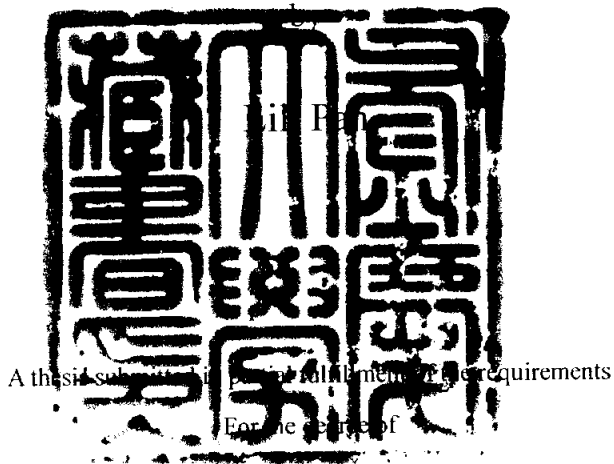


**Sino-Korean Trade Development and Some
Countermeasures of China's Trade Deficit**

한·중 무역발전과 중국의 무역적자 해소방안

Advisor: Hong-Seok Choi



Master of Business Administration

In the Department of International Commerce and Logistics, Gradual School,
Pukyong National University

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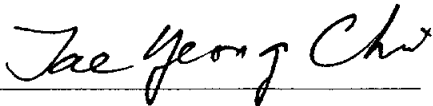
Sino-Korean Trade Development and Some
Countermeasures of China's Trade Deficit

A Thesis

by

Lili Pan

Approved as to style and content by:



Chairman: Professor Tae Yeong Choi, PhD



Member: Professor Myung Shin Ha, PhD



Member: Professor Hong Seok Choi, PhD

February 25, 2004

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Lili Pan

February, 2004

Sino-Korean Trade Development and Some Countermeasures of China's Trade Deficit

Lili Pan

Department of International Commerce and Logistics, Graduate School.

Pukyong National University

Abstract

The trend of globalization since the early 1990s has had a profound impact on trade relations between China and South Korea. It affected these two countries in positive ways, and brought Sino-Korean trade to its highest level since the establishment of diplomatic relations on August 24, 1992.

Sino-Korean trade has made noticeable development during the past ten years, something from nothing, from small scale to big scale trading. China has already become a major trading partner and a key factor in Sino-Korea trade relations in terms of its big potential market. But as the scale of its growth and development accelerated, it was also exposed to and encountered various problems.

Among those problems, the most important and urgent problem to be solved was that in Sino-Korea trade, the deficit on the China side has continued to increase. This dissertation focuses on analyzing the causes of trade deficits on China's side and the reasons for continuous

increasing deficits. Furthermore, this paper seeks countermeasures to promote desirable development in Sino-Korean trade.

This thesis firstly presents the development trend and current situation of Sino-Korean trade relation since the bilateral ties were established, and then explains the main characteristics of Sino-Korean trade relations in the last ten years.

Hereafter, this thesis analyzes the factors of increasing trade deficits on China's side in Sino-Korean trade, from the main factors of the structural fluctuation of import and export commodities in Sino-Korean trade, fluctuation of mutual direct investment, and fluctuation of average tariff rate of Korea against Chinese goods.

In the last part, suggestions are made to promote desirable development of trade relation between China and South Korea to achieve a Win-Win situation which is of mutual benefit for their sustainable economic growth. The countermeasures are expected to contribute to the reconciliation of their trade conflict which is associated with the accumulated deficit in China's trade balance with Korea since the two countries entered into diplomatic relation on August 24, 1992.

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Key Words: Sino-Korean trade; trade deficits; trade balance; countermeasures; Win-Win situation.

CONTENTS

Acknowledgements.....	i
Abstract (English).....	ii
List of Tables.....	vi
List of Figures.....	vii
I . Introduction.....	1
1. Background of the Study.....	1
2. Objectives of the Study.....	6
3. Structure and Research Method.....	6
II . Development of Sino-Korean Trade Since 1992.....	8
1. A Brief Introduction of Economic Cooperation Environment for China and South Korea.....	8
2. A Review of Trade Between China and South Korea.....	18
3. Characteristic of Sino-Korean Trade Since 1992.....	27
III. Causes Analysis of China's Increasing Trade Deficit with South Korea.....	42
1. Influence of the Asian Financial Crisis.....	45
2. Influence of Structural Fluctuation of Export and Import Commodities.....	47

3. Influence of Fluctuation of Korean Investment in China.....	50
4. Influence of Change of Average Tariff Rates.....	54
IV. Some Countermeasures for the Further Development of Sino-	
Korean Trade Relations.....	59
1. Adopting Economic Policies like Tariffs, Price, etc.....	59
2. Extending Further Cooperation of Bilateral Investment.....	61
3. Devotion to the Development of Parts Industry and Technical	
Trade.....	62
4. Speeding up the Procedure of Adjusting the Commodity	
Structure.....	64
5. Strengthening the Support of Government Policies.....	65
6. Adopting Anti-dumping Measure.....	66
V. Conclusion	69
References.....	71
Abstract (Korean).....	74

List of Tables

Table

1. Top 10 Export/Import Countries in the World (2002).....	10
2. The Complementary Advantages Between China and South Korea...	15
3. Agenda of Sino-Korean Economic Development.....	17
4. Main Partner of China's Trade in 2001.....	20
5. Sino-Korean Trade Scales Since 1992.....	22
6. China's Share in East Asian Countries' Exports.....	24
7. Changes of China's Export to Korea by Products Before and After the Asian Economic Crisis.....	29
8. Changes of China's Import from Korea by Products Before and After the Asian Economic Crisis.....	30
9. Commodity Structure of China's Importation from South Korea after 1992.....	35
10. Commodity Structure of China's Exportation to South Korea after 1992.....	37
11. Trade Dependency to Each Other Between China and South Korea.....	40
12. China's Trade Deficit of Each Commodity in Sino-Korean trade Since 1992.....	48
13. Change of Tariffs, Price in China and South Korea.....	56
14. Procedure of China's Tariff Adjustment.....	57

List of Figures

Figure

1. Change Rate of China's Trade with South Korea Compared with the Total.....	4
2. China's Trade Balance with South Korea Compared with the Total.....	5
3. Trend of China's Export and Import Value Since 1981.....	9
4. Change of Sino-Korean Trade Scale Since 1992.....	23
5. China's Trade Deficit of Each Commodity in Sino-Korean Trade Since 1992.....	49
6. Korea Direct Investment in China in 1992-2001.....	52
7. Sectoral Distribution of FDI in China by Country or Region in 2000.....	53

I . Introduction

China and South Korea established their diplomatic relations on August 24, 1992. However, bilateral trade can be traced to more than ten years ago. At that time, due to the big environment, most of trade was indirect trade which carried out through Hong Kong or other countries. So it is difficult to precisely collect the data before the establishment of diplomatic relations between the two countries. For an accurate analysis, this dissertation focuses on the study of Sino-Korean trade relations after 1992 when the two countries established the diplomatic tie.

There are more and more studies on Sino-Korean relations in recent years especially since 1992. However, most of those existing studies predominantly document the Sino-Korean trade relations from the standpoint of South Korea, and focus on how South Korean enterprises increase market share in China. This paper tries to discuss the Sino-Korean trade relations from the standpoint of China. From China's stand, it will look into the exposed problems particularly focusing on China's increasing trade deficit in Sino-Korean trade relations, and concentrate on how to keep the equilibrium in bilateral trade.

1. Background of the Study

The global economy has grown steadily after World War II. One of the main characteristics of economic globalization is the increasing development of foreign trade. International trade is important to study

for many reasons. Firstly its importance in the world economy has been great. Comparing the world economy in 1989 and 1999 show: Trade as a share of GDP (defined as the sum of exports and imports) increased from 22.5 per cent of world GDP to 27.4 per cent; trade in goods as a share of goods GDP increased from 85 per cent to 112 per cent (including re-exports).

As well as being a large part of world GDP, trade also brings great benefits to those who engage in it. According to US trade representative Robert Zoellick, trade delivers lower prices, more choices and higher incomes (in USTR, 2001). The New York Federal Reserve Bank says that trade creates specialization, economies of scale and efficient use of resources (NYFRB, 2002). Many people have tried to explain the benefits of trade and its importance to an economy, but president George W Bush covered most of these benefits in his trade day speech in early 2002: “Trade plays a vital role in encouraging prosperity and improving the lives of people around the world. It fosters economic growth, ingenuity and innovation. And it builds high-quality jobs and promotes economic and political stability around the world.”

Another reason of this paper is that Northeast Asia has played an increasing important role in world trade with the fast development of industrialization since 1930s. Since 1990s, world trade is going the way of globalization and regional integration. As we all know, globalization is defined as a process of rapid economic, cultural, and institutional integration among countries driven by the liberalization of trade, investment and capital flows, technological advances, and pressures for assimilation toward international standards.

Globalization reduces barriers between countries, thereby resulting in the intensification of economic competition among nations, dissemination of advanced management practices and newer forms of work organization, and sharing internationally accepted labor standards.¹

Along with the trend of globalization and regional integration, countries in Northeast Asia began to consider economic cooperation as one of the main issues what they are concerned with and discussed it with each other in order to carry it out in practice. From the viewpoint of the proportion in the world trade as a whole, there is a high possibility about this cooperation between China and South Korea because the two countries are geographically very close and have a long history of exchanges.

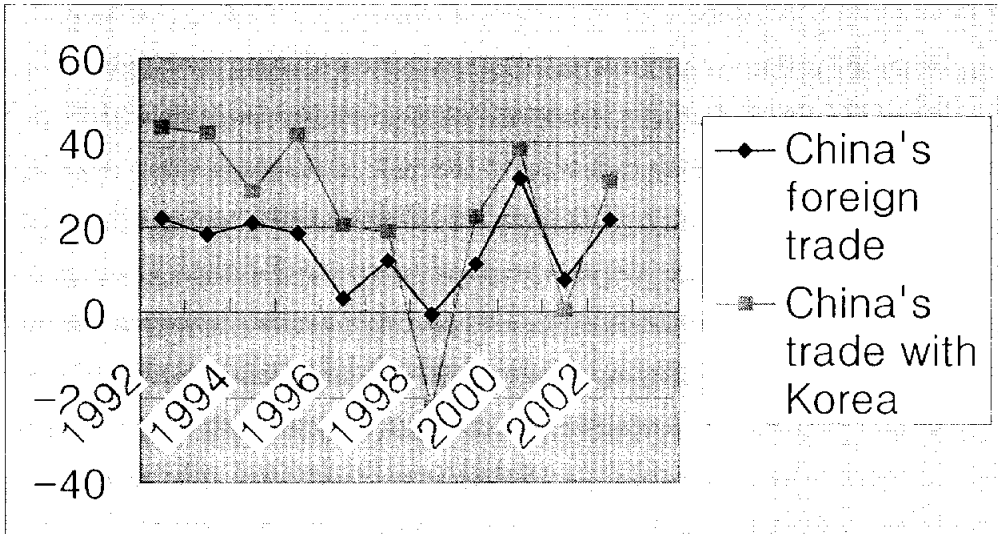
The establishment of formal diplomatic relations between China and South Korea was on August 24, 1992. Looking back the past ten years, they have made vast progress in many fields, such as, in political, economic, social and cultural aspects, both quantitative and qualitative, and have undergone numerous structural changes. Nevertheless, most of the economic cooperation is still in the low level due to the differentials in political, social, economic system between the two countries. These differences in the stage of economic development and the strategies seem to have contributed to different outcomes in trade relations.

¹ Frenkel and Peetz, 1998; ILO, 1999a.

Figure 1

Change Rate of China's Trade with South Korea Compared with the Total

(Unit: %)



Source: Customs General Administration People's Republic of China

<http://www.customs.gov.cn/tongjishujv/book1.files/sheet001.htm>, 2003.

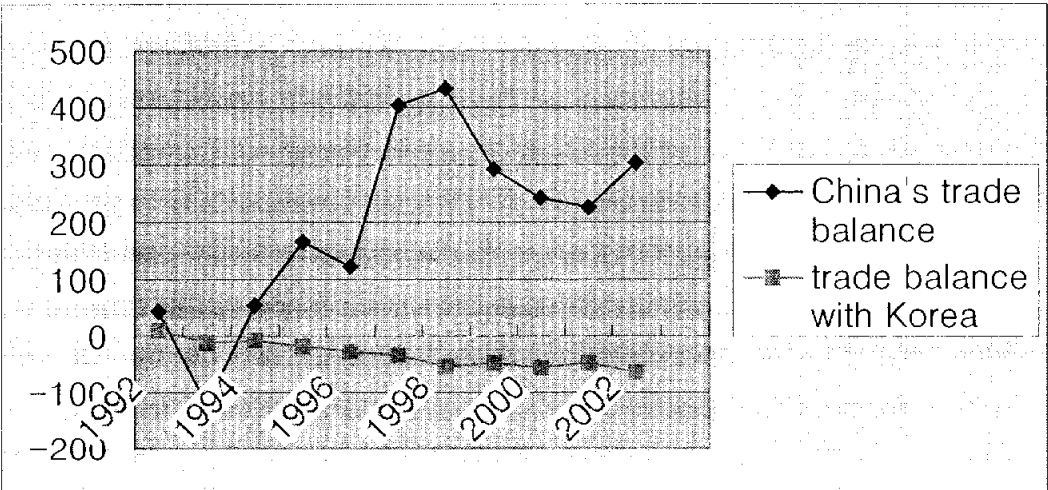
Korea International Trade Association (KOTIS), 1992-2002.

Open policy has greatly promoted the expansion of China's foreign trade. Between 1992 and 2002, China's foreign trade volume increased from 165.53 billion dollars to 620.77 billion dollars, growing 15.17 per cent annually. The rate of change in trade volume slowed down a little bit in 1998 due to the Asian financial crisis. The rapid growth of Sino-Korean trade relations also can be shown in the above figure.

Along with the rapid growth of Sino-Korean trade relations, the trade deficit on China's side is becoming more and more serious. China's trade deficit with South Korea in 2002 was up to 6.35 billion dollars, and continued to show an increasing trend in the past ten years (See figure 2). In order to have a further and balanced development on Sino-Korean trade relation, cooperation in many fields are placed on the agenda.

Figure 2

China's Trade Balance with South Korea Compared with the Total
(Unit: 100 million \$)



Source: Customs General Administration People's Republic of China
Korea International Trade Association (KOTIS)

Given the trade importance, benefits, the rapid development of trade relations between China and South Korea, and China's

increasing trade deficit with South Korea, the purpose, structure and research method of this study is shown as follows in detail.

2. Objectives of the Study

This dissertation aims at studying Sino-Korean trade development and some countermeasures of China's trade deficit with South Korea after their establishment of diplomatic relations. The purpose of this paper is fourfold. The first purpose is to look into the development trend and current situation of Sino-Korean trade. The second purpose of this study is to discuss the main characteristics of Sino-Korean trade. The third objective is to analyze the possible causes for the increasing trade deficits on China side in Sino-Korean trade development after the establishment of diplomatic relations. Finally, the fourth purpose is to put forward the proposals for promoting the bilateral trade to a Win-Win situation.

3. Structure and Research Method

First, in the beginning of this dissertation, focuses on the general situation of Sino-Korean trade relation during the past ten years, and reviews the development trend from the viewpoint of export and import. Second, it looks into the main features of Sino-Korean trade relation, some problems of trade between the two countries will also be showed in this paper. Third, it will be proposed the possible reasons for China's increasing trade deficit with South Korea after the establishment of diplomatic relations. The last part of this paper

suggests some strategies for the further development of trade relation between China and South Korea which are mutual of benefit for their sustainable economic growth.

In order to conduct the research, it will examine extensive official data, archival documents and materials from various sources. Data on the Korean economy were obtained mainly from the statistical publications of the Bank of Korea (BOK), the Ministry of Trade and Industry (MTI), and the KFTA of Korea. Chinese data were collected mainly from the Ministry of Commerce of the People's Republic of China, and Customs General Administration People's Republic of China. Because one of the main purposes of this paper is to look into the possible causes for the increasing China's trade deficits in Sino-Korean trade, the basic quantitative research method like software of Excel was utilized to summarize and analyze the collected data, depending on the research objective.

II. Development of Sino-Korean Trade Since 1992

1. A Brief Introduction of Economic Cooperation Environment for China and South Korea

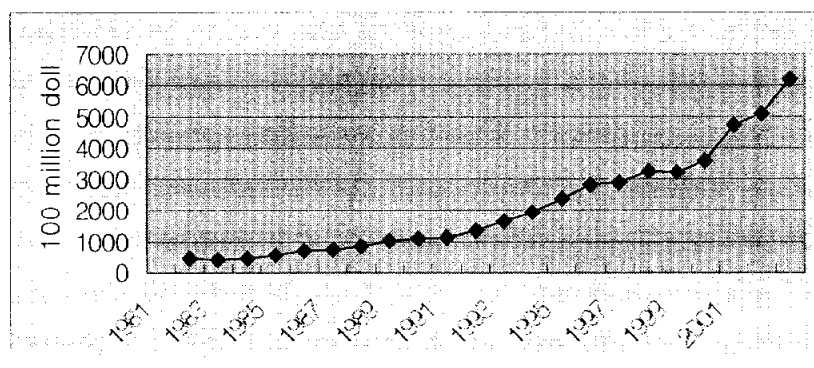
China and South Korea are geographically close to each other, and they are not only the two core countries of the Northeast Asian area, but also are among the strong economic power countries in the Asian area. Both of the two countries have a great future in economic development, and the cooperation between these two countries is expected to promote the economic development of Asia-Pacific and Northeast Asian Areas.

A brief introduction of the two countries

China

The Chinese economy is the only notable exception to the general slowdown in the world economy. China has attracted increasing world-wide attention with its spectacular growth of foreign trade since implementing economic reform and an open-door policy in the late 1970s. Open policy has greatly promoted the expansion of China's foreign trade. Between 1979 and 1999, China's foreign trade volume increased by 15.3 per cent annually (see figure 3).

Figure 3 Trend of China's Export and Import Value Since 1981



Source: Chinese Customs, August, 2003.

<http://www.customs.gov.cn/tongjishujv/book1.files/sheet001.htm>

As can be seen from the following table 1, China has become the sixth biggest foreign trading power of the world in 2001, 3.4 times that of 1990 when it ranked only 16th. The value of China's total export in 2002 was up to the fifth biggest country worth 325.6 billion dollars. The total import value of that year reached 295.2 billion dollars, ranked 6th place. Each them increased at 22 per cent, 21 per cent over the same period of last year separately.

Table 1

Top 10 Export Countries in the World (2002)

(Unit: 100 million \$, %)

	Rank 2002	in Export value	Increasing rate	Portion of total export value in the world	Rank in 2001
Total in the world		64329	4.4	100	
Besides:					
USA	1	6935	-5	10.8	1
Germany	2	6122	7	9.5	2
Japan	3	4160	3	6.5	3
France	4	3295	2	5.1	4
China	5	3256	22	5.1	6
England	6	2759	1	4.3	5
Canada	7	2525	-3	3.9	7
Italy	8	2520	5	3.9	8
Poland	9	2434	5	3.8	9
Hungary	10	2132	12	3.3	

Top 10 Import Countries in the World (2002)

(Unit: 100 million, %)

	Rank 2002	in Import value	Increasing rate	Portion of total import value in the world	Rank in 2001
Total in the world		66825	3.8	100	
Besides:					
USA	1	12025	2	18.0	1
Germany	2	4933	1	7.4	2
England	3	3398	2	5.1	4
Japan	4	3364	2	5.0	3
France	5	3264	-1	4.9	5
China	6	2952	21	4.4	6
Italy	7	2411	4	3.6	7
Canada	8	2276	0	3.4	8
Poland	9	2177	4	3.3	9
Hong Kong	10	2086	3	3.1	10

Source: Chinese Customs (<http://www.customs.gov.cn/tongjishujv>), August,
2003

China will play a key role in determining the outcome of the changes² of East Asia's economics if for no other reasons than its sheer size and speed of economic expansion. China's economy grew 7.3 per cent in 2001 and an average 9.1 per cent annually between 1980 and 2000. China expects its economy to grow at an annual rate of 6 to 7 per cent over the next 10 years. China has become a major trading power and a key factor in the bilateral trade relations with South Korea.

Korea

Korea is one of the newly industrialized countries. As a matter of fact, Korea has pursued economic development since four decades ago, and now it has enjoyed an average economic growth rate of 8.6 per cent a year and has emerged as the world's 11th largest trading nation. In less than two generations, the nation has established itself as one of the world's leading shipbuilders and manufacturers of electronics, semiconductors, and automobiles. These achievements enabled the country to join the Organization for Economic Cooperation and Development in 1996.

² China's accession to the World Trade organization on Dec. 11, 2001, together with the 1997 Asian financial crisis and Japan's decade-long economic slump, have begun to change East Asia's economic landscape. Jahyeong Koo, Dong Fu. "China's Growing Economic Influence in East Asia after WTO", 2002.

The Korean economy suffered a massive shock in late 1997 due to the Asian financial crisis which caused a foreign currency crunch. After economic reform and restructuring efforts, Korea was able to overcome the economic downturn and emerged from the International Monetary Fund (IMF) regime on August 23, 2001. When Korea paid back the IMF loans three years ahead of schedule, it was a message indicating that it had fully recovered its economic sovereignty.

In the wake of the deteriorating international economic environment, Korea is experiencing a short-term recession, but the Korean economy has shown signs of recovery since the fourth quarter of 2001. It sustained an upward trend in the first quarter of 2002 largely on the strength of strong consumption and construction. During 2002, GDP growth was forecast to reach about 5.7 percent, consumer prices about 3.1 percent, and the current account to register a surplus of 5 billion dollars. The Korean economic growth is expected to continue expanding, boosted by robust domestic consumption and increases in exports.

In fact, an export-oriented economic development strategy contributed greatly to the overall economic transformation of Korea. Based on this strategy, many successful development programs were implemented. As a result, Gross National Income (GNI) increased from 2.3 billion dollars in 1962 to 474 billion dollars in 1997, with its per capita GNI soaring from 87 dollars to 10,307 dollars. However, GNI and per capita GNI drastically plunged to 317 billion dollars and 6,823 dollars in 1998 at the height of the financial crisis. After three years of reform, these figures recovered the pre-crisis levels.

Korean imports have steadily increased due to the nation's liberalization policy and increasing income levels. As one of the largest import markets in the world, major import items included industrial raw materials such as crude oil and minerals, and general consumer products and foodstuffs, as well as machinery, electronic equipment and transportation equipment.

Complementary advantages

Sino-Korean trade has shown rapid growth after the two countries established diplomatic relations on August 24, 1992, making each other the third most important economic partner following USA and Japan.

The reason for the rapid progress is that there are complementary advantages between these two countries. Because of economies of scale, neither country is able to produce the full range of manufactured products by itself; thus, although both countries may produce the full range of manufactures, they will be producing different things.

As can be seen from table 2, and stand on the viewpoint of the proportion in the world trade as a whole, there is a high possibility for cooperation between China and South Korea. China has a comparable advantage in coal, mineral and labor resources while South Korea is rich in capital, technology and management compared with that of China.

Table 2

The Complementary Advantages between China and South Korea

Country	Petroleum, Natural gas	Coal, Mineral	Labor resource	Capital	Technology	Management
China	R	VR	VR	VP	S	S
South Korea	A	S	S	R	R	R

Note: R means rich, A means abundant, VR stands for very rich, S stands for small, and VP means very poor.

Source: Li Yuze, *"An Introduction to the Economy of Northeast Asian Area"*, Publishing house of Jilin University, 2001.

Political environment

Given the high degree of economic complementary as well as geographical and cultural proximity that exists between China and South Korea, there are undoubtedly many things that both countries can do together to cope with their domestic economic problems as well as to meet challenges resulting from the changing conditions in the global economy. What is most important here is that the governments of the two countries make maximum efforts to eliminate unnecessary barriers that hinder the flow of goods and services between the two countries. This task is not very difficult if officials of the two countries try to identify those barriers and bring them to the conference table on a regular basis for discussion on how to eliminate or reduce them for their mutual interest.

Since the establishment of diplomatic relation between the two

countries on August 24, 1992, China has continued to stand on the point of supporting the union between South Korea and North Korea, and has kept close relations with both of them. On the other hand, South Korea has always approved of the principle of “One China”, and hoped that China could play a negative role in the issue between South Korea and North Korea, so Sino-Korean relations developed sharply in a smooth way during the past decade.

Since 1993, South Korea has been providing the China Economic and development Cooperation Fund (EDCF) loans. In November 1995, the governments of the two nations endorsed the principle general agreement to which EDCF loans provided for China by South Korea would be subject for the following 10 years.³ However, the breakout of the financial crisis had set the fourth batch loans with a total amount about 170 million USD into a standstill. With the recovery and development of the South Korean economy, the loans cooperation started again, as well as the newly signed South Korean investment contract to China.

See table 3. After the establishment of diplomatic relations, the two governments signed a series of agreements on many fields, such as trade, investment protection, shipping, tax, the establishment of a cooperation committee for economic and technology, peaceful usage of nuclear power, and so forth. The investment type changed from indirect investment to direct type. The early investment in 1992 was

³ *Sino-South Korean Economic and Trade Relationship Brief*, Ministry of Foreign Trade and Economic Cooperation, PRC, 2001(2). Available online at <http://www.moftec.gov.cn/moftec-en/dsbgx/yahou-en-08.html>

mainly on the basis of labor-intensive, and now changed into a kind of capital, technology-intensive direct investment.

Table 3

Agenda of Sino-Korean Economic Development

Year	Diary account of economy	Classification of trade	Classification of investment
1992	Signed agreements of trade and investment protection; establishment of formal diplomatic relation	Direct trade	Direct investment: labor-intensive
1997.8	Signed bilateral agreement on the issue of China's WTO entry		Direct investment: capital,technology-intensive
1998.11	Established a cooperation partnership between the two countries		
2000.10	Agreed to push Sino-Korean relations of cooperation partnership to a new stage of all-round cooperation		

Source: Korean industry bank, "*industrial economy*", 1997, No. 78

In brief, under the current political environment, the economic cooperation between China and South Korea developed at high speed and in a smooth, healthy manner during the last ten years. Nowadays they have become one of the most important partners to each other in the field of trade and investment.

2. A Review of Trade Between China and South Korea

There is a phrase “Ten years ago should be said an old day”. It is “Shi nian he dong, shi nian he xi ” in Chinese. This expression shows us the violent change of things even in a decade.

In the past ten years, we have seen historical achievements in extensive areas of the relationship between China and South Korea. Ten years ago, there was almost no official contact between these two countries. Today, there are frequent high-level exchanges. Since the establishment of diplomatic relations between the two countries on August 24,1992, the bilateral relationship in the fields of trade, investment, capital cooperation, labor cooperation and industrial cooperation has been moved rapidly ahead.

Trade volume

Since 1992, trade and investment between the two countries has shown rapid growth, making each of them the third important economic partner following USA and Japan to the other party.⁴

Although influenced by the Asian financial crisis in 1998, China's demand for importation decreased due to the decrease in national demand, South Korea also cut the amount of imports down because of the economic recession, the volume of Sino-Korean trade showed a slide down for the first time that year, but the bilateral trade showed a new increasing trend since 1999. Along with the increasing trend, China has become the third biggest trade partner to Korea, while Korea was the fourth biggest trade partner to China in 2001, with the trade volume reaching 35.91 billion dollars. (See table 4)

⁴ Based on this economic cooperation, China and Korea agreed to upgrade the definition of their relation from "cooperative companion" to "full cooperation" when Chinese prime minister Zhu Rongji visited Korea in October 2000. Consequently, China-Korea economic cooperation has been implemented primarily for economic factors. However, as economic relation of the two countries has got closer, social cooperation between China and Korea has increased and politics/security relation between Beijing and Seoul has shown

Table 4

Main Partner of China's Trade in 2001

(Unit: 100 million \$, %)

Rank	Country/ district	Ex/Im	Change rate	Export	Change rate	Import	Change rate	Trade balance
1	Japan	877.5	5.5	449.6	7.9	428.0	3.1	21.6
2	USA	804.8	8.1	542.8	4.2	262.0	17.2	280.8
3	Hong Kong	559.7	3.7	465.5	4.6	94.2	-0.1	371.3
4	Korea	359.1	4.1	125.2	10.9	233.9	0.8	-108.7
5	Taiwan	323.4	5.9	50.0	-0.8	273.4	7.2	-223.4
6	Germany	235.3	19.5	97.5	5.1	137.7	32.3	-40.2
7	Singapore	109.3	1.1	57.9	0.5	51.4	1.6	6.5
8	Russia	106.7	33.3	27.1	21.4	79.6	37.9	-52.5
9	England	103.1	4.1	67.8	7.5	35.3	-1.8	32.5
10	Malaysia	94.3	17.2	32.2	25.6	62.1	13.2	-29.9

Note: the figures of these tables in the same year maybe a little different due to the different sources.

Source: Office of commercial counselor of Chinese embassy in Japan, 2002.

remarkable improvement.

As can be seen from table 5 listed below, trade volume rockets dramatically from 6.38 billion USD in 1992 to 23.69 billion USD in 1997, with an average annual growth rate of 36. per cent. In 1995, only 3 years after the establishment of bilateral diplomatic relations, the total trade volume reached 16.5 billion USD, 19.92 billion USD in 1996, and 23.69 billion USD in 1997. The average increasing rate was nearly 32. per cent yearly. But affected by Asian financial crisis in 1998, the demand of importation both in China and South Korea decreased, the trade volume dropped down some extent, and the trade volume was only 18.42 billion USD, a decrease of 22.2 per cent over the same period last year.

In 1999, bilateral trade showed a new increasing trend with total volume reaching 22.55 billion USD, increasing by 22.4 per cent, In 2000, South Korea was the fourth largest trading partner to China, with a total trade value of 31.25 billion dollars. Comparing the value with that of the previous year, the increasing rate was 38.6 per cent which was the highest among the top ten trade partners in 2000.

Table 5

Sino-Korean Trade Scales Since 1992

(Unit: 100 million \$, %)

Year	Total Ex/Im	Change rate	China's Import from Korea	Change rate	Export to Korea	Change rate	Trade balance
1992	63.8	43.5	26.5	164.6	37.2	8.3	10.7
1993	90.8	42.3	51.5	94.3	39.3	5.6	-12.2
1994	116.7	28.5	62.0	20.4	54.6	38.9	-7.4
1995	165.5	41.8	91.4	47.4	74.0	35.5	-17.4
1996	199.2	20.4	113.8	24.5	85.4	15.4	-28.4
1997	236.9	18.9	135.7	19.2	101.2	18.5	-34.5
1998	184.2	-22.2	119.4	-12.0	64.8	-36.0	-54.6
1999	225.5	22.4	136.8	14.6	88.7	36.9	-48.1
2000	312.5	38.5	184.6	34.9	127.9	44.3	-56.6
2001	314.9	0.7	181.9	-1.5	133.0	3.9	-48.9
2002	411.5	30.7	237.5	30.6	174.0	30.8	-63.5

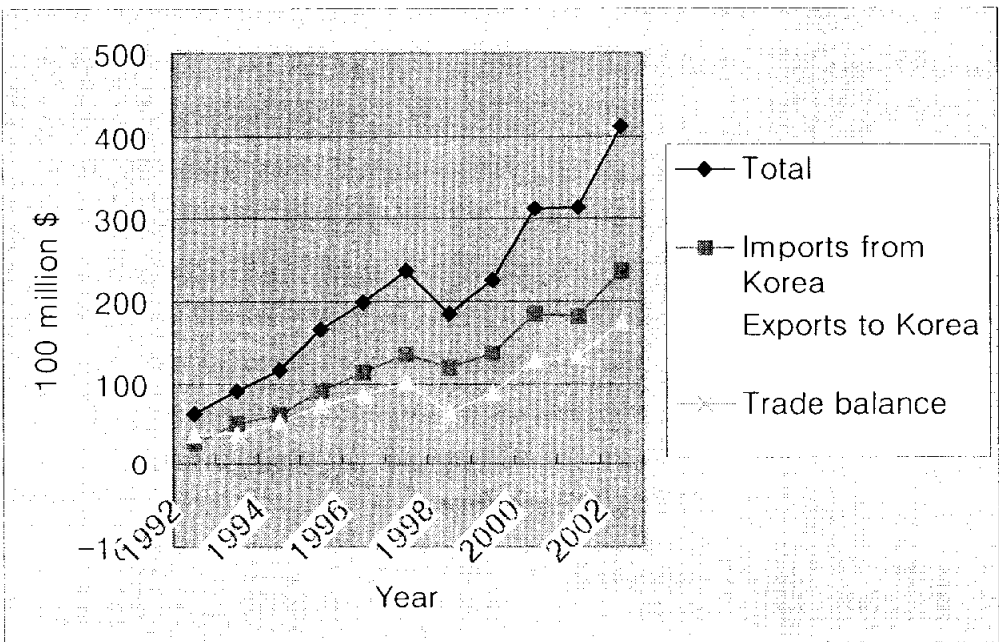
Note: increasing rate is obtained by calculation.

Source: Korea International Trade Association (KOTIS) , Korea trade statistics
1992-2002.

Trade volume in 2001 increased a bit because of the recession in the world economy, valuing 31.49 billion dollars an increase of 0.7 over the year before. Since the beginning of 2002, bilateral trade has kept a continuously rapid increasing trend. The total trade volume achieved 41.15 billion USD, 30.7 points up from the previous year. Generally speaking, the bilateral trade volume went through a rapid development at an annual rate of 24.14 per cent over the ten years. (see figure 4)

Figure 4

Change of Sino-Korean Trade Scale Since 1992



Source: Korea International Trade Association (KOTIS), 1992-2002.

Imports

China's imports from South Korea have kept a rapidly increasing trend except in 1998. Figures in table 6 shows that the changing trends of the share of South Korean exports to China. South Korean exports to China in 1990 only accounted for 5.6 per cent, but it grew up to 17.8 per cent in 2000. It did go through a big change during ten years and also shows the rapid development of bilateral trade relations.

Table 6 China's Share in East Asian Countries' Exports

Country	Exports to China (percent)		
	1990	1995	2000
Korea	5.6	15.3	17.8
Singapore	8.0	10.7	11.8
Indonesia	5.7	7.5	7.0
Malaysia	5.3	7.9	7.6
Philippines	4.8	5.9	6.7
Thailand	5.7	8.0	9.6

Note: Exports to China includes Hong Kong.

Source: "Directions of Trade," International Monetary Fund, 2001.

Actual figures in table 5 show that in the course of 1992, China only imported from South Korea with the value of 2.65 billion dollars. However, the imports value was up to 13.57 billion dollars in 1997. Because of the Asian financial crisis, the imports demand in China was weak and the importation in 1998 dropped down to 11.94 billion

dollars at a decreasing rate of 12.0 per cent. Since 1999, imports began to increase again and recovered the pre-crisis level, with the value of 13.68 billion dollars. The total imports in 2000 reached 18.46 billion dollars, while it was 18.19 billion dollars in 2001, although it decreased a little bit over last year as the result of the deteriorating world economic environment. The import value increased more than 7 times compared with that of 1992. At the beginning of 2002, bilateral trade still maintained a continuously rapid increasing trend. China's imports from South Korea reached 23.75 billion dollars, increasing by 30.6 per cent compared with the year before. Viewing the change rate as a whole, the annual increasing rate was 45.7 per cent after the establishment of diplomatic relations between these two countries.

Exports

China's exports to South Korea have been in a good increasing state too, except in 1998. The total Chinese export output to South Korea was only 3.72 billion dollars in 1992. However, with the rapid development of bilateral relations and the efforts between the two countries, exportation to South Korea surpassed 10 billion dollars in 1997 .

From table 5, it can be seen that in the course of 1998, influenced by Asian financial crisis, South Korea reduced the importation from China because of its economic recession, and the export value of that year dropped down to 6.48 billion dollars. The decreasing trend did not continue and it turned up in 1999. Showing a new increasing trend, the value went up to 8.87 billion dollars. Exports in 2000 recovered

pre-crisis levels, reached 10.53 billion dollars, increasing about 3 times compared the value in 1992. Generally speaking, exports value increased 20.5 per cent on an average each year since 1992.

China's exportation to South Korea in 2001 was 13.3 billion dollars, with the rate of change of 3.9 per cent over the year before. Since the beginning of 2002, bilateral trade kept a continuously rapid increasing trend. Chinese exportation reached 17.40 billion USD that year, increasing at 30.8 per cent compared with the same period last year. If we compare this with the total value from the year 1992, which was 3.72 billion dollars, it can be seen that China's exports to South Korea have grown about 5 times in value over the past decade.

Viewing the Sino-Korean trade development as a whole, in term of absolute increasing value, the scale of China's imports from South Korea was quite bigger than that of China's exports to South Korea during the last decade, not only in the aspect of absolute increasing value but also on the annual increasing rate. The increasing speed of China's imports was also higher than that of its exports in the bilateral trade relations, thus leading to an increasing serious trade deficit on China's side since 1993.

Balance of Trade

The relationship between merchandise imports and exports is referred to as the balance of trade, or trade balance. If a country exports more goods than it imports, it has a favorable balance of trade; if it imports more goods than it exports, as China has done in Sino-Korean trade during the last ten years, it has an unfavorable balance of

trade, as shown in table 10. Usually a country that has a negative balance of trade also has a negative balance of payments.

The actual figures in the last column of table 5 show that balance in China's trade with South Korea recorded deficits of USD 1.22 billion in 1993, reaching a peak of USD 5.66 billion in 2000, and show trade deficits of USD 4.89 billion in 2001. As a result, South Korea has China's second largest trade deficit only behind Taiwan.

In 2002, China recorded trade deficits of about 6.35 billion dollars in its trade with South Korea. From 1993 to the first half of 2002, total accumulated surplus in Korea's trade with China was 33.31 billion. Considering that Korea recorded a surplus of USD 8.8 billion in its trade with USA and deficit of USD 10.1 billion in its trade with Japan, it shows how important China is for the Korean economy, and also shows how the imbalance the Sino-Korea trade is.

3. Characteristics of Sino-Korean Trade Since 1992

Sino-Korean trade has made noticeable development during the past 10 years, creating something from nothing, from small scale to big scale trading. This result can be judged as affirmation, but as the scale of Sino-Korean trade growth and development accelerates, it was also exposes to and encounteres various problems.

Among those problems, the most important and urgent problem to be solved in Sino-Korean trade, is the loss on the China side has continued to increase. It also has become one of the characteristics in Sino-Korean trade relations.

Increasing trade deficit on China's side in Sino-Korean trade relations

After the establishment of diplomatic relation between China and South Korea, bilateral trade has maintained high growth over the last decade. Statistical data shows that the trade deficit on China's side has become bigger and bigger (See figure 4), and is one of main problems in Sino-Korean trade relation.

As can be seen from table 5, during the course of 1993, the trade deficit on China's side of bilateral trade reached 1.22 billion dollars. Along with the increasing trend, it grew up to 3.45 billion dollars in 1997, which accounted for 25.42 per cent of total Korea import value. Especially in late 1997 when South Korea suffered the Asian financial crisis, China cut its exports to South Korea down by a big margin in that Korea's import demand slowed down. Soon after that some commodities' exportation decreased more than the decreasing extent of other products. Those commodities were agricultural, forest, aquatic product; mineral fuel; iron and steel; living products, fiber, and so forth. (See table 7)

Table 7 Changes of China's Export to Korea by Products
Before and After Asian Economic Crisis

(Unit: million \$, %)

	China's Export to Korea		
	1997	1998	Change rate
Total	10117	6484	-35.9
Agricultural, forest, aquatic product	1705	1003	-39.0
Iron and steel product	1480	446	-69.8
Mineral fuels	1107	640	-42.1
Electric, electronic machine	825	894	8.4
Textiles	786	544	-30.8
Fiber	748	337	-54.9
Living products	468	209	-55.3
Chemicals & related products	331	229	-30.8
Electron for home application	290	171	-41.1
Cellosilk	299	230	-23.1
Other metalloid& their products	285	257	-10.0
Shipbuilding	26	234	805.7

Source: Korea International Trade Association (KOTIS) , Korea trade statistics
1997-1998

The total value of China's exports to South Korea was only 6.48 billion dollars in 1998, down by 35.9 per cent over the previous year. Meanwhile, South Korea's exports to China were not as good as what we expected, although commodities such as semi-conductor, motors, machine tool, boats and ships, and telecommunication equipments kept an increasing trend in the first half of 1998, but then took a downturn in the second half of the year. Until the end of that year, the decreasing rate of some commodities including general machinery, industrial electron, oil products, raw materials for fiber and cello-silk

was really outstanding. Total exportation of them from South Korea to China was 11.94 billion dollars, a rate of decrease of 12.0 per cent over the year before. The details are listed in table 8.

Table 8 Changes of China's Import from Korea by Products
Before and After Asian Economic Crisis

	(Unit: million \$, %)		
	China's Import from Korea		
	1997	1998	Change rate
Total	13572	11944	-12
Chemicals & related products	2483	2469	-0.6
oil product	1549	1133	-26.9
Textiles	1364	1162	-14.8
General machinery	1034	741	-28.3
Iron and steel product	932	1099	17.9
Fur or leather product	807	611	-24.3
Electron components	801	839	4.8
Cellosilk	519	294	-43.3
Raw material for fiber	507	334	-34.2
Paper product	448	500	11.6
Industrial electron	343	295	-13.9
Plastics product	304	309	1.7

Note: "Change rate " is gotten by calculation.

Source: Korea International Trade Association (KOTIS), Korea trade statistics 1997-1998.

In 1998, the trade deficit on China's side in bilateral trade relations created a new record again, valuing 5.46 billion dollars. It showed a little slow down in 1999, but still ranked high at 4.81 billion dollars. The increasing trend of the China's deficit continued, and its value reached 6.35 billion dollars until 2002.

Structural change of export and import commodities

Another characteristic of Sino-Korean trade is the change of export and import commodity structures. The complementary of commodity structure between these two countries has been high for many years, but it has began to experience a trend from vertical division to horizontal division. In other words, if look only at the surface of the commodity structure, the proportion of intra-industry trade accounts for more than inter-industry⁵ trade, but as a matter of fact, it continued to keep the characteristics of inter-industry trade.

Since 1992, bilateral trade has gone through a sharp increasing development. As to the structure of export and import commodities, according to the comparative advantage law of international trade theory, bilateral trade follows the principle of the traditional trade theory due to the different developing stage of their economies. That is, China mainly exported primary products or low technology/low value-added products to South Korea, and the exportation was concentrated in the labor-intensive industries.

⁵ Inter-industry (manufactures for food) trade reflects comparative advantage. The pattern of inter-industry trade is that Home, the capital-abundant country, is a net exporter of capital-intensive manufactures and a net importer of labor-intensive food. So comparative advantage continues to be a major part of the trade story. Intra-industry trade (manufactures for manufacturers) does not reflect comparative advantage. Even if the countries had the same overall capital-labor ratio, their firms would continue to produce differentiated products and the demand of consumers for products made abroad would continue to generate intra-industry trade. It is economies of scale that keep each country from producing the full range of products for itself; thus economies of scale can be an independent source of international trade. Paul R. Krugman, Maurice Obstfeld, *International Economics* [Sixth Edition], P138.

For many years, China's principal exports to South Korea have focused on textile raw material and products, crude oil and finished products, fish production, corn, coal and other raw materials. Other large commodities include raw material for chemical industry, steel, leather products, footwear, feed-stuff and machinery and electric facilities. In the recent years, high value-added products accounted for more in exportation to South Korea such as electronic parts.

On the other hand, South Korea exported technology intensive and capital intensive products to China, China's principal imports from South Korea include chemical industry manufactures, telecommunication equipment, electronic products, paper sheet, and so on.

However, as time passed by, the commodity structure of China's exports to South Korea was experiencing change to some extent, in other words, it changed from vertical division to horizontal division. Among the export commodities from China to South Korea, were the proportion of agricultural products, mineral fuel, textiles, and iron & steel products went down gradually while the exports of fiber, industrial electron and living products increased step by step. The main reason for this kind of trend is that technology in China experienced a rapid development, and the export commodity structure was also improved by the advanced technology after the implementation of the open door policy.

Data Analysis is as follows:

The commodity structure of China's import from Korea

According to table 9, the total value of China's imports from South Korea maintained an increase in growth over the previous ten years.

The import value of electron articles, electrical articles and their share to the total importation value continued to increase. According to the table listed below, their value in 1992 was only 209 million dollars while the value in 2002 reached 8212.8 million dollars, and its proportion of total importation grew from 7.9 per cent in 1992 to 34.6 per cent in 2002. No matter the value or the share, electron articles and electrical articles were the biggest commodity of China's imports from South Korea successively for years.

The import value of chemical industry manufactures were in an increasing development state as well, from 619.3 million dollars in 1992 up to 5353.4 million dollars in 2002, its share also grew gradually every year at the increasing rate of about 20 per cent.

As to other kinds of product – articles of iron or steel, metals, their import value experienced a growing trend for years, the increase rate was not as high as the above two kinds of products. What's more, its import value had stopped increasing since 1998, and continued to maintain at the level of 1500 million dollars or so. In 2002, the import value reached 2.26 billion dollars. As to its import share, it showed a trend of slowing down, decreasing from 32.3 per cent in 1992, rank in the first place, down to 9.5 per cent in 2002, the fifth biggest that year.

The importation share of textile and apparel also decreased during these years, slowing down from 20.7 per cent in 1996 to only 10.3 per cent in 2002. Shares of the other main import commodities did not change as much as that of the above products, as well as their trade value, had very little relative change.

Generally speaking, the commodity structure of China's imports from South Korea experienced a procedure of upgrading. We'll have a further understand of it from the following aspects: high value-added products have played a more and more important role in Sino-Korean trade relations, and its share got larger and larger, such as electron articles, electrical articles, chemical industry manufactures; on the other hand, the share of lower value-added products began to slow down gradually for years, these products include articles of iron or steel, metals, textile and apparel, and so on; very low value-added products still accounted for small share as before.

Table 9

Commodity Structure of China's Importation
from South Korea after 1992

(Unit: million \$)

Year Commodity	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Agricultural forest, aquatic products	15.3	43.2	82.8	184.6	187.2	227.5	185.6	167.4	215.9	173.5	191.9
Mineral Product	82.8	338.7	280.8	464.4	824.1	1575.9	1147.7	1310.3	1871.7	1696.5	1249.6
Chemical industry manufactures	619.3	863.6	1379.5	2486.3	2588.7	3183.2	3258.5	3486.0	4556.5	4586.5	5353.4
Articles of plastic rubber or leather	170.4	330.4	595.2	796.1	956.3	1050.2	860.6	901.7	1109.5	1042.6	1032.0
Textile and apparel	463.2	812.7	1269.7	1864.7	2356.6	2650.2	2014.2	2210.0	2653.3	2381.9	2453.5
Living ware	46.1	94.3	147.9	236.4	351.9	379.4	302.4	369.5	449.2	455.1	477.9
Articles of iron or steel, metals	862.0	1136.6	945.3	938.1	1113.5	1282.0	1485.1	1559.1	1779.6	1840.0	2259.2
Machinery	184.8	1046.5	864.6	1229.0	1638.0	1429.3	1091.5	1039.7	1514.1	1711.0	2482.2
Electrical articles, electron articles	209.1	479.5	629.3	937.0	1351.1	1780.9	1582.9	2616.4	4267.2	4259.9	8212.8
Total	2654	5151	6203	9144	11377	13572	11944	13685	18455	18190	23754

Source: Korea International Trade Association (KOTIS), Korea trade statistics 1992-2002.

The commodity structure of China's exports to Korea

As well as the commodity structure of China's imports from South Korea, its exports to South Korea also maintained an increasing trend in 1992-1996 successively, but the value of exports slowed down with the breakout of the Asian financial crisis. The decreasing value reached about 3600 million dollars in 1998 from the previous year. However, with the effort of the two governments, China's exportation recovered and increased with the recovery of economy in South Korea, China's export revenue was 17.4 billion dollars until 2002.

Both the export value and the share to total amount of electron and electrical articles became much bigger than before, its value of exportation and its share in 1992 was 136 million dollars and 3.6 per cent respectively, up to 5426 million dollars and 31.2 per cent in 2002. Both the increasing rate of its value and share ranked number one compare with the other commodities (See table 10).

In the field of the agricultural, forest, aquatic products, total export value increased from 1226 million dollars in 1992 to 2406.5 million dollars in 2002, increasing rate was not as high as that of electronic products. Its share in 1992 was 33.3 per cent, while slowed down to 13.8 per cent in 2002. It showed the importance of these products decreased after the establishment of diplomatic relations between the two countries, but their export scale still was the second biggest one considering to their share.

Let's have a quick look on another main export commodity from China to South Korea, that is, textile and apparel. Its share became smaller than before, 21.8 per cent in 1992 to 16.4 per cent in 2002, rank of its share was as same as that of the agricultural, forest, aquatic products.

Table 10

Commodity Structure of China's Exportation to Korea after 1992

(Unit: million \$)

Year Commodity	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Agricultural forest, aquatic products	1225.5	1218.9	1334.3	853.1	1134.0	1597.9	1008.2	1329.7	2063.8	1833.5	2406.5
Mineral Product	598.7	650.7	874.1	1035.5	1339.2	1479.3	891.9	911.7	1391.8	1561.5	1865.7
Chemical industry manufactures	459.5	297.0	425.0	738.0	735.5	778.0	517.2	752.6	982.1	1135.3	1512.0
Articles of plastic rubber or leather	28.6	33.8	85.3	130.5	127.7	139.1	95.2	118.8	170.6	206.3	301.3
Textile and apparel	829.4	997.6	1435.6	1786.0	1772.2	1851.5	1122.1	1454.9	2017.7	2194.3	2861.8
Living ware	89.9	157.2	267.3	374.8	469.0	503.6	222.8	369.0	554.6	603.6	809.3
Articles of iron or steel, metals	271.1	238.5	497.1	1557.9	1458.3	1844.6	771.2	976.7	1332.6	1066.1	1429.2
Machinery	68.3	57.0	99.7	151.6	271.6	310.7	374.8	249.9	426.2	492.7	709.6
Electrical articles, electron articles	135.7	265.0	418.1	742.0	1194.6	1576.1	1449.3	2667.7	3804.2	4146.8	5425.8
Total	3725	3928.7	5463	7401.2	8538.6	10117	6484	8867	12799	13303	17400

Source: Korea International Trade Association (KOTIS), Korea trade statistics 1992-2002.

From the above analysis, it can be concluded that the export commodity structure from China to South Korea changed drastically in recent years. High value-added products such as electron and electrical articles had become the China's main export product to South Korea. The change of status of these high value-added products did not have substantial influence on the characteristics of low value-added products. For instance, the share of agricultural, forest, aquatic products, textile and apparel were still the second biggest products, which are still low value-added products.

Increasing trade dependency to each other

China is standing at the turning point of an industrial structure. Therefore, China needs to induce large amounts of advanced technologies in order to advance traditional industry and develop the high-tech industry. In contrast, Korea has possessed a high level of production and peripheral technologies in a number of high-tech markets.

Recognizing the mutual complementary relationship above, Korea and China signed the Agreement on Establishment of Sino-Korea Industrial Cooperation Committee in Beijing in June 1994. Since then, the Committee has held subcommittee sessions several times regarding automobile, airplane, HDTV and discussion to better ways of industrial cooperation. Thus, the trade dependence to each other maintain an increased trend towards the establishment of diplomatic relations between China and South Korea.

As can be seen from table 11, trade dependence in Sino-Korea trade relations increased gradually from 1993 to 2002. South Korea's trade dependence to China was only 5.47 per cent in 1993, up to 13.08 per cent in 2002. On the other hand, China's trade dependence to South Korea changed from 4.20 per cent in 1993 to 6.63 per cent in 2002.

Korea's exports to china were in a rapid developing state during the past decade. Its exportation dependence to China was 6.26 per cent in 1993, growing to 19.8 per cent in 2002. On the Chinese side, exportation dependence to South Korea took an increasing change as well, from 3.12 per cent in 1993 to 5.34 per cent in 2002.

As we all know, China began the open door policy in the late 1970s. Its domestic market also experienced an opening process. Under this trend, China's importation from South Korea began to develop in vigorous strides, no matter the value or the share. On the other hand, its exportation to South Korea grew slowly, increasing only 2.22 per cent over ten years. A conclusion can be drawn that bilateral trade brought China into a trade deficit. The trade balance also showed an increasing trend in bilateral trade relations.

Table 11 Trade Dependency between China and Korea

(Unit: %)

Year	Korea's trade dependency to China		
	Ex/Im	Export	Import
1993	5.47	6.26	4.69
1994	5.88	6.46	5.34
1995	6.36	7.31	5.48
1996	7.11	8.77	5.68
1997	8.44	9.96	7.00
1998	8.17	9.02	6.95
1999	8.58	9.53	7.43
2000	9.32	10.71	7.97
2001	10.8	12.1	9.4
2002	13.08	19.8	11.4

Year	China's trade dependency to Korea		
	Ex/Im	Export	Import
1993	4.20	3.12	5.16
1994	4.95	3.64	6.33
1995	6.05	4.50	7.79
1996	6.89	4.97	8.99
1997	7.40	4.99	10.49
1998	6.56	3.41	10.70
1999	6.93	4.00	10.38
2000	6.59	5.13	8.20
2001	6.18	5.00	7.47
2002	6.63	5.34	8.05

Note: (1) The data of "China's trade dependence to Korea" is from the statistic data of China's custom, while the data of "Korea's trade dependence to China" is from the Korean National Statistical Office. .

(2) Country A's Ex/Im dependence to Country B=(Country A's Ex/Im to Country B)/(Country A's total Ex/Im amount);

Country A's Export dependence to Country B=(Country A's Export to Country B)/(Country A's total Export);

Country A's Import dependence to Country B=(Country A's Import from Country B)/(Country A's total Import).

Source: (1) Korea's data to China: KOTIS, Korea trade statistics 1992-2002; Korea National Statistical Office (<http://www.custom.go.kr/cgi-bin/ci-q330>)

(2) China's data to Korea: *Statistical Yearbook of China* 1999, "Total of Export/Import", Chinese National Statistical Bureau

<http://www.stats.gov.cn/yearbook/indexC.htm>;

white book of China's foreign trade of 2000, Beijing: Social science publishing house of China, 2000年, p. 76, p. 339;

statistical data from the Ministry of Commerce of the People's Republic of China, available at

http://www.moftec.gov.cn/moftec_cn/tjsj/jckjtj/200008_1.html.

III. Causes Analysis of China's Increasing Trade Deficit with South Korea

Sino-Korean trade has made noticeable development during the past ten years, going from nothing to something, from small scale to big scale trading. As the scale of Sino-Korean trade growth and development accelerated, it also became exposed to and encountered various problems.

Generally speaking, between 1992 and 2001, Korea's exports to China grew at an annual average rate of 24 per cent. this was about three times higher than the total exports of Korea which recorded an approximate annual average growth rate of 7.8 per cent. On the other hand, Korea's imports from China grew at annual average rate of 15 per cent, while total imports of Korea recorded approximate annual average growth rate 6.2 per cent. This led China as a trade partner to take an increasingly larger share of Korea's trade. Korea's exports to China as percentage of total export of Korea were about 3.5 per cent in 1992, which increased to 12.1 per cent in 2001. Korea's imports from China as percentage of total imports from Korea have increased from 4.6 to 9.4 per cent. As a result, Korea and China became the third largest trading partners for each other in 2001, following USA and Japan in terms of trade volume.

The main reason for the explosive growth of Korea's export to China was rapid increase of import demand resulting from the high-speed growth of the Chinese economy. China continued high economic growth at an annual average of 10 per cent in the 1990s, and

the Chinese economic growth rate recorded 8.0 and 7.3 per cent, respectively in 2000 and 2001. Sustained high growth requires lots of material, parts and machineries. Korea is located near China and has both technological and production capacities needed by China, Korea has taken advantage of Chinese high economic growth and has shown large increases in exports to China. This is evident by the fact that primary products exported by Korea to China are parts and raw materials, including electric and electronic parts, semiconductors and chemical raw materials.⁶

Korea recorded a surplus of about USD 10.9 billion in its trade with China in 2000.⁷ This is the second largest trade deficit to China, following Taiwan giving it the largest trade deficit to China.

Second, although the statistical data showed that China and South Korea have already become the fourth biggest and the third biggest trading partners to each other respectively, the trade dependency to each other was still low. Until 2002, China's trade dependence to South Korea was only 6.63 per cent, and South Korea's trade dependence to China was 13.08 per cent, both of them were not very high.

Third, with Korean investment in China, between 1992 and June 2002, the total number of Korean investments in China reached 6,634 items and the sum of foreign direct investment was 583 million in June 2002, a 25-fold and 28-fold increase respectively compared with the first year after Korean-Chinese ties was formed. China surpassed the United States as the primary destination for Korean investment in

⁶ Korea Ministry of Foreign Affair and Trade (KOMOFAT).

⁷ Difference in statistics of unbalance in trade between the two countries occurs

2002, pushing the United States down to second place for the first time. In addition, China has now surpassed the United States as Korea's number one trading partner in the first nine months of 2002.

According to the Bank of Korea, although Sino-Korea relations have developed quickly so far, the cooperation and investment still stayed at a relatively lower level. This can be explained by the following: the average scale of Korean investments was small. The investment industries were concentrated on labor-intense industries which lost the competitive advantage in Korea, and most of their investment (about 85 per cent) concentrated in the northern areas of China, particularly among the North-east province, Shandong province, etc.

Among these problems, the most important and urgent problem to be solved was that in Sino-Korean trade, the loss of the Chinese side has continued to increase since 1993. This increasing trade deficit with China led trade disequilibrium to be one of the main problems in bilateral economic cooperation.

China's trade deficits reached 1.22 billion dollars in 1993, and it showed an obvious increase of 3.45 billion dollars until 1997. This was 25.42 per cent of total importation from South Korea. In 1998, China's trade deficit reached a new record with the value of 5460 million dollars. This was caused by the currency crisis. After China's entry into the WTO, it created another new record in 2002. The trade loss on the Chinese side was up to 6.35 billion dollars.

It is hard to avoid the trade deficit in Sino-Korea trade. China's increasing trade deficit with South Korea will bring a negative

depending on whether re-export via Hong Kong is included.

influence on China's economy, especially unfavorable to the healthy development of bilateral trade. Now let's analyze China's increasing trade deficits problem in Sino-Korean trade relation.

1. Influence of the Asian Financial Crisis

The Asian financial crisis in South Korea broke out in August 1997, with the country's currency greatly depreciating. There were sharp drops in Korean current prices of stocks at that time. All of that made the domestic economy of South Korea throw in a state of disarray. Many groups and big scale enterprises went bankrupt or faced difficult management situations. There were not enough revolving funds to go around; the jobless rate increased sharply; banks refused to open L/C for importation, etc.. Under the situation, Korean enterprises couldn't do export/import business as usual. On the other hand, China adopted the policy of "no depreciation" on the Chinese currency when the crisis broke out. As a result, the policy increased export costs relatively. Korean enterprises began to cut orders for Chinese down, and turned to importing from other countries in Southeast Asia. The result was that exportation from China to South Korea decreased at a large scale.

In order to raise foreign exchange reserve, the Korean government increased exportation taking advantage of Korean currency's depreciation. Trade surplus in Korea grew with a small favorable balance, and it became larger and larger. China, the biggest export market for South Korea, was sure to be influenced by the wave of Korea's enlarging exportation. It brought the disequilibrium in Sino-Korea trade into a tense situation.

One thing should be noted, although Korea's export to China continued to keep an increasing trend theoretically, most bilateral trade was operated by Korea enterprises investing in China. They were engaged in exporting processed products, so their enthusiasm for importation decreased as well under the situation of export recession. The increasing rate of importation was smaller than the decreasing rate of exportation. Another reason—China's domestic demand decreased at that time, caused the import demand from South Korea decreased. This also caused Korean exports to China not to increase at a big-scale. All the above reasons led the overall value of bilateral trade to go down.

The investment cost of Korean enterprises invested in China also increased due to the same reasons as the above. In fact, the primary investing motivation of most Korean enterprises was to take advantage of the cheap Chinese resources so as to reduce cost. Korean investment to China was bound to reduce because of the increased cost. Furthermore, Korean enterprises were lacking working funds when the Korean economy was in recession. They had no option to invest overseas, thus the phenomena of a shrinking of Korean investment in China came into being.

2. Influence of Structural Fluctuation of Export and Import Commodities

Because of the different stages of development in their respective economies, Sino-Korean trade was in line with the essentials of traditional international trade theory. On the aspect of export and import commodity structure, China mainly exported primary products or low tech-, low value-added products to South Korea, and the exportation was concentrated on the labor-intensive industries, for example, crude materials, agricultural products, mining products, textile and apparel, etc. On the other hand, South Korea exported technologically intensive and capital intensive products to China, such as chemical industry manufacture, telecommunication equipment, electron and electrical articles, and so on. Even if China exported some electrical articles to South Korea, they were mainly electronic spare parts. This kind of difference was based on technological difference, and was the possible main reason for bilateral trade disequilibrium.

Table 12

China's Trade Deficit of Each Commodity in Sino-Korean Trade Since 1992

(Unit: million \$)

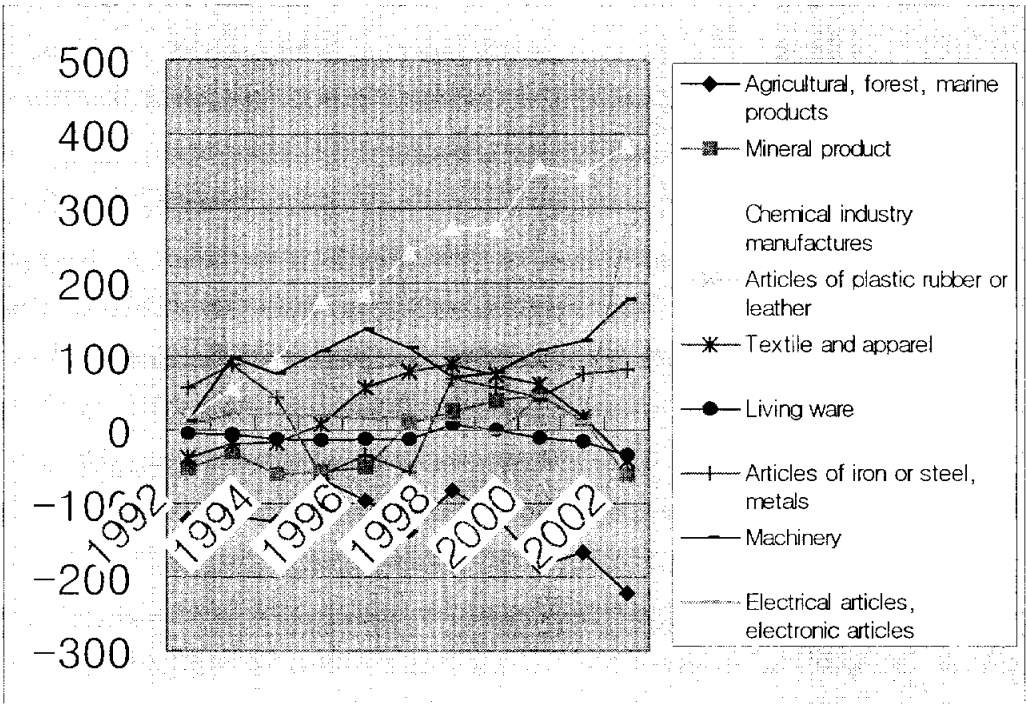
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
agricultural, forest, marine products	-1210	-1176	-1251	-668	-947	-1370	-823	-1162	-1848	-1660	-2215
Mineral product	-516	-312	-593	-571	-515	97	256	399	480	135	-616
Chemical industry manufactures	160	567	955	1748	1853	2405	2741	2733	3574	3451	3841
Articles of plastic rubber or leather	142	297	510	666	829	911	765	783	939	836	731
Textile and apparel	-366	-185	-166	79	584	799	892	755	636	188	-408
Living ware	-44	-63	-119	-138	-117	-124	80	0.5	-105	-149	-331
Articles of iron or steel, metals	591	898	448	-620	-345	-563	714	582	447	774	830
Machinery	117	989	765	1077	1367	1119	717	790	1088	1218	1773
Electrical articles, electronic articles	73	214	211	195	157	205	134	-51	463	113	2787

Source: Korea International Trade Association, 1992-2002.

The data in table 12 shows the trade deficit of each commodity in Sino-Korea trade relations. As we know, China's trade deficits were the sum of each commodity's trade deficit. In the above table, negative numbers mean a trade surplus on China's side while the positive number stands for China's trade deficits in bilateral trade relations. The primary products with a trade surplus included agricultural, forest, aquatic products and mineral products which

played an important role in maintaining the trade equilibrium between the two countries.

Figure 5
China's Trade Deficit of Each Commodity in Sino-Korean Trade Since 1992



As can be seen from figure 5, with chemical industry manufactures, articles of plastic rubber or leather and machinery. The trade deficits of the above three kinds of commodities maintained a strong increasing trend. Given the above analysis, it can be concluded that the structural fluctuation of the above three kinds of commodities did have a direct influence on the increasing trade deficits on the

Chinese side. That is, the structural fluctuation of import and export commodities of Sino-Korean trade acted as the actual and direct cause of increasing Chinese trade deficits in Sino-Korean trade. Structure of import and export commodities of Sino-Korean trade, based on vertical bilateral specialization, was the main factor which accelerated trade imbalance between China and South Korea.

China's export commodities to South Korea, compared with the Korean export commodities, had little higher price elasticity relatively. That is, the former could be easily affected by the price fluctuation in international markets.

There were many cheap products in the international market after the break out of the Asian financial crisis. China was sure to lose the market share due to the relatively high price of its export commodities. In other words, even if Korea did not suffer the currency crisis, the difference of trade structure would widen the trade balance and enlarge the trade disequilibrium in Sino-Korea trade. Generally speaking, the export and import commodity structure with the characteristic of vertical division was one of the most important causes for China's increasing trade deficit.

3. Influence of Fluctuation on Korean Direct Investment in China

The characteristic factors of Korean investment in China are reasons for the imbalance of bilateral trade. South Korea went through sharp economic development in the 1970s and 1980s, and was one of "little four dragons" in Asia. Domestic wages also increased quickly with the fast development of the domestic economy, thus leading the

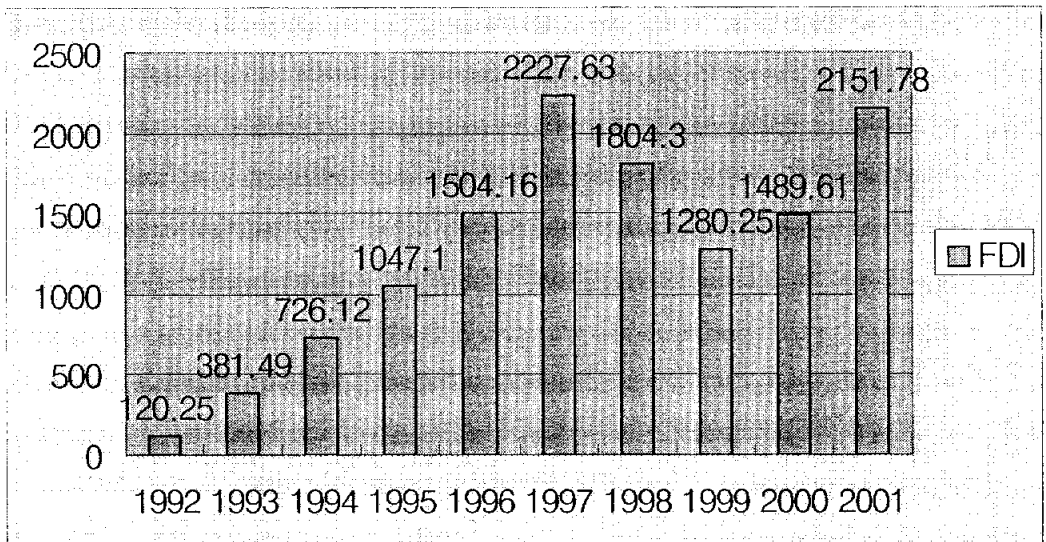
international competence of some manufacturers down. Part of the labor-intensive industries and some chemicals & other related industries also lost their advantages.

In order to encourage the development of new industries such as electronic, bioengineering, aviation, and speed up the procedure of upgrading the industrial structure, the Korean government took positive policies to encourage labor-intensive industries to invest in overseas. Of course China became the first target country of their investment in that the geographically close location; lower economic development; lower cost of labor resources; and plenty of agricultural, mining resources, etc.

Actually, Korean direct investment in China has exploded since the opening of diplomatic relations in 1992 (See figure 6). China surpassed the United States as the primary destination for Korean investment in 2002, pushing the U.S. down to second place for the first time. In addition, China has now surpassed the United States as Korea's number one trade partner in the first nine months of 2002, according to the Bank of Korea.

When it comes to the combined investment between 1992 and June 2002, the total number of investments reached 6,634 items and the sum of FDI was 583 million in June 2002, a 25-fold and 28-fold increase respectively compared with the first year after Korean-Chinese ties were formed.

Figure 6 Korean Direct Investment in China in 1992-2001
(million \$)



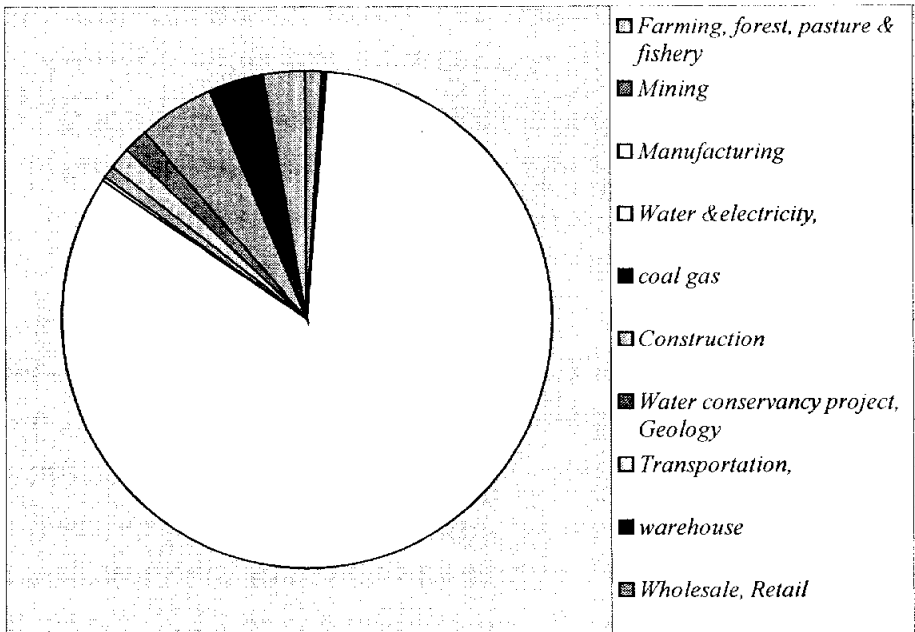
Source: Statistics Bureau of China (<http://www.stats.gov.cn>), 1992-2002.

As China's cheap labor has been a key factor in attracting Korean investors over the decade, Korean direct investment has largely focused on the sectors of manufacturing (fiber, costume, electronic and appliance assembling, footwear making, petrol-chemical product, the food and beverage industry), transportation, construction, real estate, and so forth (See figure 7). According to the statistical data. Regarding Korean investment in China, about 60 per cent concentrated on labor-intensive industries. This is the industrial feature of Korean investment in China.

Figure 7

Sectoral Distribution of FDI in China by Country or Region in 2000

(%)



Source: Qi Zhang, *Accelerator for economic development: Findings on direct investment research among China, Japan and ROK*, Intertrade No.15, January, 2003.

Looking at investment scale, Korean small and medium-size enterprises are leading the Korean investment charge in China. The average size of Korean investment in China was only 1.77 million dollars.⁸

⁸ C. Min Han, Hanyang University, Korea's Direct Investments in China: Technology, Experience, and Ownership Factors in Performance. September 2000,

Most Korean enterprises in China did the main export and import business (about 70 per cent) in Sino-Korean trade relations. The bilateral trade lacked increasing power due to the above two features, and also lack of the ability to withstand risks. In addition, they tried to fully utilize China's cheap labor resources by reducing the wages and benefits, thus leading to the managing problems of Korean enterprises which caused the conflicts between the employers and employees. It also influenced the development of bilateral trade and investment to some extent. In a word, according to the above discussion, the increased Korean direct investment in China is supposed to be another factor of increasing China's trade deficits in Sino-Korea trade.

4. Influence of Change of Average Tariff Rates

Due to China's high economic growth, geographic proximity and industrial complementary, Sino-Korean trade is expected to record fast growth. The Korea Ministry of Commerce, Industry and Energy (KMOCIE) predicts that Sino-Korea trade will triple to USD 102.5 billion in 2008 when the Beijing Olympic Games is scheduled to be held. Korea's exports to China will continue to increase as China's joining the WTO lowered tariffs for core industries like automobile, chemistry and electronics, all of which had been protected by Chinese high tariff, and abolished various non-tariff barriers.

China has already been a member of World Trade Organization (WTO) since November 2001. Before its entry, China continued to reduce the custom tariffs for years as can be seen from table 13. Since 1992, China almost adjusted the custom tariffs down every year, only had no change in 1998. China's average tariff was adjusted from 43.1 per cent to 16.8 per cent during the last nine years. However, on the Korean side, their custom tariffs were not changed as much as China's during the same period. Tariffs in South Korea only decreased at a small scale in 1992 and 1993, after that, tariffs did not change, and kept at the level of 7.9 per cent. The average Korean customs tariff was 10.1 per cent in 1992, much lower than that of China, which was 42.5 per cent. It decreased to 7.9 per cent until 1999. Compare this with Chinese custom tariffs and the decreasing absolute value and percentage of Korean tariffs were much smaller than China's decreasing scale.

Table 13

Change of Tariffs, Price in China and South Korea

Year	Average tariff rate in China (%)	Average tariff rate in South Korea (%)	Proportion of Korea's tariff rate to China's	Proportion of China's price to Korea's	Real tariff rate of Korea's to China's
1992	42.5	10.1	0.2376	1.00	0.2376
1993	39.9	8.9	0.2231	1.10	0.2454
1994	35.9	7.9	0.2201	1.28	0.2817
1995	35.3	7.9	0.2238	1.43	0.3200
1996	23.0	7.9	0.3435	1.48	0.5083
1997	21.5	7.9	0.3671	1.46	0.5360
1998	17.1	7.9	0.4620	1.34	0.6191
1999	16.8	7.9	0.4702	1.32	0.6207

Note: Real tariff rate of Korea's to China's = Proportion of Korea's
tariff rate to China's * Proportion of China's price to Korea's

Sources: Korean data is from Korean industry institute, and is available
at <http://www.kiet.re.kr/kietmain.nif/HTML/4Page/menu2?OpenDocument>.

Chinese data is available at <http://www.kotrachina.org/korean/regulkr/regulkr03.htm>;
Chen Donglin "300 questions of China's entry into WTO" Shanghai Sanlian
Bookstor., 2000, pp.29-30.

Table 14

Procedure of China's Tariffs Adjustment

Date	Contents	Average tariff rate after the adjustment (%)
January 1992	Reduce the tariff on 225 items	42.5
January 1993	Reduce the tariff on 3371 items	39.9
January 1994	Decreased the tariff of 2898 items, and the decreasing rate of average tariff was 8.8%	35.9
January 1995	Decreased the tariff of alcohol, tobacco, bus, rubberized tape, etc.	35.3
April 1996	Decreased the tariff of 4994 items, and the average tariff decreased at 36.0%	23.0
October 1997	Decreased the tariff of 4874 items, and the average tariff decreased at 25.6%	17.1
January 1999	Decreased the tariff of 1014 items, and the average tariff decreased at 1.8%	16.8
2000	The average tariff rate was lower than 15%	15.0
2005	The average tariff rate will cut down to less than 10%	10.0

Sources: 1. Economy system, tariff system, available at <http://www.kotrachina.org/korean/regulkr/regulkr03.htm>
 3. Chen Donglin "300 questions of China's entry into WTO" Shanghai Sanlian Bookstor, 2000, pp.29-30.

From table 14, it can be seen that China's average tariff decreased at a very large scale. Since 2002, the Chinese government has lowered its overall tariff level from 15.3 per cent to 12 per cent, involving about 5300 tariff items. In the coming years, China will gradually lower its tariff rate according to its WTO accession commitments. Until the year 2005, the overall tariff level will be lowered to 10 per cent as committed. Besides some no-tariff measures, such as partial import quota, licensing and specific bidding administration, will be abolished. It is obvious that there is an important relationship between the decreasing of average customs tariff and the increasing trade deficits on the Chinese side.

In short, change of export and import commodity structure; fluctuation of Korea investment in China and the fluctuation of the Korea's average tariff rate against China had a direct or indirect influence on China's increasing trade deficit over the past decade.

IV. Some Countermeasures for the Further Development of Sino-Korean Trade Relations

Although some problems have been exposed in the trade relations between China and South Korea due to its rapid development, the fundamental conditions for the development of bilateral trade relations still exist. This includes the similar culture background, geographically close, economic complementary between the two countries, and so on. In addition, South Korea also suffered a currency crisis, but they did not lose the main spirits, perfect facilities, labor resources with high educated, opening trade system and so forth, which helped them to create the economic miracle before the breakout of the Asian financial crisis. These advantages did play an important and positive role in overcoming the difficulties brought by the currency crisis, and now the Korean economy has begun to show improvement.

At present, China and South Korea are very important trading partners for each other. The efforts of both governments and people have really contributed to the results achieved so far. Obviously, the best way to solve the trade imbalance between the two countries will be to reduce China's increasing trade deficits with South Korea, so as to push the development of bilateral trade to a healthy point. In this paper, the countermeasures for solving the problems are suggested as follows.

1. Adopting Economic Policies Like Tariffs, Price, etc.

Adopting tariffs and pricing policies together will be the effective

method to expand China's exportation to South Korea for reducing the China's trade deficits.

Considering the present situation in China, after its entry into WTO, China reduced tariffs gradually, and promised to reduce them less than 10 per cent by 2005. Change in China's tariffs, with a decreasing trend in the coming years, increased opportunities for Korean exports to China. It will bring the disequilibrium into a tense situation among the bilateral trade relations.

What's more, the adjustment of custom tariffs is not very easy, it needs negotiation between the two countries. Therefore, pricing policy will become more and more important. Maintaining stability of price will be an effective way to solve the urgent problem in Sino-Korean trade relations. If prices in China remain stable, it means that the real ability of trade protection for Chinese tariffs will be increased. It also means that it is easy to control the changing trend of the Korean Won/Chinese Yuan exchange rate. It is possible to solve the problem of increasing trade deficit toward the Chinese side step by step.

As we all know, China has adjusted the average tariff continuously, but on the decreasing scale for specific commodities. The Chinese government should take note of classifying the commodities so as to adjust their tariffs in a perfect order. For those immature industries, government must give them protectionist measures and slow down the decreasing rate of their tariffs, in order to avoid them coming under a vigorous attack during a short period. On the other hand, for the mature industries, China may speed up the opening procedure, and improve their competence in international markets. That is, China should take cautionary measures to adjust the

tariffs in proper order so as to weaken the harmful effects of China's trade deficit. Then to reverse the trend of increasing trade imbalance between the two countries.

2. Extending Further Cooperation of Bilateral Investment

Another way is to extend bilateral investment is to stride forward towards further cooperation.

First, in the field of Korean investment to China, the Chinese government should take note of the inducing direction of Korean enterprises' investment. That is, try to induce them to invest into hi-tech industries, such as energy resources, transportation, agricultural exploit projects, and so forth. This should be done according to the three basic laws for foreign investment enterprises: Chinese-foreign Joint Ventures Law, the Chinese-foreign Cooperative Enterprises Law, the Foreign-funded Enterprise Law and their implementing regulations respectively.

Second, to improve the scale structure of Korean enterprises in China, and raise enthusiasm to invest into China. China should concentrate their efforts on perfecting the investment environment, especially in the area of improving the abilities of services in the government. These are the basic requirements of large groups. They might also consider investing into China's market from a long-term, global point of view.

China started the Western Development Strategy in 1999. Thirty four major projects were put into construction with investment exceeding 260 billion yuan (\$31.3 billion). These projects included the west-east electricity transmission, west-east gas piping, and the

Qinghai-Tibet highway. South Korea should strengthen its cooperation in central and western China. Then the cooperation in all, multi-layer directions will come into being.

Likewise, China needs to increase investments into South Korea. At present, the capital flow between these two countries is nearly one-way. It is not beneficial for the steady and sustainable development of bilateral cooperation. With the formation of China's opening pattern in an all-round way, more and more Chinese enterprises will consider investing overseas. As China opens its markets, South Korea will be one of the first countries to benefit from China's economic liberation because it is a friendly neighbor country, with a similar culture and long history of exchange.

As to investment, Chinese enterprises have only established trade agencies in South Korea during the past decade. Combined with the cause analysis in the field of investment, China should increase investments into South Korea in fields such as manufacturing industry; improving investment structure in Korea; pursue higher cooperation with Korean enterprises in hi-tech, and high value-added fields. This will not only push the cooperation into further development but will also increase exports to South Korea and lessen China's trade deficit.

3. Devotion to the Development of Parts Industry and Technical Trade

According to the causes analysis of China's increasing trade deficit with South Korea since 1992, the rapid development of Korean direct investment in China has an indirect influence on the increasing

issue. About more than 80 per cent of Korean direct investment has largely focused on the sector of manufacturing, then the exports of raw materials, necessary parts of equipments from Korea to China increased. So, in order to reduce Korean exports, the development of parts industry in China is needed. It not only can offer opportunity of getting a job for Chinese, but also satisfy the demand of Korean enterprises in China. As a result, the exports from Korea to China will decrease. In other words, with the development of parts industry in China, China's exports to Korea will increase indirectly.

It is also important to develop the technical trade between the two countries. South Korea has developed capital-intensive industries such as chemical, auto industries since the 1970s. So it has possessed many mature applied technologies in those fields. They continued to develop their hi-tech industry in cooperation with surrounding countries. In 2000, the Korean government increased funds for technical development, accounted for 3 per cent of their total GNP. This is a percentage similar to funds in USA and Japan. In recent years, many achievements in technical cooperation were yielded in Sino-Korea, Korea-Japan and Korea-Russia relations. It is obvious that strengthening technical cooperation in Northeast Asia would widen the technical market further during the new century.

In previous years, China has expanded its cooperation in the hi-tech sector. Since 1996, it implemented the "863 plan", after that, in 1998, the "torch plan" was ratified for developing high technology, and in 1995, China launched the strategy of "developing country by science and technology". China has already possessed abilities in research and developing in the fields of foundation science including

aviation & space technology, microchip technology, bioengineering, etc. However it still has a long way to go with industrial technology compared to advanced countries. That's why China stresses technical cooperation with other countries. China has set up a hi-tech industrial zone with Singapore in Wuxi 1994, and built another one in the Shandong province with Russia in 1999. The strategy of developing hi-tech industry has become one of economic strategy in China. Wide and further technical cooperation with South Korea should be expected in the new century. Therefore there is great potential to develop the technical trade between the two countries. It is possible to promote bilateral trade by developing the new products together and increasing their competition in the international market.

4. Speeding up the Procedure of Adjusting the Export and Import Commodity Structure

China's exports to South Korea mainly focus on resource and labor-intensive products. These, when faced with very tense competition in the international market, are easily influenced by the overall global trading environment. Therefore it is necessary to adjust the commodity structure of China's exports to South Korea. Actually it has been adjusted in recent years, but it still has the low value-added, and labor-intensive characteristics.

To change the structure problem, the first thing to do is widen the scope of trade, and bring about a diversification of export commodity. Some hi-tech, high value-added products from China already have a good reputation in the international market with the rapid development of its economy, so it is possible to increase the export

share of those products like electronic spare parts and finished products (television, telephone, etc.).

Another way is to improve the quality of exports. Chinese enterprises are gradually realizing quality rather than quantity is more important in order to achieve a greater market share in the international trade environment. For this reason they reformed the former system. As a result, the market share has enlarged and the export commodities have become the real commodities which have the capacity to earn foreign exchange through export. It has also been hoped that South Korea can export more raw materials, chemicals and the related products to China in order to satisfy the demand for these products, with the upgrading of industrial structure.

In short, bilateral trade relations will forge rapidly ahead when considering the immediate interests and long-term interest simultaneously.

5. Strengthening the Support of Government Policies

Chinese enterprises have taken full advantage of preferential policies, such as the policy of increasing the rate of drawback on textiles from 9 per cent to 11 per cent. However, the enterprises also need the government supports for the exportation into the traditional market. For example, add the credit scale for exportation; simplify the method for drawback of exportation; provide capital support for those Korean enterprises which invested into China, and so forth.

On the other hand, things will be much better if South Korea reduced its trade barriers for importation from China over the long run. Actually South Korea has set about tariff adjustment. For instance, the

Ministry of Finance and Economy declared that they would reduce import duties from 38 items to 19 items; cut the tariff down on eel and other products; and would not impose the quota duty on iron from January 1999. Thus, problems in Sino-Korean trade can be solved through the efforts of the two governments.

6. Adopting Anti-dumping Measure

China's remarkable economic growth has provided a new market for Korean firms. For the last decade (1992-2002), Korea's exports to China showed almost seven times growth. Korea's accumulated surplus in trade with China exceeded USD 30 billion. Based on 2001, Korean government statistics showed that Korea earned a surplus of about USD 4.9 billion in trade with China, which took about 53 per cent of total trade surplus USD 9.3 billion recorded in the same year. Accumulated total investment made by Korean firms in China is USD 5.4 billion, meaning that Korean firms take competitive of advantages like Chinese cheap labor.

It should be noted that continued increase in Korea's trade surplus with China would bring about frequent trade conflicts between the two countries. Also, it is more likely that China would bring anti-dumping cases against Korea-made industrial goods and increase its pressure on opening Korea's agricultural market.

Therefore, with a continued Korean trade surplus with China, judicious trade policies should be implemented so that individual trade issues such as the so-called Korea-China garlic conflict in June 2000, may not be expanded into a full trade conflict. It is recommended that trade conflict between the two countries should be solved under the

WTO rules quickly and efficiently.

After China's entry into the WTO, trade protection has mainly depended on the adoption of anti-dumping measures. If China's government adopts anti-dumping policies effectively, China will occupy a position of strategic importance in Sino-Korean trade. This will reverse the situation of the increasing trade deficit with South Korea.

The Chinese government began to carry out anti-dumping and subsidy regulations in 1997, and set about an investigation and trial of it. However, there is still a long way to go for the Chinese government either in term of its quantity or value.

Since the establishment of the first regulation on March 25, 1997, there have been only 5 cases put on record. This can not be compared with western countries, and the same situation with the workers in this field. At that time, investigators in the European Union were 200, of which 100 were in charge of surveying the problem of dumping. Another 100 people were responsible for all the damages' survey, while there are less than 1/10 the population in EU than in China.

Since China introduced an anti-dumping case system in 1997, it has brought 18 anti-dumping cases against foreign products by 20 May 2002. Fourteen of these cases were against Korean exports. Especially, after joining the WTO (10 November 2001), China has increasingly adopted special import restrictions and anti-dumping cases. Five items brought to anti-dumping cases by China (copperplate paper, catechol, phthalic anhydride, cold-rolled sheet, PVC and toluene) are related to Korean firms. The number of anti-dumping cases against Korea is high not only because Korea is the second

largest source of trade deficit with China, but also because steel and petrochemical products have a high potential for conflict with domestic industry in China, especially in relation to the industry restructuring and industry growth policy of China. Frankly speaking, from China's side, anti-dumping measures will be one of the most important weapons to deal with improper competition in international trade.

International trade must face the reality that this is a world of tariffs, quotas, and non-tariff barriers designed to protect a country's markets from intrusion by foreign companies. Although the General Agreement on Tariffs and Trade has been effective in reducing tariffs, countries still resort to other measures of protectionism. National utilize legal barriers, exchange barriers, and psychological barriers are used to restrain entry of unwanted goods. Businesses work together to establish private market barriers, and the market structure itself may provide formidable barriers to imported goods. So in practice, besides the anti-dumping measure, it is much better to take the measures in an all-round way to promote Sino-Korean trade relations.

V. Conclusion

In this final part, the conclusions and limitations of the study are summarized, along with the recommendations for further research are explicated.

In conclusion, three main characteristics of Sino-Korean trade since 1992 was summarized in the beginning. And with the fast development of bilateral trade, the problem of China's increasing trade deficits with Korea was exposed and became an important and urgent problem to be solved. According to the analysis of this paper, four main causes for the problem are as follows. As well as the influence of the Asian Financial Crisis, structural fluctuation of import and export commodities of Sino-Korean trade acted as the actual and direct cause of increase in China's trade deficits to Korea. Besides of the above two reasons, the increased cumulative total of direct investment by Korea in China is another factor of increasing China trade deficit. As the direct investment by Korea increased more rapidly, the import of raw materials and production facilities to China continuously increased and caused the acceleration of Chinese trade deficits in Sino-Korean trade. Last, The declining average tariff rate in China against the average tariff rate in Korea also had quite a strong relativity on the increase of China's trade deficit. Based on the above causes analysis, this dissertation presented some countermeasures in the last part of this paper. In practice, it would be better to carry out the measures (tariff, price, anti-dumping, etc.) in all round way, thus can lead to a further and healthy development of Sino-Korean trade.

Since the study was conducted for a certain time period, it would

be risky to generalize the specific findings of the research across other time periods. Another limitation of the study has to do with the validity of data collected. Macroeconomic data are consistent and reliable considering that they are published by the government's statistical bureau. However, the inconsistency between the Korean data and the Chinese one, and also because the sample size is below thirty, it can not be confident the analysis statistically. It goes without saying the literature of Sino-Korean trade study stand on China's side, and without comparing the reasons' difference between Sino-American trade, Sino-Japan trade and Sino-Korean trade, so further studies are recommended to attempt those areas, and a further development of the methodological issues is recommended.

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한·중 무역발전과 중국의 무역적자 해소방안

판리리

부경대학교 대학원 국제통상물류학과

요 약

1990년 초 이래 급속하게 진전된 세계화의 추세가 한·중 무역발전에 커다란 영향을 주었다. 이 추세는 두 나라의 경제발전 긍정적인 영향을 미치는 동시에 1992년 8월 24일에 체결된 한국과 중국의 국교정상화에 따라 한중 무역관계의 발전을 더욱 뚜렷하게 자극시켰다.

수교이후지난 10년 동안 한·중 무역은 주목할 만큼 발전해왔다. 완전히 초보단계부터 시작하다가 적지 않은 성과를 얻고 작은 양의 무역으로부터 많은 양의 무역까지 발전해왔다. 한·중 무역에 있어서 잠재시장을 가진 중국은 이미 한국의 주요 무역상대로 격상되면서 중요한 역할을 하고 있다. 그러나 한·중 무역성장의 비율과 발전의 가속도 측면에서 보아, 아직도 여러 가지 문제점이 내포되어 있다.

이런 문제점 중, 해결해야 되는 가장 중요하고 시급한 문제는 한·중 무역에 있어서, 중국 측의 적자가 계속 증가한다는 것이다. 이 논문은 중국 측의 무역적자의 원인을 분석하고 한·중 무역에서 바람직한 발전을 도모하는 데에 관한 대응책을 찾기로 한다.

이 논문은 먼저 한·중 무역의 발전과정을 살펴보고, 수교이래 지금까지의 한·중 무역상황, 그 다음에 지난 10년 동안 한·중 무역관계의 주요 특징을 개괄하려고 한다.

이어서, 이 논문은 한·중 무역에 있어서, 중국 측의 증가하고 있는 적자의 요소를 분석하기로 한다. 본분은 한·중 무역에 관하여 수입과 수출 상품 구조변동의 주요소로부터, 상호직접투자의 변동, 한국의 대중국 평균관세율의 변동까지, 각각 요소를 어떻게 늘어나는 이슈를 분석했다.

마지막 부분에, 한·중 무역 관계의 바람직한 발전을 자극하기 위해, 지속 가능한 경제성장에 있어서 쌍방을 위한 이익 원-원 전략, 쌍방의 무역충돌을 원만하게 해결하기위한 목적으로 1992년 8월 24일 두 나라의 수교이래 중국무역에서 증가된 적자와 관련되어 분석하였다.