in 2005 compared to 90 percent in 2003. However, South Korean petrochemicals companies are benefiting from growing Chinese energy demand, and the Korea International Trade Association urges South Korean machine tool makers to actively consider export opportunities to the China market.

One South Korean analyst at Hyundai Research Institute summed up the dilemma South Korea faces as follows: "China is like the black hole of technology. The country quickly absorbs, accumulates necessary technologies by attracting foreign companies, capital and manpower, to its best advantages. Foreign companies may not get much benefit as they hoped for." Chinese industrial espionage, copycat branding, and fakes are as big a challenge to South Korean products as South Korean fakes were to established manufacturers in an earlier era of South Korea's own development. South Korea was the second largest foreign investor and fourth largest export market for China during 2005, with over 40 percent of South Korean FDI destined for China, but that trend has cooled in the first half of 2006: overall South Korean investment has more than doubled from \$3.9 to \$7.1 billion in the first half of the year, but has also diversified, with only about 28 percent of overall investment headed for China. In an August report, the Korean Development Bank urged Korean investors in China to develop long-term localization strategies to enhance prospects for success. SK Telecom is one South Korean company that is bucking the trend, with significant investment and joint ventures with China Unicom in the areas of broadband and messaging systems development.

China and South Korea have agreed to cooperate on technology development, standard settings, and device manufacturing for new-generation wireless services, including joint promotion of research and development for commercialization of the service in bilateral talks led by South Korea's finance minister with China's director of the National

Development and Reform Commission. However, South Korean efforts to attract listings of Chinese companies on the Seoul stock market have been stalled as Hong Kong and Singapore have proved more attractive to Chinese firms.

### **A paradigm shift for the region?**

Despite unprecedented international convergence at the UN Security Council of regional and global views – including China’s endorsement of a resolution that Japan introduced at a time of heightened Sino-Japanese rivalry on other UN-related issues – it is unclear to what extent a North Korean nuclear test would result in unified action by North Korea’s neighbors. It is possible to imagine that the United Nations might pass a stronger resolution condemning a North Korean nuclear test and that such a resolution might even contain Chapter 7 language authorizing sanctions or military action. But it is hard to imagine that China and South Korea would effectively enforce such a resolution or join into any action that might lead to military conflict or create a leadership vacuum in North Korea.

In any event, the effectiveness of a unified international response to a North Korean nuclear test will also require management of the problem that includes participation by North Korean leaders themselves. Absent a voluntary action by the North Korean leadership to make a “strategic decision” and give up its nuclear weapons and absent an atmosphere in which North Korea’s external security concerns are addressed in some form, internal divisions or instability in the North will only make the challenge of dealing with North Korea’s nuclear aspirations more intractable. Even in the aftermath of a North Korean nuclear test, China may still believe that the need to prevent regional instability remains a more immediate foreign policy priority than North Korean proliferation concerns. Absent an effective internationally imposed restraint, there is little reason to expect that North Korea will show self-restraint in pursuit of what it perceives as its “reliable war deterrent” against “the U.S. threat of aggression.”

## **Chronology of China-Korea Relations July-September 2006**

**July 5, 2006:** North Korea launches seven missiles into the Sea of Japan, provoking a firestorm of international condemnation.

**July 5, 2006:** South Korean Chairman of the Joint Chiefs of Staff Gen. Rhee Sang-hee visits China to promote bilateral military cooperation.

**July 10, 2006:** China circulates a nonbinding statement within the UN Security Council as an alternative to a draft resolution that would sanction North Korea for its missile tests.

**July 10-15, 2006:** Chinese Vice Premier Hui Liangyu leads the first Chinese delegation to North Korea following the July 5 missile tests to commemorate the 45<sup>th</sup> anniversary of the signing of the DPRK-China Treaty of Friendship, Cooperation and Mutual Assistance. PRC Ambassador Wu Dawei accompanied the delegation, but the group failed to meet Kim Jong-il.

**July 11, 2006:** In a meeting with DPRK Vice President Yang Hyong-sop, PRC President Hu Jintao urges North Korea to refrain from increasing tensions over its nuclear program and to return to disarmament talks.

**July 12, 2006:** China and Russia introduce UN resolution that condemns the missile tests and calls for a moratorium on missile testing and a return to the Six-Party Talks, but does not call for binding sanctions.

**July 15, 2006:** The PRC signs on to a compromise UNSC resolution that condemns North Korea's missile tests, but does not include Chapter 7 language originally endorsed by Tokyo.

**July 22, 2006:** DPRK Defense Commission Chairman Kim Jong-il receives a message of sympathy from PRC President Hu Jintao regarding recent flood damages in North Korea.

**July 22, 2006:** In a phone conversation with Roh Moo-hyun, Hu Jintao calls on all parties to be patient and restrained and to push forward the Six-Party Talks.

**July 24, 2006:** Grand National Party lawmaker Park Jin states that the Bank of China has frozen North Korean accounts in relation to alleged counterfeiting activities, based on conversations he held in Washington with U.S. Treasury officials.

**July 26, 2006:** DPRK Defense Commission Chairman Kim Jong-il replies to President Hu's message of sympathy regarding floods that hit North Korea.

**July 26, 2006:** ROK Foreign Minister Ban Ki-moon and PRC Foreign Minister Li Zhaoxing agreed to pursue dialogue with North Korea at the ASEAN Regional Forum in Kuala Lumpur.

**July 31, 2006:** POSCO becomes the first foreign company to operate an integrated stainless steel mill in China, a factory with an annual production capacity of 600,000 metric tons at Zhangjiagang in Jiangsu province.

**Aug. 1, 2006:** DPRK Football Association files a written protest against officiating at the semifinal match of the Asian Football Confederation between China and North Korea in which three North Korean players attacked a referee on a disputed call. China won 1-0. China won the tournament and the DPRK won the consolation game.



**Aug. 10, 2006:** South Korean Trade Minister Kim Hyun-chong denies that Korea rejected China's proposal to sign a free trade agreement last year due to U.S. concerns over China's rising influence in Northeast Asia.

**Aug. 11, 2006:** PRC Ambassador to the DPRK Wu Donghe pays a farewell call on President Kim Yong-nam.

**Aug. 11, 2006:** Ssangyong Motors union leaders call a general strike against Shanghai Automotive International Company management to protest management decisions to implement layoffs and move production to China rather than investing in plant in Korea.

**Aug. 15, 2006:** A delegation of China's Ministry of Public Security led by Vice Minister Meng Hongwei travels to Pyongyang and signs an agreement on cooperation with counterparts in the DPRK Ministry of People's Security.

**Aug. 18, 2006:** A delegation of the China Council for the Promotion of International Trade and the China Chamber of International Commerce led by Vice Chairman Zhang Wei visits Pyongyang.

**Aug. 24, 2006:** Korea Development Bank urges Korean firms to draw up long-term localization strategies when considering investments in China.

**Aug. 27, 2006:** Korea International Trade Association forecasts a decrease in Korean exports and investments in China in response to Chinese efforts to cool its overheating economy.

**Aug. 25, 2006:** Ssangyong Motor workers reject a tentative agreement with management to end a protracted strike.

**Aug. 26, 2006:** Kim Jong-il is reported by Japan's *Kyodo News* as having called China and Russia "unreliable," saying that North Korea should overcome the international standoff over its nuclear and missile programs on its own.

**Aug. 28, 2006:** Korea and China agree to strengthen cooperation on technology development, standard settings, and device manufacturing at the sixth Korea-China economic ministerial meeting held in Seoul.

**Aug. 30, 2006:** China's Lenovo company expresses interest in taking over Korean PC manufacturer TriGem Computer Inc. through a letter filed with the Suwon District Court.

**Aug. 31, 2006:** Ssangyong Motors labor union accepts settlement to end seven-week strike.

**Sept. 1-7, 2006:** South Korean newspapers speculate on possibility of Kim Jong-il's visiting China based on rumors that Kim Jong-il's special train approached Sinuiju on the China-DPRK border.

**Sept. 3, 2006:** North Korea defeats China 5-0 in the finals of the FIFA U-20 Women's World Championship held in Moscow.

**Sept. 7, 2006:** Unification Minister Lee Jong-seok says that if Kim Jong-il were to visit China that it would be a "highly positive" move.

**Sept. 8, 2006:** Chinese Foreign Ministry Spokesman Qin Gang confirms that China has provided "a certain amount" of humanitarian assistance to the DPRK, including grain, food, diesel oil, and medicine for disaster relief.

**Sept. 10, 2006:** *KCNA* reports that a commissioning ceremony to open the ore dressing plant of the Ryonghung Mine was held. China's Guangshou Group Company is a major partner in the operation of the plant.

**Sept. 10, 2006:** *The Daily Telegraph* reports that Kim Jong-il has made known to Russian and Chinese diplomats his plan to conduct an underground nuclear test.

**Sept. 11, 2006:** PRC Ambassador to the DPRK Liu Xiaoming meets DPRK President Kim Yong-nam to present his credentials. Kim reaffirms that North Korea's policy is to "make efforts to strengthen the traditional relationship with China."

**Sept. 20-22, 2006:** Six South Korean lawmakers visit China to investigate issues in a dispute involving conflicting Chinese and South Korean historical claims.

**Sept. 21-30, 2006:** SK Telecom organizes and sponsors "Experience China," a 10-day cultural extravaganza held in southern Seoul to commemorate the 15<sup>th</sup> anniversary of the normalization of Sino-South Korean relations.

**Sept. 27, 2006:** China's new ambassador to North Korea Liu Xiaoming pays a courtesy call on Kim Il-chol, minister of the People's Armed Forces, and Kim Yong-chun, chief of the General Staff of the Korean People's Army.

**Sept. 28, 2006:** The DPRK Physical Culture and Sports Guidance Commission and the General Administration of Sports of China sign a protocol on sports exchanges for 2007.

**Sept. 29, 2006:** PRC Vice Minister Wu Dawei visits Seoul for consultations with South Korean leaders on how to get North Korea to come to Six-Party Talks in advance of President Roh's planned visit to Beijing for consultations with China's top leadership.