

How sustainable is the China-South Korean thaw?



South Korean President Moon Jae-in (L) and Chinese President Xi Jinping during a signing ceremony at the Great Hall of the People in Beijing on December 14, 2017. Photo: AFP/Nicolas Asfour

With North Korea apparently coming in from the cold, relations are also warming between South Korea and China. This is good news for Seoul

For South Korea's Moon Jae-in, the last six months have been full of diplomatic wins amid thawing relations with North Korea's Kim Jong-un. On the economic front, though, the losses are piling up.

At the end of 2017, Korea suffered its first quarterly contraction in nine years. Not a great look for a president elected in May 2017 – one of his mandates was to hasten economic growth. And earlier this week, data showed export growth came to a halt in June, falling 0.1% from a year earlier.

That stunning reversal from a 13.2% gain in May makes South Korea the most obvious example of collateral damage from Donald Trump's trade war. Yet there is a silver lining worth considering: Seoul and Beijing are repairing a decidedly frayed relationship.

The reasons for the thaw involve both Pyongyang and Washington. On the one hand, Moon's bold efforts to tamp down tensions on the Korean peninsula helped turn a new page in Seoul-Beijing relations. Prior, Xi Jinping's China had reacted badly to Seoul welcoming US missile-defense systems, retaliating in a variety of ways that imperiled South Korea's export-led economy.

On the other, the grenades US President Trump is lobbing into global markets is bringing Moon and Xi together in previously unexpected ways. It's even pulling Shinzo Abe's Japan into the mix, trumping geopolitical tensions over World War II historical interpretations and territorial disputes.

In May, for example, China, South Korea and Japan held a rare trilateral summit

to advance talks about a three-way trade deal. They pledged to accelerate progress toward a broader Regional Comprehensive Economic Partnership.

On June 27, South Korean Trade Minister Kim Hyun-chong and his Chinese counterpart Zhong Shan met to narrow differences and deepen integration efforts. Seoul and Beijing also are joining hands on infrastructure projects in North Asia. Some ideas mooted would involve President Xi's Belt and Road initiative; others Moon's New Northern Policy involving China, Japan, Russia and Mongolia.

"Improving China-South Korea relations arguably brightens the outlook for many Chinese and Korean business interests, given the size and importance of the bilateral economic relationship," says economist Scott Seaman of Eurasia Group.

That's stellar news for South Korea, Asia's No. 4 economy. Last year, Seaman says, one-quarter of South Korea's exports went to China versus only 12% to the US. The links between China and South Korea are deeper than top-line numbers suggest.

Roughly three-quarters of Seoul's shipments to China are components for goods assembled in the mainland and re-exported. Such trade both generates jobs and income in China and taps consumer demand there.

While warming relations between China and Korea make perfect economic sense, they are being driven partly by Trump. "Concerns that US-China trade friction will worsen and raise costs and dampen demand are also contributing to the desire of Beijing, Seoul and their business communities to hedge against that risk by developing even stronger China-South Korea economic ties," Seaman says.

That's not to say all problems are solved. Xi's government is still plenty miffed over Moon's refusal to scrap the US Terminal High-Altitude Area Defense, or THAAD, anti-missile system installed under his despised predecessor the now jailed former President Park Geun-hye, despite Beijing's strong objections.

To demonstrate his displeasure, Xi last year curbed trade flows. Mainland tour groups destined for Seoul, Jeju Island and Busan were cancelled. K-pop stars suddenly had trouble getting Chinese visas. Consumer boycotts made Hyundai car lots on the mainland eerily quiet places. Department stores rub by Lotte - which offered Seoul the golf course on which THAAD was sited - were shuttered. Xi

made his point: if you cross China, your gross domestic product will suffer.

China still wants THAAD systems removed from the Korean peninsula. If Trump strikes out, or Moon stands firm, Xi could always hit South Korea's main growth engine anew. At the same time, tensions between Trump and Kim could always flare up anew, putting Xi back on a cold-war footing - and Moon's economy on the outs again.

For now, though, Moon and Xi are picking up the pieces from the last couple of years of Beijing-Seoul bickering. At a moment when headwinds are bearing down on South Korea, improved China relations could make Moon's economy a buy.

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