Changes for the better in relations between the PRC and the ROK?

The end of 2017 may be distinguished by identifiable changes in the policy of Beijing relation to the states of the Korean peninsula: if in the North Korean direction after the sixth nuclear test of 2017 there is a tightening of the screws, then in relation to the ROK there are to be some indulgences. The matter even came on the visit of Mun Zhe Ying to China.

First, let us look back the level of relations between the PRC and ROK before the thaw and how much it affected Seoul's wallet.

Until a certain moment, the PRC used severe economic measures to put pressure on the ROK connected with the problem of THAAD. The discourse went about the ban on cultural content (South Korean pop stars or TV series produced by the ROK did not appear on television), complicating the working conditions of South Korean companies and limiting the flow of tourists.

Periodically, the parties were disrupted by insults: for example, in September 2017, the Global Times made very insulting remarks against the Koreans, saying that they had, “Eaten too much Kimchi”, by deciding on the deployment the US missile defense. Koreans took offense, and the newspaper ‘Choson Ilbo’ wrote an angry answer.

The level of official contacts was not high. As you can recall, after the sixth nuclear test of the DPRK, Mun Zhe Ying actively called almost all the leaders of major powers, from Putin to Abe or Merkel,lobbying the American draft resolution. However, before Xi Jinping, he somehow did not get through, because it is alleged that the PRC president ordered not to bring them together.
However, mostly it was about informal sanctions, because no one officially introduced them, but in fact there was a creation of the maximum number of obstacles. So, the number of passengers on flights between the airports of the ROK and China, performed by South Korean carriers, amounted to 1,120,000 people in July 2017, which is 45.2% less than a year ago. The number of Chinese tourists in the ROK also decreased by 65.7% after air carriers began to cancel some of the flights to South Korean airports because of a ‘reduction in the number of passengers’, and the Chinese authorities since March 15, 2017, banned their travel agencies to sell group trips to the ROK. In addition, even individuals were forbidden to sell tours to the ROK at low prices and include in them hotels Lotte and duty-free shops Lotte Duty Free.

The trade balance surplus in the sphere of services related to music and video content decreased by 40.3% compared to the previous year. Sales of Hyundai cars in China in the same period fell by 64%.

Particular pressure was exerted on the company Lotte Group, which provided its land for the deployment of THAAD ABM complexes, after which 87 out of 112 supermarkets Lotte Mart in different regions of China were closed by the authorities of the PRC under the pretext of violating the rules of fire safety and a number of others. In front of some shops, anti-Korean protests of the local population took place. As a result, Lotte's sales in China fell by 88% year-on-year, most Lotte Mart stores in China were closed for more than half a year and by the end of 2017 losses will exceed $880 million (according to other sources, the damage from the temporary closure of Lotte Mart stores is approaching $ billion). As a result, Lotte Group began preparations for the sale of its supermarket chain in China. Goldman Sachs is appointed to lead the procedure, and two options are considered: selling all supermarkets or only a part.

As a result, if from 1993 to 2013 the surplus of the ROK in trade with China increased from $1.2 billion to $62.8 billion, then in 2016, it fell to $37.5 billion. And according to the calculations of the Korea Development Bank, China's unspoken sanctions against South Korea (they began in August September-September 2016 and increased in March 2017) cost in the range of $6.4 billion (direct losses) to $20.3 billion (lost profit): after all, China is South Korea's most important trading partner, the trade turnover with which in 2016 amounted to $211 billion, as well as the main source of tourists for the country, while Chinese tourists spend on average more than average.

However, specific estimates of the damage vary and according to the National Assembly's budget policy department on December 3, 2017, the decline in the flow of Chinese tourists led to the fact that in 2017, sales by South Korean travel companies and hotel business declined by $6.8 billion.

The biggest damage from the reduction in the flow of Chinese tourists was felt by the enterprises of trade: the volume of sales decreased by approximately $4.5 billion. In the hotel sector, damage is estimated at more than $1 billion, in the food sector $766 million, and in transport $28 million. A tangible blow to retail trade is explained by the fact that 2/3 of the expenses of Chinese tourists were for shopping. Especially the outflow of tourists affected the duty-free shops, as 64% of purchases in them were made by the Chinese.

The Bank of Korea gives slightly different data. According to its calculations, the number of Chinese tourists visiting the ROK in 2017 was 4 million people, half as much as a year ago. Such a cut could damage the South Korean GDP by $4.5 billion, and the growth of the South Korean economy could be reduced by 0.4%.

In Seoul, the problem was mainly addressed by complaints to international organizations. Thus, on September 13, 2017, during the 13th meeting of the working group on trade between the ROK and China, it was decided to continue to take measures to abolish China's informal sanctions in the areas of trade and tourism, and the Ministry of Industry, Trade and Energy of the ROK intended to send to the government of China a letter of protest.

However, the appeals of a number of politicians about the need to file a complaint with the WTO to the Blue House commented unequivocally: do not force it. As the representative of the Suhyun Pak administration noted on September 14, now it is necessary to focus on solving the North Korean nuclear problem, to develop cooperation, including with China.

However, against the backdrop of the DPRK's nuclear test, Beijing has moved on to more constructive actions, as can be seen from the chronicles of official meetings.

On August 24, 2017, President of the ROK Mun Zhe Ying and Chairman of the PDR Xi Jinping exchanged congratulatory messages on the occasion of the 25th anniversary of diplomatic relations. The South Korean leader called good relations with China one of the priorities of the foreign policy of Seoul and highly appreciated the achieved level of bilateral relations. The Chinese leader also highly appreciated the development of bilateral
relations, expressing hope for their further stable and healthy development.

However, according to the experts of the ROK, the level of the conducted activities was lower in comparison with that which was maintained in previous years. For example, there were no government ceremonies or sending of an official delegation to Beijing.

October 24, 2017, in the Philippines during the meeting of defense ministers of the ASEAN+ association, the first meeting of the ministers of defense of the ROK and China took place in two years. South Korean Minister Son Yong Mu and Chinese Minister Chiang Wanquan held a half-hour discussion in a closed informal format.

On October 25, Mun Zhe Ying sent a congratulatory message to the PRC Chairman on the occasion of his re-election as Secretary General of the CPC Central Committee. In the letter, Moon wished that under the leadership of Xi Jinping, that the country reached the ‘Chinese dream’ and expressed the hope that China will play an even greater role in ensuring prosperity and stability in the region and the world.

An important date was October 31, 2017. On this day, during the parliamentary inspection, the Minister of Foreign Affairs of the ROK Kang Kyung-wha, pointed to the position of the MFA of the ROK with regard to US ABM complexes containing a kind of ‘three nots’: “Seoul will not consider the possibility of additional placement of THAAD except those already installed; will not join the US missile defense system; The cooperation of the ROK, the US and Japan in the sphere of security will not expand to the level of a military alliance.

On the same day in Seoul, the results of talks between the Deputy Head of the National Security Directorate under the President of the ROK, Nam Gwang Phe, and the Assistant Foreign Minister of the People’s Republic of China, Kun Xuanwu, the Special Representative on the Korean Peninsula, were announced in Seoul. It was decided to return to the level of relations that existed before the dispute arose because of THAAD.

Also on October 31, in Beijing, Kuhn Xuanwu met with the representative of the ROK at the six-party talks, Li Do Hoon. The sides confirmed the firm position to seek to free the Korean peninsula of nuclear weapons and peaceful settlement of Pyongyang’s nuclear problem, and also agreed to continue to exert diplomatic pressure on the DPRK to bring it to the negotiations table.

On November 1, Foreign Ministry spokeswoman Hua Chuning said that bilateral exchanges and cooperation could be stabilized if the ROK kept the above three promises. This was a noteworthy step forward, as previously, in response to similar statements by Seoul, Beijing reasonably noted: since the work of THAAD is under the full control of the United States, South Koreans are making obviously unrealistic promises. However, this time the issue still was decided to be closed.

On November 2, a delegation of six deputies of the National Assembly of the ROK headed by a deputy from the opposition People's Party Chon Dong-yon visited China. South Korean parliamentarians met with representatives of political and scientific circles, discussing issues related to the nuclear problem and the deployment of THAAD.

On November 11, in Danang, on the margins of the APEC summit, the second meeting of Moon Zhe In with Xi Jinping took place (the first, as we recall, was in Berlin before the G20 summit in July). During the 43-minute meeting, Mun Zhe Ying expressed his hope for the opening of a new era in relations between the two countries and their transition to the level of strategic partners, and Xi Jinping said that the meeting would be an important occasion for the development of bilateral relations and for cooperation on the problems of the Korean peninsula. In addition, the heads of the two countries agreed to hold a full-fledged summit and reaffirmed their position on a peaceful solution to the North Korean nuclear problem, agreeing to make efforts in this direction. The issue of the deployment of the US complexes of the THAAD missile defense system and economic sanctions in Beijing was not touched upon. On this occasion, the representative of the Blue House said that since the meeting was held in a simplified manner, "the opportunities for in-depth discussion were limited."

On November 13, in Manila, in the framework of the ASEAN annual forum, Mun Zhe Ying met with the Premier of the State Council of China Li Keqiang. As the South Korean leader noted, "sometimes you have to make nine steps back before moving forward a step forward." However, Mun expressed his confidence that the relationship between Seoul and Beijing in the near future will reach the level of a "strategic cooperative partnership". In his turn, Li
Keqiang noted the presence of "positive changes" in bilateral relations, wishing them to return to normal.

On November 21, the Minister of Foreign Affairs of the ROK, Kang Kyung-wha, went to China in preparation for the visit. On November 22, during the meeting of Kang-Kyung-wha and Wang Yi, an agreement was reached on the summit, that the visit of Mun Zhe Ying to China will take place from 13 to 16 December. In addition, the ministers agreed with the need to build relations on strategic cooperation and a peaceful solution to the North Korean nuclear issue through dialogue, and Ms. Kang hoped for an early solution to the problems facing South Korean entrepreneurs in China.

The ministers' talks were supposed to record the previously achieved informal agreements, and, according to Wang Yi, China took into account the statements of the Republic of Korea on non-alignment with the US missile defense system and that the deployed THAAD system will not damage China's security interests. "I hope that the Republic of Korea will continue to properly regulate this issue." What is behind the change in the Chinese position? South Korean experts are making a good face in terms such as "Beijing realized that the policy towards South Korea is worsening the attitude towards China on the part of ordinary Koreans, which in the future will not be easy to fix." More serious experts believe that the PRC realized that the deployment of THAAD can not be completely abolished, but it is quite possible to freeze at the current level. And if so, this can be satisfied with the fact that, removing this stumbling block in the development of relations, continues to drag the new leadership of the ROK to its side.

Against the background described above, some lifting of informal sanctions and the revival of economic cooperation began, which can be illustrated by a number of examples.

August 30, 2017, for the first time since 1993, three Hyundai Motor plants in Beijing and one in Changzhou, Jiangsu Province resumed production after a five-day downtime. The official reason was the delay in payment to suppliers of parts by Beijing Hyundai Motor, caused by the refusal to assist the Chinese side of this joint venture, the actual - in the actions of the Chinese side.

On September 1, 2017, Assistant Deputy Minister of Industry, Trade and Energy for Trade, Kang-san Cheong, met with the Deputy Minister of Commerce of the PRC, Qian Kemin. The Chinese side was explained the difficult situation in which the South Korean companies operating in the PRC found themselves.

October 10, the ROK and China agreed to extend the currency swap agreement, providing for the transfer of the domestic currency to another state in exchange for the currency of that country or dollars for a certain period. This measure is aimed at preventing a lack of liquidity in the event of a massive one-time outflow from the country of foreign capital. This experience of the ROK was in 1997, when after a large outflow of investments agreements were concluded with several countries, including with China, Malaysia, Australia and Indonesia.

October 24, one travel agency in Hebei Province for the first time in seven months, offered a group tour to the ROK, but the South Korean media did not disclose the name of the company, indicating that in China there are still negative sentiments about the ROK. Then, a certain, also unnamed Chinese company that provides medical services, offered the Incheon Tourist Organization to conduct a tourist program for three thousand of its employees.

By November 13, PRC television resumed broadcasting of performances of South Korean pop stars, and on the Bachelors' Day in China there was an advertisement of a sale with the participation of a South Korean star. On this holiday, South Korean companies operating in China recorded large sales. Marked and improved Hyundai Motor sales.

On the same day, PRC Foreign Ministry spokesman Ghen Shuang said at a regular briefing that there is no ban on South Korean cultural content ‘Hallyu’ in China, and expressed the hope for an early normalization of relations between Seoul and Beijing.

November 28, the State Administration for Tourism of China decided to partially lift the ban on the sale of group tours to the ROK. So far, the abolition of the ban concerns only travel agencies operating in Beijing and Shandong, but over time these measures will be phased in other areas.

The number of individual tourists arriving in the ROK from China also increased for the first time in eight months after the start of the introduction of economic sanctions. According to diplomatic missions of the ROK in Beijing and Shanghai, in the period from November 20 to 24, the number of applications for issuing a visa to the ROK increased by 12% compared to the same period last year. 90% of such applications are for tourist visas.

They began to resume and air travel: the budget company Spring Airlines resumes flights between the port city of
Ningbo in Zhejiang and Jeju Island. Airline Juneyao Airlines plans to resume flights between Shanghai and Jeju from December.

There is progress in cultural content: live broadcast in Sichuan showed the performance of the South Korean pop group ‘Mamamu’, and a number of small Chinese broadcasters began to make requests to broadcast South Korean TV series. The Chinese CCTV channel showed a special broadcast, in which it stressed the friendly relations between the PRC and the ROK.

However, sanctions against the South Korean company Lotte have not been canceled yet.

On November 30, the Ministry of Justice of the ROK reported that from December 1, 2017 until the end of March 2018, PRC citizens who meet a number of criteria can visit the ROK for 15 days without a visa, and in case of entry and exit without violations, a multiple visa can be obtained, which is valid for five years. The Ministry of Justice reported that, despite the temporary nature of the above measures, they will provide tangible assistance in boosting tourism in Gangwon-do Province and increasing ticket sales for sports events in the framework of the Olympics.

It is worth noting attempts at investment. For example, Samsung Electronics said it plans to invest about $7 billion over the next three years to expand the production of NAND microchips in the Chinese city of Xi'an, with investments of $2.3 billion from the planned $7 billion investment already officially approved.

We can expect cooperation in the security sphere: by the end of 2017, the governments of the ROK and PRC promised a joint system to suppress the activities of Chinese poachers in South Korean waters. This is important, since damage to the fishing industry in the ROK from a reduction in catch due to the uncontrolled activity of Chinese fishermen exceeds $177 million, and the squid catch in the Eastern Sea has decreased from 90,000 tons in 2006 to 50,000 tons in 2016.

As can be seen from the above, even before the discussion of the results of the Chinese tour of the president of the ROK we can talk about an identifiable turn. To what extent it is of a tactical or strategic character and how many degrees of a turn there will be, however, time will show.

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