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Discourses in Social Market Economy



Anastasia Barannikova

**South Korea, China and the Road and
Belt Initiative: economic and political
factors**

Diskurs 2021 - 2

South Korea, China and the Road and Belt Initiative: economic and political factors

Anastasia Barannikova

Abstract

The present article addresses the problems of economic cooperation between China and ROK from the point of implementing their Eurasian integration initiatives – the One Belt, One Road, Eurasia Initiative and New Northern Policy. The initiatives of both countries, which at first glance are aimed at developing economies of the participants, also pursue distinct political goals. Accordingly, the most serious problems arising on the way of their implementation are of a political nature.

Keywords

Belt and Road Initiative, OBOR, Eurasia Initiative, Eurasian integration, China, ROK

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South Korea, China and the Road and Belt Initiative: economic and political factors

Introduction

Recent incident in the Suez Canal, which impacted 12% of global trade and caused trade losses estimated at tens of billions of dollars (Das 2021), highlighted the need to diversify transport and supply chains. Ongoing impacts of COVID-2019 pandemic, disrupting global trade, economics and logistics, have made that need even more urgent. Alternative transportation routes and supply chains are required to ensure reliable and uninterrupted delivery of medicines and equipment. Many countries have proposed new land-, sea- and hybrid routes long ago before pandemic. Among them, for instance, Russian Northern Sea Route, Chinese Polar Silk Route etc. However the development and use of polar routes is associated with a number of difficulties. These routes are not navigable all year round. Specific conditions create additional risks for ships and crews and increase shipping costs. Moreover, relevant infrastructure has not yet been built along the NSR (Levick 2018). At the same time there are some promising transport and logistic projects – those provided by the One Belt, One Road initiative (OBOR) (sometimes referred to as Belt and Road Initiative (BRI)) proposed and implemented by China since 2013.

OBOR megaproject provides for modernization and use of numerous land and sea transport and economic corridors connecting Asian, European, and African countries. It is focused on investments, mainly in infrastructure projects in Central and Southeast Asia, Africa, and Europe. However, the initiative also provides economic opportunities for the regions in Northeast Asia. Particularly, three northern Chinese provinces — Liaoning, Jilin, and Heilongjiang — are planned to become part of a Northeast Asian economic zone, which could link Russia, Mongolia, and possibly the Korean Peninsula.

The initiative was first mentioned by Xi Jinping during his visits to Kazakhstan in September 2013 and Indonesia in October of the same year. Later it was promoted in Asia and Europe during state visits of Chinese premier Li Keqiang. On 28 March 2015, China's government released "Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road", a detailed plan for the OBOR strategy implementation.

The scale of OBOR can be compared with those of other integration megaprojects like European Union and Eurasian Economic Union. EU is the largest economic bloc, the EAEU covers the largest territory in the world, and OBOR involves the biggest share of the world's population (over 60% of the world's population including China and member countries).

By the moment implementation of OBOR is temporarily slowed down and the project is being adjusted to new realities – global economic recession caused by pandemic and trade war between China and the US. There are also obstacles permanently affecting the implementation of the initiative. 138 countries and 31 international organization signed cooperation documents and joined Chinese initiative as of December 23, 2020 (PRC Ministry of Foreign Affairs 2020). Participation of such a big number of countries is itself a problem. Along with economic diversity, these countries have their own political interests, considerations and goals, different positions on international issues and problems in international relations. All these factors will sooner or later affect their cooperation with China through OBOR. The present paper considers cooperation between China and ROK through OBOR where the influence of these factors is most pronounced.

China – ROK economic cooperation

China and ROK have long been trade partners. Since the two countries established formal diplomatic relations in the 1990s, their cooperation in both economics and politics has developed rapidly. Economic cooperation between the two countries invigorated significantly after Xi Jinping was elected president of the PRC and Park Geun-hye, the Saenuri party candidate, won the presidential election in ROK in 2013. The two leaders exchanged multiple visits and reinforced bilateral strategic cooperation and partnership. On June 27, 2013 they released a joint statement on the future vision of China-South Korea relations. This document included directions, principles, and key areas for strengthening bilateral relations and developing strategic partnership (Hwang 2014).

Park Geun-hye outlined her economic vision for the region at the Global Cooperation in the Era of Eurasia conference in October 2013, where she announced the “Eurasia Initiative”. This ambitious initiative called for interconnection of transportation, logistics, and energy networks across Europe and Asia, promotion of the "Silk Road Express (SRX) project" and the use of potential of the Arctic Ocean to develop intermodal transport and logistics network in the region (ROK Ministry of Foreign Affairs n.d.). By implementing EAI and involving in Eurasia integration processes ROK expected to save transportation costs and diversify trade markets for energy and mineral resources and agricultural products. Implementation of EAI could give South Korea access to train routes across Eurasia, reducing the logistics costs for its exports to Europe by up to 30 percent. This integration was to be followed by the gradual elimination of trade barriers and the creation of an extensive free trade zone. Important role was given to peace building on the Korean Peninsula. In particular, Eurasian Initiative envisaged for “building corridors of trust and peace on the Korean Peninsula” through the Rajin-Khasan logistics project

implemented by Russia and the DPRK and more active role of the DPRK (ROK Ministry of Foreign Affairs n.d.).

South Korea expressed interest in China's OBOR, as the New Silk Road was in line with its Eurasia Initiative and could contribute to establishing peace on the Korean Peninsula. The two countries exchanged positive statements on cooperation in this area. Foreign minister of China Wang Yi stressed the synergic effects of the linkage between South Korea's EAI and China's OBOR strategy when he met with Park Geun-hye in Seoul in 2014. Later, when Xi Jinping visited Seoul in July 2014, Park Geun-hye noted that efforts should be made to link the Eurasia Initiative to China's New Silk Road plan (Kim 2015). Chinese side, in its turn, put forward a number of tangible and practical suggestions for merging the two initiatives. Two countries reached bilateral free trade agreement (FTA) by 2015. FTA among other things was tasked to provide institutional foundation and internal motivation for two countries' initiatives strategic synergy.

EAI proposed by Korean government had many points of possible cooperation with China under the OBOR initiative, including creation of Northeast Asian economic zone. So it was not surprising that both sides were interested to find the ways of cooperation through their two initiatives. Chinese "Vision and Actions" plan envisages the development of three northeastern provinces – Liaoning, Jilin, and Heilongjiang – and making them sea-land "windows" linking Russia, Mongolia, and other areas in the Far East. One of the key projects of the Eurasia Initiative was the construction of the Silk Road Express with Trans-Korean railway and trans-continental railroads as its main axes (State Council of the PRC 2017). China was already implementing business projects related to transportation infrastructure in North Korea. Progress has also been made in implementation of Trans-Korean railway project of Russia. Renovation of the railway from Russia's Khasan to Rajin port in North Korea was completed by 2014 by a joint venture between Russian Railways and North Korea (TASS 2017). ROK expressed interest and was expected to become the third party to the project. However, due to strained relations between South and North Korea, ROK could not join either of two (China's and Russia's) projects and implement its own Silk Road Express.

Moon Jae-in who came to power in ROK in 2017 put forward New Northern Policy providing for more active cooperation with countries situated north of the Korean Peninsula (including Russia, Mongolia and Central Asian states) and building so-called «nine bridges» connecting transportation, logistics, and energy infrastructure of the Korean Peninsula to the rest of the Eurasian landmass. The Vision of new initiative provided, among other things, for implementing Trans-Korean projects of economic cooperation (with participation of Russia, DPRK and ROK). Moon Jae-in's initiative also has many points of cooperation with China's OBOR. Particularly, it provides for «pushing ahead with projects in connection with «One Belt, One Road»

and multilateral cooperation projects involving the three Northeastern provinces of China; developing and promoting projects in connection with the China-Mongolia-Russia Economic Corridor initiative using AIIB and GTI (reviewing the possibility of resuming suspended projects, such as the development of an international logistics complex in Hunchun); increasing the use of the Trans-China Railway (TCR) and Trans-Mongolian Railway (TMGR) and ultimately re-connecting ROK and North Korean railways» (Presidential Committee 2017). In December 2017, Xi Jinping and Moon Jae-in jointly announced to launch the second phase of the China-ROK FTA negotiations. Since the assumption of power by Moon Jae-in was marked by Inter-Korean rapprochement, the hopes for the implementation of Trans-Korean Railway project revived as well. However, despite stressing a need for cooperation between OBOR and New Northern Policy there are still divergences between the two countries' political positions.

Despite the ambitions and intentions of president Moon to improve relations with the North and involve in Trans-Korean projects, the South Koreans even did not join the Khasan-Rajin logistics project — part of the Trans-Korean Railway, which was excluded from the UNSC sanctions against the DPRK. South Korean businesses seem reluctant to join the projects involving participation of North Korea (even through the mediatorship of Russia and China), fearing possible unilateral US sanctions (Do 2020). Neither ROK government could obtain sanctions relief and guarantees for South Korean businesses against legal harassment by the US in the case of their participation in such cooperation. The stalemate in the US-DPRK dialogue and renewed Inter-Korean tensions have added to the obstacles to this cooperation.

Problems

Political factors

The main problem of implementing Eurasian Initiative was its excessive politicizing. The title of the Initiative – “Opening and Denuclearization of North Korea through the Peaceful Prosperity of Eurasia” – clearly indicates ultimate goals and expectations of the ROK associated with cooperation with China and other countries through this initiative. The policy goals in connection with the project were further made clear by Hyun Kyung-dae, executive vice-chairperson of the National Unification Advisory Council: “the main purpose of the mega project is the creation of “a giant wave” of peace and prosperity in Eurasian societies, which will arise in Europe, Southwest Asia and the Middle East as a reason for the restructuring, opening up and renunciation of nuclear weapons by North Korea as well as the improvement of human rights in the North. We can use the Eurasian countries as a lever to persuade North Korea” (Hyun 2013).

Moon Jae-in's New Northern policy rhetoric is much less assertive and is focused on engagement of North Korea rather than pressure. At the same time North Korea still seems to be the key reason behind the New Northern Policy, while the unresolved nuclear issue of the Korean Peninsula remains its main obstacle.

On the one hand, the main goal of the projects promoted and supported by ROK is cooperation on the Korean Peninsula, which would help stabilize the situation in the region. On the other hand, ROK, in fact, makes its participation in the Chinese OBOR project (as well as in other Eurasian integration initiatives) dependent on the improvement of inter-Korean relations (Khabar 2019). Given the fact that inter-Korean relations, in turn, are made by ROK government dependent on the denuclearization of the DPRK, this condition seems impossible: the failed US policy and the current level of the DPRK nuclear and missile program make any talks on its unilateral disarmament meaningless. Mentioning inter-Korean relations in connection with the OBOR may well be another attempt to make China press on the DPRK and resolve notorious «nuclear issue». However, relations with the DPRK are no less valuable for China than relations with the ROK. China has certain leverage but it would press on the DPRK only to achieve its own goals, not those of ROK or any other country. And it would demonstrate its position on the DPRK through different signals like famous speech by Xi Jinping to mark the anniversary of China's entry into the Korean War (Ser 2020).

It should be noted that the period of revival of China's relations with ROK after new leaders assumed power in both countries coincided with temporary cooling of its relations with the DPRK after the execution of Jang Sung Taek (who was considered an agent of influence of China in North Korea) and course of Kim Jong Un on self-reliance and balancing China. This can explain why Xi Jinping visited Seoul first instead of Pyongyang in July 2014. At the same time, this was perceived by ROK as a shift in priorities in China's policy on the Korean Peninsula and could give false hopes for its government to achieve political goals through cooperation with China. However, the fourth nuclear test conducted by the DPRK in 2016 and ROK's decision on deployment of the THAAD systems, negatively perceived by China, revealed discrepancies in the policy priorities of the two countries.

As long as two countries are in opposing camps in terms of politics, making economic cooperation (through Chinese megaproject or regional initiatives) dependent on political factors is a miscalculation for ROK government. This approach only hinders economic cooperation and even implementation of country's own projects such as Eurasian Initiative and the New Northern Policy.

At the same time, OBOR cannot be unambiguously characterized as an economic project, too. Experts point that despite prioritizing economic component and denying geopolitical motives, OBOR is aimed not only at promoting economic cooperation, but also at increasing China's

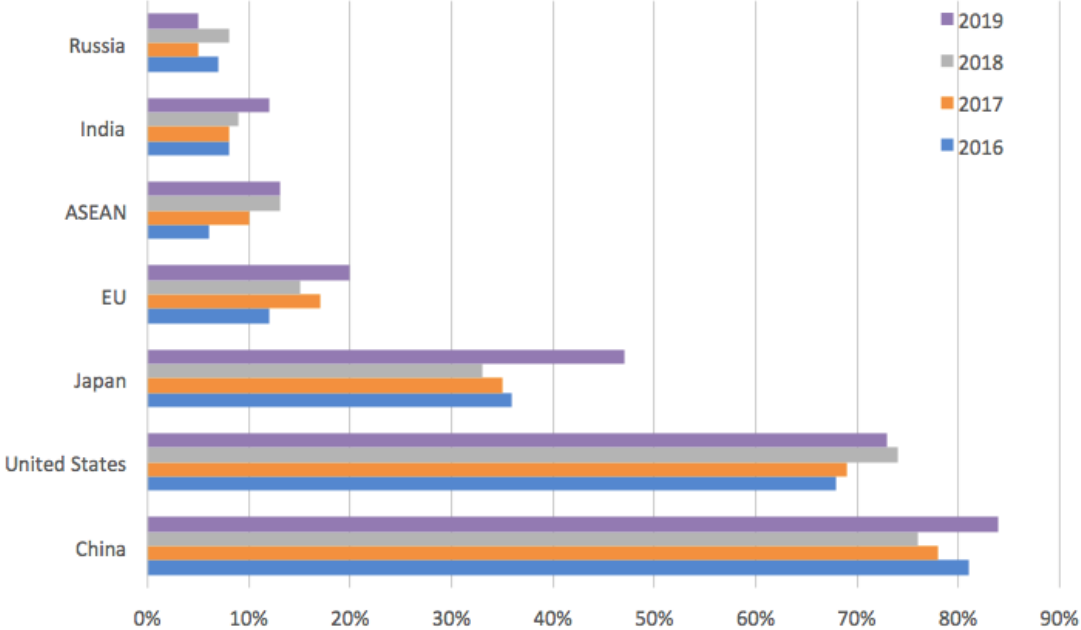
cultural and political influence. OBOR initiative itself can be perceived as a grand strategy of China (Cheng Guo 2019). These characteristics of Chinese megaproject create additional challenges for ROK participation, given that ROK is bound by allied commitments to the United States, China's geopolitical rival.

US-China rivalry

ROK relations with the United States will continue to influence its willingness and readiness to cooperate with China through the OBOR project. The United States has already demonstrated its negative attitude towards the Chinese initiative. American media and think tanks are carrying out information campaigns to discredit OBOR, pointing out threats to the sovereignty of countries cooperating with China through the initiative, the lack of transparency of Chinese projects, corruption, etc. The US military sees the Belt and Road as an instrument of strategic expansion, and suspects that cargo ports involved in the project will become the bases of the Chinese Navy in future (Bespalov 2019). It is clear that another "China threat" inflation is just a part of information warfare in the context of growing rivalry between the United States and China. However, the allies of the United States, especially ROK, having ties with China, may face a difficult choice as a result of big powers struggle. The ROK does not have an unambiguous opinion either about the alliance with the United States, or about relations with China and a vision of how these relations should develop. Some experts hint that the United States should thwart Beijing's attempts aimed at decoupling Seoul from Washington, for example, by bringing US-ROK economic cooperation to a level that would weaken ROK's economic dependence on China. It is also recommended to revise the existing military-political alliance and/or strengthen it with an economic component. At the same time, there are also different opinions in ROK, such as calls for strengthening own military forces, weakening dependence on the United States and, as a consequence, more freedom in relations with China (in fact, closer relations with it) (Kwon 2021). Nevertheless, since the US-ROK alliance remains in force, and new US administration has declared "revitalization" of the alliance as one of its priorities (Ferrier 2021), the ROK will presumably continue to take an uncertain position on participation in China's megaproject.

Some observers argue that Beijing wants to weaken Washington's military-political alliance with Seoul and Tokyo, viewing the real goal of that alliance as to "contain China," rather than to deter the DPRK (Boc 2017). In order to weaken the alliance, China can both maintain tension in the region and exert influence on the ROK. Being South Korea's largest foreign trading partner, Beijing has the required leverage to apply economic pressure, particularly given how export-dependent the ROK economy is. Opinion polls show that South Koreans regard China as the most powerful country in the region, and that its influence will continue to grow further.

Economically important countries, as viewed from the ROK



Source: Genron 2017; 2018; 2019.

China economic growth concerns

China's economic influence growth cannot but cause concerns in ROK. By gaining new accesses to the Eurasian market through implementation of its own initiatives, South Korea hopes to become less dependent on trade with China. It is sufficient to recall that South Korean government announced its Eurasian Initiative soon after China outlined its OBOR. ROK may consider Chinese megaproject prospective and economically beneficial but at the same time it is interested in maintaining independence and the status of an equal partner of China while cooperating through OBOR or any other initiative.

On the one hand, the economic cooperation has always been the most important element in China-ROK relations. Even during the periods of temporary cooling between two countries their bilateral relations could be characterized as «cold politics and hot economics».

On the other hand, experts use the term “asymmetrical interdependence” to describe China-ROK economic relations, which means that though two countries are interdependent and have been important trading partners for each other, South Korea depends much more deeply on China than China does on South Korea (Ren 2016).

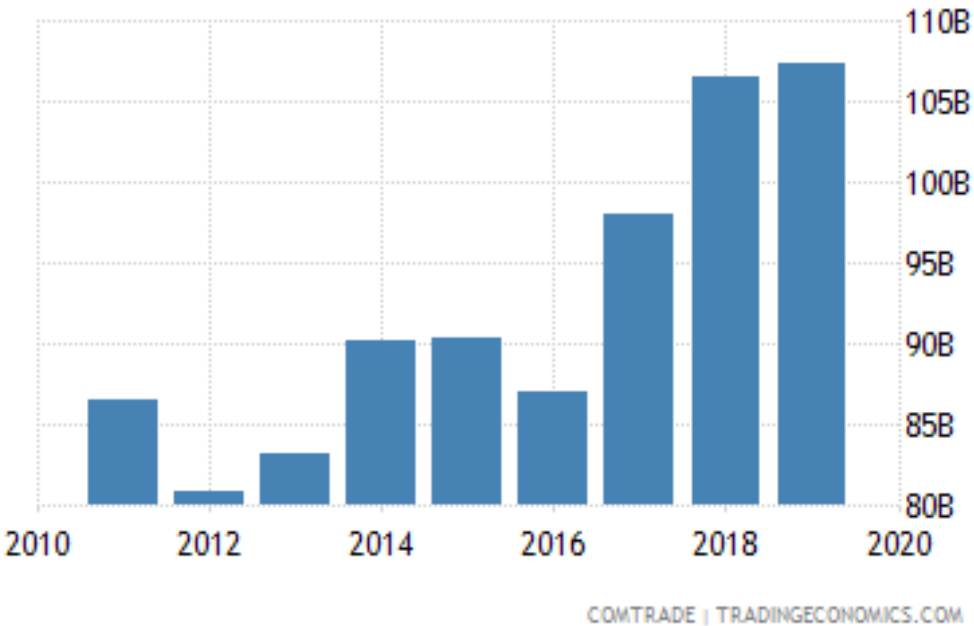
ROK already could feel the consequences of this asymmetrical interdependence after making decision to accept THAAD systems deployment in 2017. Soon after that decision China started economic pressure on ROK by imposing informal sanctions against its firms, cultural products and introducing ban on tourism. The sanctions over THAAD cost South Korea billions of dollars (Panda 2017). Importantly, that case has demonstrated how prepared China is to use economic leverage for political purposes. As the trade war between the US and China is going on, similar negative scenario for South Korea may repeat. From this point ROK may fear even greater involvement in Chinese projects, which would inevitably lead to increased dependence on China.

South Korea exports to China



Source: Trading Economics n.d.

South Korea imports from China



Source: Trading Economics n.d.

China's «divide and control» strategy on the Korean Peninsula

While both the OBOR and EAI or New Northern policy could be compatible with each other in terms of economic integration and cooperation, each country’s vision for national and regional security are conflicting. The same are the goals pursued by countries in connection with implementation of their strategic projects. Thus, when speaking about the EAI, and then about the New Northern Policy, South Korean officials consistently emphasized the role the initiatives would play in bringing peace and prosperity to the Korean Peninsula. The underlying goal of the EAI was to develop cooperation on the Korean Peninsula in order to create a more stable security environment and help ROK promote its interests. OBOR pursues broader objectives and excludes any remarks about the development of the Korean Peninsula, partly because it is not so important for China as for ROK. Another reason may be the interests of the Chinese government on the Korean Peninsula and the desire to maintain *status quo* of a divided Korea.

The Korean peninsula is a strategically important region that China has always tried to control. Tensions on the peninsula are in interest of Beijing as long as it keeps these tensions under its control. Escalating tensions would give China an opportunity to mediate between the DPRK on one side and the US and ROK on the other, being the only power that maintains close relations with Pyongyang. Such a position would offer China certain advantages during negotiations with the United States on other matters.

China's influence on the DPRK has drastically increased after the adoption of the UNSC Resolution 2375 in September 2017. As a result, China has monopolized trade relations with the DPRK and has become the only power that can exert pressure on both the DPRK and the United States: Beijing can increase the pressure of sanctions on Pyongyang to make its leadership more pliable, or it can ease that pressure in order to gain concessions from Washington (Lankov 2018).

China's top priorities are maintaining security in the region, preventing a military conflict, averting instability, and generally keeping situation under control. For the sake of stability and predictability, China may even be ready to sacrifice North Korea's nuclear disarmament. That explains why China refrains from active support of any measures that would seriously hurt the North Korean economy.

China's rhetoric and attitude toward nuclear status of the DPRK also changed for recent years. Some remarks by Chinese experts have indicated that China may be willing to reconcile itself to a nuclear-armed DPRK (Sherwell 2017). It therefore cannot be ruled out that the Chinese leadership hopes to preserve and increase its influence on Pyongyang in future. In such a case, a DPRK armed with a small nuclear arsenal will not represent a threat to China. Beijing can also turn a "blind eye" to North Korean nuclear program because it is an obstacle to inter-Korean rapprochement, which would not serve China's interests. Since China regards the entire Korean peninsula as the sphere of its strategic interests, it tries to keep the South under control as well as. At the same time it monitors closely inter-Korean relations and interfere when the countries' ties become, in Beijing opinion, too close.

China's interests on the Korean Peninsula and its «divide and control» strategy run counter to Seoul's official rhetoric and goals of denuclearization and unification and thus may become another serious obstacle to ROK's participation in OBOR projects or merging two countries economic initiatives.

Prospects

If the US fail to revitalize the alliance (which already has multiple problems such as relations between ROK and Japan, doubts in readiness of the US to protect allies in the case of conflict, etc.) or propose adequate alternative to China's economic cooperation, it cannot be ruled out that pro-Chinese sentiments will return in ROK. In the Roh Moo-hyun era, South Koreans embraced a pro-China policy. As a result, the younger generation believed that China was more important than the US in the long term and supported closer ties with China to balance the influence of the US. Similar sentiments arose beginning in 2013 (Ren 2016).

Also, as ROK is being decoupled from the United States (by China or its own will), it may gradually shift from the West-oriented concept of a unipolar world and adopt a new concept of multipolarity, promoted by China, Russia and a number of other countries. It is this concept that projects for the integration of Greater Eurasia, including China's OBOR, are based on.

As long as ROK will politicize economic cooperation projects and make economic cooperation with China dependent on its relations with the United States, policy towards the DPRK and KPNI, security issues, especially those concerning North Korea, will hamper the development of China-ROK bilateral relations. At the same time there is a chance that ROK, driven by the same political considerations, will not join unconditionally US-led projects.

The pandemic has made adjustments not only in the development of the economy, transport and supply chains. It provided China with an opportunity to expand and modernize its Belt and Road cooperation agenda. One of the most interesting ideas is Health Silk Road Initiative. China's opponents consider this initiative as plan to supply of vaccines to other countries in order to gain a strategic advantage in competing with the United States for global leadership. However this initiative has much broader meaning and goes far beyond just providing vaccines and medicines. We are talking about cooperation in different spheres in the post-covid period, which implies that OBOR will be aimed at combating the economic consequences of the pandemic and restoring the global economy.

Despite all the difficulties and obstacles OBOR proved to be viable project even during pandemic. Trade between China and its OBOR partners rose from \$ 1.04 to \$ 1.34 trillion from 2013 to 2019. In 2020 it showed 1.5% growth. Over the 7 years of the initiative's implementation, trade between China and countries that joined OBOR has exceeded \$ 7.8 trillion.

Even in conditions of a large-scale suspension and disruption of logistic chains from January to April of 2020 the number of container trains and the volume of cargo turnover between China and Europe not only did not fall, but increased by 24% and 27%, respectively, compared to the same period of 2019. The route was used to deliver tons of anti-epidemic cargo (Zhang 2021).

In the post-virus period, the need for economic development and cooperation in the sphere of public health is expected to increase. In this connection China works on involving its OBOR partners in projects to implement Health Silk Road, Digital Silk Road and other initiatives that are aimed at restoring global economy. For example, since it is impossible to hold large-scale events including those devoted to OBOR and other global projects offline, China proposes to use the "Digital Silk Road" and "information corridor" (PRC Ministry of Foreign Affairs 2021).

China, which was the first to take control of the epidemic and restart its economy, has high chances to head and lead the process of recovering global economic system. Its OBOR megaproject, if updated to meet new challenges, will be efficient and promising and ROK in one

way or another will look for the ways to participate in it. At the same time, Chinese initiative will likely be implemented in any case, with or without ROK participation. OBOR provides for multiple transport corridors outside the Korean Peninsula (for example, through Russia, Mongolia or Central Asia). However, it should not be ruled out that attempts to attract ROK to the project will intensify in the case of imbalance within the China - ROK - US triangle in favor of the latter. In this case China may start involving ROK more actively in order to put it closer to China's orbit.

To conclude, the main problems of interaction between China and ROK through the OBOR project lie in the political sphere, or rather, in the divergence of political interests and goals of the countries in connection with the project. OBOR undoubtedly has geopolitical significance. This is recognized not only by Western and Russian scholars, but also by Chinese experts. From this point, the project is intended to strengthen regional security and stability, as well as meet China's interests in deepening trade and economic ties with its neighbors. From the point of foreign policy, China views the initiative as a comprehensive plan to promote its interests globally. Interest of ROK to the project, along with natural desire to develop new transport and logistics routes, is also determined by political goals, but these goals are limited to establishing peace and security on the Korean Peninsula. China's interest in ROK's participation in its megaproject is largely determined by economic considerations. From a political point of view, China can consider the project and ROK's participation in it as an additional lever of influence on the ROK. China, which considers Korean Peninsula as its sphere of influence, is not interested in increasing the role and influence of other countries, including ROK. OBOR is based on existing mechanisms of China's bilateral relations with foreign countries and from this point China prefers to develop relations with the DPRK and ROK separately. It is also in line with Chinese "divide and control" strategy. Rapprochement of the countries of the Korean Peninsula and diversification of their trade partners would decrease the role of China and boost integration processes on the peninsula, which is not in interests of China.

Another problem is relations of ROK with the US and current US-China rivalry. By implementing OBOR projects China creates the belt of friendly states, including Russia, Central Asian and some North and South East Asian states. It will give China necessary resources and support in competition for global leadership. Therefore, the US will not only oppose Chinese megaprojects and counter them with their own initiatives but also discourage its allies, especially ROK, from joining China's initiatives. Cooperation of China and ROK through the OBOR project thus will be determined not only by US-China relations but also by ability of the ROK leadership to balance between the two big powers.

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