

China's New Round of Economic Reforms and Sino-South Korean Relations

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This article has two purposes: to offer a better understanding of recent reform efforts in China; and to analyze how this policy shift could affect Sino-South Korean relations. The first part of the paper deals with why Deng Xiaoping launched the campaign, "deepening the reforms." Next is an examination of how China's policy shift and changing conditions on and around the Korean peninsula in the Post-Cold War era will work for the development of political relations between the two countries.

The Rush Towards Economic Reforms

Deng Xiaoping made a month-long trip to Guangdong and Shanghai in early 1992. It was certainly not a pleasure trip to celebrate "spring festival," but a high-stakes political journey. The trip was called the Guangdong Inspection, in which Deng visited the Special Economic Zone (SEZ) of Shengzhen, Zhuhai and other municipalities. Since then, there have been renewed efforts for deepening the reforms in China's modernization.

His southern trip involved the direction and goal towards which China should move in the near future. Though many uncertainties remain, Deng anticipates economic prosperity. In

the political arena, however, approaches for economic development still differ among leaders. Thus, this year's meeting of the Fourteenth Party Congress will be crucial for the continuity of Deng's concept of a socialism with Chinese characteristics.

During his trip, Deng called for "fast-paced reforms" and "thought liberation," and "making quicker steps."¹ However, the event was not reported immediately in any of the major newspapers, (only in regional ones). In fact, the Party propaganda machines in the Center, dominated by the conservatives, strongly resisted delivering Deng's messages. Then, the publication of an article by Fang Sheng (professor of economics at the People's University) set a new stage for the ongoing battle between reformers and conservatives. Fang's article, entitled "Opening Up and the Use of Capitalism" gave theoretical support to Deng Xiaoping by advocating that "the so-called capitalist measures and ways...do not belong to class and can be used either by capitalism or socialism."² It was followed by nationwide media coverage on Deng's instructions for "greater courage in reforms" by April 1992. The tone of the propaganda gradually changed.

In the meantime, the Politburo meeting of March 9–10 put an end to the ideological debate on the so-called question of "names" and the "left." In fact, the question of whether to "name" a reform of an economic policy line "socialist" or "capitalist" was not new. However, the main criteria for China's socialist construction are to develop productive forces under socialism, to enhance the overall national strength of the socialist state, and to improve the living standards of the people.³ In short, what Deng Xiaoping advocated was that conventional distinc-

1 "Urges 'Reforms,' 'Thought Liberation,'" *South China Morning Post*, 19 March 1992, reprinted in Foreign Broadcast Information Service, *China: Daily Report* (hereafter FBIS-CHI), 19 March 1992. p. 28.

2 *People's Daily*, 23 February 1992.

3 FBIS-CHI, 19 March 1992. p. 28.

tion between socialist method or capitalist means does not count much in the case of national economic development.

In his Work Report at the National People's Congress session in March 1992, Li Peng avoided the question of names and his statement gave a reassuring signal to many delegates that the current hard-line policies would not be changed. Deng Xiaoping noticed active resistance from "leftist" (conservative) leaders and felt seriously threatened politically.

Based on his personal experience, Deng Xiaoping knows what leftist policies can do. Deng has experienced political defeat by leftist leaders: in 1933, by Wang Ming; in 1969, by Lin Biao; in 1976, by the Gang of Four. After the Tiannanmen Incident Deng Xiaoping's popularity was weakened and side-lined, at least by the propaganda organs influenced by the leftist. Deng Xiaoping had to wage an important battle against his adversaries. Deng Xiaoping made a strong statement that "as 'Right' deviation can ruin socialism, so too, can 'Left' deviation. China needs to be vigilant against Right deviation, but primarily, it should guard against Left deviation."⁴ Deng also made strong warnings to those against market-oriented reforms. "Whoever is opposed to reform must leave office," Deng was quoted as saying.⁵ Li Peng's omission of the anti-leftist stance in his government Work Report⁶ showed that the problem remains and the fight may last for a long time. The sentence in which Deng urged guarding against the "left" was added to the final version of the report that was approved by the delegates.

In fact, the content of Deng Xiaoping's reforms is not new and has long been a subject of discussion among Chinese leaders. The unstable elements of the consensus raised questions over the rate of economic reform, the degree of decentralization, and the

4 Zhong Shiyu, "Fresh Impetus from Deng's Message," in *Beijing Review*, 13-19 April 1992, p. 5.

5 *FBIS-CHI*, 19 March 1992, p. 28.

6 "Li Peng NPC Work Report," in *FBIS-CHI*, 20 March 1992, pp. 1-3.

adoption of Western methods. Throughout the decade these issues have periodically generated political debates. Then, the question came up, why did Deng Xiaoping launch a new offensive?

Defend the Socialism with Chinese Characteristics

Changes in the world situation and its impact on China provides Deng Xiaoping with an opportunity to attack hard-line policies advocated by the conservatives.

The collapse of the Communist regimes in Eastern Europe and the subsequent dismantling of the Soviet Union conveyed a clear message to China that the Cold War era had ended but that a new political struggle had intensified. These revolutionary events occurring abroad could create a dangerous phenomenon such as loss of confidence in a regimes' mandate from heaven, particularly a collective crisis of faith in communism as an ideology and a system for national development. In fact, communism's manifest inability to match the West in material terms or to provide anything approaching social equality contributed to the final collapse of Communist regimes.

Deng Xiaoping noticed widespread skepticism of socialism in the Chinese leadership. The negative effects of reforms such as runaway inflation and rampant corruption, coupled with the changing world order strained the leadership consensus. The Party leadership seemed to lose its identity and sense of mission. The cadres appeared to be suffering from inertia and "defeatism." Even worse, reforms of the last decade split the Party leadership between reformers and conservatives. On the mass level, people suffered a twofold relative deprivation. Due to the opening up policy, they have more information on what true development has brought to other states, and they have seen the rise of an increasingly affluent and corrupt communist political class.

Thus, Deng Xiaoping seemed to recognize the urgent task as being ideological unity and leadership consensus. The wrong ideas and attitudes must be corrected, and socialism with Chinese characteristics should be developed through Deng's reform line. Deng firmly believed the economic outcomes of the past decade would enable China to survive in spite of the collapse of communism in Eastern Europe and the Soviet Union. The fall of these countries stemmed from their inability to manage the economy. Thus, economic construction has become a vital source of legitimacy for communist rule in China.

Since China is still far from the development targets that have been set, no time can be lost in the development of their economy. The ultimate goal is to convince those who do not believe in socialism. In Deng's opinion, the vital way to achieve this is to reach a certain level of economic prosperity, thereby guarding against the capitalist scheme of "peaceful evolution" of China.

Also, the preparation of the Fourteenth Party Congress weighs heavily with Deng Xiaoping. Deng is attempting to eliminate the major barrier of his reform policies: line struggle within the Party leadership. In order to cope with the resistance of the conservatives and to consolidate the reformers' power position, all kinds of support have been actively sought. It is important to note that the army has now put itself completely behind Deng Xiaoping and large numbers of army officers have made "study tours" of the SEZs. Veteran leaders such as Bo Yibo and Peng Zhen have already given support to Deng's approach. However, the "rush forward" is not enthusiastically received by all, particularly conservative elders such as Chen Yun.

Deng decided to push reform policies further, even though there remains power struggle inside the party and the political power structure has not yet been changed. Thus Deng plans to designate a new generation of reform-minded people to lead China at the coming Fourteenth Party Congress.

The Shift from Austerity to Liberal Economic Policy

The economic policies of conservatives during the past three years gave Deng and reformers ample justification to launch a new campaign to revive the open door and reform programs. In the aftermath of the Tiananmen Incident of 1989, Deng's popularity and political influence inside and outside the Party have greatly declined and correspondingly the conservatives have gained power. The conservative leadership had stressed stability almost at all costs by stressing ideology and re-centralizing control of the economy.

The conservative policies in effect since 1988 have two main components: macroeconomic austerity and government control. In November 1989, the Chinese Communist Party Central Committee passed a resolution on economic rectification known as the "39 points,"⁷ which called for a significant retreat from economic reform. The austerity program was carried out with remarkable rigor. Investment was curtailed and government spending was reduced. Worker wages were held at low levels. The conservative leadership instituted a system of economic planning, intensified government price controls, and reversed development strategy. In fact, the sectoral industrial policy was explicitly put forward as a substitute for the regionally based coastal development strategy promoted by Zhao Zhiyang. Due to these austerity policies, the conservative leadership was able to obtain the following objectives. First, they stopped inflation. Second, they expanded supplies of agricultural products. Third, they engineered a large export surplus by enforcing strict controls on imports. Finally, they upgraded energy supplies by giving priority to energy investment.⁸ However, planners overshot their objectives and engineered an economic recession more seri-

7 "CPC Decision on Improving Economy," *FBIS-CHI*, 18 January 1990, pp. 24-37.

8 Barry Naughton, "The Economy Emerges from a Rough Patch," *Current History* (September 1991), pp. 262-263.

ous than they had expected. The economic downturn spread throughout the country, becoming particularly intense in the market-oriented private and rural sectors.

But by the beginning of 1990 the situation had changed. The political situation in China and in other communist countries forced the government to shift its austerity policies. Chinese leaders began to worry about large-scale unemployment and underemployment that might lead to unrest among urban workers. The necessity for social stability became a policy priority and the pendulum gradually swung in favor of a tentative re-endorsement of further reforms by the end of 1990. In December 1990 the Communist Party approved an outline for the Eighth Five Year Plan (1991–1995), which reversed almost all the proposals outlined in the 39 points.

The effects of expansionary policies slowly trickled down to the market place and the economy gradually began to pick up. Thus, China gradually resumed economic growth.

The important lesson for the planners in this period was that markets responded quickly. In effect, the planners' initiatives became obsolete before they could be carried out. The planners discovered their economic programs had little effect. Widespread popular discontent persisted because the regime was unable to cope with many of their economic and political problems. Deng Xiaoping and the reformers are now capitalizing on this situation, hoping to redefine policy priorities as well as the national agenda.

Prospects for Economic Reforms

By the beginning of 1991, China was emerging from the 1989–90 recession and resuming moderately rapid growth. The gradual economic recovery increased the maneuvering room for the reformers. However, potentially serious challenges still face the economy. The resumed economic growth policy for social stability has given made a heavy financial burden on the state as well

as substantial regression in the reform process. If market forces had been allowed to operate in the state sector, China could have benefitted from the closing of the least efficient producers; this would have released resources to more efficient competitors. By blocking that process, China's leaders ensured a continuing drain on the economy by supporting inefficient state enterprises. Moreover, the Tiananmen Incident and human rights abuses hit hard against the open-door policy that represents a vital step in breaking the economic impasse. China faced a difficult situation in which new international credit was denied and foreign investment was drastically reduced.

China's leadership began to acknowledge that it needs to take a more flexible stance and adjust its human rights policies conducive to Western standards in order to induce Western economic cooperation.

The prospects for economic growth are fairly good in the years ahead. The combination of comfortable levels of foreign reserves and healthy economic growth will encourage China's reform leaders to take further steps toward economic reform. In fact, Deng Xiaoping and the reform leaders advocated opening up the country even more than they have already. They also maintained that the policy of reform and opening was to be expanded not only in the industrial sector but also in commerce, foreign trade, finance and insurance.⁹ If China does not open up and reform further, capital and technology from foreign countries, especially from the Asia-Pacific region, will pour into Eastern Europe, the Russian Federation and elsewhere.

Even though reform leaders look more favorably on further economic reforms, it remains to be seen how much economic reform will be expanded and whether China's leadership will be prepared to take the risks associated with the reforms. We can expect the conservatives in the leadership to make their moves

9 "Let Us Be Bold and Rush Forward!," in *China News Analysis*, No. 158, 15 April 1992, p. 9.

between now and the convocation of the Fourteenth Party Congress in the fall. However, the power position of the conservatives has been weakened and Deng's hand has been strengthened by the recent deaths of two conservative gerontocrats—Li Xiannian, Chairman of the Chinese Peoples' Political Consultative Conference, and Deng Yingchao, widow of premier Zhou Enlai. Chen Yun and Wang Zhen were reportedly too ill to be politically active. Thus, in the months ahead a consensus to increase the pace of economic reform is likely to emerge from the top leadership debates, but reform will be paced moderately and cautiously. Though a new consensus will not resolve all doubts about the reforms, it will reduce the differences among China's leaders and permit major changes to continue in such areas as the economic system, and permit further advancement towards a "socialist" market system.

China's Policy toward the Korean Peninsula

China has largely overcome the penalties and ostracism it incurred in the wake of the 1989 Tiananmen Incident. In the past two years, China expanded much effort to end these sanctions and succeeded in restoring normal relations with the outside world. The Gulf crisis and China's acquiescence in the UN's sanctions against Iraq contributed to China's emergence from isolation. Now most governments of the G7 and the EC have resumed high-level contacts with China. Domestically, China's leadership is beginning to return to a reformist agenda. Deng Xiaoping is likely to head a leadership consensus for his reforms. Then, China will change to domestic and foreign policies designed to promote trade and to induce foreign investment and technology.

Given the potential for economic cooperation between South Korea and China, this prospect for change raises the question of how China may change its policy toward the Korean peninsula, especially its relationship with South Korea.

China's policy toward the Korean peninsula has been largely a function of its overall foreign policy considerations. First, the survival of the Communist system of China becomes the imperative task. The collapse of the Communist regimes in Europe put an end to the Cold War era, but the political struggle has intensified. The breakup of the former Soviet Union eliminated China's major source of threat. At the same time, however, the breakdown of the Cold War order has left a power vacuum and political uncertainties in the world. China considers the world to be dominated by the West and "peaceful evolution" as a greater threat than war.

Though changes in the world situation offer new opportunities, they have put the China on the defensive. In order to cope with this challenge, China has been active in international affairs at which it has voiced its idea of a new international order based on the five principles of peaceful coexistence.¹⁰ Also to prevent the dominance of the West, China, is trying to build a united front with Communist regimes and with other countries, particularly with neighboring countries.

Second, the United States has become the main threat to China. The U.S. is likely to utilize rapid changes in world politics and to press China for further opening and reform. Sino-American relations have been strained because of arms transfer, human rights and trade conflict issues. China has made selective concessions to the U.S. requests, while the U.S. has not driven China into a corner because of China's importance in the international arena. China sees that so long as China and the U.S. have no direct strategic conflicts, military conflict with the U.S. is unlikely in the near future.

Third, the principal sources of capital and technology needed to modernize China are Japan, the U.S. and Western Europe.

10 "China in a Changing World: The Last Beacon of Marxism?" in *China News Analysis*, No. 145, 1 January 1992, pp. 1-9. Also, see Li Peng's speech at the Summit Meeting of the UN Security Council on 31 January 1992, reprinted in *Beijing Review*, 13-25 February 1992, p. 19.

Particularly important is a good and healthy relationship with Japan. At the same time, a militarily strong Japan is not in China's interests. Furthermore, China's current need to diversify economic cooperation and advantages of geography have strengthened appeal to its neighbors. Active economic and political cooperation with Asian neighbors looms large for China's reforms.¹¹

Fourth, China needs a long period of peace and order to modernize its economy. For this purpose, China needs to maintain a peaceful external environment.¹² Recently China normalized its diplomatic relations with former adversaries such as India and Vietnam.

These policy calculations require China to pursue an independent and peaceful foreign policy, which in turn requires it to make policy changes toward the Korean Peninsula: In regard of China's policy toward Korean peninsula, security, development and independent actions would be the major policy objectives.

Security concerns have dominated China's relationship with Korea. The Korean peninsula has been regarded as being of "vital" importance to China's security, and China has tried to prevent any hostile power from taking control of it. During the Cold War era, China began to compete with the Soviet Union to keep North Korea on her side. Within its limited capacity, China has given substantial economic and military assistance to Pyongyang. Particularly, China gave political and ideological support to North Korea on the Korean question. These Chinese efforts have been successful in stimulating North Korea to maintain at least an independent posture in Sino-Soviet rivalry.

However, China's Korea policy has shifted subtly since China addressed its efforts on modernization for national development. While the commitment to North Korea remains firm,

11 Excerpt from Qian Qichen's speech titled "China's Foreign Policy," reprinted in *Beijing Review*, 30 March–April, 1992, p. 9.

12 *Ibid.*, p. 9.

China does not seem to have supported North Korea in every matter. China tried to encourage North Korean leadership to adopt an open door policy and economic reform. Otherwise, the growing gap in national powers between North Korea and South Korea would act adversely to Chinese interests. China began to test its maneuverability on the Korean question in the 1980s. It also began to develop unofficial ties with South Korea under the principle of separation of politics from economics.

While China has moderated its military and economic support to North Korea, it encouraged North Korea to hold dialogue with South Korea and supported measures to lower tension on the peninsula. Considering North Korea's objection, however, China has made it clear that its contacts with South Korea would be limited to non-political areas. Chinese leaders also repeatedly stress that they will consult with North Korea on the Korean question.

All these facts indicate that China wants stability on the Korean peninsula and that the Korean problem should be settled other than militarily. Given the strategic importance of North Korea within the context of its own security and Sino-Soviet rivalry, China cannot press hard on North Korea. China, however, did encourage North Korea to engage in inter-Korean contact, which China regards as the most effective way to reduce tension on the Korean peninsula.

In the Post-Cold War era, China still attaches great importance to North Korea because of ideological affinity and intimate personal relationships in the leadership between China and North Korea. To China, North Korea is one of the communist regimes that can build a united front to prevent Western dominance.

However, China has given clear signals that North Korea must change. China encouraged North Korea to join the United Nations and to adopt economic reforms. The vitality of Sino-North Korean relations has weakened due to the changing security environment on and around the Korean peninsula. In fact, Jiang Zemin, Chinese Communist Party General Secretary, is

allegedly reported to have said about the relationship that "there are strong bonds, but we are not allies." In this context, China's stance toward North Korea has adjusted to meet national interests and the changing world situation.¹³ China's support of North Korea became selective and China applied pressure to move toward the common ground in the ongoing negotiations with the South. As for the nuclear issue, China encouraged North Korea to ratify the IAEA safeguards, and North Korea concurred. Furthermore, during South Korean Foreign Minister Lee Sang-Ohk's recent visit to China in April 1992 China agreed to maintain close contact and consult with South Korea over regional security matters, including North Korea's nuclear program. Through such security cooperation with South Korea, China has not only tried to tame North Korea's hostile behavior but has also increased its influence in both Koreas.

China does feel that unification of Korea will take a long time. The political antagonism, military confrontation and mutual distrust have existed for such a long time, and contradictions and disputes cannot be easily reconciled between South and North Korea. China seems to regard the German model for unification as inappropriate. China may feel uneasy that the emergence of a unified Korea with nuclear power potential would be a strong regional power in capability and independence of action. Thus, unification of Korea would not be compatible for Chinese interests for the time being. For China, the key issues on the peninsula are reconciliation and mutual arms reductions. China has actually done something by trying to develop an environment conducive to maintaining peace and stability on the peninsula. China also wants Japan and the U.S. to make comparable improvements with North Korea.

As China moves to revive its economic reforms in the 1990s, investment and trade become the most important issues. China

13 Tian Jungching, "Striving for Reconciliation and speeding up Economic Exchanges," in *World Outlook* (*Guo Ji Zan Wang*), No. 7, 8 April 1992, p. 7.

recognizes the advantages of economic ties with South Korea as a valuable trading partner and a source of capital and technology, whereas South Korea can expand its trade and investment opportunities in China. Moreover, South Korea expects China to play a constructive role in moving towards relaxation and stability on the Korean peninsula.

Having the common goals of achieving economic prosperity and maintaining stability in this region, China and South Korea have deepened the basis of diplomatic normalization by expanding economic and cultural ties during the last decade.

Unlike the former Soviet Union's cross-recognition of the two Koreas, China has taken cautious steps with regard to South Korea, moving one step at a time and attempting to coordinate its move with its own domestic and external situation. Until now, China has been viewing any urgency in establishing full diplomatic relations with South Korea as a burden.

However, drastic changes in the world situation and on the Korean peninsula provide China with an opportunity to take independent action on cross-recognition of the two Koreas. In fact, the Chinese leadership repeatedly maintains that China decides its positions and policies on international issues independently.¹⁴

China has had two options in dealing with South Korea. First is the cross-recognition of the two Koreas by the four big powers. China has maintained that the improvement of inter-Korean relationships is prerequisite in normalizing its relationship with South Korea. Even though the North Korean attitude toward the nuclear issue provokes tension in the region, North Korea needs to acquiesce to mutual inspections due to its economic difficulties and due to a need to improve its relationship with Japan and the United States. All these developments would ultimately lead to cross-recognition of the two Koreas by the four big powers. Then, China would accelerate its normalization effort with South

14 Qian Qichen's speech, p. 9.

Korea on the condition that Japan and the United States would follow the Chinese path in normalizing their relations with North Korea.

The second option is China's sole recognition of South Korea. China's objectives such as regional security and economic construction would be important factors in facilitating its normalization efforts.

China and South Korea announced their agreement to establish diplomatic relations on August 24, 1992. It was China who finally took the bold initiative and independent action on the delicate Korean question. The major reasons for this Chinese diplomatic move seem to be as follows:

- (1) The situation on the Korean peninsula has improved significantly. Following their simultaneous participation in the United Nations, both South and North Korea have signed the protocol on Mutual Non-aggression, Exchanges, and Cooperation and the "Joint Declaration on the Denuclearization of the Korean Peninsula." Thus, the conditions China had laid down are basically being met.
- (2) In order to maintain peace and stability in Northeast Asia, China put pressure on North Korea to take more positive steps to solve the nuclear issue. If the North Korean nuclear issue can be solved satisfactorily, North Korea's relationships with Japan and the United States will improve. In fact, China wanted a normalized relationship between North Korea and Japan before normalizing relations with South Korea by solving the nuclear issue. When China faced North Korea's resistance on the nuclear issue, China seemed to change its stance on recognition of South Korea. After the end of the Cold War and the dissolution of the Soviet Union, Sino-North Korean relations have changed qualitatively. China may have thought that North Korea would no longer play the "Russian card" against China, even if it were to move towards sole recognition of South Korea. Thus,

China's move is a kind of "shock treatment" to urge North Korea to change its domestic and foreign policy directions. Unless North Korea changes, it will become a burden on China economically and diplomatically.

- (3) The expected increase in investment from and trade with Korea would contribute to the success of China's economic reform programs. China also longs for South Korea's Official Development Assistance (ODA) along with more import of capital and technology.
- (4) The Sino-South Korean normalization of diplomatic relations is a symbolic event that demonstrates the reformers' victory against the conservatives in foreign as well as domestic affairs.
- (5) It should also be noted that China gained a reliable partner to counterbalance Japan's increasing international and regional roles in politico-economic as well as military areas.

On the part of South Korea, the normalization with China finalizes "northern diplomacy," which aims to open diplomatic relationships with those countries who were North Korea's strong allies, particularly the former Soviet Union and China. Originally, Northern Policy was aimed at changing North Korea's self-imposed isolationist policy by enlisting the help of China and the Soviet Union. Since the collapse of the former Soviet Union, China, in fact, has become the only country that has the ear of North Korea's Kim Il Sung and it has played an important role in persuading him to seek detente with Seoul and pursue an open-door policy. South Korea has been able to expect China to play a constructive role in reconciliation and cooperation between South and North Korea. Now, the major external barriers for the advancement of inter-Korean relations are removed through Sino-South Korean diplomatic normalization.

Conclusion

China's reforms and opening up will likely be endorsed in the coming Party Congress this fall, and China will take further steps toward vigorous economic growth by promoting more of the reform-minded younger generation to leadership positions. Although the new consensus among top leadership will not resolve all doubts of reform agenda, it is expected to permit further advancement toward a socialist market system. The pace of reforms, however, will be moderate.

The changes in national developmental strategy through further reforms will influence China's foreign policy directions. As China takes modernization as top priority, it seeks to maintain world peace and to create a peaceful international environment, particularly in surrounding countries. China's action to establish a diplomatic relationship with South Korea strives to achieve stability on the Korean peninsula as well as in Northeast Asia. China seems to be prescribing shock treatment to cure North Korea's rigidity on the nuclear issue and to change its policy direction. However, China would anticipate that China's recognition of South Korea would ultimately lead to cross-recognition of the two Koreas by the four big powers.

On the part of South Korea, the major objectives of Northern Policy have been achieved. South Korea improves its security environment and expands its economic opportunities in China.

As for the future development of Sino-South Korean relationships, some suggestions can be illustrated.

South Korea should prepare some strategic thinking in dealing with China. South Korea's economic cooperation and assistance to China should be implemented in such a way that ensures South Korea's security. If China's modernization efforts could bring about either a rapid success or a failure, it is possible that China's foreign policy posture might be changed to threaten regional stability. Thus, South Korea's economic cooperation with China must be conducted in a steady and gradual manner.

Moreover, the economic cooperation with China needs to be implemented to generate spillover effects to North Korea and to foster an opportunity to develop new regional economic cooperation.

In regard to security matters on the peninsula, South Korea needs to engage in serious discussions with China about Sino-North Korean military relationships. The targets of emphasis are weapons of mass destruction and delivery vehicles. South Korea should remind China that Chinese arms and technology transfers to North Korea directly threaten the stability of the Korean peninsula and Northeast Asia. Though China proclaimed its willingness to abide by the guidelines of the Missile Technology Control Regime (MTCR), China has not yet decided to become a full member of the arms control regime. In addition, South Korea seeks joint efforts with China to build multilateral confidence- and security-building measures (CSBMs) such as the so-called two-plus-four approach (a six-power consortium) to ensure security on the Korean peninsula. This effort could be carried out at the initial stage informally on an ad hoc basis.

South Korea is in fact expected to be in a more favorable position in the process of North-South talks due to the establishment of formal diplomatic relationships with China. However, South Korea should guard against an aggressive North Korean stance, which could stem from its fear of isolation, and make painstaking efforts with China to lead North Korea to reconciliation and cooperation. Also, South Korea should exercise adroit diplomatic maneuvers and utilize economic leverage to guard against a Chinese double-faced policy toward the two Koreas.