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SPECIAL ASSESSMENT

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Asia's Bilateral Relations

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China-South Korea Relations: Elder Brother Wins Over Younger Brother

D E N N Y R O Y

Executive Summary

- South Koreans are increasingly interested in The People's Republic of China (PRC), seeing it as the country that will have the most important impact on the future of Korea.
- Many South Koreans welcome increased Chinese influence in the region and on the Korean Peninsula as a counter to what they perceive as excessive American influence.
- Bilateral economic ties are strong and growing rapidly. While South Korea now enjoys a trade surplus with China, continued PRC economic development will pose stiff challenges to Korean prosperity in the future.
- Beijing has been largely successful in persuading South Koreans not to consider China a "threat" either economically or strategically.
- China-South Korea relations are improving as U.S.-Korea relations deteriorate. South Korea and China will eventually face potentially divisive political questions, such as the nature and timing of Korean reunification, the disposition of territory and people in parts of Manchuria, and the amount of deference Seoul is expected to show to Beijing. The logical conclusion of these trends would be Korean accommodation of China and the end of the U.S.-Korea alliance.
- Nevertheless, the seeds of potential China-South Korea tensions are already visible and may countervail present trends.

Motivated by both economic and strategic interests, China has forged a cordial relationship with the Republic of Korea (ROK) that belies the latter's status as a key U.S. ally. Obstacles to further progress could become stronger in the medium term. Some Korean security analysts believe the People's Republic of China's (PRC) growing power poses potential difficulties for Koreans in the future, including possible constraints on Korea's autonomy and challenges to the U.S.-South Korea relationship. In the near term, however, the relationship appears robust and ripe for further development, a macrocosm of the burgeoning ROK-PRC trading relationship.

Beijing's Korean policy shifted visibly through the 1990s, exhibiting friendlier and closer ties with Seoul and decreasing support for Pyongyang. This reflected a pragmatic assessment that Beijing's interests favored cultivating a relationship with the government that would dominate Korean affairs in the future and had much to offer China economically in the present. China has maintained an intravenous flow of aid to North Korea, but only to prevent a strategic liability from crumbling into a strategic disaster. China supplies an estimated 70 percent of North Korea's energy and one-third of its food. Ironically, although North Korea is the socialist comrade and the only state with which China has a formal alliance while South Korea is host to American military bases, in important ways it is Seoul that presently plays the role of partner to China, while Pyongyang is the "troublemaker."

The Korean public has long held considerable respect for Chinese culture and civilization, recognizing China as an "elder brother" that has greatly influenced the development of Korean society. But recently, interest in China among South Koreans has exploded, a phenomenon the South Korean media call "China fever." Most Koreans believe that in the long term, China is a more important country to them than the United States. A sizeable segment of the population, particularly younger Koreans, resent what they see as a pattern of self-interest pressure from the U.S. government. They welcome the idea of a stronger China that can counteract American influence. As Yonsei University international affairs scholar Lee Jung Hoon said in a 2003 article in the *New York Times*, "China is looming large as an alternative to the United States." Among Koreans who study foreign languages, Chinese has surpassed Japanese in popularity. Subway trains in Seoul now make announcements in Chinese as well as Korean and English. China is the country most visited by Korean travelers, and about one-third of the foreign students studying in China are Koreans.

GROWING TIES

The two million people who travel between China and South Korea every year follow paths blazed by the top leaders of both countries. Jiang Zemin, Zhu Rongji, Li Peng, Hu Jintao, and Zeng Qinghong have visited the ROK, while South Korea's last four presidents (Roh Tae Woo, Kim Young Sam, Kim Dae Jung, and Roh Moo Hyun) have been to China. Current ROK President Roh visited Beijing for a summit meeting with Chinese President Hu in early July 2004. Bilateral military ties are developing more slowly than diplomatic interchanges, mainly because of China's sensitivity to North Korean security concerns. ROK Defense Minister Cho Seong Tae visited China in 1999, and PRC Defense Minister Chi Haotian reciprocated in 2000. Korean warships made a port call in China in 2001, and Chinese ships docked in Korea in 2002.

Along with strategic considerations (particularly in the case of China), the relationship is built on economic exchange. Since China and South Korea normalized their relations in 1992, bilateral trade has grown at the rate of about 20 percent annually. Membership of both countries in the World Trade Organization (WTO) is expected to accelerate the trend. By some estimates, ROK-PRC trade could reach \$100 billion by 2008. China has become South Korea's top trading partner, the greatest buyer of South Korean exports, and the largest destination for South Koreans' foreign direct investment. South Korea's relatively high level of technology and China's cheap labor and resources and efficient manufacturing industries contribute toward a high degree of economic complementarity between the two countries. During Roh's visit to Beijing in 2003, the two governments showed particular interest in promoting cooperation in the information technology, biotechnology, and energy sectors through a Korea-China Industrial Cooperation Committee.

Over the last decade, the character of both China's exports to South Korea and South Korean exports to China has moved qualitatively from the low end (primary products) toward the high end (industrial or technology-intensive goods). China's main imports from Korea include mobile phones, automobiles and auto parts, computers and microchips, refined fuels, engineered chemicals, and steel. South Korea buys Chinese clothing, electronic consumer goods, microchips, coal, chemicals, and aluminum.

The ROK is China's fifth-largest foreign investor. South Korean investment in China currently exceeds \$2 billion per year and is growing rapidly. Initially concentrated in the provinces and major cities close to Korea (Shandong, Beijing, Tianjin, Liaoning, and Heilongjiang), Korean investment is now spread throughout China, including the relatively underdeveloped west. This investment helps speed development in areas that Beijing fears are vulnerable to resentment because they are not as prosperous as Shanghai or Beijing. Korean enterprises employ hundreds of thousands of Chinese workers.

The growth of China's economy and South Korea's increased economic interdependence with China has a mixed impact on ROK citizens. As with other Asia-Pacific countries, China's economy presents Koreans with both threats and opportunities. On the positive side, the rise of a viable Chinese market helps Korean producers diversify. In 2001 and 2002, for example, while the Japanese and U.S. economies were in recession, Korean suppliers continued to reap profits from business with China. Korea has a double-digit trade surplus with China. Largely based on China's imports of Korean-made intermediate capital goods, Korea's surplus will last until China's domestic capital goods industries grow stronger. Certain Korean firms are especially well-positioned to benefit from China's economic boom. The Korean-made Kia Accent has been one of the best-selling cars in China. South Korea's shipbuilding industry is backlogged with Chinese demand for oil and natural gas tankers.

There are also, of course, downsides for the ROK. South Koreans share with other countries the fear that competing Chinese firms could take over the markets that now buy Korean exports and Chinese imports could bankrupt Korean companies that sell to the Korean domestic market. Chinese textile exports, for example, have badly hurt the Korean textile industry. The ROK business community also worries that relatively low labor and overhead costs in China could lead to a "hollowing out" of local industry as factories and offices relocate to China. The South Korean Small and Medium Business Administration recently reported that 40 percent of small- and medium-sized South Korean firms have moved or plan to move overseas, mostly to China.

The rapid growth of China's economy has created the danger of "overheating" (high rates of inflation) and prompted China's leaders to find ways to slow growth to a more sustainable level. Any slowing of China's appetite for imports will cut directly into South Korea's prosperity. China's booming demand for energy and raw materials is driving up the international market prices that Koreans pay for these commodities. China's large size and multiple sources of markets and suppliers tend to give Chinese firms a bargaining advantage relative to firms from smaller countries such as South Korea. With continued rapid development, China's advantage gets larger.

Many Chinese industries will begin to outperform their Korean counterparts within a decade. Korea's automobile makers, for instance, are enjoying thriving sales in China now but face declining profits and job losses as Chinese car production rises. Chinese investors are buying certain high-technology Korean companies, which will speed up China's erosion of part of Korea's qualitative edge.

Statements by Korean leaders indicate South Korea had hoped to make itself the economic hub of East Asia. It now appears the Koreans will not have the chance to attain this goal before China snatches it away. South Korea's port of Pusan, for example, formerly the world's third busiest, was recently surpassed by the Chinese ports of Shanghai and Shenzhen.

Even now, the trading relationship is not without its share of disputes. A case in point is the "garlic war" of 2002. When South Korean garlic farmers (numerous and politically powerful given the importance of garlic in the Korean diet) complained about competition from rising imports of Chinese garlic, Seoul imposed a tariff of nearly 300 percent. China retaliated by banning imports of two important South Korean products: cellular telephones and polyethylene. Some Koreans saw ominous overtones in the seemingly disproportionate Chinese response. Lee Tai Hwan, a senior researcher at the Sejong Institute in Seoul, argued in an *International Herald Tribune* report that the Chinese "overreacted to Korean measures intentionally" because "they want to show who's boss. They want to teach us a lesson."

Clearly, South Korea will face challenges as it attempts to maintain the level of benefit it now enjoys from the bilateral economic relationship.

SOLIDARITY REGARDING NORTH KOREA

The North Korean nuclear crisis has altered relationships among the four parties most directly involved (the two Koreas, the United States, and China) in several ways. As far as ROK-PRC relations are concerned, the main significance of the crisis has been the convergence of these two countries' policies. The positions of Seoul and Beijing are more similar than the positions of Seoul and Washington. In broad terms, Seoul and Beijing share similar objectives: preventing military conflict on the Peninsula, including an attack by either U.S. or North Korean forces; avoiding a collapse of the North Korean regime; opposing economic sanctions against Pyongyang; encouraging Kim's regime to carry out economic reforms; and inducing North Korea to abandon its nuclear weapons program. Both countries condemned North Korea for withdrawing from the International Atomic Energy Agency (IAEA) safeguards program and the 1994 Agreed Framework. More importantly, however, the Chinese and South Korean governments both appear willing to live with North Korean nuclear capability if this is necessary to avoid war or a "hard

landing” for the Kim Jong Il regime. Chinese and South Korean officials and analysts have argued that the U.S. demand for “complete, verifiable, irreversible dismantling” of the North Korean nuclear weapons program while offering North Korea minimal concessions has no realistic chance of success. Seoul and Beijing reportedly joined together in prodding Washington to moderate the U.S. position.

But Seoul and Beijing’s policies toward North Korea may eventually diverge. The South Korean public is strongly committed to ultimate reunification with the North, but a united Korea does not necessarily suit China’s interests. South Koreans also believe North Korea is ultimately their business and are at heart resentful of foreigners attempting to take the leading role in inter-Korean affairs. The divisions between the ROK and PRC are not salient at the moment, but could become so in the near future.

BILATERAL DISPUTES

Bilateral disputes between China and South Korea exist, but are for now manageable. Technical issues are relatively the easiest to manage. An example is the problem of the “yellow sand” that plagues Korea every spring as a result of spreading desertification in northeastern China. Dust blown over Korea from China by springtime winds causes haze and even forces schools in Seoul to close. The two governments have agreed to monitor the dust storms, and some South Korean businesses are sponsoring reforestation projects in China.

Several other issues with nationalist overtones pose potentially serious challenges to smooth bilateral relations.

Taiwan and Tibet remain lingering points of bilateral friction, particularly given the ROK’s pluralist democracy and the PRC’s controversial definition of Chinese “sovereignty.” Although Seoul severed diplomatic relations with Taipei in 1992 (to Taiwan’s great disappointment) to clear the way for normal relations with the PRC, many Koreans naturally respect Taiwan for its hard-won democracy and rags-to-riches prosperity. To many South Koreans, their national story of economic growth and political liberalization echoes that of Taiwan. Chinese officials note with displeasure that scholars and private groups in South Korea organize discussions of Taiwan that the Chinese interpret as supportive of Taiwan’s government. South Korea also has a Buddhist community estimated at 12 million that has campaigned for a visit by the Dalai Lama, the exiled Tibetan Buddhist leader whom Beijing considers an advocate of Tibet’s separation from the PRC. Despite this community’s criticism that Seoul is bowing to Chinese pressure, the South Korean government has refused to grant him an entry visa.

Although perhaps not as intense as the feelings between China and Japan, China and South Korea have a “history problem” with political ramifications. Whether some areas in the region covering northern Korea and neighboring southern Manchuria are ultimately Chinese or Korean is a simmering bilateral dispute. The ancient Kokuryo Dynasty (which lasted until AD 668) straddled the present-day border between North Korea and China’s Manchurian territory. Many Koreans see in Kokuryo the origins of the Korean nation-state. Some Koreans believe, however, that China has recently moved to build a case for asserting that Kokuryo was Chinese rather than Korean, founded by a Chinese minority people who had no sense of Korean identity. South Korean nationalist groups see this sinicization of Kokuryo as the agenda of the Northeast Asia Project begun by the Chinese

Academy of Social Sciences in 2002. When North Korea applied with the United Nations (UN) to register the tomb murals in Kokuryo ruins on the World Heritage List, China followed with a similar application in 2003 on behalf of Kokuryo tomb murals on China's side of the border, deepening Korean suspicions. Many Koreans assert that China's recent interest in revising the history of Kokuryo is a preemptive move to weaken claims on Manchurian territory that a future united Korea might make.

The North Korean refugee issue, which combines Korean nationalism with the South Korean interest in civil and political human rights, periodically creates bilateral stress. In a series of incidents in 2002, the Chinese authorities earned opprobrium from the international community, and especially from South Korea, for callous treatment of North Korean asylum-seekers. In one case, Chinese police entered the premises of the Japanese consulate in Shenyang to drag out five would-be North Korean defectors. Chinese complain that South Korean churches and nongovernment organizations are abusing their privileges in China by helping North Koreans defect to the south. Some of these efforts have contributed to international embarrassment for the Chinese government, which gets negative publicity for returning would-be defectors to North Korea. Conversely, some South Koreans have severely criticized the Roh government for failing to win the release of South Korean nationals convicted in China of trying to help North Koreans defect.

Beijing resents South Koreans intimating jurisdiction over PRC citizens of Korean ancestry in China's northeastern provinces. Some South Korean politicians have called for granting special rights of residency in Korea to Korean-Chinese. A group of South Korean parliamentarians recently demanded permission to inspect ethnic Korean communities in Manchuria. Beijing turned them down. The Chinese worry not only about pan-Korean nationalism compromising PRC rule in parts of Manchuria, but also that a Korean challenge to the Chinese empire could incite restive behavior among other minority groups within the PRC.

CONCLUSION: IN WITH ELDER BROTHER, OUT WITH UNCLE SAM?

The increasing importance of China to South Korea will make it difficult for Seoul to maintain a close relationship with the U.S. government even if the Koreans wish it. The crucible for Seoul will be the emergence of an issue, such as missile defense or U.S. military bases, where South Koreans are forced to choose sides between China and the United States.

Recent events convince some observers that South Koreans are already moving to the Chinese side. It is premature to proclaim the end of the U.S.-ROK alliance with 37,000 U.S. soldiers based in South Korea and over 3,000 Korean soldiers committed to assisting the new government of Iraq at Washington's request. It is nevertheless fair to say that South Korean attraction to China and Chinese influence over South Korea are growing even as the U.S.-Korean relationship is undergoing serious strain and reassessment. Present trends are consistent with the prediction of some analysts that Northeast Asia's future will resemble its past, with Korea returning to the sphere of influence of a regionally dominant China.

In August 1999, South Korean Defense Minister Cho said during a visit to China that the fate of U.S. military bases in a reunified Korea “shall be decided by unanimous agreement among Northeast Asian countries,” implying that Korea would ask the U.S. forces to leave if this was China’s wish. During the U.S.-led campaign against the Taliban in Afghanistan, South Korean President Kim Dae Jung, who literally owes his life to U.S. government intervention that prevented an earlier and less democratic South Korean government from executing him during his dissident days, declined to dispatch a token contingent. Kim’s successor Roh Moo Hyun won the presidency largely on the strength of an anti-American platform. Roh said during his campaign, for example, that if fighting broke out between North Korea and the United States, South Korea would take a neutral stance.

Taking a long-term view, it is not certain if the trend of South Korea’s shift toward China and away from the United States will persist. Some of the conditions upon which the trend is based appear historically transitory. With generational change, the recent outcry arising from negative incidents involving U.S. military forces in Korea, general disapproval of some Bush Administration policies, and the divergence of views resulting from the North Korean nuclear crisis, the dominant attitude in South Korea today is a focus on the disadvantages of its alliance with the United States rather than the advantages. Coupled with this phenomenon is the fact that Beijing has been largely successful in persuading its Asian neighbors not to fear the rise of China.

Anti-American and pro-China sentiments could well weaken in the future if the United States withdraws its forces at Seoul’s request and South Koreans find that life in the shadow of China’s massive economic, political, and military power grows uncomfortable. As the dominant regional power, Beijing might expect Korea to submit to China’s wishes on important policy decisions. Koreans might also find that Chinese economic development leaves them with steadily shrinking international market share and rising competitiveness. Although Koreans currently see their relationship with China as beneficial on balance, potential disputes now dormant or easily contained might become more prominent in the future. South Korea is a vibrant democracy, Korean nationalism is a potent force, and South Koreans have demonstrated boldness in standing up for their interests and political agenda.

In the meantime, however, the deepening ROK-PRC relationship and what many observers call the “crisis” in U.S.-ROK relations suggest the days of the Korean-American alliance may be numbered. China certainly will not approve of a united Korea remaining a permanent host of forward-deployed U.S. forces, even if they are reconfigured as a regional peace force rather than a deterrent against a North Korean attack. Indeed, it is far from clear if Koreans themselves would approve.