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ROK–Japan Economic Cooperation in the Era of the US–China Competition

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I. Introduction: Common Challenges

Relations between the Republic of Korea (hereafter, ROK) and Japan are generally analyzed as having shifted from a “vertical asymmetrical relationship” to a “horizontal symmetrical relationship.” (Kimiya 2021) The bilateral economic relationship is the most visible example of this shift from vertical to horizontal and asymmetrical to symmetrical. Since the normalization of diplomatic relations in 1965, capital and technology from Japan have been crucial factors in the economic growth of the ROK (Kim 2015). The ROK’s long-standing perception has been that economic cooperation with Japan is essential. However, the visibility of the bilateral economic relationship has been steadily declining due to the increasing competitiveness of the two countries’ firms in the global market and the shrinking status of economic relations with the other in the overall economies of both countries. In the meantime, the significance of bilateral economic cooperation has been questioned.

Despite diplomatic conflicts centered on historical issues, there has been a steady trend of policy rhetoric that economic cooperation should continue on a different track. The so-called “future-oriented” vision of improving bilateral relations, which aims to overcome the conflicts between the two countries through cooperation in other areas rather than seeking a solution to historical issues, is long-lasting rhetoric, and the most crucial area of cooperation in “future-oriented” bilateral relations has always been the economy.

When discussing the “future-oriented” economic cooperation between the ROK and Japan, a key condition is the changes in the international political structure. The ongoing US-China competition is a key variable in predicting the nature of economic cooperation between the ROK and China. However, it should be noted that the U.S.-China competition is unfolding amid the development of emerging technologies such as cyber and AI. In other words, the U.S.-China competition at the geopolitical level is embedded in the structural changes of technological change. In addition, the recent emergence of the Global South raises the necessity for economic cooperation with emerging economies, which are uncomfortable with the idea of belonging to either camp in the US-China competition. The ROK-Japan economic cooperation in the era of US-China competition

should be considered alongside technological innovation and the rise of the Global South. From this perspective, this study proposes economic cooperation in the era of U.S.-China competition as economic security cooperation, cooperation in establishing emerging technology norms, and cooperation in dealing with the Global South.

II. The Demise of the Traditional ROK-Japan Economic Cooperation

Diplomatic normalization between the ROK and Japan in 1965 is considered the beginning of hierarchical economic relations between the two countries. The economic cooperation funds linked to the claims and subsequent Japanese yen loans helped the ROK develop its industry, and Japanese technical assistance played an important role in the ROK's industrialization, as exemplified by the construction of Pohang Steel (Rhyu 2001).

In the 1960s, the ROK adopted an export-oriented development strategy to produce competitive goods and sell them to external markets instead of focusing on a small domestic market. The success of this strategy depended on creating a comparative advantage to produce goods that were competitive in foreign markets, and the most critical source of capital for the ROK's development strategy was Japan. The importance of Japan in commercial loans and foreign direct investment was significant, and technology introduced by Japanese companies through plant exports and joint ventures played an important role in the ROK's early industrialization (Yoon 2020). This situation was also reflected in the ROK's trade structure, where Japan's position was overwhelming, especially in imports, which surpassed that of the United States from the mid-1960s onward throughout the Cold War (Abe 2015).

The economic relationship between the ROK and Japan in the late 1960s is a classic example of the "flying geese" model. This model, which states that sectors in which advanced industrialized countries have lost their comparative advantage are transferred to relatively backward countries through FDI, leading to economic growth in those countries, has been applied and understood in the economic development of several East Asian countries (Kojima 2000). The flying geese model depicts the relationship as a hierarchical order formed by natural capital flows from the comparative advantage perspective.

The ROK's trade dependence on Japan has steadily decreased as the country's industrialization has progressed. From a Korean perspective, the share of imports from Japan in total economic activity has shrunk since the 1980s. The import-induced effect of the ROK's economic activity was historically very high in the late 1970s and gradually declined.

With the development of global value chains, the direct trade and production relationship between the ROK and Japan has become less direct than in the past. However, while the share of bilateral trade between the ROK and Japan has declined, the interconnectedness of their firms in the production process has increased in global value chains. The relative decline in Korean export earnings to Japan since the 2010s does not mean that industrial relations between the two countries have become

estranged. It is related to the shift away from bilateral trade in the Korean-Japanese industrial network. While the decline in the importance of the ROK-Japan trade and production ties in global value chains may be overstated, it is clear that the hierarchical nature of the ROK-Japan economic relations (in the area of trade and production) is no longer as strong as it once was. The complementarity and competitiveness of the ROK-Japan industrial ties in each industry sector vary to different degrees, and they have become part of the global production network. In other words, global value chains have not diminished the importance of the ROK-Japan economic ties but have made them invisible. This is a crucial characteristic of post-hierarchical ROK-Japan economic relations.

However, as the benefits of bilateral economic cooperation have become invisible, questions have been raised about its necessity. This means that strengthening economic networks centered on trade and investment is not enough to determine the future direction of bilateral economic cooperation. Economic cooperation between Japan and the ROK, which is no longer in a vertical economic relationship, should focus on responding together to changes in the international structure.

III. Cooperation for Economic Security Policies

Geoeconomics, defined as “the use of economic means to promote and defend national interests and gain geopolitical advantage,” is re-emerging in the 21st century amidst the U.S.-China competition. The separation of economic and security domains, the basic norm of the international economic order in the era of globalization, has been shaken by the competition between the U.S. and China (Scholvin and Wigell 2018). Since the Trump administration, this competition has been conducted as an economic statecraft that aims to change the behavior of the other country by economic means. The techno-competitive nature of the competition has continued and intensified under the Biden administration, which has simultaneously pursued measures to restrict trade and investment from a security perspective, provided financial support to strengthen domestic high-tech industries, and promoted a technology alliance that excluded China. In response, China has proposed a plan to overcome the U.S. offensive in the high-tech industry sector through its domestic demand with large-scale investment plans in 5G communication bases, data centers, AI, IoT, and renewable energy expansion (Drezner et al. 2021).

The securitization of the economy, which is prominent in the economic policies of both the United States and China, is a key factor causing U.S.-China decoupling in the economic network of the global value chain. For Japan and the ROK, which have benefited from the interdependent economic networks of global value chains, the economic securitization of U.S.-China competition has raised concerns about the future of economic diplomacy.

At the trilateral summit held in August at Camp David, strengthening cooperation in the economic sphere was an important topic of discussion among the United States, Japan, and the ROK. The three areas of economic cooperation include 1) strengthening supply chain cooperation, 2) developing future core emerging technologies, and 3) working together on financial stability (Office

of the President 2023c). Strengthening supply chain cooperation and pioneering future core emerging technologies are directly related to economic security policies. At the ROK-Japan summits in March and May 2023, the ROK and Japan already made it clear that their economic cooperation would focus on economic security cooperation (Office of the President 2023a).

The two aspects of Japan's economic security policy — securing the supply of certain critical materials and advancing certain critical technologies — are essential guidelines for the outlook of Japan-ROK and ROK-U.S.-Japan cooperation on economic security policy. The economic cooperation mentioned in the ROK-U.S.-Japan summit is also divided into building supply chain cooperation and leading future key emerging technologies.

In terms of supply chain cooperation, the ROK -Japan cooperation may be likely to develop comparatively faster. Both governments have already reported an agreement on strengthening supply chains for hydrogen and ammonia (*The Japan Times* 2023-11-10). In addition, the two governments reportedly agreed that Korean and Japanese companies would jointly invest in a third-country project funded by a government financial organization and work together to build a supply chain (METI 2024). In economic security, supply chain cooperation is one of the fastest-moving and most necessary aspects of cooperation. Of course, there are domestic concerns that establishing supply chain cooperation between the three countries will create a China-exclusive character. However, U.S.-ROK-Japan trilateral cooperation is indispensable for securing global supply chain stability. It is also important to note that the ROK and Japan prefer maintaining and developing a multilateral framework for global supply chain stability. To establish new institutional architecture in the global supply chain, the U.S.-ROK-Japan trilateral framework could play a front-runner role in the new rulemaking for trade and investment in the case of economic security.

On the other hand, strengthening the ROK -Japan cooperation in leading future core emerging technologies requires a more serious domestic discussion on its scope and pace from the perspective of securing the global competitiveness of both nations in future high-tech industries. The discussion of future cooperation in key emerging technologies was only a declaratory statement at the last trilateral summit. While there is no reason to deny the importance of trilateral cooperation, the ROK's concerns about strengthening the strategic position of future industries in trilateral cooperation must be crystallized into concrete industrial policies. It isn't easy to give the Korean government a high score for its industrial policy over the past year or so. It is necessary to promote bold and creative industrial policies and discuss trilateral cooperation in key emerging technologies for the future.

Given that the ROK's economic security policy is centered on supply chain preparation or strategic autonomy in the Japanese concept, Japan's economic security policy is different because it places high importance on science and technology support based on the principle of strategic indispensability. In addition, the Japanese government's policy of strengthening S&T support is highly vibrant when U.S.-China competition has shifted to a competition for technological hegemony. In this respect, the ROK's recent policy discussions surrounding reducing its R&D budget have

deviated significantly from the global trend.¹

IV. Cooperation for Making Global Rules on AI and Cybersecurity

Emerging technologies such as cyber and artificial intelligence will be a major factor in the future competitiveness of nations around the world. However, global regulatory governance for the utilization of these technologies has not yet been established. As the discussion on this topic has not progressed well recently due to the US-China competition, the ROK and Japan can lead the way in establishing global regulatory governance for the utilization of emerging technologies.

Of course, some expect the superpowers, the United States and China, to agree on global norms for cyber and artificial intelligence (Nye 2024; Kissinger and Allison 2023). However, bilateral agreements on cyber and AI in the global space are unlikely to be achieved due to the recent competition between the U.S. and China in technological hegemony. Rather, efforts to establish global normative governance in cyber and AI are being conducted exclusively (Huq 2024). This is why it is difficult for international organizations, mainly the United Nations (UN), to effectively shape global norms in cyber and AI. In other words, while the UN is an important arena for discussing norms on cyber and AI, it is limited in its ability to act as a global normative governance body for emerging security. The UN's Group of Governmental Experts on Cybersecurity (GGE) and the Open-Ended Working Group (OEWG) have made efforts to establish principles for the application of international law to cyberspace. However, the fifth GGE failed to reach a consensus on the exercise of the right of self-defense against cyberattacks, countermeasures against cyber manipulations that constitute international crimes, and the application of international humanitarian law to cyberspace. The lack of consensus on cyberspace between Western industrialized nations, including the United States, and emerging nations with China has stalled discussions at the UN. Similarly, in the field of artificial intelligence, the recent emphasis at the UN and UNESCO on responsible development of AI and efforts to shrink the AI global gap has not gained support from the United States and other developed countries.

The U.S. and industrialized countries are now clearly looking to use the G7 as a platform for global normative governance on cybersecurity and AI. The "G7 Principles and Conduct on Cyber" document from the 2016 G7 Summit states that "States shall recognize that States exercise the inherent right of individual and collective self-defense under Article 51 of the Charter of the United Nations". The G7's leadership on international norms for cyberspace has been key to the international establishment and direction of the concept of Active Cyber Defense (ACD), with NATO's Cyber Defense Cooperation Center playing a key role in the development of the Tallinn Manual.

In the field of artificial intelligence, the G7 Hiroshima Summit in 2023 was an important milestone. At the G7 Hiroshima Summit in May 2023, it was agreed to launch the Hiroshima AI Process to review international rules for generative AI. "The G7 Summit Declaration on the

¹ Regarding the global trends of new industrial policy, see Aggarwal and Reddie 2021; Mazzucato 2021.

Hiroshima AI Process echoes the U.S. phrase “safe, secure, and trustworthy AI,” emphasizing openness, safety, and reliability (MIC 2024).

Global normative governance of cybersecurity and AI is centered on the G7, and Japan, as a G7 member, has insider status. In 2015, when the G7 began discussing international norms in cybersecurity, and in 2023, when it began discussing AI, Japan was the host country of the G7. Japan’s positional power in the G7-centered governance of global norms is something that the ROK does not possess. In contrast, the ROK has the status of a partner in the global governance discussions centered on the G7. In the long run, the reorganization of the G7 and the ROK’s participation as a member of the G7 would be a significant task for strengthening its leadership in building global normative governance for various policy areas, including emerging technologies.

Although the ROK is not yet an insider in the global normative governance of emerging security, centered on the G7, its actual positional power is quite high. The ROK’s technological prowess in cybersecurity and its proactive response capabilities developed in response to North Korea’s cyberattacks are superior to those of Japan and other G7 countries. In the field of artificial intelligence, no other country except the United States and China has greater capabilities than the ROK. For leading global norm governance, it is necessary to specifically advance the ROK-Japan bilateral cooperation in these areas. Japan’s insider position in the G7 and the ROK’s technological prowess in emerging technologies can be combined to create great synergies.

V. Cooperation for Initiating Comprehensive Global South Policy

In recent years, the Global South has emerged as a trend of emerging countries raising North-South issues without falling into either side of the US-China rivalry. India actively promoted its identity as a representative of the Global South when it took over the G20 chairmanship from Indonesia in late 2022. Through the Global South, India has become a counterweight to the U.S.-centered, developed-country theory of international order and a voice for emerging countries in the face of China’s challenges (Ito 2024).

In Japan’s diplomatic strategy, the G7 Hiroshima Summit was a symbolic manifestation of its strategy of inclusive accommodation of the Global South that does not resonate with the developed world’s stance. The Japanese government invited eight countries in addition to the official G7 members. They were Comoros (Chair of the African Union), Cook Islands (Chair of the Pacific Islands Forum), Indonesia (Chair of ASEAN), India (Chair of the G20), Brazil, the ROK, Vietnam, and Australia. The other countries are characterized as Global South except for the ROK and Australia.

Japan’s Global South diplomacy is positioned as “coordinating the divisive and confrontational movements of the international community.” (Cabinet Secretariat 2024) This clearly shows that Japan’s strategy for dealing with the Global South is not positioned in the direction of Japan’s cooperative diplomacy with the United States. Instead, it is a case of the multifaceted diplomacy that is part of Japan’s hedging strategy against US-China competition.

ODA and infrastructure investment are the core of Japan's Global South diplomacy. However, Japan's problem is that it is difficult to maintain the level of quantitative expansion in ODA and infrastructure investment in emerging economies to counter China's aggressive offensive over the past decade. What Japan needs to do, beyond the rhetoric of "high quality of infrastructure investment," is to build partnerships that can bring ODA and infrastructure investment together. In this regard, Japan and the ROK need to further strengthen their cooperation in ODA and infrastructure investment to target emerging economies.

Joint investment in infrastructure markets in third countries has been discussed in bilateral economic cooperation. However, at this point, bilateral economic cooperation in infrastructure investment in emerging countries is becoming more important not only for economic benefits but also to strengthen relations with emerging countries that refuse to be part of either camp in the era of U.S.-China competition.

VI. Conclusion

The ROK-Japan economic cooperation has been the central vehicle for bilateral cooperation. However, trade and investment are no longer as effective as ever. However, there are still plenty of arenas for economic cooperation between both countries in the face of US-China competition, emerging technological innovation, and the rise of the Global South. Joint efforts to respond to common challenges are becoming the center of economic cooperation between the ROK and Japan.

Strengthening the global supply chain and co-developing emerging technologies, which are joint responses to economic securitization, have become core parts of bilateral economic cooperation. However, economic cooperation could be expanded beyond economic security cooperation to include collaboration on making global norms for emerging technologies and joint responses to the Global South. ■

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