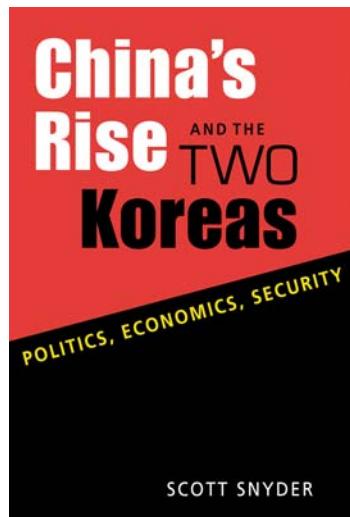


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China's Rise  
and the Two Koreas:  
Politics, Economics, Security

Scott Snyder



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# 1

## Introduction

**C**hina's unprecedented economic growth is paving the way for an expansion of political influence with its neighbors in East Asia, so much so that China's economic rise has potentially profound implications for the balance of power on the Korean peninsula and in Northeast Asia. With the end of the Cold War, economic interdependence replaced ideology as a defining factor in East Asian relations, facilitating China's expanded economic relations throughout Asia and opening new economic and political opportunities between South Korea and China. These opportunities came at the expense of North Korea, as Chinese leaders gradually found that mutual economic interests with South Korea outweighed long-standing ideological and personal ties with North Korea.

South Korea's strong-state, export-led development experience successfully propelled a process of industrialization and modernization surpassed only by the pace of economic and social transformation of China's modernization, for which South Korea's own development path provided an early model. Potential benefits from economic cooperation between China and South Korea became irresistible while China's ties with North Korea stagnated, leading eventually to Sino-South Korean diplomatic normalization in 1992 despite objections from North Korea's top leaders, who saw normalization with South Korea as a betrayal. The normalization of China-South Korea relations laid the foundation for the realization of an economic and political relationship that has grown beyond anyone's wildest expectations, creating new opportunities, challenges, and dilemmas for China in its management of relations with the two Koreas.

While the Sino–South Korean relationship has flourished, China has continued to maintain ties with North Korea, although North Korea's simultaneous dependence on and defiance of China is increasingly viewed in Beijing more as a burden than as a benefit. North Korea and China had once been bound together by strong ideological, personal, social, and psychological bonds, but now have little in common except geography. North Korean leaders have viewed China's adoption of economic reforms and growing ties with South Korea as a betrayal of socialist ideals and of the traditional Sino–North Korean relationship. Therefore, North Korea has become simultaneously alienated from China even as it becomes increasingly dependent on China to meet its most critical economic needs. The unprecedented growth of Sino–South Korean economic relations, combined with the economic dependency on China of an economically failed but nuclear-capable North Korea, raises challenging questions about possible changes in the dynamics of East Asian political and security relations. These changes might also have important implications for the future of South Korea's alliance with the United States.

In the late 1980s, China's economic influence on South Korea was negligible. South Koreans were highly wary of China's long-standing political relationship with North Korea. However, the level of bilateral trade has grown significantly between the two countries, from US\$6.4 billion at the time of Sino–South Korean diplomatic normalization in 1992 to over US\$145 billion in 2007, an increase of more than twentyfold.<sup>1</sup> Both countries are projecting that the bilateral trade volume will surpass US\$200 billion by 2010. Since 2004, China has been South Korea's largest trading partner and the largest destination for South Korean foreign direct investment and tourism. In 2006, over 3.9 million South Korean tourists (nearly 10 percent of South Korea's total population) visited China, and almost 1 million Chinese visitors came to South Korea. The 57,000 South Korean students in China during 2006 were the largest group of foreign students attending Chinese universities at that time, representing one-third of all foreign students in China.<sup>2</sup> China has been an attractive tourist destination for South Koreans and a place that may seem oddly recognizable and yet new to many of them, both from the perspective of shared culture and, for South Korean businesspeople, as an environment in which prior experience with government-business relations under strong-state authoritarianism may be familiar. Many South Koreans believe their economic future depends on the development of the Sino–South Korean relationship.

The rise of China as an economic partner has coincided with the emergence of a debate in South Korea over implications of China's rise for the US–South Korean security alliance. This debate, buoyed by

South Korean nationalist sentiment, has centered on whether South Korea can shed its security dependence on the United States in order to assert itself as an autonomous actor capable of laying the foundations for regional cooperation among the great powers in Northeast Asia.<sup>3</sup> Critics of this position assert that, despite South Korea's growth as an economic power, it is still geographically surrounded by larger powers, a position that will inevitably require it to tilt toward a strong ally versus neutrality, and that South Korea's best option is to assert its own interests on the basis of a strong alliance with a global power that is geographically distant from the peninsula.<sup>4</sup>

As China's development proceeds, economic factors have the potential to influence political and security relations in ways that may reshape the regional security environment. The influence of China's economic rise on regional political and security relations has already affected regional views of third-party roles in the event of a cross-strait conflict: Australia, a close ally of the United States, is sufficiently tied to China economically that top leaders have distanced themselves from more aggressive US public statements regarding how Australia would respond to rising cross-strait tensions, despite strong US-Australian security ties.<sup>5</sup> Likewise, one of the key issues of debate in the US-South Korean alliance is the question of "strategic flexibility," which for South Koreans has revolved primarily around the question of whether a US intervention in the event of a military conflict involving Taiwan would bring with it political or economic costs for South Korea.<sup>6</sup>

Developments connected to China's rise are clearly influencing US security policy in Asia. Much attention has been given to US "hedging" against China's rise,<sup>7</sup> including the strengthening of the US-Japanese alliance, the significance of the US "defense transformation" as a vehicle to counter the possible rise of China as a "peer competitor" of the United States,<sup>8</sup> the development of a new strategic relationship between the United States and India, and US attempts to strengthen security ties with countries such as Singapore, the Philippines, Malaysia, Indonesia, and Vietnam.<sup>9</sup> China is responding to these developments not only by strengthening its military capacity, but also, and more importantly for this study, by attempting to utilize the newfound economic and financial instruments now at its disposal to underwrite a stable regional order favorable to Chinese interests. One result is that Asians now trade with each other more than they trade with the rest of the world, a factor that appears to promote regional stability and that may illustrate China's growing political influence in East Asia.<sup>10</sup> But to what extent is it possible for a state to utilize economic tools as leverage to achieve political

or strategic aims in the development of new political relations or to shape its own political and security environment? Is it possible for China to utilize South Korea's economic dependency as a tool for influencing the latter's political choices? Is South Korea politically constrained by its economic relationship with China in ways that in turn constrain alliance cooperation? Does the United States have tools to counter such a situation if indeed it were to develop?

In this book I examine the development and management of China's political and economic relations with both North and South Korea over the course of the period since China's normalization with Seoul in August 1992, with special reference to the interplay between economic interdependence and political influence. My primary argument is that China's attempts to utilize economic instruments as political leverage to induce specific desired outcomes in its relations with the two Koreas have generally not been successful; neither has the increasing economic dependency of North or South Korea on China been "transformative" in changing the nature or strategic preferences of either Korea more to China's liking. The transformation of the Sino-South Korean economic relationship has contributed to improved bilateral political relations, while North Korea has simultaneously become both economically dependent on and politically alienated from China. South Korea's foreign policy has been influenced by closer economic relations with China, but not to the extent that Seoul is likely to pursue strategic realignment with Beijing or willingly forego the security benefits of the alliance with the United States. However, the United States should be cognizant of the fact that China's economic rise has boosted China's influence on the Korean peninsula in ways that promote incipient competition to shape the future foreign policy orientation of the peninsula.

### **From "Security Externalities" to "Economic Interdependence"**

An understanding of the influence of increased economic interdependence on the extent of political influence between states should assist in understanding a significant feature of international relations in the post-Cold War era. During the Cold War, economic and security benefits flowed in the same direction within political blocs, and trade between adversaries was low. A theoretical literature developed during the Cold War around the premise that preferences in political relations and "security externalities" are likely to shape and reinforce trade relationships among allies while dampening trade relationships with potential adver-

saries.<sup>11</sup> But trade and investment patterns since the end of the Cold War have developed with few political constraints, enabling broadened economic opportunities for doing business with former enemies. As a result, new and mutually beneficial economic relationships developed with little consideration for security implications or pursuit of relative gains.

Joanne Gowa and Edward Mansfield argue that “free trade is more likely within, rather than across, political-military alliances, and alliances are more likely to evolve into free-trade coalitions if they are embedded in bipolar systems than in multi-polar systems.”<sup>12</sup> China’s emergence as South Korea’s leading trade partner (surpassing the United States) reinforces questions about the durability of the US–South Korean alliance, a question that is also reinforced by theoretical findings from alliance theory. For instance, a study by Brett Ashley Leeds and Burcu Savun finds that alliances are usually terminated “when one or more members experience changes that affect the value of the alliance, for instance a change in international power, a change in domestic political institutions, or the formation of a new outside alliance.”<sup>13</sup> Given the centripetal pull of China’s economic growth, some scholars predict that the formation of a new outside alliance between China and South Korea is only a matter of time.<sup>14</sup> According to this argument, high levels of economic interdependence might be seen as either a prior condition or a rationale for pursuing a security alliance with another state, or it could be an effect derived from the preexisting condition of alliance relations built around political and security concerns.

There are few examples of countries that have successfully maintained a security alliance with one party (i.e., South Korea’s alliance with the United States) while relying on a third party (whether or not the third party is deemed a potential adversary, i.e., China) for economic prosperity. Since the end of the Cold War, the previous tight relationship between security and economic partnerships has broken down as global economic integration has developed without special regard for security partnerships, and with little thought for the possibility that today’s trading partner could be tomorrow’s enemy. The situation today is the opposite of the situation that existed during the Cold War, when South Korea depended on the United States for both security benefits and market access as a precondition for export-led industrialization. South Korea’s increasing dependence on China for trade while relying on security guarantees from the United States has had little apparent effect to date, but it is not clear whether such a situation is sustainable or whether there may be future circumstances that would eventually require South Korea to make a choice between the economic benefits that flow from China and the security benefits that flow from the United States.

Traditionally, the orientation of the Korean peninsula has been a matter of importance in the context of historical rivalries among Asian powers; North and South Korea's strategic choices may be an important indicator of how East Asian relations may reorder themselves in the context of China's current economic and political rise. At the end of the nineteenth century, China, Japan, and Russia all sought a foothold on the Korean peninsula as the vehicle for pursuing their broader regional security interests. Prior to the end of the nineteenth century, the Korean peninsula was firmly tied to Beijing as part of a political order in which China's leadership exercised tremendous influence on the conduct of security and foreign affairs related to Korea, in return for Korean obeisance to China's leadership. This state of affairs was reflected in the regular tribute missions that Korea's king sent to the Chinese emperor, a form of obeisance that reflected China's dominant political, cultural, and socioeconomic role vis-à-vis the Korean kingdom. By the late nineteenth century, this traditional China-centered order began to break down in the context of the weakening of Qing China, the slow decline of the Korean Chosun dynasty, and the rise of Japanese influence on the Korean peninsula in the context of the Meiji Restoration.

Since dynastic Korea was weak and vulnerable, the Korean peninsula became a battleground among contending major powers during the Sino-Japanese war (1894–1895) and the Russo-Japanese war (1904–1905), the settlement of which left Korea at the mercy of Japan through the Treaty of Portsmouth and the Taft-Katsura Memorandum. Given the resurgence of conflict between China and Japan in a distinctly postcolonial era, a more economically powerful South Korea logically should have some diplomatic tools at its disposal to reduce the likelihood that the Korean peninsula could be caught up in renewed Sino-Japanese rivalry. But how South Korea might use those tools and whether or not South Korean diplomats are able to put together a successful diplomatic strategy to avert being caught up in renewed regional tensions remain to be seen. Thus it is reasonable to consider the impact of Korea's increasing economic interdependence with China on the future of regional relations in Asia.

### **China's Economic Reforms, Globalization, and Impact on Foreign Policy**

China's integration with the global economy has stimulated new perspectives on international relations among Chinese specialists, derived

from their own experience with almost three decades of economic development. China's ability to utilize interdependence and globalization to support economic development has become the basis for maintaining its prosperity and growth. China's expanded trade and investment ties with its neighbors may also carry strategic benefits, to the extent that its near neighbors become economically dependent on China as an engine for continued economic growth as the best way to ensure their own prosperity.

Chinese officials and scholars alike appear to hold to views that economic interdependence—or inducing economic dependency—is an important strategic tool that China can use to its advantage in pursuit of its national interests. One of China's foremost strategic thinkers, Renmin University scholar Shi Yinhong, observes that, “in the basic trends of the world in the 21st century, what is the most important is, of course, globalization that has led to the rapid growth of China's national strength; what is the second most important is world multipolarization which the rapid growth of China's national strength has promoted.”<sup>15</sup>

Many in China presume that one result of its rise is that enhanced economic interdependence will serve as a centripetal force, drawing regional actors into a relationship of greater dependence on China. Globalization, if effectively manipulated to China's own strategic ends, will not only be useful in preserving peace on China's periphery, but will also be an important factor in drawing those states into a relationship of economic and political dependence on China, limiting the alternatives of China's near neighbors and raising the price of cooperation with forces that may be perceived as hostile to China's interests. China's expanding economic relations with neighboring countries—both through trade patterns with developing states and through development assistance to forestall instability in weak or failing states—may provide important new leverage for enhancing China's security, for expanding its role as an indispensable regional power, and for shaping the regional environment in ways that reduce the possibility of threats from hostile states or other rising powers. The Asian financial crisis of the late 1990s apparently marked a key turning point in China's perspective on globalization—and by extension marked a dramatic shift in China's willingness to participate in and promote multilateral cooperation on economic as well as political and security issues. China has consciously decided to embrace globalization as a force that can be utilized to its benefit in order to harness political and security benefits derived from its enhanced economic interdependence with its neighbors.

China's view of globalization—amplified by the dramatic changes

derived from its own rapid economic development—has been in line with the classic liberal view that economic interdependence can reduce the likelihood of conflict and great power confrontation. As stated by Wang Guangya, China's ambassador to the United Nations: “As mankind ushers in the 21st century, rapid economic globalization and political multi-polarization have increased the interdependence of countries to an unprecedented degree. In this new era, peace will make winners of us all and conflicts will make all of us losers. The traditional pattern of clashes triggered by the rise of a large power is bound to give way to peaceful coexistence. In its push for development, China will not and cannot retrace that ‘zero-sum’ path traditionally taken by powers on the rise. Our only option is peaceful development in which all countries are winners.”<sup>16</sup> These views represent the core assumptions behind the theory of China’s “peaceful rise.”<sup>17</sup>

China’s thinking on globalization seeks to effectively take advantage of perceived new realities resulting from enhanced economic interdependence to achieve its own political and strategic ends. Thus, China’s dominantly liberal views of the consequences of economic interdependence also have a realist component: economic globalization and economic interdependence could be used as strategic tools for constraining a US superpower in a web of multilateral ties. China has consciously attempted to exploit globalization as a way of enhancing its stature and regional posture, as a vehicle by which to dampen fears associated with its rapid economic growth, and as a vehicle for “democratizing” US hegemony by promoting multipolarization and by pursuing its own “new security concept” through active participation in a wide range of multilateral forums as well as through its role in establishing the Shanghai Cooperation Organization. As stated by Shen Jiru of the Chinese Academy of Social Sciences, “the advance of economic globalization means that the interests of different countries are interwoven ever more closely, and this has become a powerful material force constraining U.S. hegemonism.”<sup>18</sup> According to Yong Deng and Thomas Moore, “China’s new foreign policy choice highlights the potential role of globalization in transforming great-power politics from the unmitigated struggle for supremacy of earlier eras to a more cooperative form of interstate competition that increases prospects for China’s peaceful rise.”<sup>19</sup>

China’s acceptance of economic interdependence naturally makes regional stability a prerequisite for the pursuit of economic development. This preoccupation means that China must also take steps to ensure that its border areas remain stable. To the extent that this has led China to resolve myriad border disputes with its neighbors, its expanded

focus on regional stability has been a positive development for East Asia, but the necessity of regional stability also calls into question the hallmark principles that China has traditionally elevated as guideposts of its foreign policy: the importance of peaceful coexistence, nonintervention, and mutual respect for national sovereignty.

For instance, China's natural resource needs along with its extensive capital reserves have made it possible for Beijing to pursue an overseas development strategy that utilizes capital investment to secure supply relationships. The availability of these economic tools also provides China with a greater ability to shape its own security environment—for instance, by forestalling the instability that might derive from the consequences of economic failure of weak states on China's periphery. China has done this through increased overseas assistance to Myanmar, Laos, and, most importantly for the purposes of this study, North Korea.<sup>20</sup>

Despite a transition in China's characterization of its relationship with North Korea from "special" to "normal," the latter's strategic location as a neighboring state on China's border ensures that it will continue to receive Chinese "strategic" economic assistance. China, previously a recipient of international assistance, emerged in 2005 as the world's third largest food donor, behind the United States and the European Union.<sup>21</sup> The largest share of that assistance went to North Korea to prevent a renewed food crisis that would have direct ramifications for stability in China's northeast. Such assistance dampens the possibility of renewed refugee flows similar to those that occurred at the height of the North Korean famine of the mid-1990s. Although the precise value of Beijing's overseas development assistance has been classified as a state secret, anecdotal evidence from Chinese scholars suggests that China's support to North Korea has risen in recent years from one-third to two-fifths of China's development budget at a time when China's overall spending on overseas development assistance is surely expanding to support its overseas interests and commitments in Africa and Latin America.<sup>22</sup>

### **The Debate over Economic Interdependence and the Political Impact of China's Rise**

Various international relations theories provide partial insights into the relationship between economic interdependence and political influence in Sino-Korean relations, but an in-depth examination shows that such theories are inadequate to fully explain the nuances of these relations.

Realist scholars have warned of the destabilizing effects that might accompany a power transition in Asia, emphasizing that China's neighbors will balance against China's rise. According to this view, economic interdependence is likely to increase prospects for military conflict as each state pursues relationships on the basis of its desire to expand its own power at the expense of the other's. The fundamental consideration for states is the political question of how to survive and strengthen state power, and economic policy is simply an instrument for achieving the objective of enhancing state power. John Mearsheimer argues that "states that depend on others for critical economic supplies will fear cutoff or blackmail in a time of crisis or war."<sup>23</sup> Trade dependence is a critical concern, since the party that is less dependent on trade for its own economic growth or political standing would presumably be more willing to sacrifice the economic relationship and pursue military means by which to expand its power. On this basis, Richard Betts asks, "Should we want China to get rich or not? For realists, the answer should be no, since a rich China would overturn any balance of power."<sup>24</sup> According to this logic, South Korea should impose measures to restrain growth in bilateral trade and limit investment in China for fear of the strategic consequences of becoming subordinate to China's growing economic power.

On the other hand, neoliberal institutionalists argue that open markets and heightened economic exchanges will decrease the likelihood of interstate conflict. Enhanced economic interdependence through increasing trade and investment ties will mitigate the likelihood that political conflicts will result in war, because the cost of conflict would be too high compared to the "win-win" benefits of economic interdependence.<sup>25</sup> Additional literature from international political economy emphasizes the development of cross-border markets, and the accompanying development of "internationalist" political constituencies that stand to benefit from economic interdependence as forces that will create a mutually reinforcing economic dependence. The benefits derived from such interactions will strengthen internally based reform constituencies that will be able to win the domestic political debate over nationalist or other aggressive forces that are inclined to pursue conflict as a means by which to settle disputes.<sup>26</sup>

A liberal approach in the context of Sino-South Korean relations emphasizes the idea that increasing economic interdependence between China and South Korea will lessen the likelihood of Sino-South Korean conflict, ostensibly depriving the US-South Korean security alliance of a broader *raison d'être* beyond deterrence of North Korea in the event that peace is achieved on the Korean peninsula. Instead, China-centered

economic interdependence would be sufficient to keep the peace in Asia and would undergird multilateral security and political cooperation, obviating the need for bilateral alliances in Asia. The US military would be obliged to leave the Korean peninsula, providing greater scope for China to expand its political as well as economic influence there. A growing number of proponents of this view in both China and South Korea are focused on how to put into place the architecture for multilateral security cooperation.<sup>27</sup> When fully developed, such cooperation could arguably obviate the need for an alliance with the United States. From this perspective, the US alliance system artificially and unnecessarily serves to exaggerate the regional role and influence of the United States, and inhibits forms of cooperation and community building that would otherwise come naturally on the Korean peninsula and in Northeast Asia.

Dale Copeland's "theory of trade expectations" provides insights consistent with the developments in China's relations with the two Koreas thus far. Copeland analyzes that perceived prospects for future trade as expanding or diminishing constitute a critical variable in understanding the impact of economic interdependence on the likelihood of political conflict or cooperation. Copeland's argument is that high economic interdependence will promote peaceful cooperation as long as states maintain positive expectations for future trade, but that if states have negative expectations for future trade, a highly dependent state may see conflict as a viable alternative to a peaceful situation where the benefits derived from trade continue to diminish.<sup>28</sup>

But Brian Pollins's work affirms that trade relations are stronger between countries that have good political relations with each other, in other words that "trade follows the flag."<sup>29</sup> This finding would tend to support a realist view of the relationship between trade and conflict, in opposition to a view that trade would be the determining factor in shaping political relations among states. However, mutual expectations for economic gains led to Sino-South Korean diplomatic normalization and have played an important role in deepening the political relationship during the first decade following normalization. If Pollins's theory that "trade follows the flag" is applied to the Sino-South Korean relationship, the natural conclusion would be that rapidly increasing Sino-South Korean economic interdependence is a result of some overriding political imperative or attraction between China and South Korea. If political forces have already resulted in Sino-South Korean economic interdependence, then the growth of Sino-South Korean economic ties fore-shadows the inevitable obsolescence of the US-South Korean security

alliance as South Korea is inevitably drawn into China's political as well as economic orbit.

David Kang has argued that "China's reemergence as the gravitational center of East Asia is natural" based on the historical precedents of Asian international relations. According to this view, Korea and other states bordering China will accept economic dependence and political constraints in order to join a peaceful—if hierarchical—China-centered system.<sup>30</sup> But many South Koreans are not satisfied with the notion of subordination to China, and a whole series of complicated political issues loom on the horizon as potential flashpoints for Sino-Korean relations in the future. Neither do North Koreans appear to be satisfied with their economic dependency on China or willing to sacrifice their political independence for the sake of a more harmonious relationship with China (or for that matter, with the international community). South Korea's management of its relationship with China, especially the strategic and political implications of economic interdependence with China, appears to be far more complex and nuanced than the options anticipated by the major schools of international relations theory.

Miles Kahler and Scott Kastner consider the political effectiveness of Korean, Taiwanese, and Chinese economic engagement strategies in order to analyze the promotion of economic engagement as a strategy for achieving political gains. Kahler and Kastner conclude that conditional economic engagement strategies involving quid pro quos have a low likelihood of success, but that "transformative engagement" strategies designed to change the very nature and economic structure of the target state may have some possibility of success if the target state is a democracy or if there is a broad consensus backing the strategy in the *initiating country*.<sup>31</sup>

China's closest neighbors, including South Korea, have primarily perceived China's economic rise as an opportunity to be embraced rather than as a threat against which to balance. Only since 2006, as China has become more competitive in third-country markets, have the economic implications of its rise given pause to South Koreans; but even as anxieties about the strategic implications of China's rise have grown, concerns about China have not stopped growth in bilateral trade and investment between China and South Korea. Neither did North Korea's extreme economic dependency on Beijing prevent the leadership in Pyongyang from testing a nuclear device in October 2006 despite Chinese objections. To the extent that increasing economic interdependence has been accompanied by economic dependency on China, or to the extent China has attempted to utilize economic interdepen-

dence as a vehicle for attaining political leverage by demanding quid pro quos, both Koreas have sought to preserve their independence from Chinese political influence through forms of balancing behavior (for South Korea, seeking to negotiate a free trade agreement with the United States; for North Korea, seeking a strategic relationship with the United States through diplomatic normalization), in the process blocking the possibility that China could utilize its growing economic influence on the Korean peninsula as political leverage.

Neither has unconditional engagement between China and the two Koreas been “transformative”: China’s economic policies toward North Korea are in tune with South Korean engagement policies pursued under Kim Dae Jung and Roh Moo Hyun for a decade, but the North Korean economy—instead of transforming—has become a bigger burden, demanding more and more subsidies to ensure its regime survival. Likewise, China’s economic engagement of South Korea has not resulted in a South Korean transformation; although China has enhanced its economic and political influence in South Korea, it is unlikely that economic benefits alone will be sufficient to overcome the perpetuation of South Korea’s security alliance with the United States, emerging political challenges in the Sino–South Korean relationship, and the emergence of South Korean strategic concerns about overdependence on China. These factors continue to constrain possibilities for “transformation” of the Sino–South Korean political relationship.

### **Economic Interdependence and China’s Relations with the Korean Peninsula**

China’s rise and increasing economic interdependence with the Korean peninsula have several potential implications for political and security relations between China and the two Koreas. First, it raises the question of whether China can utilize greater economic interdependence with both North and South Korea as a tool for preserving regional stability and contributing to peace on the Korean peninsula. China has already utilized humanitarian assistance to promote North Korea’s economic stability and to stem the flow of North Korean refugees to northeastern China, at the height of North Korea’s famine during the mid-1990s. Likewise, China’s ongoing provision of energy and food supplies constitutes a necessary economic “transfusion” that helps prevent North Korea’s collapsed economy from resulting in greater political instability. China’s economic rise has had an influence on North Korea, but the

dividends of increased economic integration do not yet appear to have delivered political and security benefits in terms of increased Chinese leverage on the preferred policy direction of North Korea's leadership. Instead, rising economic integration appears to have caused China to share in economic and political risks deriving from North Korea's crisis escalation tactics and desire to prove itself impermeable to Chinese efforts to curb North Korea's challenge to regional and international stability.

Second, China's increasing economic interdependence with the two Koreas raises questions about whether North Korea's economic dependency on China might provide the latter with new political leverage to achieve its own strategic objectives toward the Korean peninsula. The expansion of China's economic ties with North Korea, in combination with a decline in Japanese–North Korean economic ties, has made China the largest and most important economic partner for North Korea in recent years. But there is little evidence that China's economic assistance to or trade with North Korea has provided Beijing with essential leverage to influence North Korea's political course. The limits of China's economic assistance as a factor in constraining North Korean policies is nowhere more evident than in North Korea's decision to test a nuclear device in October 2006, following several years of calculated efforts on the part of China to increase economic assistance to North Korea as a vehicle for opening high-level political influence. China has also devised economic assistance plans that attempt to induce North Korea to pursue economic reforms on a Chinese model. China's efforts to provide "demonstration lessons" to Kim Il Sung and Kim Jong Il through repeated tours highlighting the benefits of Chinese reform and opening have continuously raised hopes that North Korea will follow China's reform path, but there has been little action in that direction.<sup>32</sup>

Likewise, China has been cautious not to utilize North Korea's economic dependency as a stick to constrain or punish its neighbor. This course of action is virtually universally rejected out of fear that such a stick might either induce instability in North Korea, a development not in China's interest, or result in China's diminished influence with North Korea, but with no practical gains resulting from the withdrawal of economic benefits to North Korea. Although China experimented briefly with a symbolic "cutoff" of oil supplies to North Korea for a few days in 2003, blamed on technical factors, and took more active steps to restrict North Korean access to China's banking system in the aftermath of North Korea's nuclear test in 2006, Chinese policymakers have consis-

tently rejected sanction approaches that have sought to squeeze its neighbor. Instead, it appears that China's preferred and most effective approach has been to offer the promise of additional benefits, but to withhold implementation until appropriate adjustments have been made inside North Korea as a prerequisite for gaining the promised economic assistance. In other words, China has followed a policy of soft coercion toward North Korea.

Third, the rise of China and increased dependency on China for economic growth prospects may constrain South Korean perceived political and security choices in ways that might have implications for economic, political, and security cooperation with other parties, including the United States. China's burgeoning economic ties with South Korea have catalyzed rapid improvements in the political relationship between Beijing and Seoul, and have enabled opportunities for closer cooperation and partnership in a wide range of areas, but increasing economic interdependence has also spawned fears of economic dependency in Seoul as China begins to catch up with and even surpass South Korea in global competitiveness in many sectors that South Korea had previously dominated. South Korean fears of economic dependency on China may have the effect of limiting political cooperation to the extent that Seoul fears the implications of being overly dependent on Beijing. Thus far there has been no case in which China has attempted to utilize economic leverage vis-à-vis South Korea to pursue political objectives, but South Korean concerns about economic dependency on China appear to be motivated primarily by such concerns. For instance, South Koreans themselves have begun to worry about the implications of economic dependency on China and have sought to diversify trade and investment ties, including through the negotiation of a Korean-US free trade agreement.

In the event of a downturn in the US-Chinese relationship, or if China's aggregate power continues to grow, South Korea may be forced to come to terms with this fundamental contradiction between its economic dependence on China and its security dependence on the United States. Given China's rising influence on the Korean peninsula, it is natural to ask about the conditions under which South Korea might pursue a strategic realignment, attenuating or even severing security ties with the United States and pursuing a closer security relationship with China so as to bring its political and security interests into greater alignment with its stake in economic relations with China.<sup>33</sup> One purpose of this review of developments in the Sino-South Korean economic, political, and security relationship is to consider precisely this question.

## Structure of the Study

In the chapters that follow, I explore these themes as factors that may assist in understanding the significance and implications of the dramatic changes that have taken place in the Sino-Korean relationship over the course of the past two decades. Chapter 2 reviews the political and economic factors surrounding China's strategic decision to normalize its relations with South Korea, and also analyzes how China's choice to pursue diplomatic normalization with South Korea can be understood through an evaluation of the expectations for future trade and economic gains and losses that accompanied the decision to normalize relations. Driven by expectations of economic gains to be accrued through diplomatic normalization with South Korea, China adjusted its policy from one focused on its traditional alliance with North Korea to a two-Koreas policy in which China managed a strained relationship with its erstwhile socialist partners in Pyongyang while developing a vibrant economic relationship with South Korean counterparts. As the Sino-South Korean economic relationship exploded while the economic relationship with North Korea floundered, the relative economic success of South Korea and the failure of North Korea had direct effects on China's perception of the balance of power on the Korean peninsula.

Chapter 3 considers major issues in the development of the Sino-South Korean economic relationship, with special reference to the impact of the developing economic relationship on political and security issues. It reviews the "China fever" that took hold in South Korea in the 1990s following diplomatic normalization, the impact of the Asian financial crisis on Sino-Korean economic relations, the galvanizing effects of China's entry into the World Trade Organization, and the emergence of concerns about Korean competitiveness with Chinese products in global and local markets. This chapter pays special attention to the extent to which South Korea has become dependent on China for its own domestic economic growth, and the influence of economic factors on China's political and security approach to the Korean peninsula. The chapter also examines strategic challenges at the firm level posed by the rising importance of China's domestic market versus a focus on China as a production base for South Korean companies to export to third countries, and explores whether South Korea's perceived economic dependency on China provides the latter with political leverage in its relations with the former.

Chapter 4 examines the emerging political and security challenges in the Sino-South Korean relationship. It evaluates whether efforts to

address those challenges may lead to deepening institutional cooperation or competition between South Korea and China, and the extent to which a decade of Chinese economic engagement with South Korea has or has not yielded greater cooperation on these critical issues. The chapter analyzes various political challenges in the Sino–South Korean relationship, including diverging perceptions of North Korea; management of refugees; handling of historical issues, including the origins of the Koguryo kingdom; the role of the United States on the Korean peninsula; and management of cross-strait relations. The chapter examines whether political and security frictions might serve as a brake on economic cooperation, and under what circumstances Sino–South Korean political or security conflicts might impinge on the robust economic relationship.

In Chapter 5, I review developments in the Sino–North Korean relationship from the early 1990s to the present. It assesses the tensions in Sino–North Korean relations that accompanied and were reflected by a decline in bilateral economic interactions, assesses China’s handling of the North Korean leadership transition and food crisis of the mid-1990s and its implications, traces the evolution of Chinese policy toward the two Koreas—from a focus on equidistance to a focus on stability—as a key policy adjustment that enabled a shift in the direction of China’s policy closer to South Korea at the expense of North Korea, and analyzes Chinese views of the North Korean economy and perceptions of China’s own choices in utilizing economic tools as part of managing its relationship with North Korea.

Chapter 6 examines the evolution and parameters of the current debate among Chinese analysts over how to deal with North Korea. As Chinese analysts have considered how to ensure political and social stability in North Korea as a means to maintain regional stability, they have increasingly faced fundamental policy dilemmas that have only been sharpened by North Korea’s increasingly uncooperative behavior. Some of these dilemmas are of particular interest as one considers the political implications of China’s rise. For instance, China had long stood behind the “five principles of peaceful coexistence” and recognition of national sovereignty as a cornerstone of its foreign policy, but as China has taken on a more active role to promote regional stability, it has also used economic tools in its policies toward North Korea that are designed to enhance its influence and tame North Korean brinkmanship and crisis escalation. North Korean leaders have responded uneasily and even sharply to Chinese pressure, going out of their way to embarrass the Chinese or deny the influence of pressure by biting the hand that feeds

them. China is caught between US exhortations that it use its economic leverage to bring North Korea into line, and North Korean efforts to prove that Chinese pressure has no effect and that China is employing its “leverage” and economic assistance to meet its own national security interests, not out of largesse toward North Korea.

Chapter 7 examines the emerging triangular interaction among China, South Korea, and the United States as each party addresses the North Korean nuclear issue, with special attention to the implications of this interaction for long-term regional stability in Northeast Asia. This chapter analyzes the likelihood and implications of possible changes in the current structure of the strategic triangle. It also examines the significance for regional relations of possible changes in the strategic triangle, and implications for managing the North Korean nuclear issue.

Chapter 8 examines major power relations in Asia and contending responses in South Korea as they relate to the prospect of renewed rivalry between China and Japan. It reviews the rise in tensions between China and Japan, and South Korea’s responses to renewed tensions thus far. The range of South Korean responses under consideration provides useful background for considering the options that affected third parties might have for mitigating the negative effects of emerging security dilemmas among major powers. The chapter also takes a closer look at how changes on the Korean peninsula might stimulate or mitigate Sino-Japanese rivalry.

Chapter 9 considers the future of the Sino-Korean relationship and its implications for US security interests, including the sustainability of the US–South Korean security alliance. It assesses the range of prospective options and strategies likely to be pursued by China, South Korea, North Korea, and the United States, and their implications for East Asian regional security, and also forecasts possible scenarios for relationships among China, the United States, and South Korea. Special attention is given to recommending how the United States should manage its relationships in and policy toward Northeast Asia given the increased economic interdependence in Asia overall.

## Notes

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11. Joanne Gowa, “Bipolarity, Multipolarity, and Free Trade,” *American Political Science Review* 83, no. 4 (December 1989): 1245–1256.

12. Joanne Gowa and Edward D. Mansfield, “Power Politics and International Trade,” *American Political Science Review* 87, no. 2 (June 1993): 408. The development of the Sino–South Korean trade relationship also corresponds with the end of Cold War bipolarity and the establishment of a more multipolar international system, so it is unclear how Gowa and Mansfield’s hypothesis should apply to the development of Sino–South Korean economic relations.

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