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Editors NOTE

The Korea Economic Institute (KEI) and the Project 2049 Institute have entered into a new partnership in 2012 to revitalize the Korea-China Forum which started in 2005. KEI and Project 2049 will host seminars regularly with short papers written by panelists. The papers will be featured after the seminar in this newsletter.

The Korea-China Forum is a public education program designed to explore the deepening relationship between China, the two Koreas, and the U.S., and its implications for Asian security. The Forum seeks to analyze the growing challenges and opportunities of the relationship through the prism of strategic foresight, economic interdependence, and regional security.

We hope you find the newsletters informative and educational. Please do not hesitate to contact us with your feedback.

Thank you,

KEI & Project 2049 Institute

The views expressed are the authors' own and do not reflect the views of the two institutes.

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Korea PERSPECTIVE

NORTH KOREA'S INFLUENCE ON SOUTH KOREA-CHINA RELATIONS

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STATUS & ANALYSIS OF KOREA-CHINA RELATIONS

- Economic cooperation between South Korea and China is rapidly developing. China consumes one third of South Korea's exports. If the South Korea-China free trade agreement (FTA) is implemented, the level of economic integration between the two countries will be further reinforced.
- Although China and South Korea have strong economic ties, their military and diplomatic cooperation have seen less visible progress.
- The North Korea problem hinders the development of Chinese-South Korean fundamental diplomatic ties such as military and diplomatic ties.
- The cooperative but ambiguous relationship between China and the U.S. attributes to the development of South Korean and Chinese relations.

CHINA'S STRATEGIC INTEREST TOWARDS NORTH KOREA

- China's strategic interest regarding North Korea is to maintain positive relations with the Kim Jong-un regime while exerting influence over North Korea.

- China will not accept direct U.S. influence over the Yalu and Tumen Rivers.
- Even if relations between the U.S. and North Korea are restored, China will not let its strategic interests in North Korea be diminished.
- China's foreign policy toward North Korea will remain consistent under the new leadership of Xi Jinping.
- China will attempt to continue to strengthen its advantageous position over North Korea through North Korea's economic dependence on China, and its growing influence over the North Korean military and politics.
- Because China's strategic interest in North Korea is stronger than the U.S., the U.S. faces limitations on carrying out North Korean policies that are as effective as China's.

THE DEGREE OF STABILITY IN NORTH KOREA UNDER THE KIM JONG-UN REGIME

Power Structure of the Kim Jong-Un Regime

- To overcome Kim Jong-un's lack of experience and young age, he has rapidly acquired numerous high level leadership positions. He has already been granted titles such as the supreme commander of the Korea People's Army, first secretary of the Korean Workers' Party, and the first chairman of the National Defense Commission.
- With Kim Jong-un at the center, he is supported by his family members Jang Sung-taek and Kim Kyung-hee, Choi Ryung-hae, Lee Young-ho, second and third generation North Korea elites, and central military officials.
- Rather than a collective leadership, North Korea is structured under a clear centralized leader and his top supporters who support the leader.

Preconditions for Stability under the Kim Jong-un Regime

- China's acknowledgement of the Kim Jong-un regime is crucial. Kim Jong-un's upcoming visit to China this fall to meet with the fifth generation Chinese leader, Xi Jinping, will determine North Korea's stability under Kim Jong-un.

- North Korea's survival and growth is only possible when the Obama administration treats the Kim Jong-un regime as a negotiating partner in resolving issues of nuclear weapons, normalization of U.S.-North Korea relations, and peace settlements through dialogues.
- South Korea's acknowledgement of the Kim Jong-un regime is also important. North Korea's relationship with South Korea has been weakened due to North Korea's focus on fostering stronger ties with China and the U.S. However, a healthy relationship with South Korea is a constant variable for North Korea's survival.

“ Although China and South Korea have strong economic ties, their military and diplomatic cooperation have seen less visible progress. ”

- Power distribution of elites around Kim Jong-un is another important factor. Even though it is the possibilities of power struggle amongst the elites should not be disregarded, the struggle could be mitigated if a system were to be implemented where there is more equal distribution of power within the elites.
- Economic growth is crucial to improving the living conditions of the North Korean citizens. This guarantees the stability of the Kim Jong-un regime at the grass-roots level.

PROSPECTS OF NORTH KOREA'S INFLUENCE ON SOUTH KOREA-CHINA RELATIONS

- Due to North Korea's relative decline, China is working towards strengthening its relationship with North Korea through new strategic assessments rather than its traditional approaches.
- Given the current economic situation in North Korea, it has no choice but to increase its economic dependence on China. Because China is the only reliable ally to North Korea, this will increase China's leverage over North Korea.

- China realizes that there is no alternative to the Kim Jong-un regime and that maintaining a close relationship with North Korea is necessary. However, the Chinese leadership will continue to cautiously observe Kim Jong-un's decisions on reforms and the opening of its country.
- The North Korea variable will remain a limiting factor in the development of South Korea-China relations.
- If the Kim Jong-un regime is unable to recover from economic hardship and does not achieve stability in the areas of politics, military, and foreign policy, the North Korea-China ties will deepen. In the opposite case, the North Korea will not play a significant role in the development of South Korea-China relations.
- As long as the North Korea problem is prolonged, fundamental and overall development of South Korea-China relations will be limited.
- If there is no breakthrough regarding North Korea's nuclear issue and if North Korea continues with further nuclear testing, the conflicting opinions between South Korea, China, and the U.S. will increase tension between South Korea and China.

policy shift since 2008 lies in reorienting Taiwan's foreign policy toward a proactive attitude and approach in cross-Taiwan Strait reconciliation. Indeed, cross-Taiwan Strait rapprochement during the past four years has helped to stabilize the regional security environment, and countries in the region benefitted from a peace dividend. Therefore, what experiences and lessons learned by Taiwan, in particular the role that Taiwan is playing in interacting with mainland China for the gradual stabilization of the Taiwan Strait, may help South Korea manage its relations with mainland China?

DIVIDENDS OF PEACE BROUGHT BY TAIWAN'S EFFORTS AFTER MAY 2008

Mechanisms for managing cross-Taiwan Strait reconciliation have not been institutionalized yet, but contemporary developments in relations between Taiwan and China—characterized by less confrontation—has encouraged many countries to approach Taiwan with more non-political initiatives that can lead to greater economic prosperity and social, educational, and cultural exchanges. Furthermore, non-traditional security cooperation across the Taiwan Strait could have a moderating effect on mainland China's interactions with other countries. Measures such as nuclear security cooperation, medical and health cooperation, and joint crime-fighting and judiciary cooperation have gradually developed between the two sides of the Taiwan Strait. Successful experiences derived from these fields of cooperation may be shared with other countries in the Asia-Pacific to promote human security cooperation with mainland China in the future.

In the traditional security realm, closer relations between Taiwan and mainland China will not lead to ultimate unification of China, primarily because of the fundamental differences between the institutions—political, economic, and social—on the two sides of the Taiwan Strait. Taipei will not change its policies of seeking a peaceful dispute settlement and incremental developments toward a nuclear-free homeland, nor will the Ma administration accept any measures initiated by mainland China that will damage the interest of Taiwanese people and the stability of the region. To be sure, a stable framework for cross-Taiwan Strait relations will contribute to broadening the foundation for peace and stability in the Asia-Pacific, and President

Taiwan PERSPECTIVE

TAIWAN'S ROLE IN SOUTH KOREA- MAINLAND CHINA RELATIONS

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Taiwan President Ma Ying-jeou's hallmark in foreign policy is the adoption of "flexible diplomacy" in his administration's external relations. The policy emphasizes goodwill in cross-Taiwan Strait relations by calling for a "diplomatic truce" with mainland China. While the Republic of China (also known as Taiwan) had been oft-labeled a "troublemaker," this label may have had more to do with the increasing political clout of mainland China and the diplomatic backlashes in reaction to Taiwan's foreign policy. The objective of Ma's

Ma has reaffirmed on various occasions that Taiwan endorses bilateral and multilateral arrangements, including the U.S.-Japan security alliance, in the Asia-Pacific so long as they are beneficial to regional peace and stability.

HOW SHOULD SOUTH KOREA VIEW TAIWAN IN ITS RELATIONS WITH MAINLAND CHINA

Given the similarity of their economic structures, South Korea and Taiwan's economies are competitive in nature. Yet, an interest-based calculation should lead to a more constructive approach to South Korea-Taiwan relations. In fact, competitive and cooperative modes coexist. In addition, South Korea can try to help maintain the stability and positive interaction in the Taiwan Strait because it will eventually benefit South Korea as well.

Before this paper proceeds to provide some suggestions for Seoul, it is necessary to introduce in brief the economic, non-traditional security, and politico-military relationships between South Korea and mainland China. South Korea's trade volume topped \$1 trillion in 2011. South Korea's exports to mainland China increased 14.9% to \$134.2 billion annually in 2011, which accounted for 24.1% of South Korea's total exports and made mainland China still the largest market of South Korea in 2011. South Korea's trade surplus with mainland China reached \$47.8 billion in the same year. Mainland China is also South Korea's largest overseas target for investment.

Non-traditional security threats from mainland China that concerns South Korea are necessary to be dealt with in a timely manner. Such incidents as the powdered milk and cookies containing melamine, the smuggling of capsules made from dead fetuses and placentas, the severe dust storms hitting the Korean Peninsula, and the illegal fishing cases/disputes are unfortunate but serve as triggers for bilateral or sub-regional collaboration.

Issues related to territorial sovereignty between South Korea and mainland China have not escalated to overt clashes in bilateral diplomacy, but they do exist. Disputes over Suyan Rock / Jeodo (or Socotra Rock) and over Rixian Reef / Gageo Reef can become destabilizing forces in the region if not

managed well. Furthermore, the U.S.-South Korea alliance, which helped to safeguard democracy in South Korea and curb communist aggressions in Asia, must face an increasing duality in mainland China's role in Asia-Pacific stability. On the one hand, mainland China may be seen as a major challenge to the security alliance as mainland China's military build-ups with ambiguous strategic intentions are insufficient to form the condition for peaceful co-existence. On the other hand, mainland China may be a key factor stabilizing the Korean Peninsula by its influence on North Korea.

The patterns of interactions and problems between South Korea and mainland China are very similar to those between

“ Although Taiwan is not central in Seoul-Beijing relations, it is not an obstacle to the development of bilateral relations. ”

Taiwan and mainland China. Therefore, it is possible that the experiences and lessons learned by Taiwan, as well as the role that Taiwan is playing in interacting with mainland China for the gradual stabilization of the Taiwan Strait, may help South Korea better manage its relations with mainland China.

Joint Venture with Taiwanese Businesses

With these economic opportunities, South Korea must consider an effective way to maintain its economic competitiveness in mainland China's market. A 2005 research paper by Japan's Mizuho Bank (MHBK) maintains that “there has been a sharp increase of Japanese companies investing in [mainland] China through joint ventures with Taiwanese companies and its own subsidiaries in Taiwan.” More specifically, South Korea should consider Taiwan, whose people share similar Chinese characteristics, as a “forwarding base” to boost its economic ties and profits both in mainland China and Taiwan.

Take for example recent non-political relations between Japan with Taiwan. Japan and Taiwan signed an investment

protection agreement in September 2011. This agreement not only protects Parties with access to dispute settlement via international arbitration and provide a stable investment environment, but also enhances linkages in industrial supply chains between the two signatories. This is widely believed to be a consequence of new economic strategic thinking in the post-Fukushima (earthquake) era that aims to redirect part of Japanese investment and industrial sources to Taiwan and to further increase the “survival rate” of Japanese businesses in mainland China. Despite the fact that the economies of South Korea and Taiwan are not as complementary as the Taiwan-Japan example, it behooves Taipei and Seoul to explore new ways of cooperation between South Korea’s multinational corporations and Taiwan’s small and medium enterprises, which formed the backbone of Taiwan’s economic miracle, to work together in the mainland Chinese market.

Taiwan as a Partner for Control over Economic Dependence on Mainland China

Both South Korea and Taiwan’s export dependence on mainland China are high, and the latter is almost doubled that of the former in 2011. In 2011, Taiwan’s exports to mainland China increased 7.4% to \$91.1 billion, which accounted for 43.7% of Taiwan’s total exports and made mainland China the largest market for Taiwan exports in 2011. Taiwan’s trade surplus with mainland China was \$47.5 billion in the same year, denoting a -2.8% reduction. Mainland China is also Taiwan’s largest overseas target for investment.

Greater economic and trade interactions may result in higher economic dependence or interdependence, which, for normal trading partners, should not be a concern. However, high economic dependence may result in greater fragility in both economic and political terms if relations between the trading partners turn sour. To pursue an effective control over their export dependence on mainland China, as well as to avoid setbacks coming possibly with mainland China’s slow down in domestic economic growth, South Korea and Taiwan should jointly map a strategy of risk aversion by enhancing economic ties with one another.

Taiwan Strait as a Showcase of Cooperation and Peaceful Settlement of Disputes

Non-traditional security cooperation between Taiwan and mainland China has thrived since May 2008. The impact of non-traditional security threats is not confined to national borders, and because these threats need to be dealt with by all the governments and societies concerned, South Korea should be able to discern how the two sides of the Taiwan Strait collaborate to cope with these threats, which will be valuable for South Korea’s planning and preparation in this regard.

Meanwhile, it is of great importance for all parties to contemplate and work on shaping the conditions for stable development in cross-Taiwan Strait relations. If progress continues into the foreseeable future, it could become a showcase of Chinese Communist Party Secretary General Hu Jintao’s “Harmonious World.” Then, perhaps, this would encourage future Chinese leaders to apply this model to other parts of the Asia-Pacific where mainland China is engaging other countries in territorial disputes.

While Seoul is rapidly improving its overall relations with mainland China, territorial disputes with mainland China still serve as potential threats to peaceful relations. Accordingly, South Korea is well positioned to act as a supportive third party to encourage constructive and fact-based dialogues between Taipei and Beijing because these dialogues will help shape a more self-restrained, more responsible, and less aggressive behavior of mainland China toward the other parties in a dispute. Moreover, Taiwan, with the moral support from the international community, will be more confident in negotiating and interacting with mainland China peacefully, and this may be the key to incentivizing mainland China’s more benign behavior toward the region.

CONCLUDING REMARKS

Although Taiwan is not central in Seoul-Beijing relations, it is not an obstacle to the development of bilateral relations. On the basis of its rapprochement policies toward mainland China, Taiwan’s experiences—both government and civil

society, including enterprises—in engaging mainland China could contribute to the further development of Seoul-Beijing ties. With the current pace in cross-Taiwan Strait relations, both Seoul-Beijing ties and Seoul-Taipei ties can become two sets of parallel relations that will not conflict with each other, and a new thinking about Seoul-Taipei ties—with more understandings of Taipei—could serve as a driving force for a “win-win-win” situation.

U.S.

PERSPECTIVE

ON CROSS-STRAIT RELATIONS AND THE UNITED STATES

Randall Schriver, President and CEO, Project 2049 Institute
Transcript from Korea-China Forum, May 29, 2012

With respect to how things may unfold and are potentially managed in the Taiwan-ROK (Republic of Korea) relationship, if relations are on the same trajectory as in the cross-Strait relationship, then what Taiwan is looking at is essentially the challenge of managing potential economic tensions (with the ROK) and how the ROK-Taiwan economic relations are seen—be that competitive or complementary. This is in a sense the easy scenario to look at, if the cross-Strait relationship remains on the current trajectory. To be sure, President Ma Ying-jeou's policies along with his counterparts across the Strait have been very successful in terms of the rapprochement and the rebuilding of cross-Strait ties.

But there could be hiccups in the cross-Strait relationship. The first set of hiccups could be related to if the current trajectory of cross-Strait relations continues, and there are some dashed expectations on Taiwan's part in terms of what is accomplished outside of the cross-Strait relationship and other regional relationships. The Taiwan-Korea relationship has been described in Taiwan as an “inside-out” strategy: fix the cross-Strait relationship so that you can

improve relations throughout the region, perhaps pursue trade liberalization bilaterally with other countries, perhaps greater participation in multilateral organizations, global or regional. This is still a largely untested proposition. The cross-Strait relationship has in fact improved a great deal, and we have FTA (free trade agreement) talks underway between Taiwan and Singapore, Taiwan and New Zealand, but these are not concluded. And there is of course the bigger question about a TPP (Transpacific Partnership) for Taiwan at some point. If Taiwan and the PRC maintain this trajectory, there is still that untested question of how this inside-out strategy will work and if Taiwan can successfully branch out to other bilateral, regional, global institutions. This is embedded in the question about Taiwan-Korean relations going forward.

But that said, it is not entirely clear that the current trajectory (between Taiwan and China) will continue. I do not want to be a pessimist and I do not want to sound cynical, but too often we only talk about the trajectory being disrupted by events in Taiwan. For example, a return to power of the opposition party (DPP) would make government leaders in Beijing profoundly uncomfortable. But those dynamics could change relatively soon, depending on this interactive cross-Strait dynamic which is really based on how each respective domestic political situation unfold.

Let me give a scenario—there is a possibility that at some point leaders in Beijing, sensing a lame duck president in Taipei and a closing window because of looming elections, may press harder for cross-Strait discussions to go outside the economic sphere and go into the political sphere and in the security sphere. These are much more difficult discussions and much more controversial inside Taiwan, and so that could be a disruption to this trajectory that then could be felt throughout the region. If the trajectory is upset, that would present uncomfortable choices for a lot of people—it certainly would for the United States—because Taiwan is often seen as an important relationship in its own right. But for other countries Taiwan is often seen as a subset of managing U.S.-China relations; that is certainly true of other countries in the region, including Korea.

ON KOREA-CHINA RELATIONS AND THE UNITED STATES

I think for a long time we have been guilty in the United States of overstating the degree to which we share common interests with China, on the Korean peninsula and particularly the challenges associated with North Korea.

There are plenty of people who fall into this category, but I think by and large our governments, whether they have been republican or democrat, have drifted back towards a construct where we operate from a feeling of shared interests, and that is consequential to Beijing in terms of how you fashion your approach to the Korean peninsula when you are sitting in Washington. The U.S. and China have common aversions, and in a perfect world it would be a nuclear-free peninsula for all parties including China. I think nobody wants instability or hard landings or certainly conflict, but those are common aversions as opposed to common interests.

The distinction [between common aversions and common interests] becomes consequential when you talk about what we do with this as a matter of policy and decision making given our respective views. I think the United States and China often start stepping out in different directions because their prioritization of interests, which are not completely shared, is different. The Chinese have long valued stability, they think about things like potential refugee problems if there was instability in North Korea, about losing that buffer in the event of a hard landing where Seoul and Washington have some sort of an upper hand in a post conflict situation. So the priorities are different, which creates a different set of interests. Therefore the question going forward is, do we embrace a more realistic notion of what our respective interests are and operate from a base that is closer to objective reality, or will we drift back towards trying to have a hand-in-glove partnership that will ultimately fail, because it's an overstatement of the degree to which we have shared interests?

There are certainly several subplots to this: Some people talk about changing views in China, and while it is true that they value these things and have so far prioritized in a certain way, we do not know if the attitudes towards North Korea

are changing. Would incidents such as these recent kidnappings be the straw that breaks the camel's back, when they realize that this alliance is more of an albatross than it is a helpful modality to maintain the buffer? These are questions that we cannot answer with great certainty, but we do know when China has been tested in the very recent past, whether that's the sinking of the Cheonan or the shelling of the island, China has chosen to back its traditional ally at the expense of ROK-China relations and certainly at the expense of U.S.-China relations. So to date, whether or not there is debate going on in China or if there are different views being represented, they have chosen to stick with their core principles, which have been true up to this point and have not altered the policies in any meaningful way.

With respect to U.S.-ROK relations, it has always struck me that the issue of the DPRK and its various challenges can simultaneously cut in a couple of different policy directions. In a way it is so fundamental to the alliance, having that common threat and uncertainty—alliances historically are formed because there is a common threat and a view that a deterrent capability is needed, as well as a capability for the worst case scenarios and worst contingencies. But in other ways, it has trapped the alliance in a myopic kind of view of things, that we are an alliance that exists because of North Korea and the challenges that are found on the peninsula, and it has been a bit of an inhibitor to having a more regional or global alliance. Whether or not both alliance partners will buy into that, eventually there could be a discussion there.

From the U.S. perspective, this kind of long-term pivot is something that is desired. We do see the U.S.-ROK alliance as a global alliance and in some ways, certainly when we face contingencies in Iraq; it is not lost on people that the ROK had the third largest contribution of troops after the U.S. and the UK at one juncture. But again, is this challenge of the DPRK ultimately an inhibitor to moving in the direction of a more regional and global-oriented alliance? Of course, everybody has resource constraints, everybody is dealing with perhaps more austerity when it comes to the allocation of those resources, and is there such a near-term challenge that we cannot fully make that pivot for the alliance?

The upcoming elections in Seoul will of course be of great interest to people here in Washington, irrespective of how President Lee may be viewed back in Korea, he is certainly viewed here as being a very strong supporter of the alliance. And although we do not know which candidate will prevail at this point in a close election, there is a sense that we have it about as good as we can have it. For a lot of Americans, the U.S.-Korea relationship started in 1950 and we have a very a-historical perspective on things. Most of our friends in Korea are quick to remind us the relationship goes back a lot further and is far more complicated than just the U.S. coming in to save the day. All of those issues will probably play out in the course of the election but more importantly after the election, in fashioning the approach to the United States, the next president will have to deal with those complexities. We are having an election in the United States as well, for the most part our Asia policy has been remarkably bipartisan, consistent and stable over the years, whether it had been republican or democrat, so I think continued stability is the best guess.

However, there are stability scenarios that, while stable, over the long term are not necessarily in our long term interests. If the Kim dynasty (monarchy, whatever the appropriate term is) remains in power, if Chinese influence continues to grow steadily over time, if China's involvement in the economy continues to grow, if China's connections to the military, the party and so forth continue to evolve and develop, there is a scenario that is very stable, which is North Korea gets pulled closer and closer into the Chinese orbit, even more so than it is today, to a point where Seoul's calculus might start to change.

This is an edited and abridged version of the speaker's comments that were made on May 29, 2012 at the Korea-China Forum.

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The Project 2049 Institute, established in January 2008, seeks to guide decision makers toward a more secure Asia by the century's mid-point. The organization fills a gap in the public policy realm through forward-looking, region-specific research on alternative security and policy solutions.

The views expressed in this publication are those of the authors. While this monograph is part of the overall program of the Korea Economic Institute and Project 2049, its contents do not necessarily reflect the views of the institutes.

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