

**SINO-SOUTH KOREAN TRADE RELATIONS:
FROM BOOM TO RECESSION**

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Executive Summary

1. Although China has begun trading with South Korea since the 1970s, Sino-Korean trade only took off in early 1990 after the establishment of formal diplomatic relations in 1992.
2. Between 1992 and 2008, China's export to South Korea grew by over 30 times while import grew by over 40 times. By 2008, the bilateral trade volume accounted for 7.2% of China's total trade and 22.1% of South Korean overall trade.
3. Meanwhile, the trade structure has also changed considerably and intra-industry trade becomes dominant with the two countries exporting similar products to each other. South Korean invested enterprises played a critical role in the structural changes of the bilateral trade.
4. However, growth of Sino-South Korean trade has started to decelerate from 2005, due to trade frictions resulting from anti-dumping measures implemented by both sides, food safety concerns, decreasing FDI from South Korea to China, etc.
5. Most importantly, China's rise as a global economic power and a strong rival against South Korea in key export markets for products ranging from clothes to consumer electronics is most likely to intensify competition between the two countries in domestic and oversea markets.
6. The increasing competitiveness of Chinese exports relative to Korean products has led to new trade frictions in bilateral trade, often represented by product (mainly food products) safety issues.
7. The problem started from tainted food imports from China, thereafter highlighted by the "*kimchi war*" between the two countries in 2005, and further hot up by China's tainted milk-powder scandal in early 2008.

8. The problem may stimulate further nationalistic sentiments within the two countries, especially in relation with other issues of national pride and historical and territorial spats between the two countries.
9. The ongoing global economic crisis has added more pressure on the decelerating bilateral trade. From January to September 2009, China's export to and import from South Korea contracted by 33.9% and 18.3%, respectively over the same period the previous year.
10. To establish a bilateral FTA is perhaps a preferred choice forward for China and South Korea to achieve "win-win" results. It is crucial for not only trade but also investment, technology and cultural cooperation.
11. To realize such a goal, much determination and efforts are required from both the Beijing and Seoul governments.

SINO-SOUTH KOREAN TRADE RELATIONS: FROM BOOM TO RECESSION

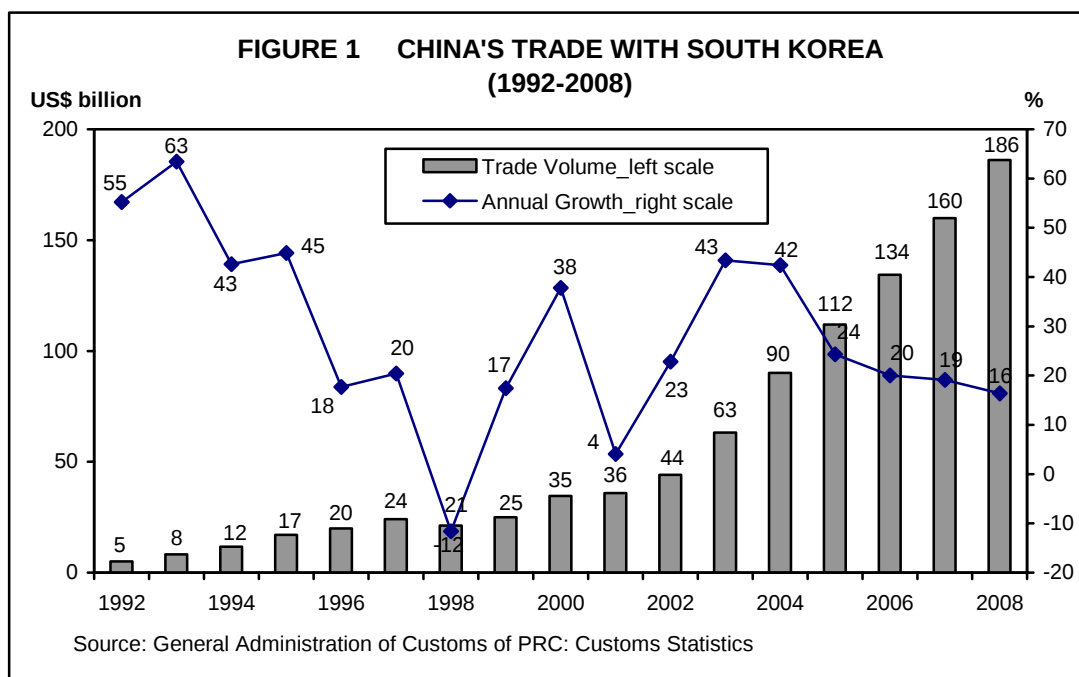
ZHOU Shengqi*

Economic Crisis Threatens Bilateral Trade

- 1.1 China established trade relations with South Korea as early as the mid-1970s. However, due to the lack of formal diplomatic relations, most of the trade was conducted indirectly via Hong Kong, thus limiting the trade volume.
- 1.2 The establishment of formal diplomatic relation in 1992 opened a new chapter for bilateral economic relations between China and South Korea and trade has surged since. In 2008, bilateral trade amounted to US\$186 billion, up from only US\$5 billion in 1992, reflecting an average annual growth of 28% (Figure 1), which was significantly higher than the 19% average annual growth for the national total over the same period.¹ By 2008, the bilateral trade volume accounted for 7.2% of China's total trade and 22.1% of South Korea's overall trade.
- 1.3 Meanwhile, the trade structure has also changed considerably. In the early 1990s, trade from China to South Korea was often in primary goods, as well as labor-intensive products, while China imported technology-intensive and capital-intensive manufactured products from South Korea. In recent years, trade between the two countries is mostly in technology- and capital-intensive goods (Appendix 2). Foreign invested enterprises (FIEs) especially those with investment from South Korea played a critical role in the structural changes of the bilateral trade.

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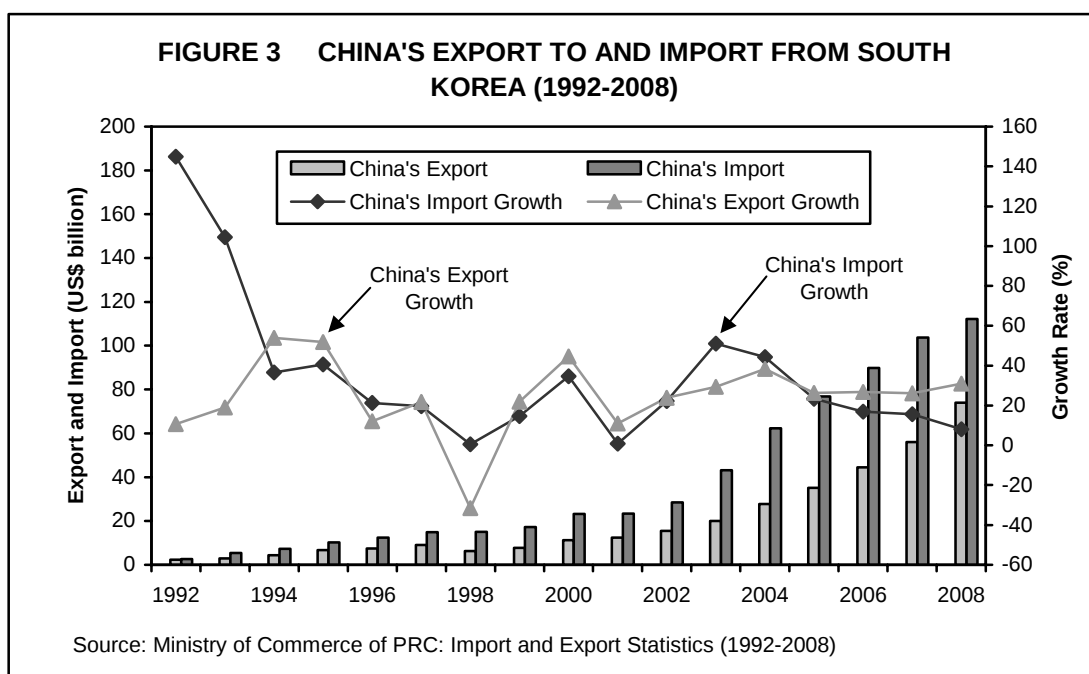
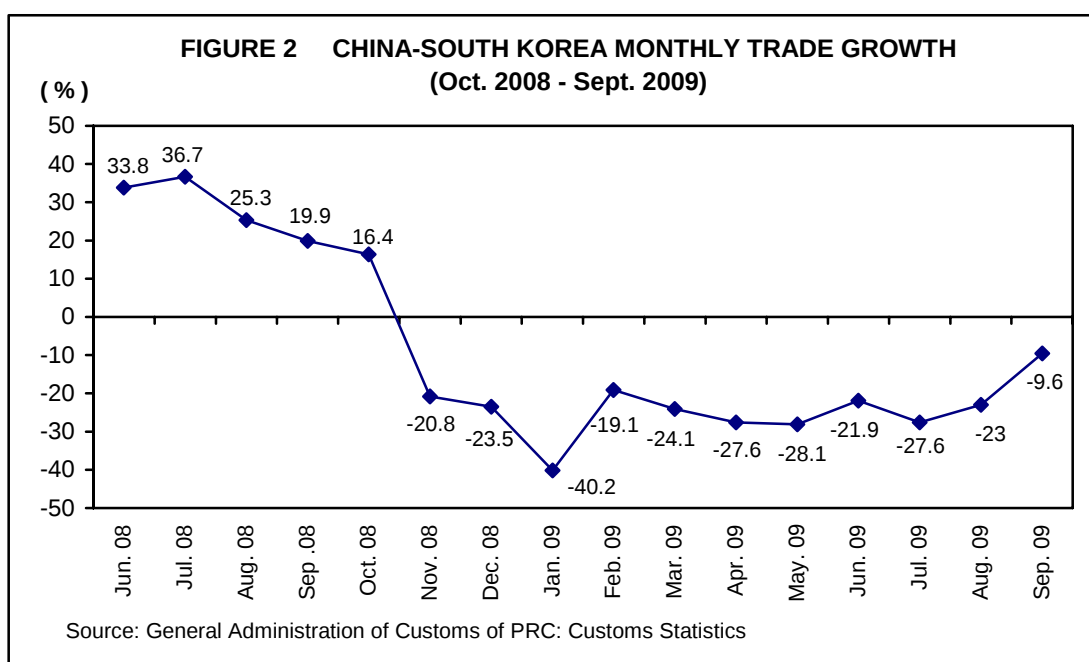
¹ Due to the lack of official statistics on bilateral trade in services, this paper will focus on commodity trade between China and South Korea.



1.4 However, growth of Sino-South Korean trade has decelerated since 2005 due to a number of reasons, including trade frictions from anti-dumping measures put in place by both sides, food safety concerns, decreasing foreign direct investment (FDI) from South Korea to China and increasing divestment from China, as well as the uncertainty related to the signing of a bilateral FTA (Free Trade Area) between the countries. The policy shift of the Lee Myung-bak administration to revitalize South Korea's relationships with the US and Japan and to build the country into a "global Korea" may further decelerate the bilateral trade growth dynamics.

1.5 The ongoing global economic crisis that spilled from the financial sector to the real economy in the second half of 2008 has led to a rapid increase in unemployment and a steep fall in industrial production, consumer demand, and world trade. This is especially true for China and South Korea, the two trade-oriented economies. The external and internal demand of both countries has weakened, implying that Sino-South Korean trade has entered its toughest phase since the normalization of bilateral diplomatic relations. Since July 2008, the downward trend in bilateral trade growth has continued or even exacerbated (Figure 2). From January to September of 2009, China's exports

to and imports from South Korea dropped by 33.9% and 18.3% respectively year on year.



Rapid Development in Bilateral Trade

- 2.1 Since early 1990s, bilateral trade has grown rapidly in most years, except in 1998 and 2001, to reach over 40% in some years. Between 1992 and 2008, China's total export to and import from South Korea grew by an average annual rate of 25% and 35%, respectively (Figure 3), much higher than those of China's overall export and import during the same period.²
- 2.2 In 2008, China's exports to and imports from South Korea amounted to US\$73.9 billion and US\$112.2 billion, a remarkable increase from US\$2.4 billion and US\$ 2.6 billion respectively in 1992 (Table 1). In 2003, China surpassed the US to become South Korea's largest trading partner, only 10 years after the normalization of bilateral diplomatic ties. Meanwhile, China has consistently incurred trade deficit with South Korea, as China's exports to South Korea have grown slower than China's imports from South Korea, on average.

TABLE 1 CHINA AND SOUTH KOREAN BILATERAL TRADE DEVELOPMENT (1992—2008)

	1992 (A) (US\$ billion)	2008 (B) (US\$ billion)	(B)/(A)	Average annual growth rate
China's Export to S. Korea	2.4	73.9	31	24.5%
China's Import from S. Korea	2.6	112.2	43	35.3%
China's Trade Balance	-0.2	-38.3	182	87.2%

Sources: Ministry of Commerce of PRC: Import and Export Statistics

- 2.3 China has been South Korea's largest exporting market since 2004, its number one source of imports since 2007 and its number one source of trade surplus since 2003 followed by Hong Kong Special Administration Region (HKSAR) and the US. Table 2 shows the share of bilateral trade in South Korea's overall external trade from 2004 to 2008.

² China's average annual increasing rate of export and import trade volume was 20% and 19% respectively during the period of 1992 – 2008 (calculated by the author based on data from the General Administration of Customs of PRC).

**TABLE 2 SHARE OF CHINA-SOUTH KOREA BILATERAL TRADE IN
SOUTH KOREA'S TOTAL TRADE (2004-2008)**

	2004	2005	2006	2007	2008
China-South Korea bilateral trade/South Korean total foreign trade	18.8%	20.5%	21.2%	22.0%	22.1%
South Korea's export to China/South Korea's total export	19.6%	21.8%	21.3%	22.1%	23.6%
South Korea's import from China/South Korea's total import	14.2%	14.8%	15.7%	17.7%	17.7%

Sources: KITA (Korea International Trade Association): Statistics – Trade by Country

2.4 South Korea is also an important trading partner for China. Since 2003, South Korea has been China's sixth largest trading partner as well as its sixth largest exporting market following the US, EU, HKSAR, Japan, and ASEAN. South Korea has also been China's fourth largest source of imports since 2007, behind Japan, EU and ASEAN and China's second largest source of trade deficit since 2001 after Chinese Taipei.

2.5 Several key factors conducive to the rapid growth in bilateral trade include improving bilateral economic and political ties,³ complementarities in economic structure between a more developed South Korea and a less developed China, as well as the large number of FIEs from Korea. By engaging in processing trade, these FIEs, together with their local affiliates, are crucial to China's recent trade expansion and its integration with an expanding regional and global production network.⁴ Moreover, it is generally acknowledged that proximities between the two societies, geographically and

³ From a "friendship and cooperative relationship" when China and South Korea bilateral diplomatic ties were normalized in 1992 to a "cooperative partnership for the 21 century" under former president Kim Dae Jung, then to a "comprehensive cooperative partnership" during the administration of Roh Moo-hyun, and further to a "strategic cooperative partnership" announced during Lee Myung-bak's inaugural visit to Beijing as the new president of South Korea, political and economic relations between the two countries have not only deepened but also broadened.

⁴ John Wong, "China's Major Economic Challenge: Sustaining High Growth Whilst Fixing Its Growth Problems", in: *Interpreting China's Development*, edited by Wang Gungwu and John Wong, (Singapore: World Scientific, 2007), pp. 83-96.

culturally (e.g. Confucian Heritage⁵), as well as increased person-to-person exchanges,⁶ are important to promoting bilateral trade.

- 2.6 As bilateral trade expands, the trade structure has also undertaken considerable changes. In the early 1990s, China's principal exports to South Korea are primary goods and labor-intensive products, while its major imports from South Korea centered on manufactured products and capital-intensive products. However, export trends have changed substantially after Chinese entered WTO. While South Korea continues to export capital- and technology-intensive products to China, more of such products are also shipped in the opposite direction (Appendix 2).
- 2.7 Therefore, to a certain extent, the pattern of division of labor between the two countries has been gradually transformed from a pure "vertical division" to a "horizontal division",⁷ or from "inter-industry trade" to "intra-industry trade".⁸
- 2.8 FIEs, especially those with investments from South Korea, contributed significantly to the structural changes in bilateral trade. These firms often import parts and components, as well as necessary equipment from China's more developed neighbors especially Japan, South Korea, and Taiwan, before exporting finished processed or assembled products to the developed markets. In addition, various policy initiatives, such as higher tax rebate for capital- and technology-intensive exports, subsidy for research and development of high-tech and new products, implementation of "boosting trade with science and technology" (*kejixingmao*) strategy adopted by the Chinese government to

⁵ "South Korea Views the Rise of China", The Woodrow Wilson International Center for Scholars, 9 March 2009, <http://www.wilsoncenter.org/ondemand>.

⁶ According to China's official statistics, nearly 4.8 million South Koreans visited China and more than 2 million Chinese visited South Korea in 2007. In addition, there are currently over 57,000 South Korean students studying in China, which make up a third of all foreign students in China. Likewise, more than 34,000 Chinese students are currently studying in South Korea, accounting for over half of all international students in South Korea according to ROK's Ministry of Education.

⁷ Korea Institute of International Trade Research, China-South Korean Trade Structure Transferring from "vertical division" to "horizontal division", 8 August 2008.

⁸ Li Dun, "Zhonghan chanyenei maoyi shizheng yanjiu", (An Empirical Study on China-South Korea Intra-industry Trade), *International Trade Journal*, No. 4, 2007, pp. 49-54.

encourage industrial upgrading and the adoption of more advanced technologies have also grown in importance.

Growing Trade Competition

- 3.1 More than 16 years of double-digit growth in bilateral trade and investment have resulted in South Korea's increasing dependence on exports to China. At the same time, Chinese firms are rapidly closing the technological gap with Korean firms, including those in IT, electronics, automobiles, shipbuilding, and other high-tech industries that are crucial to Korea's export earnings. In an eight-page "reference material" statement, the Ministry of Strategy and Finance of South Korea said that the Chinese industry has emerged as a strong rival in key export markets for products ranging from clothes to consumer electronics and China's rise as a global economic power is most likely to intensify competition between the two countries in domestic and overseas markets.⁹

TABLE 3 GROWTH RATE OF CHINA'S AND SOUTH KOREA'S EXPORTS TO SELECTED MARKETS

Year	China's exports			South Korea's exports		
	U.S.	Japan	EU	U.S.	Japan	EU
2005	30.4%	14.3%	34.1%	-3.5%	10.7%	15.3%
2006	24.9%	9.1%	26.6%	4.5%	10.4%	5.0%
2007	14.4%	11.4%	29.2%	5.9%	-0.6%	13.7%
2008	8.4%	13.8%	19.5%	1.3%	7.1%	4.3%

Source: Ministry of Commerce, China: Import and Export Statistics and Country Report

- 3.2 Indeed, China's increasing competitiveness as a low-cost producer has already begun to challenge the leading position of South Korean exports in key markets and sectors. Since 2005, China's exports to the US, Japan, and EU, the three most important markets for South Korean exports, have grown much faster than those of South Korea, greatly eroding South Korea's market shares

⁹ Yoo Choonsik, "South Korea Wary as China Rises to Economic Power", *Reuters*, 13 April 2009, <http://www.reuters.com/article/ousiv/idUSTRE53C13420090413>.

in these economies (Table 3). A recent survey conducted by the International Trade Research Institute of KITA (Korea International Trade Association) revealed that “made-in-China” products are the chief competitor for “made-in-Korea” products (accounting for 60% of respondents) followed by Japanese products (15%), Taiwanese products (11%), and EU products (10%).¹⁰

3.3 Furthermore, South Korea has been increasingly concerned with the acceleration of imports from China, from a 26% increase in 2005 to a 31% increase in 2008, and the deceleration of exports to China, from a 23% increase in 2005 to a mere 8% increase in 2008 (Figure 3). According to a survey by the Hyundai Research Institute in 2007, Chinese goods accounted for over 35% of South Korea’s imported consumer products, up from 10% in 1992. The report concluded that South Korea has lost its competitiveness to Chinese goods since 2004.¹¹

3.4 A 2007 survey showed that half of South Korean firms operating in China believed that they have lost their comparative advantages over their Chinese counterparts in the Chinese market.¹² These firms are also facing tougher challenges due to the Chinese government’s application of much stricter criteria for overseas investments in China.

3.5 The increasing competitiveness of Chinese exports over Korean products has led to new trade frictions in bilateral trade development, which is represented by product safety issues (mainly food products), while trade disputes between the two countries, caused by anti-dumping on imports, have decreased with South Korea’s recognition of China as a full market economy in November 2005.¹³

¹⁰ Yonhap News Agency, “Haiwai maijia: hanguo chanpin zhuyao jingzheng duixiang shi zhongguo he dongnanya” (Overseas Buyers: South Korean Firms’ Major Competitors from China and Southeast Asia), 2 April 2009, <http://chinese.yonhapnews.co.kr/allheadlines/2009/04/02/>.

¹¹ Scott Snyder, “Teenage Angst: 15th Anniversary of Diplomatic Relations”, *Comparative Connections, A Quarterly E-Journal on East Asian Bilateral Relations*, CSIS, 10 October 2007, <http://www.csis.org/pacfor/ccejournal.html>, p. 2.

¹² Scott Snyder, “Teenage Angst: 15th Anniversary of Diplomatic Relations”.

¹³ According to China’s Ministry of Commerce, till now, China has adopted 30 anti-dumping

- 3.6 The rising product safety problem resulting from tainted imports has led to serious public health concerns in the two countries, especially within South Korea. South Korean consumers were concerned with food safety when Korea Food and Drug Administration (KFDA) announced in July 2005 that cancer-causing malachite green was detected in both live and frozen processed eels imported from China.
- 3.7 The problem was later aggravated by the “*kimchi war*” between the two countries. On 21 and 27 of October 2005, KFDA announced twice that Chinese made kimchi contained parasite eggs in levels higher than permitted, most likely in connection with Chinese use of animal manure as fertilizers for growing cabbage. The products in question were recalled and destroyed. The subsequent national outcry among South Korea consumers dried up kimchi imports and to some extent confirmed Chinese suspicions that the Korean press and protectionist farmers were trying to manipulate Chinese access to the Korean kimchi market. According to a report of the Korea Restaurant Association, over half of Korea’s restaurants were serving kimchi made in China in the first half of 2005, as a cost-saving measure.¹⁴
- 3.8 On 24 October 2005, South Korea’s Ministry of Foreign Affairs and Trade (MOFAT) revealed that the Chinese government had warned the Korean embassy in Beijing that it might retaliate. Indeed, on 31 October 2005, the General Administration of Quality Supervision, Inspection and Quarantine of China (GAQSIQ) announced an import ban on 10 types of food products from major Korean manufacturers of kimchi, chili paste and meat barbeque sauces, claiming that these Korea-made products contained parasite eggs.

measures against South Korean exports, mainly on petrochemical goods, iron and steel, among which there was only one case in 2007 and 2008 respectively. South Korea, in turn, has implemented 29 anti-dumping measures on imported Chinese items since 1992, centered on petrochemical goods, paper products, battery and household appliances; in 2008, there were only 2 cases, 14 April 2009, <http://www.cacs.gov.cn/cacs/anjian/searchresult.aspx>.

¹⁴ Scott Snyder, “Six-Party Success and China’s Peninsular Diplomacy”, *Comparative Connections, A Quarterly E-Journal on East Asian Bilateral Relations*, CSIS, 1 October 2005, <http://www.csis.org/pacfor/ccejjournal.html>, p. 6.

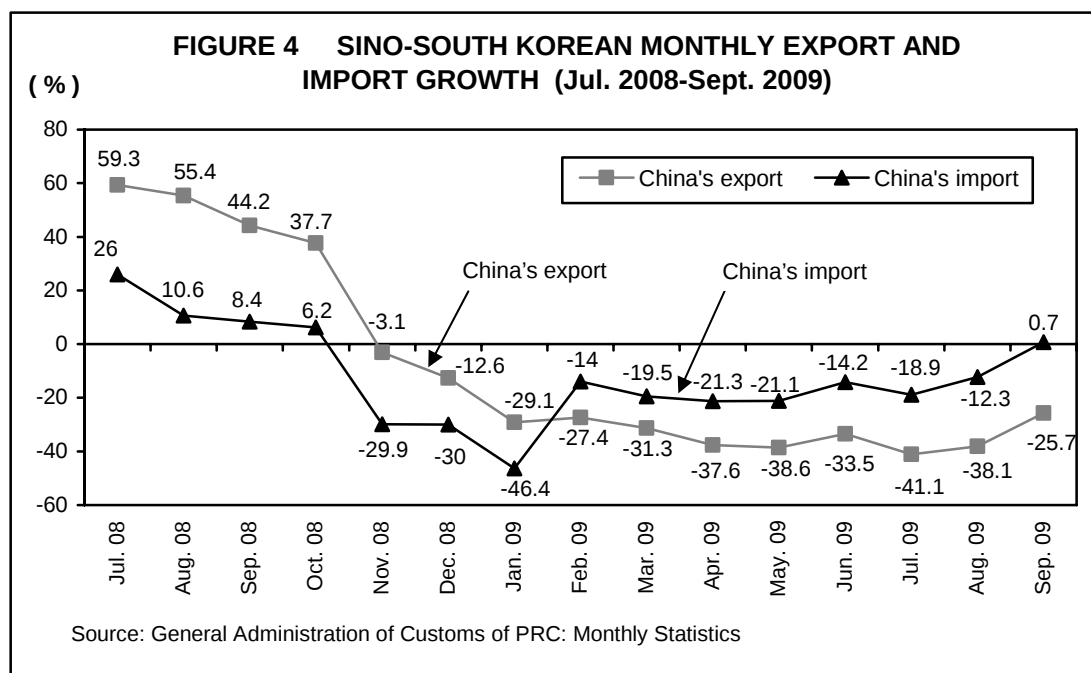
- 3.9 Neither Beijing nor Seoul wanted the “*kimchi war*” to escalate. After several rounds of talks and consultations between government agencies, a mutual understanding was achieved and the import bans on relevant products were removed by the end of 2005. However, the concerns over product safety remain and the two countries further tighten their inspection of imported products, especially on food and cosmetics. In consequence, more import products containing harmful chemicals, heavy metals or parasites were detected (Appendix 3).
- 3.10 China’s tainted milk-powder scandal in early 2008 further pushed South Korea to impose more stringent inspection of Chinese food product exports. The KFDA conducted a nationwide inspection of imported foods, and announced in October 2008 of the detection of melamine in 10 Chinese dairy products. These findings prompted the immediate banning, recalling or destroying of Chinese-made products suspected of containing melamine, the tightening of regulatory measures, and the introduction of new standards for other substances such as heavy metals.¹⁵
- 3.11 While product safety issues have remained manageable, the undercurrents of negative public sentiments aroused in the recent bilateral trade frictions should not be ignored. Nationalistic sentiments connected to issues of national pride (such as the Olympic torch relay incident in Seoul¹⁶) and historical and territorial spats between the two countries may be stimulated (Appendix 4).
- 3.12 Whether South Korea and China will resort to anti-dumping measures to protect home industries from competition remains to be seen.

¹⁵ Scott Snyder, “Sweet and Sour Aftertaste”, *Comparative Connections, A Quarterly E-Journal on East Asian Bilateral Relations*, CSIS, 15 January 2009, <http://www.csis.org/pacfor/ccejjournal.html>, p. 6.

¹⁶ The Olympic torch passed through Seoul on 27 April 2008 with the same tension and protests that accompanied torch relays in other cities around the world following the March riots in Tibet. A unique and controversial feature of the torch relay in Seoul was the simultaneous demonstrations by both pro-Tibet demonstrators and overseas Chinese students in South Korean universities. Reports of Chinese students sparking violent clashes with other demonstrators enraged both the Chinese and South Koreans.

Trade in Economic Crisis

- 4.1 The US sub-prime induced financial crisis has hit the real economy to become a global economic crisis. It was rapidly transmitted to many developing countries, especially trade-dependent economies like China and South Korea, through a contraction in trade finance and a slowdown in demand.
- 4.2 As a consequence of the deficit of credit and trade finance, the regional and global production has been experiencing a significant reduction, further leading to a contraction in the demand for exports. Since China and South Korea are closely linked to each other by regional and global production and supply chains, the contraction in production has negatively impacted on the bilateral trade.
- 4.3 Although China's export to and import from South Korea in 2008 rose 31% and 8% to US\$ 74 billion and US\$ 112 billion respectively, the monthly export and import growth has already started to decline from July 2008. In November, the two countries began to see negative growth both in export and import. Into 2009, this downward slide had continued. But the trade growth rate of August and September shows that the bilateral trade was recovering. Whether the recovery is sustainable remains to be seen (Figure 4).
- 4.4 To minimize the adverse impact of the economic crisis on bilateral trade, the two countries have adopted several proactive policies and measures. In November 2008, Beijing and Seoul agreed to strengthen bilateral cooperation on food safety amid escalating concerns about tainted imports by expanding information-sharing facilities between Chinese and South Korean health-related agencies. In December 2008, China's and South Korea's central banks, the People's Bank of China and the Bank of Korea signed a bilateral *yuan-won* swap deal (RMB 180 billion vs. 38 trillion *won*, about US\$ 27.2 billion).



4.5 Since November 2008, China has successively raised its export tax rebate for textiles and clothes from 11% to 16%, mechanical and electrical products from 11% and 13% to 17%, light industrial products from 5% up to 11% or 13%, and electronics and IT products from 14% up to 17%. To stabilize processing trade, China has also relaxed limitations on restricted and prohibited products from January 2009, and further simplified import customs clearance for used mechanical and electronic equipment since April 2009.¹⁷

4.6 In the case of South Korea, to boost exports to China, the Ministry of Knowledge Economy has formulated various measures that do away with the reliance on China-based Korean subsidiaries and multinational firms engaged in final assembly. These include expanding short-term export insurance by 30% to 20 trillion *won* (US\$14.4 billion), increasing export credit guarantee from 8.2 billion *won* to 100 billion *won* (about US\$700 million), holding a large-scale Korean commodity fair in Beijing in September 2009, supporting Korean participation in various exhibitions and fairs in China, organizing four

¹⁷ Ministry of Commerce of PRC, *Policy Release*, Nov. 2008 – Apr. 2009, <http://english.mofcom.gov.cn/policyrelease/policyrelease.html>.

purchasing parties to China in 2009 and inviting Chinese enterprises to take part in the imports exhibition in May 2009 in Seoul.¹⁸

- 4.7 As world economic growth had turned positive in the third quarter of 2009,¹⁹ the bilateral trade between China and South Korea has also shown signs of recovery. It is reported that Beijing's ongoing economic stimulus package has greatly facilitated the recovery of South Korea's exports to China.²⁰ However, there is little doubt that the two countries will experience a big contraction in trade volume, mainly due to the sharp decline in bilateral trade growth in the first half of the year. Beijing and Seoul will thus have to do a lot more in terms of reformulating more comprehensive and coordinative trade initiatives.

Bilateral FTA: A Preferred Choice

- 5.1 Due in part to slow progress in global multilateral trade talks such as World Trade Organization's (WTO) Doha Round, Regional Trade Arrangements (RTAs) have become increasingly favored in recent years to promote trade and investment, strengthen industrial and technological cooperation, as well as settle disputes between trade partners. According to the WTO, by December 2008, some 421 RTAs were formed and notified to the WTO, of which Free Trade Agreements accounted for over 90%.²¹
- 5.2 As early as March 2005, China and South Korea had already launched non-governmental joint feasibility study on a bilateral FTA based on the agreement reached between Chinese President Hu Jintao and former South Korean President, Roh Moo-hyun, in APEC Leaders' Meetings in Chile in November

¹⁸ Yonhap News Agency, *Measures to boost exports to China*, 18 March 2009, <http://english.yonhapnews.co.kr/business/>.

¹⁹ IMF: World Economic Outlook: Sustaining the Recovery, 20 October 2009, <http://www.imf.org/external/pubs/ft/weo/2009/02/index.htm>, p. 1.

²⁰ Scott Snyder, See-won Byun, China's Nuclear North Korea Fever, *Comparative Connections, A Quarterly E-Journal on East Asian Bilateral Relations*, CSIS, 15 October 2009, <http://csis.org/publication/comparative-connections-v11-n3-china-korea-relations>, p. 4.

²¹ WTO, *Regional trade agreements*, 4 March 2009, http://www.wto.org/english/tratop_e/region_e/region_e.htm.

2004. After the completion of the non-governmental joint study by the end of 2006, the two countries proceeded with another University-Industry-Government joint research on the bilateral FTA in 2007.

- 5.3 The joint research was reported to have a smooth run with nearly a dozen meetings and a series of special workshops held in 2007 and 2008.²² The initial findings show that the establishment of a Sino-Korean bilateral FTA would bring considerable mutual benefits to the two countries.²³
- 5.4 Based on findings of the two joint researches, China has repeatedly called for initiating formal negotiations on the bilateral FTA and seems eager to further deepen its trade, investment and technology cooperation with Korea. South Korea, on the other hand, seems increasingly uncomfortable with its growing trade dependence on the Chinese market and has expressed its growing concerns that its agriculture, fisheries, labor-intensive textiles and leather industries would be hit once the bilateral FTA is up, due to cut-rate competition from Chinese products.²⁴
- 5.5 However, the challenges of increasing competition and weak domestic as well as external demand necessitate a rethink of the bilateral trade relations. The establishment of a bilateral FTA is perhaps the best way forward for China and South Korea to achieve “win-win” results, from a long-term and sustainable trade development perspective, for not only trade but also investment, technology and culture cooperation.
- 5.6 To realize such a goal, much determination and efforts are required from the Beijing and Seoul governments.

²² China Ministry of Commerce, “Zhonghan ziyoumaoyiqu shi gongying de xuanze”, (Sino-South Korean FTA is a Win-Win Choice), 5 June 2008, <http://chinawto.mofcom.gov.cn/aarticle/>.

²³ Scott Snyder, “Six-Party Success and China’s Peninsular Diplomacy”, *Comparative Connections, A Quarterly E-Journal on East Asian Bilateral Relations*, CSIS, 1 October 2005, <http://www.csis.org/pacfor/ccejjournal.html>, p. 6.

²⁴ *Ibid.*

**APPENDIX 1 A CHRONOLOGY OF IMPORTANT SINO – S. KOREAN
TRADE-RELATED EVENTS
(Since 1990)**

1990: 15 September	PRC and ROK open the first direct ferry line linking Weihai, China and Inchon, South Korea.
1991: 30 January	KOTRA (Korea Trade-Investment Promotion Agency) establishes representative office in Beijing, and CCOIC (China Chamber of International Commerce) opens representative office in Seoul.
1992: 24 August 30 September	PRC and ROK establish formal diplomatic relations. China opens its embassy in Seoul, and South Korea also sets up its embassy in Beijing. China and South Korea sign “PRC – ROK Trade Agreement”, “PRC – ROK Mutual Investment Protection Agreement” and “Agreement on Establishing PRC – ROK Joint Committee for economic, Trade and technological Cooperation”.
1994: 26-29 March	ROK President Kim Young-sam visits China and holds summit meeting with PRC President Jiang Zemin. The two countries sign bilateral “Air Service Agreement” and “Agreement on Establishing PRC – ROK Industrial Cooperation committee”.
1995: 17 November	PRC President Jiang Zemin visits South Korea and holds summit meeting with ROK President Kim Young-sam in Seoul. The two countries sign “PRC – ROK Agreement on Economic Development and Cooperation Fund Loan”.
1996: 24 November	PRC President Jiang Zemin meets ROK President Kim Young-sam on the sideline of the APEC informal summit meeting in Manila, the Philippines.
1997: October 24 November	South Korea in financial crisis. China promises not to devalue RMB and provide financial help to the South Korean government. PRC President Jiang Zemin meets ROC President Kim Young-sam on the sideline of the APEC informal summit meeting in Vancouver, Canada.
1998: 14 November	ROK President Kim Dae-jung visits China and holds talks with PRC President Jiang Zemin in Beijing. The two countries pledge to build a “Sino-S. Korean cooperative partnership for the 21 century”.
1999: 28 November	ROK President Kim Dae-jung holds talks on economic issues with PRC PM Zhu Rongji on the sideline of ASEAN+3 meeting in Manila, the Philippines.
2000: 31 July 3 August	China and South Korea sign “Agreement on Garlic Trade”. ROK and PRC governments sign a fishing pact designed to clarify limits of commercial fishing areas.
2001: 21 April 24 April 5 November	China and South Korea sign “Memorandum of Agreement on Garlic Trade”, ending the garlic dispute between the two countries. China and South Korea sign “Agreement on Establishing PRC – ROK investment cooperative committee”. ROK President Kim, PRC PM Zhu Rongji, and Japanese PM Koizumi Junichiro agree to establish a trilateral forum among economic ministers to strengthen economic cooperation at the ASEAN Plus Three meeting in Brunei.

2002: 28-29 March 30 March	China and South Korea celebrate the 10 th anniversary of establishing diplomatic relations and announce 2002 as the PRC-ROK national exchange year. The Korea-China Investment Cooperation Committee is set up in Seoul under the chairmanship of the Korean and Chinese finance ministers.
2003: 7-10 July 5 October	ROK President Roh Moo-hyun visits Beijing and Shanghai for his first set of meetings with China's President Hu Jintao, promising to build "full-scale cooperative partnership". The ROK Commerce Ministry announces that China has officially become Korea's No. 1 export destination, surpassing the US for the first time.
2004: 12 May 15 May 19 November 31 December	ROK and PRC begin bilateral negotiations on South Korea's opening of its rice market as required under the WTO's Uruguay Round. Finance ministers of Japan, China, and South Korea meet on the sidelines of the Asian Development Bank meeting in Seoul to discuss enhancing regional financial cooperation measures, including establishment of currency swaps. PRC President Hu Jintao meets with ROK President Roh Moo-hyun at the APEC meeting in Santiago, Chile to announce initiating non-governmental possibility study on PRC-ROK bilateral FTA. China becomes South Korea's top trading partner.
2005: March 21-23 June 10 August 17 November	PRC and ROK launch non-governmental joint feasibility study on a bilateral Free Trade Area (FTA). ROK PM Lee Hae-chan meets with PRC PM Wen Jiabao during a three-day visit to Beijing and signs a memorandum of understanding to cooperate on developing cutting-edge technology and cooperation in the field of neon-technology. The People's Bank of China announces that the South Korean <i>won</i> is one of the components of the currency basket created as part of a new "managed float" mechanism for revaluing the <i>yuan</i> . PRC President Hu and ROK President Roh Moo-hyun hold summit meeting and address ROK National Assembly in Seoul. South Korea grants China the status of market economy. The two countries sign the Joint Research Report on Planning Medium- and Long-term Development of Economic and Trade Cooperation.
2006: 28 August 17 November	South Korea and China agree to strengthen cooperation on technology development, standard settings, and device manufacturing at the sixth Korea-China economic ministerial meeting held in Seoul. Chinese Minister of Commerce Bo Xilai and ROK Trade Minister Kim Hyun-chong agree to update a feasibility study on a China-South Korea FTA at the government-industry-university level in early 2007.
2007: 7 February 13-16 June 24 August 7 September	China and South Korea sign an agreement to actively promote the establishment of electronic governance systems. The first Korea-China-Japan Industrial fair is held in Seoul to foster industrial and commercial exchange. China and South Korea celebrate the fifteenth anniversary of the normalization of relations between the ROK and the PRC. PRC and ROK sign a revised Investment Promotion and Protection Agreement.

2008: 19 February	South Korea's Ministry of Commerce, Industry, and Energy announces that the government has decided to implement measures to support South Korean investors in China that are planning to withdraw from the country.
27-30 May	ROK President Lee Myung-bak visits China and talks with PRC President Hu Jintao. They agree to forge a "strategic cooperative partnership" between the two countries.
25-26 August	PRC President Hu Jintao makes his second state visit to Seoul and has talks with ROK President Lee Myung-bak. The two parties agree to further intensify cooperation in trade, investment, environment, IT, finance, logistics, energy and intellectual property, etc. and initiate employment license labour service cooperation. The two parties also decide to open a bilateral economic cooperation website.
12 December	The People's Bank of China and the Bank of Korea finalize a US\$27.2 billion <i>won-yuan</i> swap agreement.
2009: 7 March	Chinese Foreign Minister Yang Jiechi at China's annual parliamentary session calls for enhanced China-Japan-ROK cooperation on the financial crisis and says FTA negotiations with ROK should begin as early as possible.
1 April	PRC President Hu Jintao holds talks with ROK President Lee Myung-bak at the G-20 summit meeting in London, UK.
23 June	Over 1,000 Korean firms in IT, automobiles, energy and consumer goods showcase their products at the "Korean Products Show 2009, Beijing"
23 September	PRC President Hu Jintao and ROK President Lee Myung-bak hold a summit in New York on the sidelines of the UN General Assembly.

Source: Compiled by the author with information from Xinhua News Agency, China and Yonhap News Agency, South Korea.

**APPENDIX 2 TOP 10 TRADING ITEMS BETWEEN CHINA AND SOUTH
KOREA (1993, 2008)
(By the category of H.S code)**

No.	1993				2008			
	China's Export	%	South Korea's Export	%	China's Export	%	South Korea's Export	%
1	Textiles and textile articles	25.3	Base metals and articles of base metal	23.4	Machinery, electrical equipment, sound, television image	35.9	Machinery, electrical equipment, sound, television image	38.9
2	Vegetable Products	18.6	Machinery, electrical equipment, sound, television image	20.2	Base metals and articles of base metal	26.6	Optical, photographic and medical or surgery instruments	13.5
3	Mineral products	18.3	Textiles and textile articles	18.4	Textiles and textile articles	6.7	Products of the chemical or industries allied	12.3
4	Machinery, electrical equipments, sound, television image	7.3	Plastics, rubber and articles thereof	11.4	Mineral products	6.3	Mineral products	9.9
5	Products of the chemical or industries allied	6.5	Leather, fur skins and articles thereof	6.6	Products of the chemical or industries allied	6.0	Base metals and articles of base metal	8.4
6	Base metals and articles of base metal	6.5	Mineral products	6.4	Optical, photographic and medical or surgery instruments	2.8	Plastics, rubber and articles thereof	7.9
7	Prepared food stuffs, beverages and tobacco	4.5	Products of the chemical or industries allied	6.3	Miscellaneous manufactured article	2.5	Transport equipment	3.8
8	Leather, fur skins and articles thereof	2.8	Paper and articles thereof	3.0	Glassware and ceramic products	2.4	Textiles and textile articles	2.8
9	Wood and articles of wood	1.9	Transport equipments	1.2	Transport equipment	2.0	Paper and articles thereof	0.5
10	Footwear and Headgear	1.9	Miscellaneous Manufactured article	0.9	Plastics, rubber and articles thereof	1.8	Leather, fur skins and articles thereof	0.4
Total		93.6		97.8		93.0		98.4

Sources: Ministry of Commerce, China: Country Report

APPENDIX 3 LIST OF TAINTED PRODUCTS DETECTED BY SOUTH KOREA OR CHINA (SINCE 2005)

Time	Product	Contaminant	Producer
July 2005	Ginseng	Insecticide	South Korea
August 2005	Eel, carp and goldfish	Malachite green	China
October 2005	Kimchi	Parasite eggs	China
October 2005	Kimchi, chili paste and meat barbeque	Parasite	South Korea
February 2006	Sea sedge	Arsenic	South Korea
April 2006	Dried Hizikia fusiformis	Arsenic	South Korea
December 2006	Cultivated flatfish	Nitrofurans	China
July 2007	“QUA” Brand T-shirt, dress	Azo dyes	South Korea
July 2007	Confectionary	Aluminum	China
August 2007	Oriental medicines	Lead, mercury, cadmium and arsenic	China
September 2007	Sauces	Di-phthalate	China
October 2007	Seaweed meal	Lead	South Korea
February 2008	Infant formulas	Excessive copper	South Korea
March 2008	Dried purple seaweed	Arsenic	South Korea
April 2008	Pickled garlic	Sorbic acid	China
May 2008	Kimchi	foreign matter	China
June 2008	Batatas decaisme	SO ₂	China
September 2008	Béchamel	Excessive sorbic acid	South Korea
September 2008	Cracker sandwiches Tasty rice snack Rice soft cakes	Chemical melamine	China
October 2008	Dairy products	Chemical melamine	China
October 2008	Feed additives	Chemical melamine	China
October 2008	Kidney beans	Pesticide	China
November 2008	Cooked duck meat	Antibiotic	China
November 2008	Cod fillet	Parasite	S. Korea
December 2008	Rice wine	Excessive manganese	S. Korea
January 2009	Dried persimmon	Parasite	China
February 2009	“Laneige” brand eye cream “Dae Jang Geum” face pack	Excessive bacteria	South Korea
February 2009	“Nongshim” brand noodle	Excessive bacteria	South Korea
April 2009	“Lucean” brand cosmetics	Asbestos	South Korea
April 2009	Sanitary pad	Excessive bacteria	South Korea
April 2009	Beef products	Clenbuterol	China

Source: Compiled by the author according to inspection reports made by KFDA and AQSIQ (General Administration of Quality Supervision, Inspection and Quarantine of China)

APPENDIX 4 HISTORICAL AND TERRITORIAL SPATS BETWEEN CHINA AND SOUTH KOREA

The historical dispute between China and South Korea refers to the conflict over the origins and legacy of the *Goguryeo*, an ancient kingdom (37 B.C. to 668 A.D.) located mostly in the present day Northeast China and North Korea. The People's Republic of China (PRC) claims that *Goguryeo* is part of China's history and a decision by the PRC Ministry of Foreign Affairs to delete all references to the history of Korea prior to 1948 caused a huge public backlash in the Republic of Korea (ROK) in 2004, and led, for the first time, to a harsh reassessment of China's rise and its implications for the Korea Peninsula. After intensive negotiations, the two sides announced a five-point verbal agreement to prevent the *Goguryeo* issue from affecting other aspects of the bilateral relationship. The agreement includes a pledge by China to remove its claim to *Goguryeo* from Chinese history books, but did not lead to an immediate restoration of Korean historical information on the Chinese Foreign Ministry website. It was criticized by many South Koreans as a stopgap measure and as not binding on the two sides, thus limiting its capacity to prevent recurrence of the issue. As expected, the conflict over this issue again emerged in 2006, when a report made by the Chinese government-sponsored Center of China's Borderland and History and Geography Research claimed that the *Goguryeo* kingdom is part of Chinese history. This claim was considered by Seoul to violate the 2004 agreement that China would refrain from public claims to the kingdom, while Beijing argued that the report was an academic work and unrelated to government claims. The recurrence of this issue illustrates ongoing sensitivities to China's and South Korea's activities regarding historical claims.

The territorial spat refers to the dispute over a submerged rock 4.6 meters below sea level (at low tide) located in the East China Sea between South Korea, which considers it to lie within its Exclusive Economic Zone (EEZ), referring to it as *Ieodo* or *Parangdo*, and China, which considers it to lie within its EEZ and refers to it as *Suyan* Rock. The rock is located 149 km to the southwest of Korea's Mara Island and is 245 km from China's *Tongdao* Island. The rock remains submerged at all times, but South Korea has built maritime scientific facilities and a helicopter landing pad on it to serve as the foundation for the Korean *Ieodo* Ocean Research Station. On September 7, 2006 China's State Oceanic Administration announced that Chinese planes had conducted surveillance activities of the *Suyan* Rock. On August 15, 2008, the Chinese Oceanic Information Network deleted its territorial claim over this disputed rock to show that it is contested territory.

Source: Edited by the author with information from Chinese and South Korean media.