Relations Between China and South Korea: The Economic Aspects

Having scrutinized the political aspect of relations between the PRC and the ROK, let us briefly examine the economy’s state of affairs.

First, a few general numbers. Over 28 years of diplomatic relations, trade between the two countries has grown 40 times, and in 2019 amounted to $243 billion 400 million.

In the first seven months of 2020, China accounted for 24.3% of South Korean exports, up 1.5% from a year earlier, according to a report from the Federation of Korean Industries. The increase came despite a 10.6% drop in South Korea's total overseas shipments following the coronavirus outbreak.

Over the same period, South Korea's exports to the European Union, Central and South America, and India declined by 11.5%, 34.3%, and 34.5%, respectively. In contrast, exports to China rose 9.7% in June after contracting 2.5% in May, the first positive growth in six months.

China’s direct investment in South Korea grew by about 2.6 times year-on-year to $856 million in January-June, while China's share of total FDI in South Korea rose to 11.2% in the first half of the year from 3% a year earlier. After the coronavirus pandemic, total FDI in South Korea fell by 22.4% to $7.66 billion on a year-on-year basis.

The main achievement of spring-autumn 2020 was that from May 1, 2020, China and South Korea reached an agreement to open a “fast track” for business travelers. The program will be extended to representatives of business, logistics, industrial production, and technical services. Chinese businessmen will travel throughout South Korea, while their Korean partners will visit 10 Chinese provinces and cities, including Chongqing, Shanghai, and Tianjin. Naturally, after passing the tests, both those and other businessmen will be exempt from the mandatory 14-day quarantine.

After that, China agreed to renew work and study visas to South Korean citizens and entry visas for those with a residence permit. Now about 70,000 South Koreans who have been unable to resume their studies or return to their jobs in China due to COVID-19 will be able to do so. Visa applicants must submit a certificate confirming a negative COVID-19 test result five days before boarding. Upon arrival in China, they face a 14-day quarantine.

Since August 10, South Korea has lifted restrictions on entry from Hubei’s Chinese province, from where the COVID-19 virus began to spread.

In October 2020, Seoul and Beijing agreed to extend the bilateral currency swap agreement to ease a possible liquidity crisis amid the new COVID-19 outbreak. The agreement providing transfer of the national currency of South Korea to the PRC in exchange for the yuan was concluded in 2009, after which it was extended three times. The new agreement was signed for five years, and the swap was $59 billion.

Slowly but surely, videoconference talks are underway to expand the 2015 bilateral free trade agreement’s scope to cover the service and investment sectors. So far, the parties have noted that the free trade agreement has helped increase bilateral trade from 2015 to 2018 by 18.2% and have agreed to set up a new committee on online commerce to tackle mutual supply disruptions due to the COVID-19 pandemic and expedite negotiations to remove barriers in the service and investment segments. The last, so far, the ninth round took place from 26 to 30 October. As the Ministry of Trade and Energy representative noted, the negotiators will try to open the service market and protect investors.
Air transportation is gradually reviving. Since mid-September, South Korea and China began operating non-scheduled flights on Thursday. For example, Xiamen Airlines conducted seven flights from Incheon to Qingdao, Zhengzhou, and Xiamen. All passengers were required to present coronavirus test results obtained within 72 hours before boarding and follow the guidelines.

Regarding regular flights, local airlines operate ten routes to China. Korean Air offers weekly flights from Incheon to Tianjin, Guangzhou, and Shenyang. Asiana Airlines Inc. provides weekly flights from Incheon to Changchun, Nanjing, and Chengdu. And the low-cost airlines Jeju Air Co. and Jin Air Co. Serve the Incheon-Weihai and Jeju-Xian routes.

Overall, as of August 2020, the number of flights to China fell from 1,164 to 21 per week compared to the winter of 2019, and the number of routes dropped to 16 from 84 over the same period.

On October 15, Air Busan Co., the low-cost arm of Asiana Airlines Inc., resumed flights to Qingdao to meet travel demand from businessmen. Air Busan will offer one flight per week after being suspended for more than seven months due to the coronavirus’s impact on the aviation industry. In July, the carrier resumed the Incheon-Shenzhen route, but other routes to Ningbo, Chengdu, Qingdao, Yanji, Zhangjiajie, Xi'an, Hainan, and Haikou remain suspended.

According to the Korea Tourism Organization, the number of Chinese tourists to South Korea fell by more than 30 percent between 2017-2020, compared with three years earlier.

But Dusan, South Korea's largest construction equipment manufacturer, sold 10,728 excavators in China in January-June, up 10 percent from a year ago. It is the highest figure since the same period in 2011, when about 12,000 excavators were sold. The company also announced that it had released its new 6-tonne DX 60W ECO excavator designed explicitly for the Chinese market.

On the other hand, China is increasing steel supplies to the Republic of Korea market, which poses a threat to local producers and weakens their competitiveness. According to POSCO, at the end of 2019, South Korea exported 30 million tonnes of steel, ranking third in the world for this indicator. Simultaneously, the import of these products to the country amounted to 16 million tonnes - 5th place. Concurrently, a 12.5% growth trend is recorded for supplies from China, whose share in the total volume of South Korea's imports exceeded 50%.

But the confrontation between China and the United States is also making itself felt, and the author associates some repressive measures against Chinese companies with it.

On July 15, 2020, the Communications and Telecommunications Committee of South Korea announced that the Chinese social platform operator TikTok was fined 186 million won ($ 155,000) for mismanaging user data. It turns out that the popular teen app violated telecommunications law by collecting data from children under the age of 14 without parental consent and did not notify users of their data being transferred to servers in the United States and Singapore without prior notice. "While TikTok promised that children under the age of 14 would not be able to use its service, it did not use a proper online age verification process." At least 6,007 similar cases were confirmed, which is why the head of the department, Han Sang Hyuk, called TikTok a problematic company and demanded to fix "all problems found" within 30 days.

On August 20, 2020, the South Korean Trade Commission tentatively decided to extend anti-dumping tariffs on plywood products from China and Malaysia for five years, as such products could be dumped on the local market when existing barriers are removed.

The situation with Hong Kong also affects. South Korean companies operating there fear losses due to the escalating conflict between China and the United States. 55.9% of companies surveyed by the Federation of Korean Industries fear that this law and the US government’s decision to deprive Hong Kong of special status will negatively affect their business ... 70.6% of them expect that the situation in Hong Kong will harm the South Korean economy. Due to the escalation of the conflict between the United States and China, their sales in the second half of this year will decline by an average of 11.7% year on year. 88.2% expect security law to negatively impact Hong Kong's status as an international financial center.

Against this background, the PRC is actively pushing the ROK to cooperate. Not so much the government but private structures. So, on June 4, 2020, the Chinese Ambassador to South Korea Xing Haiming met with the chairman of SK Group and called for more investment in his country. This meeting was the first meeting of the ambassador with one of the largest South Korean conglomerates since he took office. During the talks, topics of mutual interest were discussed, including the intensification of bilateral economic cooperation at the sectoral level and measures to
respond to the coronavirus pandemic. Xing appreciated that SK Group had made a positive contribution to the development of Sino-South Korean diplomatic relations and urged other Korean companies to expand their investments in China actively, hoping that such cooperation will "qualitatively advance" relations between the two countries.

Thus, while both countries are trying to recover from the decline caused by the coronavirus, there is no full recovery, due in part to political reasons.

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