



[After Trump Series 2] Prospects for U.S.–South Korea Cooperation in an Era of U.S.–China Strategic Competition

Between Economic Interdependence and National Security: New Frontiers for ROK–US Trade Cooperation

Yul Sohn
President, East Asia Institute
Professor, Yonsei University

For most of the period since the signing of the ROK-US alliance treaty in 1953, relations between South Korea and the United States have been characterized by bilateralism: primarily dyadic links have been developed in economic as well as political- security relationships. In the area of international trade and investment, the KOR-US FTA is a culmination point of bilateralism: by far, the largest bilateral FTA for each other.

The 2008 global financial crisis and subsequent recession have reshaped the stage that guided their choices. Global trade has been stagnant, protectionism ascent, and global value chains adjusted to a rising Chinese economy. More important, a redistribution of global economic power has given rise to an era of great power rivalry. As China was rapidly closing the gap with the United States, this shift changed U.S. calculations regarding the degree of threat from China and accordingly gave rise to an increased American counterbalancing efforts. Viewed in the ROK-US bilateral context, economic and security incentives for cooperation have relatively declined as China has risen. Bilateral ties between US and South Korea have become far more complex as the US-China strategic competition in the Asia-Pacific developed.

One significant development in the global trade appeared a negative nexus of politics-security and economics, referring to an adverse impact that destabilized interstate relations have on economic interdependence. Great powers increasingly seek to protect their core economic interests by appeals to national security while leveraging economic means to change other's foreign policy in its favor. Made by a broader definition of national security and frequent invocations of it, these shifts tend to create the competing spheres of influence where issues are considered crucial to the zone of

strategic competition between the US and China. *Will national security topple economic interdependence?*

Nothing presented more challenge to the established status of South Korea as an advanced trading state than the rise of the negative economic-security nexus. South Korea is compelled to unwanted choice of either sacrifice its economic interest in favor of security interest or vice versa. Three problems need to be addressed.

First, South Korea has suffered from retaliatory measures exercised by bigger neighbors: the so-called THAAD retaliation by China, US counter-veiling duties on Korean steel and aluminum under Section 232, and Japan's tightening of export controls over chemical components crucial to South Korean semiconductor industry, all this was justified in the name of national security. How can we, the United States and South Korea, find ways to have states restrained abusing invoking a broader definition of national security (or over-securitization), and strike a right balance of national (economic) security and economic interdependence?

Second, this problem closes on the China challenge. China's mercantilist behavior is disrupting both bilateral trade and global trade. There are economic problems that address market barriers including poor protection of intellectual property rights, forced technology transfer, FDI restrictions and subsidies provided in violation of international rules. In order to dismantle and reform these practices, a collective approach to China from US and South Korea is necessary. In doing so, there needs a close consultation over distinguishing addressing economic problems from deterring and slowing down a China rising by invoking national security concerns.

Third, there is the compelling need for a rules-based economic order in the region, that would restrain Chinese predation, America's protectionism, increase middle power space, and sustain liberal norms. TPP (or CPTPP) is an important mechanism in that regard. Can the Biden administration move in this direction? And can the Moon government move beyond bilateralism and proactively engage in a plurilateral, collective approach?

South Korea and the United States should be able to redefine the objectives of the ROK-US relationship that will move beyond bilateralism, extending to sustaining a freer, rules-based economic order that will govern a greater power abuse of unilateral actions and predatory behavior. Common tasks include (re)entering TPP, restoring WTO, and plurilateral efforts (with Japan) to strengthening trade rules and norms on China.

Bilateralism in Decline

The milestone for economic bilateralism between US and South Korea is the KORUS FTA (concluded

2007; renegotiated and ratified 2011), the exemplary case of a positive nexus of economic and (geo)political interests. For the U.S., this FTA was by far the most commercially significant bilateral trade negotiation and equally strategic as counterbalancing the rising tide of Chinese influence by ensuring that the US would establish an institutional presence in East Asia. For South Korea, KORUS meant securing huge markets for its export sectors. But it also would boost the country's international status by ensuring that the US would remain a strategic and economic counterbalance to a rising China, while helping to upgrade its economic structure.

Another milestone, this time for economic multilateralism on a regional scale, was the Trans-Pacific Partnership (TPP) negotiations that aimed to connecting major markets across the Asia-Pacific. TPP provided considerable economic incentives that emphasized multilateral rules over services, investment and intellectual property while less focusing on tariff reduction and manufacturing exports. Washington viewed the TPP as a strong vehicle that not only served American multinational corporations operated on the extensive cross-border value chain, but that also provided the best way to ensure its engagement in East Asia and counteract China's economic sway in the region (Capling and Ravenhill 2011; Solis, 2012; Fergusson et. al 2013).

This move came at a time when South Korea vigorously pursued a “global FTA hub” strategy that would establish a hub-and-spoke trade network by successfully promoting bilaterals with big economies including China. This was because the conclusion of the KORUS FTA significantly enhanced South Korea's positional power in ways that attracted the European Union, China, and Japan to ask for trade deals. With a hope that FTA bilateralism would give South Korea a strategic advantage established as the hub of trade network, Seoul was inclined to an FTA with China, which would entitle South Korea to rank only one that concludes FTAs with the world's three largest economies, US, EU and China.

As the US-China strategic rivalry loomed large, the regional trading architecture evolved to host competing “mega-regional” proposals. Together with TPP, RCEP emerged as an Asia-only proposal with enthusiastic support from China (Solis and Wilson 2017). By the time South Korea indicated “reluctant multilateralism,” the Korea-China deal moved forward as China viewed an FTA with South Korea as a useful means to counterbalance American influence. China doubled down on this strategy by pressuring Korean negotiators during China FTA talks to not join the TPP.

The conclusion of the Korea-China FTA in 2014, a historic milestone boasted by both governments, was largely overshadowed by the TPP deals that gained the momentum when PM Abe Shinzo decided to enter TPP negotiations in 2013. Here, the very same rivalry worked the other way around. Faced with China's assertive behavior in the East China Sea, Mr. Abe chose TPP as a dual

strategy that would boost Japanese economy while counterbalancing Chinese regional influence by setting up multilateral rules that China hardly join. By the time when Japan's entry made TPP the largest FTA deal in its economic size, South Korea felt pressed to reconsider, but again found it difficult to make shift from its lukewarm and reluctant position. For the country, entering TPP practically meant FTA negotiations with Japan (Seoul made bilaterals with all TPP negotiating members but Mexico and Japan), but that looked pessimistic as the bilateral relations soured dramatically by intensified history problems.

Rising Tide of Aggressive Unilateralism

By the late-2010s, great powers tended to treat interdependence as a means that would pursue exclusive economic and strategic interests. They put a greater focus on relative economic gains and increased concern over security risks posed by interdependence while ostensibly upholding the tenets of the liberal international order. This trend posed a considerable dilemma for South Korea, which depends on military alliance with the US but economically with China. If economics and security are decoupled, South Korea will find no difficulty. The reality is the opposite: that South Korea has suffered three major trade shocks as economics and security were coupled negatively. All three came as a form of trade retaliations that invoked national security issue.

First, China's trade retaliations occurred against the South Korean government's decision to allow the United States to deploy the Terminal High-Altitude Area Defense (**THAAD**) system in 2016. While South Korea permitted USFK to install the system in order to protect against potential strikes from an increasingly erratic North Korea, China claimed the powerful radar that THAAD uses to detect missiles would penetrate parts of China and undermine its nuclear deterrence. Chinese retaliations were fierce but staged and sophisticated. Cultural exchanges were abruptly cancelled, 39 of Lotte's retail stores, a company that sold its land for THAAD deployment, were shut down and its major resort project was suspended, Chinese tourists to South Korea were halted, and then, further trade retaliations were implemented. All this was orchestrated through informal governmental measures such as selective implementation of domestic regulations, including customs inspections or sanitary checks, and extralegal measures such as administrative guidance by government officials. Damages were significant and restrictions have been selectively lifted yet continue today.

The second shock came from the Trump administration's protectionism, particularly citing national security to justify tariffs. It investigated imports of steel and aluminum, and imposed tariffs from South Korea, China and others based on Section 232 of the Trade Expansion Act which authorizes the blocking imports that investigations have found to endanger national security. Although the

U.S.-China dispute underscores Trump's virulent use of Section 232, South Korea was no exception. After granting exemptions quickly to Canada and Mexico from the tariffs, Trump stated that exemption determinations would focus on American military allies who are “not paying the bills.” Further, he indicated using Section 232 to extract more defense burden sharing, and simultaneously take advantage in trade negotiations. Tariffs were not particularly damaging to the Korean industries, but psychological damage from Trump unilateralism was significant because US joined China in pillaging the Korean economy as they please.

Finally, in July 2019, Japan's tightening of export controls over three chemical components crucial to producing semiconductors in Korea pushed two countries in a bitter trade war. This resembles tactics seen in Trump unilateralism and the US-China trade war. Japan invoked national security when it claimed such restrictions because South Korea was not complying with export control and regulations to prevent resale of strategic goods. But there is no secret -- the real cause was over South Korea's supreme court ruling in October 2018 that a number of Japanese companies must compensate for Korean laborers who were forced to work for them during the war time. Tokyo argued that such claims were settled by the 1965 treaty between the two sides while Seoul insisted it has no authority to reverse the rulings made by the Judiciary. Frustrated by the proceedings and determined to put pressure on the South Korean government to resolve in some way, Tokyo made such measures. Predictably, by calling it “economic invasion,” the Moon government returned the trade fire with bitterness.

All three cases represent a disruptive force of managed trade coming out of the negative nexus of economics and (geo)politics. Given the great power rivalry, as long as national security began to be invoked widely as exceptions, trade rules set up by bilateral and plurilateral trade agreements became useless. South Korea has undergone trade retaliations by its bilateral FTA partner, China and the United States, respectively; and not to mention, Japan, South Korea's quasi-alliance partner and trading partner negotiating bilateral, trilateral (CJK FTA) and mega-regional deals (RCEP).

Unless these shifts are halted and reversed, systemic deterioration will continue and likely lead to the rise of competitive spheres of influence where multilateral rules are partly and selectively applied according to a strategic logic. Middle powers, sandwiched between the United States and China, are likely to thrive where issues are not crucial to the economic and strategic interests of the two powers. Where rules are not agreeable, they will remain averse to take sides, but hard pressed for unwanted choice.

South Korea has the most to lose when rules-based order declines. When rules and norms are

no longer upheld and adhere to, mid-sized countries like South Korea are made more vulnerable to coercion by larger powers who feel less inhibited to exploit their asymmetric interdependence advantages for political/geopolitical gains. Instead of ‘choosing’ between the United States and China, the real choice for South Korea is between China rising (and the US staying) in a context it is governed by rules and China rising (and US staying) in a rule-less context.

Beyond Bilateralism

Throughout the current co-project, there is a set of agreements (among the EAI scholars) including that either US nor China will win primacy in Asia; there is certainly no choice to thwart China rising; and these dichotomies are destructive for South Korea; and the decay of the US-led rules based order is undesirable. South Korea needs to restore an open, rules-based order that binds great powers to the rules.

South Korea and the United States should be able to redefine the objectives of the ROK-US relationship that moves beyond bilateralism, extending to sustaining a freer, rules-based economic order for the region. It is our self-interest to set an example of upholding a rules-based international order. In this regard, TPP is the best case scenario, a principal “rule-making” agreement that covers wide range of issue areas. For the United States, rejoining TPP is a powerful signal of the United States getting back to the global leadership in upholding the rules-based order. This will prove more effective than unilateral actions for forging a preferable order that restrains China’s predatory behavior. It would also reassure US commitment in the region to its allies and partners. A Biden administration will not prioritize reentering CPTPP, but it might converse to fix some CPTPP “problems” and rejoin if conditions are right.

South Korea will need to pursue a two-track approach: 1) building a domestic coalition that enables it to join the CPTPP membership, on one hand; and 2) recovering cooperative relationships with Japan in ways that make plurilateral efforts to reengage the United States to strengthen rules and norms on China, on the other.

For South Korea, the economic hurdles to entering the TPP are hardly insurmountable, as potential demands for adjustments would not go significantly beyond what it had already undertaken in its bilateral agreements with eight CPTPP members and the United States. There is a possibility of contestation that South Korea’s automotive, electronic, machinery firms are concerned that they would lose a price advantage over Japanese firms. But formidable obstacle lies in the turbulent Japanese-Korean relations. The two sides have been engaged in a trade war as well as sparring over a number of history issues. The diplomatic rift has grown further in a series of events during the second

half of 2018 including a South Korean Supreme Court decision in October ordering a Japanese company to compensate wartime Korean forced labor, the shutdown of a foundation established for former comfort women and funded by the Japanese government as part of a 2015 agreement, and finally the trade war. As ties turn to the worst in the five decades since the two reestablished diplomatic relationship, it is extremely difficult for Seoul to start trade talks with Japan.

Japan, as a pivotal player in CPTPP, is a natural partner for South Korea in moving RCEP, scaling up CPTPP, and providing the powerful incentive for US to reengage in the region. South Korea and Japan will be able to engage the United States to find ways to address its urgent need to counterbalance Chinese influence in the Asia-Pacific and make relative easing of rejoining the agreement; cooperate to restore trade dispute appeals and arbitration system; and make coordinated actions to bring China up to the norms and rules that address extensive informal, non-tariff barriers in China. For all this, South Korea will need to make every possible effort to relocate the Korea-Japan bilateral relationship in a complex foreign policy setting.

■ **Yul Sohn** is the president of EAI and a professor at Yonsei University's Graduate School of International Studies. He received his Ph.D. in political science from the University of Chicago. He previously served as the dean of Yonsei University GSIS, president of the Korean Association of International Studies, and president of the Korean Studies of Contemporary Japan. His research focuses on the Japanese and international political economy, East Asian regionalism, and public diplomacy. His recent publications include *Japan and Asia's Contested Order* (2018, with T.J. Pempel), and *Understanding Public Diplomacy in East Asia* (2016, with Jan Melissen).

■ Typeset by: Juwon Seo, Research Associate

Inquiries: 02-2277-1683 (ext. 206) jwseo@eai.or.kr

Knowledge-net for a Better World

- The East Asia Institute takes no institutional position on policy issues and has no affiliation with the Korean government. All statements of fact and expressions of opinion contained in its publications are the sole responsibility of the author or authors.

Date of Issue: 7 December 2020

Between Economic Interdependence and National Security: New Frontiers for ROK-US Trade Cooperation

ISBN 979-11-6617-066-9 95340

The East Asia Institute

#909 Sampoong B/D, Eulji-ro 158, Jung-gu,

Seoup 04548, South Korea

Tel. 82 2 2277 1683 Fax 82 2 2277 1684

Email eai@eai.or.kr Website www.eai.or.kr