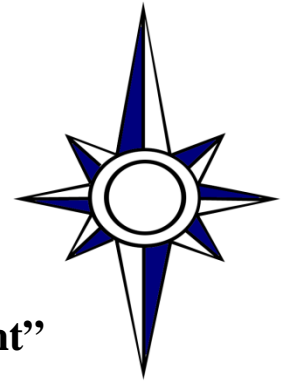


Comparative Connections

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China-Korea Relations:

Fire Sale, Hot Money, and Anxieties about “Investment”

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China and North Korea sustained high-level contacts during the quarter, but there seems to be little to show for it. Wang Jiarui, head of the International Department of the Communist Party of China (CPC) Central Committee, met Kim Jong-il in Pyongyang and delivered a letter from President Hu Jintao, reportedly extending an invitation to Kim to visit China. Following the visit, the Chinese Foreign Ministry confirmed Pyongyang’s “persistent stance” toward denuclearization while Hu affirmed that friendly ties is China’s “consistent policy” toward Pyongyang. Two weeks later Kim Yong-il, director of the International Affairs Department of the Workers’ Party of Korea (WPK) Central Committee, visited Beijing, where he met President Hu. North Korea’s major push to attract foreign investment appears to involve potential economic deals that Beijing has claimed do not violate UN resolutions toward the North. Meanwhile, Chinese leaders presented a positive outlook for the resumption of Six-Party Talks on the sidelines of the annual session of the National People’s Congress (NPC) and Chinese People’s Political Consultative Conference (CPPCC) in March. Having received the title of representative for Korean Peninsula Affairs, China’s lead representative to the Six-Party Talks Wu Dawei stated that talks might resume before July this year in light of favorable diplomatic contacts with Pyongyang. Foreign Minister Yang Jiechi expressed support for improved inter-Korean and US-DPRK ties. China and South Korea officially launched Visit China Year 2010, pledging to strengthen their strategic cooperative partnership through intensified diplomatic, cultural, and economic exchanges. ROK Foreign Minister Yu Myung-hwan held talks with Premier Wen Jiabao and Foreign Minister Yang Jiechi in Beijing.

China and North Korea exchange high-level visits

Wang Jiarui made a four-day goodwill visit to North Korea on Feb. 6-9, during which he met DPRK counterpart Kim Yong-il, Secretary of the Workers’ Party of Korea Central Committee Choe Thae-bok, and Kim Jong-il. According to Chinese state media, Wang told Kim Yong-il that it is “imperative” for both countries to handle bilateral and party-to-party relations “from a strategic perspective” and to “enhance their political mutual trust amid the complicated and volatile international situation.” Reporting on Wang’s meeting with Kim Jong-il, Chinese state media hailed Kim’s firm commitment toward denuclearization and coordination with China, citing China’s willingness to “deepen traditional friendship” while “increasing practical cooperation for the benefit of regional peace and stability.” Following Wang’s visit to Pyongyang, the Chinese Foreign Ministry spokesman said eased tensions over the Korean Peninsula situation provide a good opening for the resumption of Six-Party Talks, reaffirming that the DPRK nuclear issue “can only be resolved through dialogue and negotiation.”

Receiving Kim Yong-il in Beijing two weeks later, President Hu affirmed that maintaining friendly ties with the DPRK has been China's "consistent policy," vowing to "expand pragmatic cooperation." Kim Yong-il held another round of talks with Wang Jiarui while in Beijing, where both sides agreed to strengthen party-to-party ties to support "common development" and "regional peace and stability." Kim Yong-il's visit unleashed speculation in the South Korean and Japanese media regarding Kim Jong-il's imminent visit to China, possibly in late March. The Chinese Foreign Ministry spokesman denied such claims, stating that the two parties have "traditionally enjoyed high-level visits" and that "we believe this tradition can be maintained."

Beijing appointed former Vice Foreign Minister Wu Dawei as special representative for Korean Peninsula Affairs on Feb. 10 and a new ambassador to the DPRK, Liu Hongcai, on March 8. In his newly renamed position, Wu received DPRK Vice Foreign Minister Kim Gye-gwan in February in Beijing, where both sides discussed bilateral ties, Six-Party Talks, and "issues of common concern." According to a Foreign Ministry press release, Wu is responsible for "Six-Party Talks and related issues." The title of Wu's revised position is similar to the title of his US counterpart, Stephen Bosworth, which is special envoy for North Korea policy. South Korean analysts suggested that the appointment shows that China is trying to separate the nuclear issue from China-DPRK relations, but the title change in combination with Wu's hosting of Vice Minister Kim Gye-gwan also seems to carry a protocol message for the US, given US insistence on a firm North Korean commitment to return to the Six-Party Talks as a precondition for issuing Kim a visa to visit the US. During Ambassador Liu's first meetings with senior DPRK officials in Pyongyang, both sides pledged to advance friendly relations across all fields.

Mixed China-ROK assessments for DPRK denuclearization

China raised hopes for the resumption of Six-Party Talks through high-level exchanges in February and its annual parliamentary and advisory meetings in March. Wu Dawei, who also serves as deputy director of the Foreign Affairs Committee of the CPPCC National Committee, told state media on March 4 that "China's goal is to restart the Six-Party Talks in the first half of this year," citing mutual distrust as the source of deadlock since December 2008. Foreign Minister Yang Jiechi expressed hopes for an early resumption of talks, stating that "none of the parties involved has given up the objective of achieving a denuclearized Korean Peninsula" and that "they have never abandoned the effective, multilateral mechanism of the Six-Party Talks."

While Kim Yong-il was in Beijing, ROK nuclear envoy Wi Sung-lac also visited Beijing on Feb. 23-24 and met Wu Dawei to discuss the North Korean issue, including the outcome of Wu's earlier meeting with Kim Gye-gwan in China. Unlike his Chinese counterparts, Wi provided no hint that multilateral talks were likely to resume, indicating that Pyongyang's position on Six-Party Talks generally appeared "the same as before." Wi, however, noted positive signs in bilateral efforts among other six-party members, including China-DPRK, China-ROK, China-US, and ROK-US. The Chinese Foreign Ministry spokesman expressed hope for progress in North-South relations as working-level inter-Korean talks began on March 2, stating that "China always supports the Korean Peninsula's north and south to advance dialogue and cooperation." The Chinese Foreign Ministry also expressed support for US-DPRK contact within the six-party framework, calling it "conducive to mutual trust."

On the other hand, ROK Foreign Minister Yu Myung-hwan in a *Xinhua* interview on March 15 stated that “North Korea’s insistence on bilateral talks with the US is a wrong approach.” Yu argued that the easing of international sanctions cannot be determined “unilaterally,” urging Pyongyang to firmly commit to denuclearization “in order to seek certain changes it wants.” He also stressed China’s role in both denuclearization and international sanctions as host of the Six-Party Talks and permanent member of the UN Security Council, especially “after [North Korea’s] two nuclear experiments.” Yu and Chinese counterpart Yang Jiechi had also met on Jan. 17 on the sidelines of the Forum for East Asia-Latin America Cooperation in Seoul, where they agreed to work toward early resumption of multilateral talks.

The DPRK Foreign Ministry stated on Jan. 11 that the resumption of talks and denuclearization would only be possible after the lifting of sanctions and signing of a peace treaty, challenging Seoul’s stance on an unconditional return to talks. Wu Dawei stated in March that the “US, ROK, and Japan” believe “Pyongyang must first return to talks and show notable progress in denuclearization before meeting of such conditions,” without elaborating on China’s position. In January, *Xinhua* stated that differences between North Korea and the US-South Korea over the nuclear issue lie in US insistence on “denuclearization first” and DPRK’s adherence to “peace first,” stating that the “different priorities are clear indications of their respective strategic interest.” It also emphasized that “a close look” at North Korea’s proposal indicates “Pyongyang’s understanding of the need to resume the Six-Party Talks and fulfill the Joint Statement on September 2005.” While the Chinese media has noted the possibility of simultaneous talks on denuclearization and peace, analysts such as Jin Canrong of Renmin University see the resumption of talks in the first half of 2010 as “highly possible” but “China is thinking about a compromise proposal, urging both the DPRK side and the US-ROK-Japan side to make some concessions to solve the problem.”

North Korea’s reform and opening, toward China

South Korean media has focused attention on North Korea’s unprecedented foreign investment deals involving China, most notably rumors regarding up to \$10 billion of Chinese investment commitments to North Korea and its 10-year lease of Rajin port. New foreign investments to North Korea are expected to come through the Taepung Group, and were reportedly discussed during Wang Jiarui’s February visit to Pyongyang. According to Yanbian Gov. Lee Yong-hee, the lease of Rajin’s pier number one may be extended by another 10 years providing an international route from Jilin Province to the East Sea/Sea of Japan. China’s *Global Times* on March 10 referred to Rajin as China’s “first access to the maritime space in its northeast.” Some South Koreans are concerned that China might even build a naval base at Rajin, but given North Korea’s fears of excessive Chinese influence and past failures to pursue reform and opening, this development seems highly unlikely. North Korea has also reportedly granted a 50-year lease to Russia to use Rajin’s pier number two. These moves seem to be part of an urgent attempt to attract foreign currency at a time of international financial sanctions and failed domestic reforms.

In addition, new construction on the Quanhe-Wonjong bridge between China and North Korea is expected to take place during the second quarter of 2010. North Korea has completed a major expansion of Customs facilities at Wonjong, and there are reports that the 50 km dirt road

between Wonjong and Rajin will be upgraded to support expanded commercial traffic. South Korean media reported in January that North Korea and the Tumen municipal government have agreed to begin reconstructing the railway linking Tumen to North Korea's Chongjin port from April 2010, for which Tumen will reportedly lend Pyongyang \$10 million, again raising speculations about Chinese strategic interests.

According to a *Global Times* report, Pyongyang has designated Wihwa and Huanggeumbyung Islands as a free trade zone in the China-DPRK border area near Dandong in an effort to attract total investments of \$500 million and \$300 million respectively. In line with Beijing's official position, the report noted that UN sanction resolutions against North Korea do not restrict such projects related to "normal bilateral trade." It also indicated that the Dandong Huashang Overseas Investment Corporation plans to send a delegation to the North, where local DPRK officials are working on detailed plans for the zone. In response to concerns in the ROK media, China's Foreign Ministry on Feb. 25 denied that these exchanges with North Korea violate UN resolutions, calling the projects "purely normal economic and trade contact."

North Korea's foreign investment drive has been accompanied by parallel efforts in China's northeast provinces to boost border trade and tourism. On March 17, Liaoning began the construction of two railways near the DPRK border, including between the provincial capital Shenyang and the port city of Dandong (across from the DPRK's city of Sinuiju), and between Dandong and Dalian, Liaoning's industrial center. According to Wang Tao of Dandong Import and Export Corporation, the Shenyang-Dandong and Dandong-Dalian railways, to be completed in 2014 and 2013 respectively at an estimated total cost of 50 billion RMB (\$7.3 billion), "will benefit trade between China and the DPRK." Lu Chao, a researcher at the Liaoning Academy of Social Sciences, claims that the projects will help expand bilateral exchanges since about 70 percent of cross-border trade depends on Dandong port and most Chinese tourists to the DPRK travel via the Yalu River Bridge linking Dandong and Sinuiju. Earlier in March, China's National Tourism Administration designated North Korea as an approved destination for Chinese tour groups and announced that the first group of up to 200 travelers will travel to the North on April 12 for a one-week tour, the cost of which is reportedly approximately \$1000/traveler. Proceeds will be split between the Chinese travel agency and North Korean counterparts.

Such deals have fueled fears in Seoul about Chinese competitiveness in the North, especially given strained inter-Korean investment environment. A January ROK National Assembly report indicated that China has expanded its mining rights in North Korea to cover up to 20 sites, compared to only three for the South, warning that "we are behind China in the development of North Korea's underground resources and need measures to cope with this." The ROK Unification Ministry in February claimed that North Korea received a total of 300,000 tons of food in the form of either credit or aid in 2009, mostly from China. Kwon Tae-jin of South Korea's Rural Economic Institute indicated that Chinese grain imports in the North jumped 3.6 fold to 13,834 tons in January this year, citing North Korean concerns about food shortages given strains on the food supply system since the November 2009 currency reform. North Korea is expected to face food shortages of up to 1.2 million tons in 2010 according to UN estimates in March. This figure does not take into account any possible increase in Chinese aid.

Despite ROK concerns about North Korea's growing reliance on China and Chinese strategic interests, some Chinese analysts argue that China is unlikely to continue to assist its ally unless Pyongyang adjusts its development approach. Given the "abject failure" of North Korea's market reforms, Peking University's Zhu Feng has indicated that China has the "capability" but "no intention" of "bailing out North Korea's economy," stating at a March forum in Seoul that without any change in Pyongyang's "very bizarre policy," offers of substantial aid to the North is "detrimental" to Chinese national interests.

North Korea's outreach to China amid strained domestic conditions appear to mark a potential turning point toward a strategy of reform and opening that is conducive to Chinese economic and strategic interests. Many economists cited Pyongyang's failed measures in 2009 to seize state control over markets as the directly opposite approach of Chinese reforms. Pyongyang's current external interests contradict the state-led strategy of self-reliance declared at the beginning of the year, when Rason was designated a "Directly Governed City" on Jan. 4 and Kim Jong-il on Jan. 7 called for building a "powerful and prosperous nation, by the country's own efforts and with its own technology and resources." According to Lim Eul-Chul at the Institute for Far Eastern Studies, North Korea is now planning to open foreign-owned factories in not only its special economic zones but also in major cities like Nampo and Wonsan, with close cooperation between the DPRK military and State Development Bank, to attract foreign investment. However, both South Korean and Chinese experts are largely skeptical about the creation of modern banking systems in the North, where investors have long complained of government practices that fail to meet basic international standards.

South Korea eyes Visit China Year 2010 and Shanghai World Expo 2010

Before leaving for Beijing in March, ROK Foreign Minister Yu Myung-hwan told *Xinhua* that "the most important goal for the visit is to strengthen the strategic cooperative partnership between the two countries and express our support for the Shanghai World Expo." Coinciding with Seoul's Visit China Year 2010, the Expo will be held from May 1 to Oct. 31, during which time up to 1 million South Korean tourists are expected to travel to Shanghai. The ROK Ministry of Knowledge Economy has pledged to promote South Korea's high-end technology and popular culture at the event, for which Seoul has spent a total of about \$60 million to display the second biggest national pavilion after China. There is also a corporate pavilion housing 12 ROK business giants including Samsung, Hyundai, LG, SK, and POSCO. Chinese officials expect the Expo to attract 70 million visitors including 3.5 million foreigners. North Korea will make its first international expo appearance in the 2010 Shanghai World Expo, for which it has been making preparations since July 2007.

With the launching of Visit China Year 2010, Chinese and ROK officials have pledged to cooperate on a range of political, economic, and cultural exchanges as promised between Presidents Hu and Lee Myung-bak in 2008 when they forged the China-ROK strategic cooperative partnership. South Korea has shown keen interest in the Shanghai Expo as a precursor to expected Chinese cooperation on the Yeosu Expo 2012, to be held during China's Visit Korea Year 2012, and the two presidents in their New Years messages on Jan. 1 reaffirmed cooperation on the two expos as an opportunity to strengthen bilateral ties. On March 26, Grand National Party (GNP) Chairman Chung Mong-joon met Wang Jiarui and Vice Premier Li

Keqiang in Beijing and agreed to strengthen party-to-party exchanges as a political foundation for the China-ROK strategic cooperative partnership. Foreign Minister Yang Jiechi also expressed support for the G20 summit in Seoul, calling it an important mechanism for promoting world economic governance and for addressing the “imbalance of international economic development,” resonating with President Lee’s priorities for the summit.

In January, a global marketing report showed that Seoul was the most popular travel destination among Chinese in December 2009 for the second consecutive year. As Foreign Minister Yu noted in Beijing, Seoul has taken recent steps to ease visa requirements for Chinese including no-visa policies to Chinese tourists traveling to Jeju Island and to Chinese students on school field trips. South Korea’s major department stores have reported a steady increase in spending by Chinese tourists, with the biggest retail store, Lotte, indicating that Chinese tourist sales reached 86 percent of Japanese tourist sales in January compared to 17 percent during the first quarter of 2009. Shinsegae reportedly receives about 200 Chinese customers a day, two to three times more than Japanese visitors, spending over \$868.21 per person. South Korean observers expect this trend in Chinese consumer spending to continue given China’s strengthening economy.

China-ROK coordination on North Korea: convergence or divergence?

Despite China-ROK efforts to upgrade their partnership, coordination of North Korea policy appears increasingly strained by differing perceptions of security interests, South Korean suspicions regarding the rationale for China’s enhanced diplomatic engagement with the North, and concerns about the intentions behind China’s economic engagement of the North. In the effort to resume Six-Party Talks, both sides seem to differ on the conditions for the DPRK’s return. Current troubles in the US-China relationship suggest that North Korea may fall behind in priority and that resumption of Six-Party Talks may be further delayed. At the same time, South Korean analysts recognize China’s critical position and hope that Chinese interactions with Kim Jong-il will lead to progress toward denuclearization and that North Korea’s apparent desperation won’t come at the expense of inter-Korean relations. China has affirmed Pyongyang’s commitment to denuclearization while pursuing “friendly ties” and economic deals with the DPRK that Seoul suspects undermine international sanctions. Beyond China’s provincial interests, North Korea’s foreign investment efforts appear driven by a desperate need to overcome internal financial difficulties and to reverse domestic policy failures as it struggles to reconcile national development strategies of self-reliance with the need for foreign currency, which ultimately will require some measure of opening to the outside world.

Another area of sensitivity in China-South Korean relations is having an effective dialogue on potential responses to instability in North Korea. Following US Forces Korea Commander Gen, Walter Sharp’s testimony in Washington on March 25 warning against the potentially “destabilizing and unpredictable” effects of “sudden leadership change in the North,” *Yonhap* reported that state-run think tanks in South Korea and China plan to hold a meeting with the US Pacific Command in April in Beijing to examine contingency scenarios in North Korea. A spokesman of the Korean People’s Army in response threatened “unprecedented nuclear strikes” against anyone seeking to overthrow the Pyongyang regime. This sort of reaction is precisely what China hopes to avoid, and may further inhibit prospects for effective China-South Korean interaction on such a sensitive issue, with or without the participation of the US.

Chronology of China-Korea Relations January - March 2010

Jan. 1, 2010: Presidents Hu Jintao and Lee Myung-bak exchange New Year greetings.

Jan. 6, 2010: South Korea's Eastar Jet Co. announces it will begin flight services to Shanghai and Shenyang from late April 2010.

Jan. 7, 2010: The ROK food safety agency recalls fake frozen Pollock entrails from China.

Jan. 12, 2010: London-based Clarkson PLC shows China has overtaken South Korea as the world's biggest shipbuilder.

Jan. 14, 2010: A South Korean report reveals China has expanded its mining rights in North Korea to cover as many as 20 sites.

Jan. 17, 2010: ROK Foreign Minister Yu Myung-hwan meets Chinese counterpart Yang Jiechi on the sidelines of the Forum for East Asia-Latin America Cooperation in Seoul.

Jan. 17, 2010: North Korea and the municipal government of Tumen City reportedly agree to repair the railway link between Tumen and Chongjin port.

Jan. 26, 2010: China, South Korea, and Japan hold a preliminary meeting on joint research on a trilateral free trade pact.

Jan. 31, 2010: China's Ministry of Commerce announces it would extend anti-dumping measures on phenol imports from Japan, South Korea, the US, and Taiwan.

Feb. 1, 2010: Chinese Assistant Foreign Minister Hu Zhengyue, Japanese Deputy Foreign Minister Sasae Kenichiro, and ROK Deputy Foreign Minister Lee Yong-joon hold their 4th round of consultations in Beijing.

Feb. 2, 2010: China's Ministry of Commerce announces temporary antidumping measures on terephthalic acid imports from Thailand and South Korea.

Feb. 3, 2010: Kim Yong Nam, president of the Presidium of the Supreme People's Assembly of the DPRK, awards a friendship medal to outgoing Chinese Ambassador Liu Xiaoming.

Feb. 6-9, 2010: Wang Jiarui, head of the International Department of the Communist Party of China Central Committee, leads a delegation to North Korea. He meets Kim Yong-il, director of the International Affairs Department of the Workers' Party of Korea Central Committee, on Feb. 7. He meets Kim Jong-il on Feb. 8 and delivers a letter from President Hu Jintao, and holds talks with Choe Thae Bok, Secretary of the Workers' Party of Korea Central Committee.

Feb. 8, 2010: Visit China Year 2010 is officially launched in Seoul.

Feb. 10, 2010: Former Chinese Vice Foreign Minister Wu Dawei is appointed special representative for Korean Peninsula Affairs. He meets DPRK Vice Foreign Minister Kim Gye-gwan in Beijing.

Feb. 18, 2010: Qiu Yanpeng, commander of the Chinese naval escort flotilla in the Gulf of Aden, visits ROK destroyer *Chungmugong Yi Sunshin* and meets Capt. Kim Myung Sung, commander of the ROK naval escort flotilla.

Feb. 23-24, 2010: ROK nuclear envoy Wi Sung-lac visits Beijing and meets Wu Dawei.

Feb. 23, 2010: Kim Yong-il, director of the International Affairs Department of the Workers' Party of Korea Central Committee leads a delegation to Beijing and meets President Hu and Wang Jiarui, head of the International Department of the Communist Party of China Central Committee.

March 2, 2010: China's National Tourism Association designates North Korea as an approved destination for Chinese tour groups.

March 5, 2010: New Chinese Ambassador to the DPRK Liu Hongcai arrives in Pyongyang and presents his credentials to Kim Yong-nam, president of the Presidium of the DPRK Supreme People's Assembly, on March 8.

March 5, 2010: The ROK Ministry of Land, Transport and Maritime Affairs announces an agreement with China to enhance bilateral cooperation on aviation safety.

March 16, 2010: Chinese Ambassador to the DPRK Liu Hongcai meets Premier Kim Yong-il and Vice Premier Ro Tu-chol in Pyongyang.

March 17, 2010: Northeast China's Liaoning Province begins construction on the Shenyang-Dandong and Dandong-Dalian railways near the DPRK border.

March 17-19, 2010: ROK Foreign Minister Yu Myung-hwan visits China and meets Premier Wen Jiabao and Foreign Minister Yang Jiechi.

March 24, 2010: ROK Ambassador to China Yu Woo-ik meets Chinese Defense Minister Liang Guanglie in Beijing.

March 26, 2010: ROK Grand National Party Chairman Chung Mong-joon meets Wang Jiarui and Vice Premier Li Keqiang in Beijing and agrees to strengthen ruling party ties.

March 29, 2010: Samsung Electronics and Chinese retailer Suning Appliance Co. agree to sell \$1.46 billion worth of Samsung's products in 2010 to boost its presence in China.

March 31, 2010: New Chinese Ambassador to South Korea Zhang Xinsen arrives in Seoul.