

Pullout reflects loss of edge

Security concerns and growing competition contribute to Republic of Korea enterprises scaling back in China

By CUI SHOUFENG

Editor's Note: *Transnational companies based in the Republic of Korea, including Lotte Mart, are retreating from the Chinese market, possibly to cut their losses. Four experts share their views on Beijing-Seoul economic ties. Excerpts follow:*

Separate economic ties from security concerns



KIM SANG-SOON

President of the ROK-based Institute for East Asia Peace Studies, and a senior researcher at the Charhar Institute in China.

Kim Dong-yeon, finance minister of the Republic of Korea (ROK), met with foreign investors in New York on Sept 20, in a move to reassure prospective investors that the country's economy remains solid despite heightened tensions on the Korean Peninsula.

He is right to remain positive, as the ROK has forecast its economic growth will be 3 percent this year, the fastest rate of growth since 3.3 percent in 2014.

Unfortunately, the trade and investment exchanges between China and the ROK, once close trade partners, appeared to nosedive after the ROK decided to deploy on its soil the Terminal High Altitude Area Defense (THAAD) anti-missile system of the United States.

Fearing their Chinese operations might suffer, some prospective ROK investors have canceled plans to explore the Chinese market while looking to the US, Russia and Vietnam instead.

The ROK's Lotte Group has closed about 80 percent of its 112 stores in China in more than six months and is expected to shut down more. For years, China has attracted nearly one-fourth of the ROK's exports, but the figure is likely to fall to 23 percent, or even less, this year.

It is critical that Beijing and Seoul disconnect economic issues from security concerns, a prerequisite for the normalization of bilateral trade ties.

The deployment of THAAD has a lot to do with Washington's Asia-Pacific maneuvering and Seoul's worries over the nuclear threat posed by Pyongyang. It is not and should not be an exclusive problem between China and the ROK.

The respective concerns of the US and the Democratic People's Republic of Korea (DPRK) should be heeded, which can pave the way for resumption of talks.

Beijing and Seoul still have time to separate their economic ties from their security concerns. They could start doing so by engaging in candid dialogue on security issues, which they did not do enough before THAAD was deployed.

Grassroots exchanges and public diplomacy should be deepened and diversified to avoid wider distrust between the two peoples.

There is also room for reciprocal coordination between China's trade-and-infrastructure-focused Belt and Road Initiative and the New Northern Policy, which was proposed in early September by ROK President Moon Jae-in with a focus on building a Eurasian economic community through cooperation with Russia.

Finding the growing competition tough



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The departure of some ROK enterprises from China is not necessarily related to the deployment of THAAD in the ROK.

Since 2012, China and Japan have had a difficult time in political exchanges, given the latter's

attempt to "nationalize" the Diaoyu Islands. But that has not stopped Chinese tourists from visiting Japan or buying Japanese goods. As a result, bilateral trade exchanges remain relatively active.

Meanwhile, ROK enterprises might be scaling down their Chinese operations because of their waning competitiveness and the increasing operational cost in China. The rise of Chinese electronic gadget manufacturers like Huawei has further marginalized their ROK counterparts, whose products had once been a favorite of Chinese consumers.

The rising labor costs in China also mean that ROK investors are tempted to look elsewhere, for example, Thailand and Vietnam, where land and labor cost less and foreign companies enjoy favorable policies.

But leaving the lucrative Chinese market may not be a wise move for the ROK companies, nor is it a desirable outcome for Seoul which has been rather keen to pursue the China-ROK free trade agreement. Bilateral trade reached a record \$235.4 billion in 2014, almost 37 times that in 1992 when the two countries normalized their diplomatic relations.

Western competitors will quickly fill the void, and it will not be easy for the ROK enterprises to make a comeback, not least when their products are losing their magic in the Chinese market.

China's high-end market, that adores luxury goods and cutting-edge technological innovations, could be a breakthrough.

Dialogue can help resolve knotty issue



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The ROK companies operating in China are exiting the Chinese market amid increasing anti-ROK sentiment and inter-governmental pressure emanating from Seoul's decision to deploy THAAD.

According to rough estimates, the ROK could lose more than 1 trillion yuan (\$155 billion) if its companies pull out of the Chinese market, and suffer a 0.59 percent fall in GDP.

In the long term, the ROK companies will have to diversify their export markets and start reorganizing their industrial structure to better cope with external uncertainties.

Since normalization of bilateral ties in 1992, China-ROK trade has flourished, rising more than 33-fold from \$6.4 billion to \$211.4 billion last year. China is currently the ROK's biggest trading partner and export destination, accounting for 26 percent of all ROK exports in 2015.

And the ROK, also a huge beneficiary of Chinese tourists and buyers of its cultural products, is now China's third-largest trading partner country. Therefore, the economic interdependence between the two countries will likely result in reciprocal loss of economic gains, at a time when economic vibrancy is much needed in both countries.

Seoul's decision to deploy THAAD may not prevent Pyongyang from developing nuclear weapons and missiles in the near future.

China can play a crucial role as both a balancer and mediator of the nuclear talks (involving both the DPRK's nuclear disarmament and THAAD).

If the DPRK does not change its nuclear policy, and if the US refuses to accept Kim Jong-un as DPRK leader, who in turn refuses to accept ROK President Moon Jae-in's recent peace talks offer, then the ball might fall in the court of China and the ROK. Hopefully, the two countries can start the resolution process by holding strategic dialogues.

Bilateral trade pattern must adapt to change

The ROK and China both oppose the DPRK's pursuit of nuclear weapons. But the US and the ROK have always insisted that China play a bigger role in resolving the DPRK nuclear issue.

Ridiculously, though, while pushing Beijing to do more, Washington and Seoul have added fuel to the fire by deploying THAAD in the ROK. Moreover, US President Donald Trump's continued diatribe against the DPRK, including his



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UN General Assembly speech on Sept 19, has further complicated the DPRK nuclear issue.

The THAAD factor is partly responsible for the ailing China-ROK economic ties. But it is a total misunderstanding that China has official policies against ROK products. Chinese consumers make their own choices.

Other factors that have affected China-ROK economic ties are the changing trade structure and the rise of Chinese brands.

Frequent battery explosions last year undermined consumers' confidence in Samsung's smartphones, whose share in the Chinese market dropped to just 3.1 percent in the first quarter of this year from its peak of nearly 20 percent in the past five years.

Data show the ROK economy, despite the volatile regional situation, remains stable. The global demand for ROK goods has improved in the second half of this year, and its exports are expected to increase 10.2 percent this year, according to the ROK government.

In contrast, some ROK enterprises have had a difficult time in the Chinese market, and the falling number of Chinese tourists to the ROK has also taken a toll on the latter's economy. The China-bound investment by ROK enterprises even shows signs of negative growth.

With or without THAAD, the China-ROK trading pattern will have to change in the face of increasingly competent Chinese manufacturers and sophisticated industrial chains.

To win back Chinese consumers, ROK entrepreneurs need to sell more value-added products to them and expand their operations to more Chinese cities.