

The ROK's Assessment of and Response to China-US Trade Friction

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The Republic of Korea (ROK) is the world's seventh largest exporter. Given the country's high dependence on foreign trade, it has been deeply affected by the China-US trade friction. China is the ROK's largest trading partner and the ROK is China's third largest trading partner; the United States is the ROK's third largest trading partner and the ROK is the United States' sixth largest trading partner. As a strategic partner of China and an ally of the US in the Asia-Pacific region, the ROK is both a bystander and an important stakeholder in the China-US trade friction. Therefore, the country's assessment of and response to the China-US trade friction can be an important reference for an in-depth understanding of the friction's impact and for a proper response of China to trade pressure from the US.

The ROK's View of China-US Trade Friction

The ROK is sensitive to changes in China-US relations, and therefore it pays more attention as trade friction between the two countries intensifies. The ROK's view on the China-US trade friction mainly includes the following aspects.

US motivations to provoke trade friction

First, the direct causes of the China-US trade friction are the structural contradictions between the two countries in the economic field, including

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disputes over intellectual property policies and development patterns, divergence of financial and exchange rate policies, and the challenge posed by Chinese industrial plans such as “Made in China 2025” to US technological superiority. The United States’ longstanding huge trade deficit with China is only the trigger of tensions.

Second, US domestic politics have exacerbated the China-US trade friction. US President Donald Trump has put unprecedented pressure on China over trade, which is closely related to his own governing style and the changing domestic politics. First, Trump and his cabinet mostly hold trade protectionist and neo-mercantilist ideas, and blame the US economic downturn and unemployment on the “wrong” trade policy. They campaigned heavily on bringing manufacturing jobs back to the US by narrowing trade deficits. With few people friendly to China on the team, the Trump administration is keen to play up the “China threat.” Second, Trump has deliberately provoked trade friction out of domestic concerns. Trade is a card for Trump to manipulate domestic politics. Blaming “China’s unfair trade” can help gain the support of blue-collar Americans. Third, Trump’s personal style and negotiating tactics have intensified the China-US trade friction.

Third, the deep-seated reason behind the friction is the China-US hegemonic competition. To sustain its economic strength and technological leadership, which underpins its hegemony, the United States has refused to provide public goods and undermined its long-held liberal economy, while pursuing a mercantilist trade policy that protects domestic industries and increases exports. In turn, China, as an emerging power, has taken countermeasures against the US to ensure the security and development of its capital, market and technology. In the ROK’s view, the China-US trade friction is not purely a trade issue, but inevitably a structural manifestation of the transfer of power.

It is also argued that the trade friction is not caused by the structural contradictions of the two economies nor by hegemonic competition, but rather by increasing competition between the two political systems.

The US had previously accepted China in the hope that China would gradually be “assimilated” into the Western world in terms of its political and economic system. However, in recent years, there has been widespread recognition that a rising China is unlikely to emulate the Western model. A competition between the two political systems is inevitable, and hence a new rhetoric about being “tough” on China has unfurled throughout the political discourse in the US. Trump’s China policy captures precisely this fundamental change.

Features of China-US trade friction

First, economic and trade competition has for the first time become a major area of China-US strategic competition. With economic interdependence and nuclear balance featuring “mutually assured destruction,” hegemonic competition today is different from that in the Cold War era, and is based more on economic and scientific power than on political and military might. To this end, the Trump administration invoked Section 232 of the US Trade Expansion Act to exert pressure on China’s trade, accusing China’s products of “weakening the US economy” and “threatening US national security.” It can be seen that the US has handled trade issues from a national security perspective.

Second, science and technology, as well as finance, are core areas of the China-US trade friction. Science and technology is the key to securing economic dominance and hegemony. The US has been the world’s leading producer of high-tech products, but China is closing the gap with the US as its technological competitiveness rises rapidly. Provoking trade friction for the US is less about its trade deficit with China and more about China’s threat to US technological superiority posed by Chinese intellectual property policies and industrial policies such as “Made in China 2025.” Judging from the Trump administration’s requirements during China-US trade negotiations, the US would prefer that China fundamentally change its trade and industrial policy and even the political and economic system, so as to halt the development of China’s high-tech industries and

arrest China's growth momentum, thereby maintaining US technological competitiveness and superiority in future economic competition. In addition, finance is another core area of the China-US trade friction. The US survives on the financial industry, and two-thirds of the world's foreign capital is American. In the 1980s, the United States beat Japan economically, not by trade pressure but by the Plaza Accord, which caused the Japanese yen to appreciate sharply and then triggered crisis in Japan. Therefore, the ultimate goal for the US in exerting economic and trade pressure is to promote the full opening of China's financial and foreign exchange markets, control China's financial lifeblood, and promote the appreciation of the renminbi to gain the maximum benefit.

Third, the China-US trade friction has affected many areas badly and even spilled over into other areas. The intertwining and linkage between the multiple areas in turn brings great uncertainty to trade negotiations. Before the Trump administration, China-US relations were both competitive and cooperative with limited trade friction and timely mutual compromise. The ROK believes that the China-US trade friction provoked by the Trump administration has not only affected trade but also increased pressure on China with regard to currency, investment, finance, resources and energy, rules and standards, the World Trade Organization (WTO) reform, regional economic cooperation, and economic development model. The US has also proposed its geopolitical strategy in the Indo-Pacific and stepped up pressure on China on the Taiwan question and issues related to Hong Kong, Xinjiang, the South China Sea, human rights, the military, and the political system. China-US competition has had a spillover effect and has expanded from the economic sphere to a broader arena.

Prospects for China-US trade friction

Most people in the ROK believe that China and the US both need a temporary truce to adjust the rhythm of strategic competition, and that the first phase of the China-US trade agreement or the so-called "mini deal" will remain effective in 2020. One reason is that China needs economic

stability and sustained growth. The ROK believes that there is still a wide gap between China and the developed countries such as the US in terms of its composite national power, technological strength, and governance capacity, and thus it is difficult for China to gain the advantage in the trade friction or to pose a substantial challenge to the US-led international political and economic order. Moreover, the increasing downward pressure on China's economy requires the country to ease the trade frictions and ensure economic development. The phase one trade agreement brings benefits to China: China's imports of US agricultural products can stabilize its domestic market; the opening of financial and service industries, protecting intellectual property rights, and the increasing transparency of monetary policy are also conducive to China's ongoing structural reforms; it can also curb the formation of an anti-China alliance between the US, Europe, Japan and other Western societies while easing US pressure on China's rise if China increases transparency in its economic system and development, and integrates into the international community with a higher level of opening-up.

Another reason is that the US also wants to ease trade tensions with China and secure its economic stability. In particular, the upcoming 2020 presidential election allows no leeway for Trump to put massive trade pressure on China. The Trump administration hopes to avoid economic turmoil and make headway in trade talks with China, thereby demonstrating Trump to be the right person to resolve the trade friction and win reelection. As a result, the China-US trade friction will continue through 2020 but not intensify as it did in 2019. The two sides will reach a partial compromise.

However, there are also pessimistic views that the phase one trade agreement might fail in the short term and Trump is highly likely to escalate trade friction during the election season. The COVID-19 outbreak has greatly affected China's domestic consumption and production and will possibly reduce its willingness to implement the agreement. Moreover, if Trump is re-elected and the US economy maintains good momentum, the US is bound to put more pressure on China's economy and trade.

As for the long-term prospects of the trade friction and the broader China-US relations, most people in the ROK believe that structural contradictions between the two countries will persist, and their trade friction and competition in many areas will continue. According to a report by the ROK Ministry of Economy and Finance in September 2019, the China-US competition for hegemony will not be affected by the result of the US presidential election in 2020. The general trend of US containment of China will not change regardless of whether the Democrats or the Republicans win. According to a survey, 68.9 percent of respondents believe that a phase two China-US trade deal will take a long time. One reason is that it is difficult for both countries to make sharp reductions in their trade deficits, which is determined by their different industrial structures and development stages. China will not meet all the US demands on its economic reform because that would undermine the country's fundamental political and economic system, nor will China abandon its industrial policy or cutting-edge technology associated with the Fourth Industrial Revolution. Their race for technological hegemony will continue for a long time. Another reason is that the China-US hegemonic competition and power transfer is unlikely to end in the short term. The US perception of China as a strategic competitor determines its long-term strategy of containing China, which will level up as their gap in economic power narrows.

There are even views that the China-US economic competition is subverting the existing global and regional order and bringing a new era of chaos and uncertainty. With the prolonged trade dispute, the two countries are promoting exclusive trade agreements and separate industrial chains, heading toward a bipolar pattern in the world economy with more independent markets and economic circles. It will reduce China-US interdependence and increase the risk of economic decoupling if their commercial cooperation as a ballast is undermined. A complete decoupling can even lead to a new Cold War featuring multifaceted confrontation in terms of the military, political system, ideology, and civilization. There are other opinions that the traditional framework for China-US relations is

unlikely to endure and a new and stable model is being built, but a new Cold War is never the answer. A new Cold War is only possible when the two countries completely abandon cooperation and engage in full-scale confrontation in political, security, economic and other areas as the US and the Soviet Union did. But with a high level of economic interdependence, the United States despite its comparative advantage cannot fully confront China. China also attaches more importance to sustainable development and has no intention of confronting the US. Notwithstanding possible intense competition in the future, the two sides can always cooperate.

The impact of trade friction on China and the US

In the ROK's view, the United States has stronger national strength and basic technological advantage, and can use plenty of hegemonic and policy tools. In recent years, the shale revolution in particular has provided ample impetus for the US economic recovery. In bilateral trade, China is asymmetrically dependent on the US, with China's exports to the US accounting for 4.4 percent of China's GDP and US exports to China accounting for only 0.96 percent of the American GDP; the US also possesses core technologies needed by China, while China's countermeasures are mainly directed at US agricultural products. These set the stage for a tough US economic and trade policy towards China. The trade friction, however, has also done great damage to the US itself. As a Chinese saying goes, "One must prepare to lose eight hundred of their own in order to kill one thousand of the enemy's men."

First, imposing additional tariffs on China has endangered international industrial chains and caused significant economic damage to many countries, and ultimately to the US economy. In global industrial chains, China imports many intermediate products for processing and then exports final products to countries such as the US, which is to say, intermediate products from other countries also contribute to China's surplus to the US. Other countries earning dollars in the process put the money back into US capital markets, but the amount is greatly reduced due to the China-US trade war,

which ultimately hurts the US economy. Thus, the trade deficit is not a “fair” metric for whether trade is fair or not. It exaggerates the actual deficit and fails to reflect the overall situation of bilateral trade.

Second, the trade friction provoked by the Trump administration has bypassed the WTO, undermined the multilateral trading system, violated the basic norms of international trade and WTO regulations, and in turn damaged the US leadership and global credibility. “America First” marks the country’s transformation into a “predatory” hegemon, which, in the long run, will lead to a decline in US influence in East Asia and an increase in China’s regional influence. The political and economic order in East Asia is undergoing a major adjustment.

The trade friction has also had adverse effects on China. First, it has restricted China’s foreign trade. China’s exports to the US are much higher than US exports to China, and the trade friction is more detrimental to China. Second, it challenges China’s policy support for foreign investment. To avoid high tariffs, many foreign companies have moved their factories to Southeast Asian countries. Foreign direct investment (FDI) as a key driver of China’s economic growth may be affected, and China may lose some ground in the global value chain (GVC). Third, China’s financial market is under tremendous pressure from the trade friction, where excessive government debt, corporate debt and household debt have become a destabilizing factor. Fourth, the US crackdown on China’s high-tech industries may slow the pace of technological upgrading as is called for in “Made in China 2025.”

That said, China has its own advantages to help it overcome the difficulties. Politically, the centralized, unified leadership of the Communist Party of China is conducive to maintaining social stability, handling domestic divergence and jointly dealing with external pressures, while the US has different parties and interest groups with different views on economic and trade policies towards China; economically, China’s large amount of US treasuries is also an important tool. The country also enjoys a monopoly in rare earths and other important resources and materials, and has made progress in the independent development of 5G, artificial intelligence (AI)

and other cutting-edge technologies. China's supply-side structural reform has also reduced its economic dependence on foreign trade.

Impact of China-US Trade Friction on the ROK

China-US trade friction and their intensifying competition have both positive and negative effects on the ROK, though largely negative. The ROK's hedging strategy of "economic dependence on China and security dependence on the US" has been shaken. The prolonged economic and trade friction brings great uncertainty to the ROK's geopolitical and economic environment, and challenges its economy and diplomacy in the medium and long term.

Negative impacts on the ROK's economy

The negative impact of China-US trade friction on the ROK's economy has three main aspects.

First, the ROK's exports have taken a hit. The country's export-oriented economy is vulnerable to the trade friction. In 2018, the ROK's foreign trade dependence reached 68.8 percent, of which 26.8 percent is dependent on China and 12 percent on the US. China and the US are the ROK's first and second largest export destinations. Compared to the ROK, Japan being an export-oriented country has a foreign trade dependence of only 28.1 percent, and its export dependence on China is 19.5 percent. In Germany and France, the figure is only 7.1 percent and 4.2 percent respectively. According to the International Monetary Fund (IMF), for every one percent increase in global tariffs, the ROK's GDP growth will be reduced by 0.65 percent; for every one percentage point of decrease in China's economic growth, the ROK's GDP growth will be reduced by a half percentage point. Since the trade friction, ROK exports have declined for 13 consecutive months from December 2018, and in 2019, the ROK's exports declined the most among the world's top ten trading nations. According to the ROK's customs data, the country's total trade in 2019 was \$1.456 trillion, down 8.3 percent year-on-year; exports were \$542.41 billion, down 10.3 percent year-on-year; exports to China were



The Seventh China Forum is held in Seoul on September 19, 2019. Politicians and scholars from China and the Republic of Korea call for the two sides to expand new forms of cooperation to tackle trade protectionism.

\$136.21 billion, down 16.0 percent year-on-year, a bigger drop compared to that of Germany, Japan, Britain, and China's Hong Kong. In particular, the ROK's trade surplus with China fell 51.7 percent, the largest drop since the 2008 financial crisis. Pursuant to the China-US phase one trade deal, China will increase its imports of US goods and services by \$200 billion, which, according to IMF, will lead to a reduction in China's imports from other countries including the ROK. If China fails to expand domestic demand, the ROK's exports are expected to fall by \$46 billion and its share of total world exports will fall below three percent for the first time in 11 years.

The ROK's exports have been heavily affected by the China-US trade friction due to the country's position in global value and industrial chains as well as its unbalanced export structure. In the global industrial chain and specialization structure, the ROK's exports are dominated by semiconductors, steel, machinery, and petrochemical products. About ten varieties of intermediate materials such as semiconductors (mainly memory

chips), components, and petrochemicals account for more than 70 percent of the country's exports. The increase in US tariffs on China has led to a major reduction in the ROK's exports of semiconductors to China. In 2019, Samsung Electronics, a major exporter of semiconductors, saw the largest drop of annual profit in ten years, and the ROK's economy suffered serious "internal injuries." By contrast, the external trade of Japan and China's Taiwan is less affected by the China-US trade friction than that of the ROK, because their export structure is more balanced and supported by multiple pillars.

Second, China may accelerate the implementation of "Made in China 2025" and industrial upgrading in response to the trade friction, which will further reduce the ROK's technological advantage. The technological gap between China and the ROK has narrowed dramatically, with China surpassing the ROK in AI, the Internet of Things (IoT), 5G, and services. This has led to fears within the ROK that it would become China's "economic vassal state."

Third, large companies in the ROK are under pressure to choose sides. Giants that control almost half of the ROK's economy including Samsung, LG, and SK have close business ties with both the US and China. As the trade friction intensifies, these companies are forced to take sides. The US government has repeatedly threatened that it will not maintain close cooperation with the ROK as it does now, if the ROK continues to use Huawei's 5G equipment. The US has been pressing the ROK government not to use Huawei's equipment and services over security concerns. If the ROK bans Huawei, the ROK companies will lose billions of dollars. At the same time, China's National Development and Reform Commission, the Ministry of Commerce and the Ministry of Industry and Information Technology warned that if foreign enterprises, as requested by the Trump administration, interrupt the supply of spare parts to Chinese enterprises, they will be listed as "unreliable entities." Once included, the enterprise's market access, investment, and financing will all be affected. Foreign companies summoned for meetings with Chinese authorities have included the ROK's Samsung and SK Hynix. The ROK is worried about being caught

between China and the United States again, as in the case of the deployment of the THAAD missile defense system, and suffering economic losses.

Under the influence of adverse factors above, the ROK's economy has suffered a lot. According to data by the Bank of Korea, the ROK's economic growth rate in 2019 is only two percent, the lowest level since the 2008 financial crisis. According to statistics from the IMF and the Woori Finance Research Institute, the ROK is the country hardest hit in the China-US trade friction. "The ROK's current economic situation is similar to that during the 2008 global financial crisis and the dot-com bubble burst in the early 2000s." The prolonged trade friction and the unstable US financial market will rattle the ROK's stock market. Coupled with the deteriorating performance of its export companies, the ROK's economy may enter choppy waters.

Opportunities for the ROK's economy

While the ROK's economy has been badly affected by the China-US trade friction, there are new opportunities in certain areas.

First, as increasing tariffs on China changes the US supply chain, some ROK products become more competitive in the US market. In 2019, while the ROK's total exports fell by 10.3 percent year-on-year, exports to the US rose by 0.9 percent against the trend, with growth mainly in China's beleaguered industries such as automobiles, machinery, plastic products, electrical and electronic products, and petroleum products. In particular, the annual growth rate of the ROK's auto exports rose from -1.9 percent in 2018 to 5.3 percent in 2019, among which exports to the US increased by 15 percent and led to the highest share in the American market since 2016; exports of auto parts to the US rose by 4.0 percent despite a fall by 2.5 percent in overall exports; total exports of petroleum products fell by 12.3 percent, but the exports to the US rose significantly by 23.6 percent; total exports of home appliances fell by 3.6 percent, but its exports to the US rose by 15.3 percent.

Second, the US crackdown on "Made in China 2025" and China's high-tech industries help ensure the ROK's technological superiority. In recent

years, China has accelerated its economic transformation and upgrading, and its industrial gap with the ROK has narrowed considerably. The two economies are becoming less complementary and more competitive. The gap in core technology between the two countries has decreased from 1.4 years in 2014 to 1 year in 2016, with the ROK's major export sectors gradually losing competitiveness to Chinese companies. Aimed to achieve self-sufficiency in core components and raw materials, "Made in China 2025" has the greatest impact on manufacturing countries such as the ROK and Germany. According to statistics, since Korea's manufacturing sector accounts for 32 percent of its GDP and high-tech industry accounts for 67 percent of its manufacturing, the ROK is considered to be the country most affected by "Made in China 2025," compared to other countries like Germany and Japan. Tech companies in the ROK have benefited from the trade friction since it has temporarily slowed the pace of China's technological upgrade. For example, ROK companies were at a disadvantage in competition with Huawei in the fields of mobile phones and communications equipment, but after Huawei was suppressed by the US government, ROK companies such as Samsung reemerged in the global competition for 5G chips, mobile phones and communications equipment. Samsung shares even rose sharply after Google announced a supply cut to Huawei.

Third, the ROK will also benefit from the Chinese government's repeated promises to protect intellectual property rights, deepen opening-up, lower market access thresholds, and increase imports. China agreed to sign the WTO Agreement on Government Procurement (GPA) as soon as possible, and allow foreign enterprises to enter the government procurement market, while gradually opening its financial, banking, securities, insurance, and services industries. The Chinese market will be more open and the system more transparent after the signing of the China-US trade agreement, which can also provide opportunities for ROK companies.

Spillover effects on the ROK's diplomacy and security

The China-US trade friction has spillover effects on the diplomatic and

security spheres, and significantly squeezes the ROK's space of a strategic hedge between China and the US. The US has asked the ROK to counter China, join the Indo-Pacific strategy, increase military cost-sharing, deploy medium-range missiles, and participate in the US escort in the Strait of Hormuz. China, for its part, has asked the ROK not to join the US in containing China. The deployment of the THAAD system had already led to a downturn in China-ROK relations and taken a heavy toll on the ROK's economy, so the ROK is very cautious in dealing with China. This has led to a decline in the ROK's importance in the United States' East Asia strategy, while Japan's position has been increasingly consolidated. The US-Japan-ROK cooperation has gradually given way to US-Japan-India cooperation. With the ROK's rising divergence with the US and Japan, the US and Japan have simultaneously increased pressure on the ROK. Japan saw its chance in the ROK's passive regional strategy and hence provoked trade friction against the ROK.

The China-US trade friction has also weakened their previous incentive to cooperate and resolve the Korean Peninsula nuclear issue, creating structural constraints on the permanent peace and security of the Korean Peninsula. Amid increased competition between China and the US, the Moon Jae-in administration has advocated a policy of engagement with the DPRK, which is at odds with the Trump administration's approach featuring maximum pressure and limited engagement. As the US hampered the ROK's efforts to promote inter-Korean political and economic cooperation, the ROK again received a cold shoulder from the DPRK in 2019 and lost the role it enjoyed in 2018 as the helm of the nuclear issue.

The ROK's Policy Options to Address China-US Trade Friction

Faced with the prolonged trade friction and strategic competition between China and the US, the ROK has taken a series of countermeasures to reduce negative economic impacts as well as diplomatic and security constraints, and has actively expanded its economic and strategic maneuvering space.

Actively adjusting economic policies

The ROK has pursued active fiscal and monetary policies to adjust its economic structure and expand the domestic market.

First, the ROK has implemented active fiscal and monetary policies. In response to the global economic downturn and in order to support the weak economy, the ROK National Assembly urgently passed a supplemental budget worth 5.83 trillion won (about US\$4.885 billion) in August 2019, and in December, the ROK approved a largest-ever government budget for 2020 worth 512.3 trillion won (about \$434.4 billion), up by more than nine percent year-on-year for the second consecutive year. The ROK Financial Services Commission also cut the benchmark interest rate by 0.25 percentage point twice in July and October 2019.

Second, the ROK has provided financial and government assistance for export companies. In March 2019, the ROK Ministry of Trade, Industry and Energy issued a document to stimulate the vitality of export. The country is determined to secure new progress in export categories, markets, and enterprises, improve export structure and quality, and expand government assistance to trade, finance, and overseas marketing. The scale of government assistance was increased to 235 trillion won (about \$196.9 billion) for trade and finance and 352.8 billion won (about \$296 million) for overseas marketing in 2019. The figures will be further increased to 257 trillion won (about \$215.3 billion) and 511.2 billion won (about \$428 million) respectively in 2020, benefiting 42,273 export enterprises, which account for 45 percent of all export companies.

Third, the ROK has worked to adjust its economic structure, promote industrial upgrading, and enhance the competitiveness of its products in the global market. As the global trade environment continues to deteriorate, the ROK no longer focuses only on increasing total exports, but has also encouraged the production of high value-added products as the upstream of the overall industrial chain. The ROK government plans to invest a budget of 2.1 trillion won (about \$1.76 billion) in 2020 to support high-

tech industries such as high-end materials, core components, advanced equipment, semiconductors, blockchain, digital economy, and AI, and promote technological development, export, overseas marketing, trade and finance, investment, mergers and acquisitions, and professional training for enterprises.

Upgrading economic cooperation with China

The majority of the ROK's companies do not want to abandon the Chinese market despite great pressure from the growing China-US trade friction. China is expected to become the largest market and research base for the ROK, because China maintains social stability with a bright prospect for development and is at the forefront of the Fourth Industrial Revolution. ROK companies cannot stay ahead of the curve in global competition if they get out of China. Once exiting the Chinese market, they must face a high barrier to re-enter. In the 5G era, the ROK cannot reject those Chinese high-tech products that enjoy a large market share.

To this end, the ROK has taken the following measures. First, it has worked to advance negotiations for a Free Trade Agreement (FTA) in services, deepen ties in the industrial chain, and promote high-quality cooperation with China. Second, it has capitalized on the convergence of China's Belt and Road Initiative with its New Southern Policy and the New Northern Policy, and developed third-party markets with China, to expand both sides' cooperation with other regional countries. Third, ROK companies are encouraged to take advantage of China's all-round reform and opening-up and enter the Chinese market. The ROK's financial institutions are actively trying to enter the Chinese financial market and establish independent securities (asset operating) or insurance companies in China. Fourth, the ROK avoids taking sides in the China-US technological competition. On issues such as Huawei and 5G, the ROK government has claimed not to intervene in business activities of any company and emphasized that launching a security review of Huawei's communications equipment is not a sign of completely excluding Huawei from the ROK's 5G construction.

Consolidating and deepening economic and trade relations with the US

Under the US pressure, the ROK has made timely and appropriate concessions to avoid head-on confrontation with the US. In September 2018, when the US wielded its economic clout to other major countries, the ROK was the first to sign an amended FTA with the US. The ROK has made large-scale concessions to the US, thereby reducing the US economic and trade pressure on itself and avoiding the uncertainty of prolonged negotiations. In 2019, the US again attempted to subvert the existing WTO structure, asking China, India, Brazil and the ROK to give up their status as a developing country. On October 25 of that year, the ROK voluntarily renounced its status to avoid becoming a target of the US in the WTO reform. In November of the same year, the ROK and the US reached the first specific agreement on the Indo-Pacific strategy, and issued a joint factsheet titled “Working Together to Promote Cooperation between the New Southern Policy and the Indo-Pacific Strategy,” with a focus on the economic sphere. The cooperation includes promoting prosperity through cooperation on energy, infrastructure and development finance, and the digital economy, while ensuring regional peace and security.

ROK companies are also actively entering the US market to replace Chinese products amid the China-US trade friction. The Korea Trade-Investment Promotion Agency (KOTRA) has developed four strategies for domestic companies to enter the North American market. The first is to restructure the global value chain. ROK companies can actively enter the fields of auto parts, machinery and equipment, and energy equipment, where China’s exports to the US have fallen sharply. The second is to finance exports of biotechnology, semiconductors, robotics, aviation, and other emerging industries to the US. After Huawei was banned in the US, the US and its allies had a strong demand for wireless communications and IoT. ROK companies are actively seizing the relevant market share. The third is to help establish brands of ROK companies and improve the quality of exported

goods. The fourth is to attract US investment and entrepreneurship.

Diversifying trade and investment

The ROK is also actively cooperating with emerging countries and promoting regional economic integration to reduce overdependence on China and the US.

First, the ROK has been diversifying its economy and export markets, implementing the New Southern Policy and the New Northern Policy, and cooperating with countries in Central and South America and Africa. In September 2017, President Moon Jae-in unveiled the New Northern Policy at the third Eastern Economic Forum in Russia. The plan focuses on the ROK's cooperation with Russia and the DPRK in the fields of natural gas, railways, ports and harbors, electricity, Arctic routes, shipbuilding, and agriculture. In November 2017, the Moon Jae-in government formally proposed the New Southern Policy to strengthen economic cooperation with ASEAN and India, and raise the ROK's economic relations with these countries to the same level as its top diplomatic partners—China, the US, Japan, and Russia. The China-US trade friction has solidified the ROK's strategy of economic and trade diversification. Moon Jae-in believes that “the ROK and ASEAN are the most suitable partners to jointly boost growth and open the door to the future,” and he has visited all ASEAN countries during his tenure and hosted a special ROK-ASEAN summit in Busan in November 2019. To reduce overdependence on China and avoid the high tariffs imposed by the US on China, ROK companies have shifted their production bases from China to low-cost Southeast Asian countries. In 2018, the ROK's bilateral trade with ASEAN reached \$160 billion, and mutual investment exceeded \$10 billion. ASEAN became the ROK's second-largest trading partner and third-largest investment destination, and the ROK is ASEAN's fifth-largest trading partner. ASEAN's share in the ROK's exports increased from 11.6 percent in 2000 to 16.5 percent in 2018. There is also an expanding intergovernmental cooperation ranging from diplomacy, commerce, trade, and investment to infrastructure, culture, defense, and environment.

Second, the ROK has also actively participated in regional economic integration. It upholds the multilateral trading system and the spirit of free trade, and has actively joined agendas of multilateral trade such as the WTO reform, APEC, and the G20. The ROK embraces free trade and opposes trade protectionism. It continues to build a global network of mega-FTAs, and follows or participates in regional economic integration processes such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the Regional Comprehensive Economic Partnership (RCEP), and the China-Japan-ROK Free Trade Agreement.

Being more prudent in its hedging strategy

With increased China-US competition, there has been a heated discussion in the ROK about its strategic options. The mainstream view is that the ROK should still adopt a hedging strategy and does not take sides between China and the US, due to its security dependence on the US and economic dependence on China, and also because the ROK needs both China and the US in denuclearizing the Korean Peninsula and building a peace regime. Moon Jae-in, in his meeting with Chinese President Xi Jinping, said he hopes there is no need to take sides. On the one hand, the ROK continues to consolidate the alliance with the US, responding moderately to US demands on issues such as trade and economic cooperation, military cost-sharing, Persian Gulf cruises, and Indo-Pacific strategy, to make sure the US will preserve the alliance. On the other hand, the ROK has learned from the THAAD dispute and improved its relations with China. The China-ROK political and economic relations have maintained stable development. In December 2019, Moon Jae-in visited China and expressed support for China on issues related to Xinjiang and Hong Kong, stressing that the two countries are a “community with a shared future.” More recently, the ROK has strongly supported China in the fight against COVID-19. The two countries have gradually deepened their economic cooperation and coordinated their positions on safeguarding the multilateral trading system, resolving the Korean Peninsula nuclear issue, and

establishing a peace regime for the Peninsula.

In addition, the ROK is seeking more diplomatic space to maneuver through the China-US competition. As China is under US pressure and hopes to enhance relations with its neighboring countries, the ROK has taken the opportunity and persuaded China to reduce its “countermeasures” over the THAAD dispute. China and the ROK have strengthened their cooperation in economic issues and the Korean Peninsula nuclear issue. While the Trump administration is constantly pressuring the ROK on trade and military cost-sharing, the ROK is strategically developing its relations with China. Moon Chung-in, the ROK’s Special Advisor to the President, even declared that he would eventually like to see the US-ROK alliance end, to make the US strategic community value US-ROK relations and change the Trump administration’s high-handed policy toward the ROK.

Conclusion

The ROK remains bullish on China’s economy and markets amid intensifying strategic competition between China and the US. It will continue to seize the opportunity of China’s opening-up and upgrade its economic cooperation with China, which lays the foundation for closer bilateral ties. To alleviate the US pressure in the complicated and volatile international situation, China should actively expand cooperation with various countries including the ROK and ease their concerns about China’s rise and the spillover of great-power competition, so that they can jointly oppose trade protectionism and unilateralism, defend the WTO-centered international economic order, and promote high-level regional integration such as the China-ROK FTA, RCEP, and the China-Japan-ROK Free Trade Area. At the same time, China and the ROK should continue to deepen their strategic partnership, strengthen strategic communication and political cooperation, enhance coordination on regional hotspots such as the Korean Peninsula nuclear issue, and jointly maintain peace and stability in Northeast Asia. 