Details of the Economic Relations Between PRC and South Korea in 2021

The economic interaction between the ROK and the PRC during the reviewed period represented several overlapping trends.

On the one hand, Beijing continues to act against companies involved in deploying US missile defense in South Korea. It restrains the penetration of South Korean cultural content into the country (mainly as part of the overall strategy of creating a golden shield). Lotte Corporation is considered the biggest casualty, having suffered billions of dollars in losses and closing all Chinese units of its Lotte Mart retail chain. Still, for the same reason, Hyundai Motor has suspended operations as of 2019 and is currently selling its first Chinese plant built in Beijing.

Seoul, on the other hand, ensures that no South Korean firms were found to be doing business with Chinese businesses accused of human rights violations in China's northwestern Xinjiang region. The Seoul government launched due diligence after a group of UN special rapporteurs on human rights noted South Korean firms' potential involvement (including Samsung and LG) in alleged rights abuses through their supply chains in China, in a March 12 letter to Seoul.

On the other hand, outside of these areas, both this year and last year, trade has been growing, with several illustrative examples.
In February 2021, Doosan Infracore Co. sold 1,754 excavators in China, more than three times as many as a year ago, while Hyundai Construction Equipment Co. sold 709 units, more than five times as many. As a result, Doosan Infracore had a 7.1% share of the Chinese construction equipment market that month, while Hyundai Construction Equipment had a 2.9% share.

On March 14, SK global chemical Co., an affiliate of South Korea's top refiner SK Innovation Co., said Sunday it will build a packaging material plant in China. Under the deal, SK global chemical will set up a joint venture with Satellite Petrochemical to build a plant that produces ethylene acrylic acid (EAA), a high-end eco-friendly material used for packaging. The two sides will spend 200 billion won (US$175 million) to build the plant.

Also, in March 2021, as part of its efforts to reduce production cost and consequently retain its leading position as the world's top smartphone maker. Under the contract, the sources said, Samsung is scheduled to adopt OLED panels from Chinese display maker BOE for its new budget Galaxy M smartphones.

In May 2021, it was revealed that LG Chem Ltd, a leading automotive battery manufacturer in South Korea, is investing 40 billion won ($35 million) in China's Jiujiang DeFu Technology, the third-largest copper foil manufacturer in China. The Chinese firm plans to expand annual production to 78,000 tons by 2022 to meet rising demand for copper foil essential to manufacture car batteries.

LG Energy Solution Ltd, on September 17, signed a 350 billion won ($297.5 million) deal to acquire a 4.8 percent stake in China’s Greatpower Nickel & Cobalt Materials Co. for a stable supply of battery materials. At the same time, LG Chem Ltd. signed a six-year contract to purchase about 20,000 tons of nickel, which is enough to supply about 370,000 electric vehicles.

In general, China imported US$173.5 billion worth of goods from South Korea in 2020, only 0.03 percent down from 2019. South Korea was the third-largest exporter to China last year behind Taiwan ($202.1 billion) and Japan ($176.1 billion). Cosmetics, including skincare products and facial masks ($3.13 billion), medical masks ($220 million), and instant noodles ($150 million), are in the top three most purchased products.

And Korea's total trade with China, combining exports and imports, was $241.5 billion, nearly double that of the United States ($131.6 billion) and three times that of Japan ($71.1 billion). As a percentage, trade with China accounts for 25-27% of South Korea's total trade, and it is Seoul's leading foreign trade partner.

China has pulled ahead in some areas of competition. According to UK-based Clarkson Research, China overtook South Korea in April to become the world’s number one order originator for new ships. Of the global order book for new ships in April, China accounted for 54% and South Korea for 39%.

Then, in 2021, Samsung Electronics, for the first time, lost in terms of smartphone sales in the global market to China’s Xiaomi. The latter accounted for 17.1% of global sales (+26%), with Samsung coming in second with 15.7%, and Apple in third with 14.3%.

On the third hand, there is a clear trend in the ROK media to warn against further development of trade relations with China, and these arguments can be summarized as follows:

- Tensions between the US and China caused Washington’s desire to get rid of its dependence on the supply of Chinese goods, which could hurt South Korean businesses if they invest in China. The Korea Center for International Finance believes that the global supply crisis will slow global economic growth and prolong inflation, hitting major countries that rely on global trade hard.
- China’s economy is showing signs of slowing down, with growth slowing to 4.9% year-on-year in the third quarter from 18.3% and 7.9% in the first and second quarters. China’s economic growth is expected to decline further due to a slowdown in construction, the threat of default by Evergrande Group, China’s largest property developer, and new severe travel restrictions due to an outbreak of the Covid Delta variant. According to Seoul National University economist Lee In-ho, “weakening consumer sentiment in the world's second-largest economy will hurt Korea's exports.”
- The consequences of electricity shortages are declared severe risks. Shortages of crude oil, coal, and natural gas have already caused their prices to skyrocket. To make matters worse, it is now closely linked to a much-publicized carbon-neutral policy to address climate change. As a result, natural gas futures prices rose 7 percent, and authorities have already begun to cut power supplies to 20 provinces in industrial centers, including Jiangsu, Zhejiang, and Guangdong. Some provinces in China have taken measures to limit electricity supply to aluminum producers, which has reduced its productivity.
If production in China is hit hard by higher energy and commodity prices, significant damage to South Korea’s trade will be inevitable. Disruptions in the transport and logistics industries are already affecting South Korea’s exports. Hyundai Motor and its subsidiary Kia are seeing a slump in overseas sales due to a chip shortage. POSCO’s stainless steel plant in Jiangsu Province has suspended some of its lines since September 17, 2021. The semiconductor lines of Samsung Electronics and SK hynix in China are also likely to be affected.

Some texts openly denounce a totalitarian regime, cooperation with which is unacceptable and dangerous. Here is a typical example of text from KBS: “Risks of South Korean companies linked to China continue to rise steadily, putting pressure on the domestic economy. Above all, they are caused by China’s domestic policies, which promote complete control over the private sector and confront the US. A telling example was the Chinese government’s criticism of Alibaba internet company founder Jack Ma, which prompted immediate sanctions from Beijing. If a company goes against the political course, it will be severely punished, regardless of the market reaction.”

All this leads to a reduction of foreign investment in the Chinese economy. While South Korean companies invested $7 billion 200 million in China in 2013, only $4 billion 300 million in 2020.

A separate example of supply dependency is the likelihood of a possible transportation crisis due to a shortage of urea water solution (AdBlue), which is a crucial component of diesel exhaust fluid (DEF), a vital additive needed to reduce diesel engine emissions.

South Korea is heavily dependent on China for AdBlue supplies - 97.6% of its imports came from China in the first nine months of this year. However, in the October-November 2021 energy crisis caused by a shortage of coal (the primary raw material for urea production), China reduced exports of fertilizers and related materials, including urea. This has caused near panic, a tenfold increase in the product’s price, feverish efforts by the government to remedy the situation and diversify its sources of supply, and scathing articles in the opposition media scourging Moon.

Note that this crisis was by no means a deliberate knocking the bottom out of. On November 8, the Chinese Ambassador to South Korea, Xing Haiming, said his country would do everything possible to help solve the urea water solution shortage. According to him, “this is a situation that China has not expected. We will do our best to deliver good news soon.”

But besides AdBlue, there are other products from China whose supply disruption could cause a full-blown crisis. These are magnesium (87% of the world’s reserves are in China, and in the last two months, prices have increased more than four times), lithium hydroxide for the production of batteries for electric vehicles (83% of which is supplied to Korea from China), silicon and tungsten oxide, which are used in the production of semiconductors (here 90% of imports are from China).

And this is something the NEO audience should note in case Beijing decides to respond to the rising anti-Chinese sentiment in the ROK, which will be the subject of the next piece in this series.

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