KEI Korea Economic Institute
Academic Paper Series

September 2010 • Volume 5 • Number 8

China-ROK Trade Disputes and Implications for Managing Security Relations

by Scott Snyder and See-Won Byun

China's integration into the global economic system has clearly facilitated rapid growth in bilateral trade with South Korea and its other Asian neighbors. In just more than a decade since normalization of ties, China has emerged as South Korea's biggest trade partner and top investment destination. Total bilateral trade reached $141 billion in 2009, accounting for one-fifth of South Korea's total trade volume, and over 41,000 South Korean companies are now operating in China.[1] China's per capita income is less than one-seventh of South Korea's, but China replaced Japan this year as the world's second-largest economy with a total GDP almost five times bigger than South Korea's, according to World Bank figures.[2]

This growth has been driven primarily by perceived economic opportunity and trade complementarities between the two countries. But the most significant enabler for rapid Sino-ROK trade growth was China's entry into the World Trade Organization (WTO) in 2001, an event that symbolized China's integration into the global economy. China's WTO entry signified its acceptance of international rules of the game, enabling South Korean conglomerates and other foreign investors to both build factories for export and begin production of goods for China's domestic market. It also provided China and South Korea with a new mechanism for managing trade frictions based on international standards of regulation as well as an incentive to strengthen mechanisms for managing disputes through bilateral channels.

However, there is no similar international or regional framework for managing political and security issues in the Sino–South Korean relationship. One result is that bilateral political and security conflicts are likely to be harder to manage in the absence of a strong international or regional framework for regulating such disputes. For instance, the emergence of the Koguryo history controversy in 2004 was a great shock to Korean citizens who had been used to looking at China as an economic opportunity with little regard for the impact of potential political frictions on Sino-ROK relations. The March 2010 *Cheonan* incident was a second political shock, marking the lowest point in bilateral relations since diplomatic normalization in 1992 and highlighting the relative weakness of China-ROK political and security relations despite close economic ties. These incidents also underscored the lack of regional security institutions in Northeast Asia capable of providing a framework for mitigating the effects of rising regional tensions or bilateral conflicts.

This paper compares Sino–South Korean management of bilateral economic and political tensions; it argues that China's WTO entry has provided an external institutional framework for managing disputes on the economic side that has facilitated bilateral trade growth. The lack of institutional mechanisms regulating bilateral security relations suggests that management of the Sino-ROK security relationship will be more difficult. An examination of the differing approaches to dealing with the Sino–South Korean "garlic war" of 2000, the "kimchi war" of 2005, and the melamine scandal of 2008 suggests that China's integration into the global economic system in 2001 has provided a useful contextual framework for effective management of bilateral economic disputes.[3]

The latter part of the paper reviews the debate on security institution-building efforts in Asia and assesses the framework for managing China-ROK security issues, using the Koguryo controversy in 2004 and impact on Sino-ROK relations of the response to the sinking of the *Cheonan* in 2010 as two case studies. Finally, we consider linkages between China-ROK economic and security ties and prospects for advancing the "strategic cooperative partnership" given current developments. This assessment of the management of bilateral disputes may enhance appreciation of the relative weakness of institutional mechanisms for managing the political and security side of the China-ROK relationship.

Mr. Scott Snyder and Ms. See-won Byun are with the Center for U.S.-Korea Policy, The Asia Foundation. This paper is the thirty-seventh in KEI's Academic Paper Series. As part of this program, KEI commissions and distributes 10 papers per year on original subjects of current interest to over 3,000 Korea watchers, government officials, think tank experts, and scholars around the United States and the world. A public discussion at KEI with the author generally follows in conjunction with distribution. At the end of the year these papers are complied and published in *On Korea*.

China-ROK Trade Trends

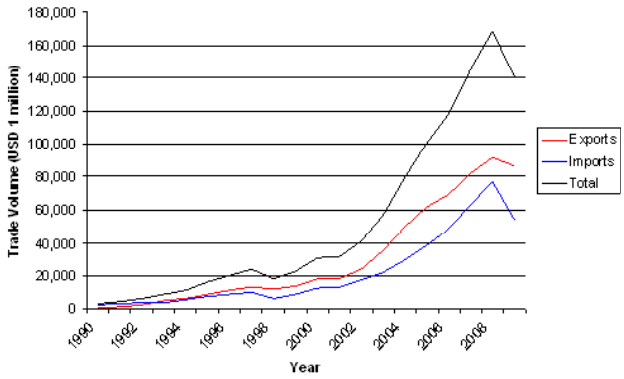
Expectations of mutual economic benefit were a primary driver leading to normalization of Sino–South Korean diplomatic relations in 1992 and have been the primary driver shaping the relationship since normalization. During the 1990s, trade and investment growth was mainly led by small- and medium-size South Korean firms that moved to China in search of labor cost advantages in labor-intensive industries such as textiles. Following a temporary slowdown in the late 1990s as a result of the Asian financial crisis, bilateral trade growth accelerated rapidly with China's entry into the WTO in 2001 (***Figure 1***). China replaced the United States as South Korea's biggest trade partner in 2003 and became South Korea's top investment destination in 2004. According to Chinese customs data, South Korea was China's fourth-biggest export market and second-biggest import source in 2009, making it China's fourth-biggest trade partner overall.[4] Bilateral trade has increased at an average annual rate of 20 percent since 2001.[5] In 2005, South Korea officially recognized China as a "complete market economy."[6] During their June 2010 summit in Toronto on the sidelines of the Group of 20 meeting, Presidents Lee Myung-bak and Hu Jintao reaffirmed their commitment to expand bilateral trade to $200 billion by 2012 and $300 billion by 2015.[7]

Although China's 2001 WTO entry has promoted bilateral trade stability, new challenges have emerged with China's rise and global economic integration. Market reports in August 2010 showed that during the first half of 2010 China replaced South Korea as the biggest market for South Korea's own Hyundai Motor Company and replaced South Korea as the world's top shipbuilding country.[8] A June 2010 Federation of Korean Industries report warned that South Korea may lose all technology advantages over China in fewer than four years in eight key export items such as steel, mobile phones, chemicals, and ships, which accounted for 64 percent of all ROK exports in 2009, representing a total of $232 billion.[9] Both countries rely heavily on exports for growth and compete in gaining overseas market share in such sectors, while China's emergence as South Korea's primary export market has led to frictions over China's technology transfer regulations and loose copyright standards. China's WTO entry also raised concerns that it would lead to greater restrictions on South Korean imports; Chinese sanctions on ROK products doubled in late 2001, making the number of ROK products sanctioned by China the third largest after the United States and India.[10]

China-ROK Trade Disputes

The management of the garlic war of 2000, the kimchi war of 2005, and the melamine scandal of 2008 show the significance of both China's integration into the global economy in accelerating China-ROK trade growth and its enhanced capacity to manage bilateral trade disputes. Differences in how these disputes were managed show that both sides have taken steps to strengthen institutional mechanisms of cooperation, preferring dialogue over confrontation to avoid potential economic costs of escalation.

Figure 1: **South Korea's Trade with China**



Source:Korea International Trade Association

Garlic War

The 2000 garlic war was the first Sino–South Korean bilateral trade dispute to escalate to a level that required active political management. Occurring a year before China's WTO entry, the dispute highlighted the necessity for a framework for limiting escalation of trade retaliation and the associated risks accompanying politicization of economic tensions. During 1999, China's share of the South Korean garlic market increased 10-fold to 35 percent.[11] The escalation of tensions over Chinese garlic imports amounting to just $10 million in 2000 put at risk a total bilateral trade volume that was growing at an annual rate of 10 percent and projected to reach more than $30 billion that year.[12]

Accusations of Chinese dumping by the Korean National Agricultural Cooperative Federation led to findings that Chinese garlic exports to South Korea had more than tripled between 1996 and 1999, from fewer than 10,000 tons to more than 36,000 tons at a market price one-quarter to one-third of the ROK garlic price.[13] In response, South Korea raised tariffs from 30 percent to up to 315 percent on Chinese garlic imports in June of 2000. China responded a week later by threatening to ban mobile phone and polyethylene imports from Korea. The conflict was resolved after about six weeks when Seoul agreed to buy 32,000 tons of Chinese garlic at lower tariffs in increasing amounts over the following three years in return for the lifting of retaliatory sanctions.[14] In a clause that was not publicly disclosed until 2002, South Korea also agreed to end the safeguard on Chinese garlic imports and lift import restrictions on Chinese garlic entirely after 2003. South Korea eventually split the $6.7 million cost of Chinese garlic among the Ministry of Agriculture and Forestry and Korean mobile phone and polyethylene exporters, and it re-exported the garlic at cheaper prices.[15] Seoul's secret agreement to open the ROK garlic market to China beginning in 2003 came under heavy criticism at the National Assembly.[16]

Although President Kim Dae-jung publicly apologized for Seoul's failure to reveal details of the garlic deal, the Ministry of Foreign Affairs and Trade maintained that "we should honor the

bilateral agreement with China so as to avoid another round of trade conflicts with Beijing." According to lead negotiator Han Duck-soo, "the choice was obvious, our exports of mobile phones to China were worth $500 million, while garlic imports amounted to $15 million."[17] South Korean analysts called for an acceleration of agricultural reforms to prevent future trade disputes with China over agricultural products. A 2002 Korea Institute for International Economic Policy (KIEP) report attributed the China garlic dispute to the slow restructuring of South Korea's agricultural sector and warned that trade disputes in the sector would likely intensify. KIEP called for improving product quality, diversifying exports, and strengthening regulations on agricultural trade.[18] Further China-ROK trade conflict in agriculture was seen three years later over kimchi, a Korean national dish in which garlic is a main ingredient.

Kimchi War

China and South Korea began their second-biggest trade dispute when ROK health authorities discovered parasite eggs in Chinese kimchi imports in October 2005. In response to Seoul's halting of all Chinese kimchi imports, China banned seven brands of kimchi from South Korea, claiming that they too were found to be contaminated.[19] According to the Korea Food and Drug Administration (KFDA), in the first few months of 2005 Chinese kimchi imports increased by 79 percent and accounted for almost 100 percent of total kimchi imports during that period.[20] ROK analysts heavily criticized Chinese regulatory standards although South Korea's public outcry and the KFDA's position were muted by revelations that ROK kimchi was also contaminated and that Chinese kimchi imports came mainly from Korean producers.[21] On the other side, Chinese producers argued that ROK political leaders had stirred up the issue in an effort to undermine the booming growth of China's kimchi trade. In early November, Chinese authorities shifted the product safety concerns to ROK chili paste and cosmetic ingredients, but it was later found that none of the accused companies was exporting to the Chinese market.[22]

In contrast with the prolonged garlic war, the kimchi issue was resolved relatively swiftly as both sides sought mechanisms for improving safety inspections at Chinese factories and strengthening oversight by the KFDA, rather than either side seeking to escalate the conflict by imposing retaliatory measures on unrelated sectors. The kimchi dispute provided an opportunity to intensify China-ROK governmental coordination to institutionalize more effective food safety and quarantine procedures as part of bilateral trade efforts. While a wider boycott would mean higher prices for consumers, for both governments it put at risk a trade relationship that had grown to $100 billion and an industry worth $830 million in South Korea alone in 2005.[23] Chinese kimchi exports to South Korea were projected to reach almost $50 million in 2005, about 6 percent of the South Korean kimchi market.[24]

South Korean and Chinese leaders, recognizing the overall rapidly improving bilateral relationship was at stake, stepped up diplomatic efforts to avoid escalation of the issue and to ease nationalistic public retaliation from both sides. Then ROK foreign minister Ban Ki-moon pointed out, "a trade war triggered by the kimchi issue benefits neither country . . . as South Korea-Chinese trade relations expand, such problems may arise. The best solution is through sufficient dialogue."[25] Ban noted the potential costs to the broader China-ROK relationship, arguing that the kimchi dispute "must not have a negative impact on Korea-China relations, [which] have been making rapid progress in all areas."

Melamine Scandal

China's highly publicized melamine scandal in September 2008 intensified South Korean concerns over Chinese food and product safety issues that emerged as a global concern that summer. Following up on China's own domestic case and international media reports on tainted Chinese imports, the KFDA conducted a nationwide inspection of imported foods, announcing in October 2008 the detection of melamine in 10 Chinese dairy products. A parliamentary report revealed that from 2003 to August 2008 more than 60 percent of illegal food imports amounting to 644.5 billion *won* came from China, making China the largest source of illegal food imports to South Korea.[26] Some Chinese food companies were found to have repeatedly sent contaminated shipments to South Korea, suggesting that the increase in such incidents was caused by loose regulations on both sides.

The melamine findings prompted South Korea's immediate ban on, recall of, or destruction of products, a tightening of regulatory measures, and the introduction by 2010 of new standards for other products like heavy metals. KFDA established new standards limiting the amount of melamine in all food products beginning in March 2009. The Chinese food safety issue drove heated domestic political debate in South Korea, with lawmakers attacking KFDA officials for their delayed response to the serious health threat posed by Chinese imports[27] and the public criticizing the government's handling of the issue. Survey findings of the National Statistical Office in October 2008 showed that 69 percent of respondents were more worried about tainted food than North Korea's nuclear weapons.[28]

Amid escalating concerns about tainted Chinese imports, China and South Korea agreed in November 2008 to strengthen bilateral cooperation on food safety. ROK Health and Welfare Minister Jeon Jae-hee called for expanding information sharing between Chinese and ROK health-related agencies, an exchange that has remained critical given the growing share of Chinese food products in South Korea. The melamine scare in the region also led to strengthened trilateral consultations with Japan on public health. In their second annual tripartite health ministers meeting that was launched in Seoul in 2007, ROK, Chinese, and Japanese health ministers adopted a joint action plan aimed at strengthening information sharing on the outbreak of pandemic influenza and other regional health threats, and food safety has

been included as an important agenda item in subsequent three-way talks.[29]

Lessons from the Trade Wars

The 2000 garlic dispute demonstrated China's willingness to use aggressive unilateral trade tactics as well as its market size and growth potential as political tools to meets its economic goals. On the ROK side, the dispute revealed the mounting pressures on Seoul to take defensive actions against the rapid inflow of cheap Chinese goods that were undercutting domestic producers. The ROK government took a pragmatic approach to managing trade frictions given the greater opportunity costs of access to the Chinese market in higher-tech sectors. In 2004, the ROK Ministry of Commerce and Industry reported that the garlic deal caused South Korea total losses of 12.9 billion *won* ($11 million) during its three years of implementation between 2000 and 2003.[30] But it essentially served to keep the Chinese market open to ROK mobile phones and polyethylene, sectors that made $120 million and $550 million, respectively, in sales to China in 2000 alone, which was several times more than the value of garlic trade.[31]

In the absence of a Chinese obligation in principle to settle bilateral trade disputes through WTO dispute settlement procedures, China and South Korea engaged in bilateral negotiations that led to the July 2000 agreement. Beijing's unilateral strategy of retaliatory sanctions on high-tech Korean imports was successful in inducing compliance with Chinese demands as ROK firms in the affected sectors were losing production by 10 to 15 percent within days of China's announcement.[32] Although the garlic agreement was a rational economic decision for Seoul, the decision had significant domestic costs to Korean farmers and to public perceptions of China. China's uncompromising approach left a deep impression on ROK trade officials who questioned Beijing's ability to adapt to WTO obligations.

China's WTO entry marked a turning point in China-ROK trade relations by providing a framework for managing trade disputes and protection against the unilateral implementation of retaliatory measures. The WTO has provided both sides with new tools and incentives to protect their respective domestic markets while serving as a mechanism for depoliticizing trade disputes. In more recent disputes, both sides sought to avoid the costs of broader retaliation, pursuing dialogue and developing new forms of institutional consultative mechanisms to address issues arising from inevitable trade competition. The kimchi dispute and continued frictions over food safety as seen in the melamine case have also driven joint efforts to strengthen bilateral standards of regulation as well as trilateral cooperation with Japan. In June 2009, more than a dozen South Korean food companies agreed to invest in a joint inspections facility in Qingdao where many ROK food plants are based, which will impose tightened sanitation rules and quality standards according to the KFDA.[33] The ROK Ministry for Food, Agriculture, Forestry, and Fisheries also launched an annual inspection of fish farms and seafood factories in China to ensure compliance with hygiene requirements in line with a bilateral agreement on fisheries hygiene and safety that was signed in 2001 after a scandal over tainted Chinese blue crab imports.

Managing China-ROK Security

The increase in China-ROK trade tensions across a broadening range of sectors has demanded a strengthening of regulatory measures as well as diplomatic efforts to avoid escalation of retaliatory actions. Given the perceived economic costs of conflict, China and South Korea have strengthened their capacity to manage trade disputes as they have minimized political fallout.

Despite growing economic interdependence, the security side of the relationship remains the least developed sector in the China-ROK relationship. Although the "strategic cooperative partnership" forged by Presidents Lee and Hu in May 2008 reflects the economic strength of the relationship, political and security aspects of the partnership are strained by such unresolved differences as historical and territorial claims, North Korea issues, and perceptions of the U.S.-ROK alliance. These differences suggest a divergence in Sino–South Korean worldviews, political systems, and social values that place real limits on the level of partnership and are exacerbated by the absence of multilateral mechanisms that might serve to manage political or security tensions in the relationship.

China's reform and opening have served to positively shape South Korean views of China, but such attitudes appeared to shift in 2004 largely owing to political factors such as the public controversy over Koguryo history. These strains reemerged with the violent clashes between Chinese students and South Korean demonstrators protesting China's handling of North Korean refugees and other human rights issues during the Beijing 2008 Olympics torch relay in Seoul.[34]

Although the upgrading of bilateral ties in 2008 showed how both sides recognize the growing importance of stable China-ROK security relations for building mutual trust and enhancing regional stability, the existing institutional framework for strategic coordination remains relatively weak.[35] The impact of the sinking of the ROK warship, *Cheonan,* in March 2010 highlighted serious gaps in China-ROK coordination on bilateral, peninsular, and regional security challenges despite close economic ties. As the Sejong Institute's Lee Sang-hyun argues, the *Cheonan* incident demonstrated the urgent need to create "a permanent and stable" institution for dealing with Korean peninsula security matters.[36]

Koguryo history dispute. The emergence of the controversy in 2004 over whether the Koguryo kingdom (37 BC–668 AD)—whose boundaries overlapped the existing Sino-Korean border—was an antecedent to the development of the modern Chinese or Korean state marked an important shift in ROK public perceptions of China, with political ramifications.[37] ROK concerns were initially raised by China's multiyear national

campaign launched in 2003 to pursue research on Koguryo history as part of a state-sponsored "Northeast Project," which led to competing North Korean and Chinese applications to include Koguryo tombs on UNESCO's world heritage list. Management of the Koguryo history dispute has also highlighted differences between South Korea and China in the state-society relationship. The state has played a key role in the shaping of national identity and political legitimacy in Asia since the end of World War II, and Asia is littered with competing historical narratives regarding the identification of islands.

While there was virtually no related media coverage or public awareness in China, efforts of China's Foreign Ministry in summer 2004 to revise the Korean history section of its website stirred up a firestorm of controversy in South Korea that necessitated the negotiation of a five-point verbal agreement between China and South Korea in December 2004. The history dispute drove South Korean public demands for ROK government–led efforts to promote Koguryo research to validate claims that Koguryo was indeed "Korean."[38] In summer 2004, the *Korea Times* featured a series of commentaries on "China's distortion of the history of the ancient Korean kingdom on Koguryo," criticizing its motivations, refuting its claims, and calling for inter-Korean and international cooperation on upholding Korean history.[39] Although the 2004 five-point verbal agreement provided guidelines for managing the dispute and stabilized the immediate situation, the Koguryo question remains a chronic problem in China-ROK relations.

Koguryo emerged as the setting for a series of historical dramas on South Korean television that fueled popular awareness of Koguryo in ways that shape both Korean national identity and ROK perceptions of and behavior toward China.[40] The battle stimulated public conflicts that have required political mediation, such as during the 2007 Asian Winter Games in Changchun, where South Korean female short-track skaters held up protest signs stating that "Mount Baekdu is our land," a protest that led to ROK official apologies.[41] In contrast with the ROK approach to handling the Koguryo issue, the Chinese approach remains primarily controlled by state actors, state funding, and state direction. ROK media and civil society actors have played a leading role in the use of "soft" instruments of public persuasion.

To promote Korean identity, ROK private actors have also encouraged DPRK government–led efforts related to Koguryo history. The two Koreas have emphasized the issue as a vehicle for promoting inter-Korean cooperation, with the Chinese government as an implicit target of criticism. Such state-led cooperation has only engendered Chinese suspicion, further affirming the presumption that Korean nationalism may lead to Sino-Korean conflict or pose a political challenge for China in the context of Korean reunification. In turn, China fears that a unified Korea may claim a "greater Korea," including the Yanbian area, where, in addition to about three million ethnic Koreans, at least tens of thousands of North Korean refugees reside.[42]

This perception can be contrasted with South Korean fears about Chinese long-term strategic intentions to absorb North Korea as its "fourth northeast province." Korean experts also point to China's "one country, one people" policy adopted in 1980 as a reflection of historical assertions and a broader state effort to integrate all Chinese, including ethnic minorities, within its borders.[43] The manipulation of competing claims to Koguryo remains a potential tool for expressing preferences or exercising political retaliation in future Sino-Korean political disputes.

Impact of the March 2010 *Cheonan* incident. The 26 March 2010 sinking in the Yellow Sea of the ROK warship, *Cheonan,* which killed 46 South Korean soldiers, sparked a series of high-level exchanges among China and the two Koreas while it worsened regional tensions in the aftermath of North Korea's May 2009 nuclear test. Despite international pressure, Beijing did not endorse the May 2010 findings of the Lee Myung-bak administration's multilateral investigation, which indicated that the ship was sunk by a North Korean torpedo. This investigation resulted in a much delayed UN Security Council Presidential Statement in July 2010 that condemned the attack without naming North Korea. ROK officials had expected the April 2010 Hu-Lee summit in Shanghai to lead to intensified bilateral consultations on laying out an international response, but President Hu stated that "China opposes and condemns any act that would undermine stability in the region," which fueled criticism in the ROK media about his "noncommittal" response.[44]

Beijing's failure to support Seoul's position undermined efforts by the Lee administration to orchestrate strong and unified international condemnation of North Korea. South Korea's subsequent decision to implement joint military drills with the United States transformed what was initially an inter-Korean issue into a regional confrontation that divided China and U.S. allies and drove China-ROK relations to their lowest point since diplomatic normalization.

In the run-up to the four-day U.S.-ROK "Invincible Spirit" naval and air exercises held from 25 July to 28 July, China's party paper, *People's Daily,* featured a series of articles quoting Chinese military leaders who "strongly opposed" the exercises, including a five-point criticism by General Luo Yuan, deputy secretary general of the People's Liberation Army Academy of Military Sciences, who stated, "The drill area selected by the United States and South Korea is only 500 kilometers away from Beijing. China will be aware of the security pressure from military exercises conducted by any country in an area that is so close to China's heartland."[45] Although the joint exercises were designed to send a "clear message" to Pyongyang, a *Global Times* editorial argued: "Whatever the explanations the US and South Korea offered, the military drills surrounding China's offshore sea obviously have the intention of targeting China." It further warned against the implications for U.S.-China relations, indicating that "Seoul may not have fully realized the consequence of upsetting China-US ties," and that "a stronger South Korea-US alliance might jeopardize the trust of Seoul with its neighbors."[46]

Seoul's international approach to the *Cheonan* sinking drew support from the United States, but the U.S.-ROK military exercises have deepened fundamental differences with China and undermined effective regional cooperation. A key problem in South Korea's approach to Northeast Asian security appears to be the perception of cooperation with both the United States and China as inherently conflicting.[47] Given the relative lack of institutionalized security cooperation with China, the result has been a worsening of relations with China and the introduction of a new source of tension to the Sino-U.S. relationship, which is an important contextual factor that shapes Northeast Asia's regional security environment.

Second, the incident revealed the limitations of Chinese political and security cooperation with South Korea when dealing with the issue of North Korea. Because of Chinese sensitivities toward Pyongyang's reaction and the implications for regional stability, ROK officials and analysts recognized the difficulty of gaining Chinese support for a joint international response to the *Cheonan* sinking even with evidence supporting DPRK involvement.[48]

While South Korea is concerned about being bypassed in a multilateral response to a North Korea contingency, it is unclear to what extent South Korea is able to lead and coordinate a multilateral approach to North Korea as expected by its allies and partners. From an ROK perspective, a Northeast Asian security mechanism should supplement the existing system of bilateralism as the U.S.-ROK alliance remains the center of ROK security policy and bilateral security arrangements remain the foundation of Northeast Asian security.[49] But domestic political divisions, regarding alignment with China versus the United States and regarding South Korea's new global responsibilities, appear to constrain South Korea's full participation in regional institution-building efforts.

Perspectives on Security Institution Building

Northeast Asia has historically lacked a formal mechanism for security cooperation, a trend attributed to deep-rooted bilateral grievances and Cold War rivalries that continue to undermine regionalism amid competing forces of globalization and nationalism.[50] As the existing frameworks for multilateral cooperation are primarily economic, security-based initiatives have failed to advance into a long-term regional forum for managing traditional security challenges despite increased economic integration. Regional institution-building efforts in Northeast Asia reveal ongoing differences regarding the nature of cooperation and scope of issues, membership, and broader vision for the regional security architecture. The Council for Security Cooperation in the Asia Pacific (CSCAP) has noted that the weakness of Asian security multilateralism is the lack of institutional coordination rather than the lack of security institutions; instead of seeking to establish a single multilateral institution that collectively addresses a variety of security issues, countries' should focus on the coordination of bilateral or multilateral institutions to create de facto security multilateralism.[51]

The primary challenge to the establishment of a Northeast Asian security mechanism lies in reconciling multilateralism with "multilateralization" of U.S. bilateral alliances in a way that enables both arrangements to be effective and relevant. The mainstream view among U.S., South Korean, and Japanese analysts is that Asian security institutions should be built upon complementary linkages between the U.S. alliance network and multilateral security institutions to form a "multilayered security structure" that deals with traditional and nontraditional security threats. Chinese analysts, in contrast, tend to perceive U.S.-led alliances and multilateral security cooperation in zero-sum terms.[52]

The Chinese approach to Asian regionalism is significantly shaped by Chinese nationalism, and China's emphasis on state sovereignty places limits on its participation in regional security initiatives.[53] The basic concern regarding Chinese views of institutionalized regional security cooperation is its opposition to the U.S. alliance system. In 2008, China's Foreign Ministry clearly stated that "the Cold War mentality of 'military alliance' would not be valid in viewing, measuring and handling the current global or regional security issues,"[54] a position that was reiterated by Chinese military leaders in response to the U.S.-ROK military drills after the *Cheonan* sinking.

Although China has promoted "cooperative security" since the mid-1990s, its approach to regional multilateralism remains incoherent because of two apparent inconsistencies: first, China has yet to achieve a balance between its national interests and regional common interests. China's recent claim of the South China Sea as part of its "core national interests" has reignited debate on Chinese strategic intentions. Second, China seeks to enhance its participation in multilateral institutions to alleviate regional fears of China's rise, but China is also concerned that any Chinese effort to lead regional integration would draw suspicion from other major powers.

Assessing the Framework for China-ROK Security Cooperation

China and South Korea lack any significant bilateral mechanism for managing security issues. The first China-ROK vice-ministerial "strategic dialogue" in December 2008 between the foreign ministries marked the first effort to establish a high-level mechanism for policy dialogue. This initiative emerged from the May 2008 Hu-Lee summit that upgraded the bilateral relationship to a "strategic cooperative partnership," but it is not distinctive given that both sides have similar bilateral talks with the United States and Japan. Although the dialogue aims to serve as a regular channel for coordination on a broad range of bilateral, regional, and global security issues, priority areas have yet to be specified.[55] China and South Korea have also recognized the need to strengthen party-to-party exchanges as a political foundation for the strategic cooperative partnership, but developments in this area remain to be seen.[56]

The third China-ROK strategic dialogue in Beijing on 29 September 2010 produced a statement of close cooperation "under the joint strategic objectives of denuclearizing North Korea and

pursuing peace and stability on the Korean Peninsula."[57] No mention was made, however, of the dominant issues that have overshadowed denuclearization talks, such as China's failure to support Seoul's international investigation of the *Cheonan* sinking and Beijing's response to the subsequent U.S.-ROK military exercises, which exposed underlying gaps in China-ROK strategic coordination despite close economic ties. In addition, it was unclear whether the two sides discussed North Korea's political transition, given the historic party conference in Pyongyang held a day before the meeting and China's ongoing political and economic engagement of a sanctioned North Korea. The inability to grapple with difficult issues affecting Sino-South Korean cooperation suggests that the bilateral dialogue remains relatively shallow.

Another achievement that has followed the upgrading of ties has been the establishment of naval and air force hotlines in 2008 as part of confidence-building measures, but repeated disagreements had delayed this effort for more than a year.[58] While the air force hotline aims to enhance information exchange about unidentified aircraft over the Korean peninsula, the naval hotline is expected to reduce tension on the Yellow Sea where bilateral disputes continue to emerge over illegal Chinese fishing activities.[59] During the past four years ROK authorities have reportedly captured more than 1,750 Chinese fishing vessels intruding into Korean territorial waters in violation of a bilateral fisheries treaty signed in 2001, an issue that escalated in late 2008 when violent clashes left a South Korean Coast Guard officer dead.[60]

China and South Korea have also sought to strengthen trilateral cooperation with Japan on common security issues. In December 2008, the first China-ROK-Japan summit produced ambitious pledges to promote "regional stability, prosperity, and peace," but its primary focus was on countering the global financial crisis and strengthening regional economic initiatives.[61] The joint statement largely reaffirmed existing commitments, including six-party coordination on North Korea and multilateral economic agreements, rather than breaking new ground in addressing the most sensitive security issues. Although China and South Korea in recent years have successfully launched trilateral ministerial-level dialogues with Japan on environmental protection and public health, it remains to be seen how institutionalized political and security dialogue will develop in the long term.

The second trilateral summit in October 2009 focused on North Korean nuclear issues, trade, and energy, but it revealed underlying competition between China and Japan for a leadership role in Asia and competing visions for a new East Asian community.[62] At the third meeting in Jeju in May 2010, Premier Wen Jiabao, President Lee Myung-bak, and Prime Minister Hatoyama Yukio agreed to create a permanent secretariat in South Korea in 2011 and issued "Trilateral Cooperation Vision 2010," a 10-year blueprint for cooperation across broad areas including economy, security, environment, culture, and regional and global issues. The Seoul-based secretariat will provide administrative and technical support for trilateral consultative mechanisms and facilitate the development and implementation of cooperative projects.[63] It remains to be seen whether this trilateral will be largely driven by economic factors, as are the three-way summits launched in 1999 on the sidelines of the ASEAN Plus Three foreign ministerial talks.

Conclusion: Prospects for the Post-*Cheonan* Strategic Cooperative Partnership

China-ROK relations appeared to have advanced significantly with the establishment of the strategic cooperative partnership in 2008, but development of the bilateral political and security relationship continues to lag compared with the economic side of the relationship. China and South Korea have gradually shown an improved capacity to manage bilateral economic disputes, both by observing WTO mechanisms for dispute settlement and by developing new mechanisms of institutionalized coordination to manage specific problems in the economic relationship. During their June 2010 summit in Toronto, Presidents Lee and Hu reaffirmed their commitment to strengthen the China-ROK strategic cooperative partnership by renewing bilateral trade targets and joint agreements in such broad areas as education, science and technology, and culture, but their meeting produced no results in addressing the basic security tensions that emerged from the *Cheonan* incident.[64]

China-ROK relations are regarded as increasingly complex. Although both share common economic and security interests, persistent bilateral political flashpoints such as Korean unification and history will likely challenge the management of future relations. Bilateral disputes have tended to be highly politicized, with strong nationalistic responses from both countries' publics. The evolution of the China-ROK political-security relationship will require strengthened institutional mechanisms for managing potential disputes.

China's response to the *Cheonan* incident has renewed an intense debate in South Korea regarding Chinese strategic intentions and the implications of an increasingly assertive China. In 2008, the Korea Institute for Defense Analyses published a report (in Korean), *China or the United States? China's Rise and Korean Security,* which for the first time assessed the strategic implications of China's economic rise for South Korea.[65] The authors argue that China's greater responsibility in maintaining regional stability is a positive trend, but increasing Chinese economic competitiveness and China's desire for a more Sino-centric multilateral security architecture are unfavorable to ROK strategic interests.

It is possible to draw several conclusions based on a comparative review of Sino-South Korean management of bilateral trade versus security disputes over the past two decades. First, China-ROK trade growth has been facilitated by the existence of a clear global regulatory structure in addition to joint bilateral efforts to institutionalize cooperation to manage emerging economic issues for mutual economic benefits. In contrast, political and

security ties remain relatively less developed and have been overshadowed by a focus on economic cooperation.

Second, future China-ROK engagement will require a greater willingness from both sides to develop stronger consultative mechanisms for managing bilateral disputes. South Korea will likely face increasingly serious difficulties in managing bilateral political and security relations with China given the lack of regularized or institutionalized consultative mechanisms in the relationship.

Third, with the exception of the garlic dispute in 2000, China and South Korea have managed trade and economic disputes without any significant spillover effects on political relations, with the perception of potential economic costs of conflict driving joint efforts to avoid politicization of tensions in the relationship. Likewise, China and South Korea have managed political disputes cautiously in order to avoid repercussions on the bilateral economic relationship. However, China's approach to the handling of its territorial dispute with Japan in September 2010, in which China reportedly imposed restrictions on rare earth mineral exports to Japan as apparent retaliation for Japan's decision to hold the captain of a ship detained in disputed waters near the Senkaku/Daioyutai islands suggests that China may be willing to utilize economic retaliation measures as a means to exert its leverage in managing political disputes.

Fourth, the management of China-ROK political and security relations has been suppressed in part by the existence of the U.S.-ROK alliance. The U.S.-ROK alliance imposes a constraint on the ability of China and South Korea to develop bilateral political and security understandings on their own. One area where this conflict becomes most apparent is in the conflict in view between China and the United States, South Korea, and Japan regarding the future development of a regional security architecture. While the Chinese view alliances and cooperative security as mutually exclusive, the United States, South Korea, and Japan have preferred pursuit of a "multilayered" structure in which U.S.-led alliances coexist with regional security frameworks for dialogue and cooperation. Given the importance of the U.S.-ROK alliance as a mechanism that serves to guarantee South Korea's security, this tension between continued alliance coordination and possible new cooperative political-security mechanisms for addressing regional security issues will continue to be an issue of debate and a constraint on the development of the Sino-ROK political and security relationship.[66]

The authors are with the Center for U.S.-Korea Policy, The Asia Foundation.

Endnotes

1. Korea International Trade Association, www.kita.org; Export-Import Bank of Korea, www.koreaexim.go.kr.

2. World Bank, www.worldbank.org.

3. However, China's recent handling of rare earth mineral exports to Japan suggests that WTO membership may not be a sufficient factor preventing China from seeking to utilize economic leverage as a retaliatory measure in managing political disputes.

4. "U.S.-China Trade Statistics and China's World Trade Statistics," U.S.-China Business Council (data from *China's Customs Statistics,* PRC General Administration of Customs), http://www.uschina.org/statistics/tradetable.html.

5. Korea International Trade Association, www.kita.org.

6. "A Year-End Feature: China-Korea Trade Exceeding US$130 Billion in 2006," Ministry of Commerce, Beijing, 18 January 2007, http://english.mofcom.gov.cn/aarticle/newsrelease/significantnews/200701/20070104285609.html.

7. "Chinese, South Korean Presidents Vow to Further Ties," Xinhua, 27 June 2010.

8. "China Emerges as Largest Market for Hyundai Motor," Yonhap, 1 September 2010; "S. Korea Gives Up World's Top Shipbuilding Spot to China," Yonhap, 18 July 2010.

9. "S. Korea Losing Technology Advantage over China: Poll," Yonhap, 20 June 2010.

10. "Growing Korean Trade with China Leads to More Trade Friction," Yonhap, 21 August 2002.

11. Scott Snyder, "The Insatiable Sino-Korean Economic Relationship: Too Much for Seoul to Swallow?" *Comparative Connections* 2, no. 3 (October 2000).

12. Scott Snyder, "Beijing at Center Stage or Upgraded by the Two Kims?" *Comparative Connections* 2, no. 2 (July 2000); Miki Tanikawa and Don Kirk, "Mushrooms with Garlic and Tariffs," *New York Times*, 17 April 2001.

13. Scott Snyder, *China's Rise and the Two Koreas: Politics, Economics, Security* (Boulder: Lynne Rienner, 2009), 65.

14. Hwang Jang-jin, "Korea-China Trade Resolution on Garlic Sparks Debate," *Korea Herald*, 24 April 2001.

15. "Korean Govt, Local Exporters to Jointly Pay for Chinese Garlic," Yonhap, 2 July 2001.

16. "'Garlic War' Escalating Ahead of By-Election," *Korea Times*, 20 July 2002.

17. "Garlic Spooks Korean Bureaucrats," *Korea Times*, 24 July 2002.

18. "KIEP Calls for Speedy Agricultural Reform," *Korea Herald*, 24 July 2002.

19. Kim Hyun-cheol, "Kimchi Trade Deficit Narrows," *Korea Times*, 24 February 2009.

20. Heejin Koo, "Korea Fears Backlash from Kimchi Dispute," *International Herald Tribune*, 6 November 2005. A 2008 National Assembly report showed that growing domestic demand for cheaper Chinese kimchi resulted in a 376 percent jump in kimchi imports between 2004 and 2007.

21. Don Lee and Cao Jun, "Trade Spat Ferments over Spicy Cabbage," *Los Angeles Times*, 24 November 2008.

22. Scott Snyder, "Hu Visits the Two Koreas," *Comparative Connections* 7, no. 4 (January 2006).

23. Koo, "Korea Fears Backlash from Kimchi Dispute"; Lee and Jun, "Trade Spat Ferments over Spicy Cabbage," *Los Angeles Times*, 24 November 2008.

24. Lee and Jun, "Trade Spat Ferments over Spicy Cabbage."

25. Koo, "Korea Fears Backlash from Kimchi Dispute."

26. "China Largest Exporter of Illegal Food Products to S. Korea: Lawmaker," Yonhap, 13 October 2008.

27. "Food Safety Authority Faces Flak for Slow Response to Health Threat," Yonhap, 10 October 2008.

28. Bae Ji-sook, "Tainted Food Concern Parents More Than Nuclear Threat," *Korea Times*, 17 October 2008.

29. "S. Korea, China to Step Up Cooperation on Food Safety," Yonhap, 2 November 2008.

30. "S. Korea Losses 12.9 Billion *Won* in Garlic Trade with China," Yonhap, 17 September 2004.

31. "Korean Govt, Local Exporters to Jointly Pay for Chinese Garlic," Yonhap, 2 July 2001.

32. Snyder, "Beijing at Center Stage or Upgraded by the Two Kims?"

33. "South Korean Food Companies to Build Safety Infection Facility in China," Xinhua, 24 June 2009; Lee Joon-seung, "S. Korean Food Firms to Set Up Safety Lab in China," Yonhap, 24 June 2009.

34. "Scuffles at South Korea Torch Leg," BBC, 27 April 2008.

35. Scott Snyder, "Establishing a "Strategic Cooperative Partnership," *Comparative Connections* 10, no. 2 (July 2008).

36. "S. Korea Should Play Role of Mediator to Ease Tensions: Expert," Yonhap, 31 August 2008.

37. Jae Ho Chung, "Dragon in the Eyes of South Korea: Analyzing South Korean Perceptions of China," in *Korea: The East Asian Pivot*, ed. Jonathan D. Pollack (Newport, R.I.: Naval War College Press, 2005), 253–66.

38. Peter Hays Gries, "The Koguryo Controversy, National Identity, and Sino-Korean Relations Today," *East Asia* 22, no. 4 (Winter 2005): 3–17.

39. Choi Kwang-shik, "What Is behind China's Attempt to Distort the Past?" *Korea Times*, 31 August 2004.

40. "Ah! Koguryo. . . ," *Munwha ilbo*, 8 February 2007.

41. Andrew Leonard, "The 'History War' in Northeast Asia," Salon.com, 14 March 2007; Scott Snyder, "A Dark Turn in Political Relations," *Comparative Connections* 9, no. 1 (Winter 2007): 11.

42. Andrei Lankov, "Two Countries, Two Systems, One Porous Border," *Asia Times*, 14 August 2007.

43. Choi, "What Is behind China's Attempt to Distort the Past?"

44. "Hu Jintao Meets with President Lee Myung-bak," Ministry of Foreign Affairs of the People's Republic of China, 28 June 2010, http://www.fmprc.gov.cn/eng/zxxx/t712382.htm; "Hu Jintao Stops Short of Blaming NK for Warship Sinking," *Korea Times*, 28 June 2010.

45. "China Warily Eyes U.S.-Korea Drills," *New York Times*, 20 July 2010.

46. "Military Drills Leave S. Korea Insecure," *Global Times*, 20 August 2010.

47. Kim Taewoo, "Post-*Cheonan* Regional Stability: A South Korean Perspective" (paper presented at symposium, "Post-*Cheonan* Regional Security," Center for U.S.-Korea Policy and Asan Institute for Policy Studies, Seoul, 13 August 2010).

48. Scott Snyder and See-Won Byun, "The Cheonan and China's 'Double Play,'" *Comparative Connections* 12, no. 2 (July 2010).

49. Kim Sung-han, "Northeast Asian Regionalism in Korea" (New York: Council on Foreign Relations, December 2009).

50. Gilbert Rozman, *Northeast Asia's Stunted Regionalism: Bilateral Distrust in the Shadow of Globalization* (New York: Cambridge University Press, 2004).

51. "The CSCAP's Multilateral Security Governance in Northeast Asia/North Pacific: From the Six Party Talks to More Enduring Northeast Asian/North Pacific Security Multilateralism" (report to the CSCAP Steering Committee, Bangkok, 22 January 2009).

52. Kim Sung-han, "Searching for a Northeast Asian Peace and Security Mechanism," *Asian Perspective* 32, no. 4 (2008): 127–56; "The Future of Regional Stability and Regional Security Mechanisms in the Asia-Pacific Region," in *Security Issues in the Asia Pacific*, NIDS Joint Research Series no. 2 (Tokyo: National Institute for Defense Studies, March 2008).

53. Suisheng Zhao, "Chinese Nationalism and Approaches toward East Asian Regional Cooperation" (New York: Council on Foreign Relations, December 2009).

54. Qin Gang, Foreign Ministry spokesperson, statements at press conference, 27 May 2008, www.fmprc.gov.cn/eng/xwfw/s2510/2511/t459519.htm.

55. Held three times so far—in December 2008, April 2010, and September 2010—the strategic dialogues have focused mainly on DPRK nuclear issues.

56. Scott Snyder and See-Won Byun, "Fire Sale, Hot Money, and Anxieties about Investment," *Comparative Connections* 10, no. 1 (April 2010).

57. "S. Korea, China Agree to Work Together for Nuclear-Free N. Korea," Yonhap, 29 September 2010.

58. Scott Snyder and See-Won Byun, "Sweet and Sour Aftertaste," *Comparative Connections* 10, no. 3 (October 2008).

59. "Chinese Captain, Crew Sentenced to Jail in Korea," Yonhap, 12 December 2008.

60. "Violence in Korean Waters Raises Animosity toward China," *Los Angeles Times*, 1 October 2008.

61. "Unprecedented Tripartite Summit Excites Korea, China, Japan," Yonhap, 13 December 2008.

62. "S. Korean President Ends China Trip after Talks on N. Korea," Yonhap, 10 October 2009.

63. Lee Chi-dong, "S. Korea, Japan, China Set Forth New Vision for Tripartite Partnership," Yonhap, 30 May 2010.

64. "Chinese, South Korean Presidents Vow to Further Ties," Xinhua, 28 June 2010.

65. Lee Chang-hyung, Song Hwa-sup, Park Chang-kwon, Park Won-gon, and Kim Chang-soo, *China or the United States: China's Rise and Korean Security* [in Korean] (Seoul: Korea Institute for Defense Analyses, December 2008).

66. Hitoshi Tanaka, "Keeping the United States Engaged in East Asia," in *East Asia Insights* (Tokyo and New York: Japan Center for International Exchange, October 2010).

The Korea Economic Institute is registered under the Foreign Agents Registration Act as an agent of the Korea Institute for International Economic Policy, a public corporation established by the Government of the Republic of Korea. This material is filed with the Department of Justice, where the required registration statement is available for public inspection. Registration does not indicate U.S. Government approval of the contents of this document.