

# BETWEEN THE EAGLE & THE DRAGON

CHALLENGES AND OPPORTUNITIES FOR SOUTH KOREA  
IN THE U.S.-CHINA COMPETITION

Edited by Dr. Sue Mi Terry



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BETWEEN THE EAGLE & THE DRAGON



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# INTRODUCTION

Sue Mi Terry | *Director, Asia Program*

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The 21st century world will be defined by the U.S.-China rivalry, just as the second half of the 20th century was defined by the U.S.-Soviet rivalry. The United States and China are the No. 1 and No. 2 military and economic powers in the world—and China aspires to be No. 1. While the two sides once talked of cooperation, now they talk more of competition. President Biden even calls it “extreme competition,” and it extends from the military to the economic sphere.

Both sides are increasing military spending primarily in the hopes of deterring, or if necessary, winning a Sino-American war. Both sides are also working to unravel decades of economic interdependence to lessen their exposure to economic coercion from the other side. In particular, both China and the United States are trying to safeguard supply chains and “onshore” production of critical components and technologies. That’s why Congress recently passed the Inflation Reduction Act (IRA) and the CHIPS and Science Act, and why the Biden administration imposed new export control regulations to prevent China from advancing its semiconductor industry with U.S. technology.

What does this mean for middle powers like South Korea that are caught up in this increasingly tense superpower competition? That is the focus of this volume of essays. It addresses the strategic dilemma for South Korea caught between “the eagle and the dragon”—between its primary security partner and its primary trade partner.

Seoul has long tried to balance between Beijing and Washington, relying on the former for economic development and on the latter for security protection. But that is becoming increasingly difficult to do as the United States and China pull further apart and both sides pressure middle powers such as South Korea to align with them—or at least to avoid overt alignment with the other side. South Korea discovered for itself how difficult the balancing act can be when in 2016 it announced that it was deploying the Terminal High Altitude Area Defense (THAAD) system and China responded with economic coercion that inflicted a heavy cost on the Korean economy. According to the Hyundai Research Institute, Chinese tactics resulted in a \$7.5 billion loss to the South Korean economy in 2017 alone.<sup>1</sup>

As a result of this, at least in part, Korean public opinion has turned sharply negative on China, and South Korea has its most pro-American government in years. The annual Asan Institute for Policy Studies’ “South Koreans and Their Neighbors” poll shows a notable drop-off in the Korean view towards China after the THAAD crisis.<sup>2</sup> When asked in 2022 which country South Korea should “strengthen ties” with if Washington-Beijing tensions continue, respondents favored the United States by 85.5 percent to 9.9 percent.<sup>3</sup> Similarly, according to a Pew Research Center poll, eight out of ten South Koreans polled earlier this year hold negative views of China.<sup>4</sup>



Now South Korea must contemplate how it will prepare for even more dire scenarios such as a war over Taiwan or the South China Sea, while struggling to safeguard its own supply chains from further Chinese coercion. President Yoon attended a 2022 NATO summit in Madrid, along with Japan's prime minister, to signal solidarity between Asian and European democracies. Yet Seoul is still likely to avoid joining any coalition to contain China—much to the frustration of the United States.

Indeed, South Korea has its own worries about America's search for economic security: Will the United States allow Korean companies to compete on an equal playing field in the U.S. market? Korean manufacturers of electrical vehicles, for example, are concerned that they will be left out of tax credits contained in the Inflation Reduction Act and thereby disadvantaged in the competition for U.S. consumers.

This is an extraordinarily complex set of challenges for South Korea—and figuring out how to navigate the U.S.-China rivalry may actually turn out to be more important for its future than dealing with its traditional security threat from North Korea. Indeed, the threat from North Korea will be greatly affected by the U.S.-China rivalry since China has the ability to either empower or hold back North Korea depending on its assessment of what is more advantageous in the current geo-political situation. At the moment, given the tense relationship between Beijing and Washington, China has not been willing to strictly enforce U.N. sanctions on North Korea or to approve new sanctions to punish North Korea for its missile tests. The U.S.-China competition, in other words, is redounding to North Korea's advantage—and to South Korea's growing peril.

In this book, we have assembled a stellar cast of scholars from both the United States and South Korea—four from each country—to analyze the economic, military and strategic challenges that the Sino-American competition poses for South Korea and to offer recommendations to Seoul on the way forward.

Sukhee Han of Yonsei University begins the book with suggestions for how President Yoon can leverage the U.S.-ROK alliance to make South Korea into a "global pivotal state." Ryan Hass of the Brookings Institution focuses on Taiwan Strait contingencies, arguing that the United States can achieve greater success in working with South Korea to prepare for possible conflict scenarios by showing respect for Korea's own outlook and interests. Adam Segal of the Council on Foreign Relations addresses the cyber competition between the United States and China, arguing that there is ample room for cooperation between South Korea and the United States on dealing with cyber threats from China, North Korea, and beyond.

Focusing on the interplay between economic policy and strategic interests, Heungkyu Kim of Ajou University looks at the importance of the China relationship to South Korea and argues that Seoul should seek to adjust the relationship while avoiding a crisis. Wonho Yeon of the Korea Institute for International Economic Policy suggests that the U.S.-China competition, while it presents risks for South Korea, also offers opportunities for strengthening its own economic and technological capabilities. Jaewoo Choo of Kyung Hee University argues that South Korea can no longer afford to pursue a strategically ambiguous course and lays out options for the United States and South Korea to work together to counter Chinese economic coercion in the future. Meg Lundsager, formerly with the International Monetary Fund, examines the role the United States and South Korea can play in countering China's Belt and Road Initiative by offering their own aid to developing nations.



Finally, this volume concludes with a postscript from Hal Brands of the John Hopkins School of Advanced International Studies warning of the stakes for Korea in a potential war over Taiwan—and arguing that South Korea can work with the United States to avert such a conflict.

There are no easy answers on offer here, but there is an abundance of insightful analysis rooted in many years of careful study by all of the authors. I hope that policymakers and the public in both the United States and South Korea will find these essays useful in charting a course for strengthening the U.S.-South Korea alliance in the era of increased U.S.-China competition.

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# YOON SUK-YEOL'S “GLOBAL PIVOTAL STATE” AND SOUTH KOREA-CHINA RELATIONS

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## INTRODUCTION

Since the inauguration of President Yoon Suk-yeol in May 2022, South Korea's new government has initiated a new direction in its foreign relations. The core of this new foreign policy is that South Korea should strive to be a “Global Pivotal State” (“GPS”)—Korea's commitment to be a more influential middle power taking a more active role in global affairs, with a focus on promoting freedom, peace, and prosperity on the basis of liberal, democratic values and cooperation. The major rationale for introducing the GPS concept as South Korea's foreign policy derives from the pursuit of its long-cherished, overarching goal of developing a more autonomous and independent foreign policy. Beyond that, the Yoon government's intention behind the introduction of the GPS concept was rooted in a perceived need to differentiate itself from the previous Moon Jae-in government's failed strategy of North Korea-prioritized “double allegiance” (overt hedging vis-à-vis the United States and China). Additionally, a more complicated and acutely risky global strategic environment—including growing U.S.-China strategic rivalry, the Russia-Ukraine quagmire, and lingering public health and economic threats due to COVID-19—served as a spur for the Yoon administration to implement GPS in order to step up South Korea's role and responsibility beyond the Korean Peninsula and Northeast Asia.

This article aims to explore the challenges that the Yoon administration's GPS concept faces, notably due to U.S.-China strategic competition. I start by sketching the basic outline of the GPS concept, as understood by the Yoon administration, and then focus on the ways in which China seeks to disrupt Yoon's GPS-directed foreign policy by identifying and employing wedge issues that are possibly divisive for the U.S.-South Korea alliance. The conclusion identifies policy recommendations for South Korea in light of this strategy by China.

## SOUTH KOREA AS A “GLOBAL PIVOTAL STATE”: CAN SEOUL PUNCH ABOVE ITS WEIGHT BY TILTING TO THE U.S.-SOUTH KOREA ALLIANCE?

Perhaps paradoxically, the Yoon administration's GPS concept intends to grow South Korea's middle power diplomacy role—both regionally and globally—by first shoring up the U.S.-South Korea alliance, which is primarily dedicated to keeping the Korean Peninsula stable. This emerged as a key priority as conservatives perceived that the U.S.-South Korea alliance had been insufficiently supported during the five years of the Moon administration (which coincided with the Trump administration in the United





States). Immediately after Yoon's May 2022 inauguration, the administration had the opportunity to start implementing its alliance priorities on the occasion of President Joe Biden's visit to South Korea. In addition to numerous economic/technology security issues, several important Peninsula-related issues were on the table at the Biden-Yoon summit, notably the resumption of full-scale military exercises between the United States and South Korea. The exercises had been downgraded/suspended during the years of Presidents Trump and Moon and they needed to be restarted and expanded to support U.S.-South Korea deterrence and defense capabilities against the ever-growing North Korean security threat. Biden and Yoon also discussed restarting the Extended Deterrence Strategy and Consultation Group and reiterated statements of renewed focus on pressing for North Korean denuclearization.

The Yoon administration used the summit with Biden as a chance to grow the relationship between Seoul and Washington into a more comprehensive partnership going beyond security and defense issues to encompass multi-faceted economic and diplomatic terrain. The most-discussed item in this regard was Yoon's statements signaling support for Washington's Indo-Pacific Economic Framework (IPEF), even though at the time of the summit it had not yet been rolled out, and indeed little was known about it. The Biden-Yoon summit joint declaration also contained a long description of growing U.S.-South Korea economic and technology collaboration in semiconductors, electric vehicle (EV) batteries, artificial intelligence and quantum computing, advanced robotics, and biotechnology. Much of this is at an early stage—both in terms of cooperation and even the fundamental technology—but both Seoul and Washington are determined to advance these efforts in order to shore up supply chains and build resilience in critical sectors.

Moving beyond a security focus on the Peninsula and U.S.-South Korea alliance issues, South Korea has also taken steps to fulfill the GPS concept by expanding South Korea's role in the Indo-Pacific and deepening the trilateral relationship among



South Korea, the United States, and Japan. The Yoon administration has continued efforts—begun under the Moon administration—to diversify South Korean trade relations with the states of ASEAN and Oceania. Yoon attended the 2022 meetings of ASEAN+3, APEC in Thailand, and the G20 in Indonesia. Moreover, South Korea will release an Indo-Pacific strategy in late 2022, with the aim of determining a number of strategic objectives for the region.

South Korea-Japan relations have gotten better after the start of Yoon administration. Yoon, as he pledged during his campaign, has tried to restore and advance bilateral relations based on the 1998 South Korea-Japan declaration, which had fallen by the wayside during the Moon administration. Yoon initiated an informal meeting with Japanese Prime Minister Fumio Kishida on the sidelines of the UN General Assembly and has met with influential Japanese assemblyman (and former Prime Minister) Taro Aso to discuss how both nations should respond to increasing North Korean belligerence. Frequent meetings between South Korean and Japanese foreign ministers and other senior officials have also taken place. There remain deep historical issues that divide Seoul and Tokyo, but Seoul has made efforts to improve relations. The extent and duration of Japan’s positive response remains to be seen, but for the moment, bilateral relations are on a forward-looking track, an important component of the establishment of Washington-Tokyo-Seoul trilateral cooperation, a desideratum of the Biden administration and another way for South Korea to potentially use its alliance to have outsized influence outside the Peninsula.

Yoon accepted an invitation to the 2022 NATO summit in Madrid, becoming the first South Korean president to attend a NATO summit. Attendance at the meeting signaled Yoon’s strategic clarity that Seoul intends to expand its security and economic alignment with like-minded liberal states, especially as South Korea’s participation at the NATO summit was prepared in coordination with the so-called “Asia-Pacific 4” (“AP4”), comprising South Korea, Japan, Australia, and New Zealand. This minilateral arrangement signals both the way that Indo-Pacific issues spill over into the Euro-Atlantic security arena, and the increasing recognition that Europe’s security situation now affects that of the Indo-Pacific. In that regard, it is also worth noting that South Korea’s attendance at the NATO summit played out at a time that Seoul was in deep negotiations with Warsaw to backfill Poland with weapons to replenish Polish stocks. More recently, South Korea has agreed to sell the U.S. artillery shells to ship onto Ukraine.

The Yoon administration’s GPS strategy theoretically involves, on a global level, a commitment to multilateralism; a defense of peace, sovereignty, and the international rules-based order, and support for the universality of values such as freedom and democracy. To a degree this has been so-far aspirational and rhetorical under the Yoon administration—for instance, it was low-cost for the Yoon administration to endorse language in the 2022 U.S.-South Korea summit declaration critical of human rights abuses by Myanmar and Russia’s egregious violation of Ukraine’s territorial sovereignty (including implementation of international sanctions against Russia). It was also a *de rigeur* choice for the conservative Yoon administration to co-sponsor the 2022 UN resolution condemning North Korea for its human rights abuses. However, other elements of the “global” aspect of the GPS strategy have been more concrete, including pledges on climate change and \$200 million (over four years) for the Global Health Security Agenda.



## ENTER THE DRAGON: THE STRATEGIC LOGIC OF CHINA'S UNDERMINING OF SOUTH KOREA'S GPS STRATEGY BY DIVIDING THE U.S.-SOUTH KOREA ALLIANCE

Neither South Korea's GPS foreign policy strategy nor the U.S.-South Korea alliance occur in a vacuum. China's rise to the status of a peer competitor challenging the United States for primacy in the Indo-Pacific markedly impacts both the U.S.-South Korea alliance and South Korea's attempt to grow its regional and global influence via its GPS strategy. More specifically, as South Korea and the United States have ramped up strengthened alliance cooperation, and as South Korea has rolled out its GPS strategy, the logic of China's need to disrupt those efforts in a combined fashion—i.e., by attempting to drive wedges between the United States and South Korea both on the Peninsula and in terms of the larger role of a “comprehensive” alliance that serves as a foundation for the GPS strategy has only grown. One notes that this is in addition to the ever-present efforts of Pyongyang to divide Seoul and Washington.

That said, there seems to be some discrepancy between the strategic logic of China's undermining of the U.S.-South Korea alliance (including South Korea's approach to foreign policy as GPS) and China's actual behavior since Yoon's assumption of office. To be sure, Beijing's foreign policy leadership and the Chinese ambassador to South Korea have made occasional statements attempting to influence U.S.-South Korea alliance relations—e.g, suggesting that the United States treats South Korea as a vassal that the United States wants to “decouple” from China, or that Washington's position in the Indo-Pacific is dangerously exclusive in a way that will be to Seoul's detriment, or that another possible THAAD battery in South Korea would be viewed very critically by Beijing. But the public Chinese attitude toward South Korea since Yoon's inauguration has been markedly tame. China sent a political heavyweight—Vice-President Wang Qishan—to Yoon's inauguration, while the meetings between South Korean Foreign Minister Park Jin and his Chinese counterpart Wang Yi have been generally without (publicly visible) major friction, even when South Korea has been relatively assertive about its sovereign state prerogatives to act in a way discordant with Chinese perceived interests. Threats of economic punishment for enhanced U.S.-South Korea security cooperation have also been limited. In short, despite some worries prior to Yoon's inauguration that China would quickly begin a campaign to undermine South Korea's foreign policy in general and relation with the United States in particular, Seoul seems to have benefited from a sort of benign neglect from Beijing, perhaps a function of China's pre-occupation with COVID and efforts to smooth the path toward the October CCP Congress that guaranteed Xi Jinping a third term as paramount leader.

The Yoon administration has taken advantage of this lull to try to reset relations with China, as from the outset Yoon has emphasized cooperation with Beijing—on the basis of building a relationship of mutual respect—regarding various issues, including peace and security on the Korean Peninsula, denuclearization of North Korea, and promotion of shared interests (including climate change). Under Yoon, the South Korean government has consistently indicated that South Korea has no wish to exclude any particular country (read: China) from international cooperation, and has set up various channels for communication and strategic dialogue to avoid unnecessary misunderstanding between Seoul and Beijing. The hope is that clear



communication with, and benign neglect by, China would allow South Korea a relative bubble of opportunity to grow its foreign policy influence according to GPS principles (as well as to focus on shoring up deterrence of North Korea). However, few experts believe that this approach will be sustainable for Seoul, doubting that Beijing will ultimately be interested in developing upgraded bilateral relations on the terms that South Korea has indicated up until now. Rather, most experts speculate that it will be a difficult task for the Yoon administration to even maintain the current, stable-but-unambitious status of South Korea-China relations, and that a deterioration of ties is the most likely scenario going forward.

This pessimism derives from the fact that China has now finished the period of political calm that preceded the 20th Chinese Communist Party Congress. With Xi now fixed in place like no other Chinese leader since Chairman Mao, he has a free hand to pursue perceived Chinese regional interests in a more risk-acceptant fashion. Second, this is because South Korea has traditionally depended on China for two things—a growing economic/trade relationship and assistance with North Korean affairs—that are not likely to develop in a way that is advantageous for South Korea.

Let us take these issues in order. First, there is no doubt that Xi Jinping wants China to compete with the United States for regional primacy in the Indo-Pacific, an important part of the goal of becoming the leading world power by 2049. Yet he also knows that the U.S.'s alliance architecture represents an asymmetric advantage for Washington. Consequently, Beijing's strategic logic involves weakening and eventually breaking apart these alliances to solidify China's influence over neighboring states that are currently U.S. allies and partners. In this vein, South Korea appears—along with the less developed and less important Philippines—a weaker alliance link than Japan (a Quad member) or Australia (both a Quad and AUKUS member). With Xi now firmly ensconced in power for a third term as paramount leader, he can now turn to implementing measures that would pressure U.S. allies (such as South Korea). This is risky, and will engender pushback, but China also has its own asymmetric advantage: weaponizable economic/trade dependence. In the case of South Korea, since 2012, when the volume of its China trade surpassed the sum of its U.S. and Japan trade, Korea has been subject to growing dependence on the Chinese market. During this decade of growing economic/trade dependence on China, South Korea has seen its diplomatic and security maneuverability seriously and frequently under stress due to its need to maintain economic relations with China. The clearest example of this was Beijing's economic retaliation against Seoul for agreeing to deploy a THAAD battery on its territory. This kind of aggressive move has been off the table for the first period of Yoon's presidential mandate, but risks becoming more likely in the short-/medium-term future.

Indeed, another potential THAAD controversy with China is a distinct possibility, as North Korea's accelerated missile testing and development of its nuclear weapons program (including potential development and deployment of tactical nuclear weapons) increasingly leads South Korea (and potentially the United States) to consider the deployment of additional missile defense assets—including possibly THAAD—on the Korean Peninsula. The Yoon administration has already told China that it does not consider itself bound to the "Three Nos" policy (no more THAAD batteries on the Korean Peninsula, no cooperation with U.S.-led regional missile defense, no development of a trilateral alliance with the U.S. and Japan) negotiated





under President Moon, and thus has essentially indicated its willingness to install another THAAD battery (if necessary and available). China, however, would likely push back hard against such a development, forcing South Korea to choose between its security (and alliance military cooperation with the United States) or economic relations with China that are important for South Korean economic stability and prosperity. Worse still, China could green light (or even actively assist) North Korea with a variety of provocations targeting South Korea, to say nothing of ramped up economic assistance for North Korea in violation of United Nations Security Council Resolutions sanctioning Pyongyang. This would be an aggressive stance for China to take, but not at all unlikely given China's desire to limit U.S.-South Korea security cooperation and undermine Seoul's alliance with Washington. Certainly such a situation would make South Korea's GPS strategy more complicated, as it relies on a solid foundation with the United States as a springboard for more ambitious foreign policy measures outside the Korean Peninsula.

Beijing is displeased with closer South Korean ties with Japan, especially if they occur within the context of Washington-led initiatives in the Indo-Pacific. The Yoon administration, however, has been resolutely pursuing better relations with Japan under Prime Minister Fumio Kishida. The domestic political environment for these ties has not been propitious for substantively improved Seoul-Tokyo relations, but, as Yoon and Kishida are now settled into power, that could change. In the first place, increasing North Korean missile testing and nuclear program development—especially a potential seventh nuclear test, this time of a probable tactical nuclear warhead—might accelerate enhanced security and defense cooperation between the two allies of the United States. This would potentially mark a trend toward Washington-Seoul-Tokyo trilateral security and defense cooperation that, along with a Taiwanese declaration of independent sovereignty, counts among the nightmare scenarios for Beijing. Beijing would almost certainly devise stratagems to punish South Korea for such steps, again forcing it into a trade-off between its security and economy.



China is also concerned about another, nascent development in South Korea-Japan relations, namely the aforementioned “AP4” (South Korea, Japan, Australia, New Zealand) minilateral that attended the 2022 Madrid NATO summit. It remains to be seen whether this grouping will persist, but in principle it fits precisely the ethos of Yoon’s GPS strategy, as it rests on symmetries between regional security in the Indo-Pacific and an outward-facing perspective for having influence in other regions. China clearly finds the concept of the AP4 problematic, as it represents the Euro-Atlantic and Indo-Pacific elements of the United States’ alliance architecture dovetailing with each other. Prior to the Madrid summit, China released an irritated statement condemning the participation of the AP4 and cautioning Indo-Pacific states from forming “exclusive” groupings.

There are at least two other risks about which South Korea is concerned in terms of the tension between its relationship with China and GPS aspirations: (a) technology and economic security partnerships (especially in semiconductors) that do not include China and thus irritate Beijing, and (b) the potential for a Taiwan-related contingency, which might drag in South Korea.

The former issue is already problematic for South Korea, as the Yoon administration has felt it necessary to join both the Indo-Pacific Economic Framework (IPEF) and the Chip 4 alliance (led by the United States and also including Japan and Taiwan). IPEF clearly arouses suspicion in Beijing that its exclusion of China and standard-setting function are meant to try to reduce China’s economic leverage over neighboring regional states (an asymmetric advantage for Beijing and a core part of its strategic toolbox). As IPEF is, however, still at a nugatory stage and there is no guarantee that it will grow more powerful or survive a change in U.S. presidential administration, China has largely contented itself with vague rhetorical warnings to participating states. If an exclusive IPEF becomes more robust and enduring, this could change and Seoul might find itself one of the first states to face Beijing’s anger, forcing South Korea to play diplomatic defense and necessarily limiting bandwidth for GPS-focused endeavors.

As for a Taiwan contingency, it is purely in the realm of the speculative for the moment, but South Korean policymakers and experts are worried that any move by China to coerce (e.g., via blockade) or kinetically compel (e.g., via invasion of territory, including small islands) Taiwan into unification would start a domino effect in which the United States would be forced to respond in a way that would implicate South Korea, either as an active participant or, at the least, in terms of the United States pulling troops from the Peninsula in order to assist Taiwan. This scenario holds obvious, extremely high-stakes risks for South Korea, ranging from the possibility that North Korea could use a Taiwan contingency as a distraction allowing it to attack South Korea in some way, to the possibility that China might attack airfields and ports in South Korea in order to stop or delay deployments of military assets from the Korean Peninsula to the Taiwan theater. Needless to say, this would be such a grievous situation requiring focus on immediate national interests that South Korea’s GPS strategy would be a near-certain casualty in its current form.



## CONCLUSION

As stated in his GPS vision and subsequent, supporting policy changes, South Korea President Yoon has unveiled his intention to strengthen the U.S.-Korean alliance as a foundation for South Korea's security, technology, and economy, which will afford Seoul a strong position to grow its foreign policy influence more globally. A variety of his commitments at the U.S.-South Korea summit meeting and the NATO summit, as well as statements at the ASEAN meetings at which Yoon was in attendance, have confirmed his new diplomatic direction. He has committed to revitalizing South Korea's multilateral diplomacy with the dynamic linkage of the Euro-Atlantic and Indo-Pacific areas on multiple global and regional challenges. The Yoon government intends to deploy its diplomacy in a way conducive to norms, values, and regulations of the international community. But the key for the viable, durable, successful implementation of Yoon's GPS concept is managing China's economic, diplomatic, and possibly military pressure on South Korea. Although the Yoon administration has proposed bilateral cooperation between South Korea and China on security and environmental issues, suggested building a relationship of mutual respect, and most importantly emphasized that South Korea has no intention to exclude any particular state from multilateral dialogues and conventions, China's suspicion and displeasure of the strengthening U.S.-South Korea alliance will lead it to attempt to wring concessions from South Korea that would undermine the alliance.

Traditionally the major goal of China's Korean Peninsula strategy has been maintaining cordial relationship with both the South and North. As a unique power having critical influence over both states, China has taken roles as North Korea's diplomatic patron and economic lifeline, while it has served as an indispensable partner for South Korea's economic development and a critical facilitator for managing inter-Korean affairs for decades. China has committed to supporting Pyongyang's regime stability, seemingly despite nearly whatever military provocations North Korea engages in. The North's recent series of missile provocations and its very likely seventh nuclear test are hard to imagine without Beijing's firm commitment to support Pyongyang. In the same vein, China is pursuing an approach to keep political and economic influence over South Korea even under the Yoon administration. Considering the diverse unpromising conditions for China, including Yoon's pro-American GPS concept, China's weakening economic influence over South Korea (which has worked to diversify its economy away from China to some extent), and its obsolete role in mediating inter-Korean dialogue, China at the moment faces daunting difficulties to maintain good relations with South Korea going forward. Therefore, China may concentrate on coercing South Korea from furthering its relations with the United States.

Thus, the following policy recommendations present themselves. The main recommendation is that the Yoon government should deal with China differentially according to the issues at hand. In the first place, South Korea should push forward on joining and filling out multilateral/minilateral group participation—including IPEF, Chip 4, AP4, and possibly even Quad+ cooperation (if that becomes possible)—without concern for Chinese retaliation. That is, Seoul should call Beijing's bluff. As the goal of South Korea's participation in these arrangements is to promote its



development interests, and as many of these groupings are primarily about technological and economic security, Xi Jinping's possible idea of using these groupings as excuses for legitimizing punitive economic activities against South Korea is not likely to be very convincing. Second, China is very sensitive about South Korea touching upon human rights issues as applied to Uyghurs in Xinjiang province and the situations in Hong Kong and Tibet. The Yoon government is gradually starting to speak out more about China's human rights violations, but gingerly and only within the range that the Chinese government feels tolerable. Since it is important not to face imposed Chinese sanctions unnecessarily, including economic retaliation, the Yoon government should carefully calibrate its human rights interventions to manage the level of Chinese criticism. Third, South Korea should be very sensitive when it evokes the Taiwan Strait issue. The issue of repatriation of Taiwan to China is the top priority of China and perceived in Beijing as a core, vital interest. If Xi senses that South Korea is considering intervention in a hypothetical Taiwan Strait contingency, China would, with very high probability, retaliate against South Korea in very harsh terms. Thus, South Korea should approach the Taiwan Strait issue with careful scrutiny.

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# THE INESCAPABLE DILEMMA: HOW CROSS-STRAIT CONFLICT WOULD PRESENT AN UNAVOIDABLE PROBLEM FOR SOUTH KOREA

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## INTRODUCTION

South Korea and Taiwan followed parallel economic and political development paths through the Cold War. Those paths diverged, however, in 1992, when Seoul and Beijing normalized relations, thereby necessitating that the Republic of Korea end its official relationship with the Republic of China on Taiwan. Since 1992, South Korea's relationship with China has deepened considerably. Given the complex and consequential nature of South Korea's ties with China, and its requirement to focus on the threat it faces from North Korea, Seoul has not taken an active or outspoken role on Taiwan. Even so, South Korea's security and prosperity remain dependent upon cross-Strait stability.

Any conflict in the Taiwan Strait would have devastating consequences for South Korea. Recognizing this inescapable reality, and mindful of rising levels of tension in the Taiwan Strait, the United States and South Korea would be wise to advance quiet coordination now on how they each would approach potential cross-Strait contingencies. The goal of such efforts would not be to advertise U.S.-ROK preparations for military conflict, but rather to work to limit the risk of such an outcome, and if necessary, be prepared to respond to it. The arrival of a crisis would be too late for such consultations to commence. By coordinating on a discrete set of core questions now, senior officials in Washington and Seoul could weather-proof the alliance for any potential strategic storms on the horizon emanating from the Taiwan Strait.

## PATH TO THE PRESENT

After the conclusion of World War II, the fates of Taiwan and South Korea were inextricably linked. Both the Republic of China (ROC) and Republic of Korea (ROK) were led by pro-American, staunchly anti-communist, autocratic, and nationalist leaders determined to reunify their divided countries by any means necessary.<sup>1</sup> Both governments reached out to each other and saw each other as natural partners in their national causes.

Both governments also had unrealized expectations of American support for their ambitions. In early 1950, the policy question confronting the Truman administration was how to orient America's security commitments in Asia after the end of World War II. Then Secretary of State Dean Acheson announced America's position in a speech on January 12, 1950. He declared that the United States would uphold a



defensive perimeter that ran from the Aleutian Islands to Japan through the Ryukyus to the Philippines. Acheson concluded:

**So far as the military security of other areas in the Pacific is concerned, it must be clear that no person can guarantee these areas against military attack...Should such an attack occur—one hesitates to say where such an armed attack could come from—the initial reliance must be on the people attacked to resist it and then upon the commitments of the entire civilized world under the Charter of the United Nations...**

In other words, the Truman administration did not view the Republic of Korea or Taiwan within its security perimeter. Part of this decision owed to America's preoccupation at the time with the security situation in Europe. Chiang Kai-shek's supporters lobbied the Truman administration to fortify Taiwan against an expected attack by the People's Republic of China. Washington and Taipei expected that Chinese Communist forces would launch an assault on Taiwan to seek to end the Chinese Civil War on Beijing's preferred terms.

After North Korea's surprise invasion of South Korea in June, Washington immediately reversed its previous declaratory posture and moved its Seventh Fleet toward the Taiwan Strait to block any attempt by Chinese Communist forces to seize Taiwan. America's intervention effectively froze in place the status quo created by the Chinese Civil War, a stalemate that remains to this day.

To many in Washington, the Korean War linked the security of Taiwan and Korea. They both became viewed as critical battlegrounds for staunching the spread of communism in Asia. The United States fought on the Korean Peninsula to reverse North Korean gains. It simultaneously began to restore and increase military support to the ROC military on Taiwan.

In the decades that followed, the ROC and the ROK developed close relations. They exchanged regular high-level visits, deepened economic cooperation, and strengthened military coordination. "As part of their anti-Communist solidarity," Chaewon Lee and Adam P. Liff write, "neither recognized the PRC or the DPRK as a legitimate government" through the end of the Cold War.<sup>2</sup> On the economic front, they both followed similar state-backed, export-oriented growth models. Both countries' political evolutions toward democratic governance also mirrored each other.

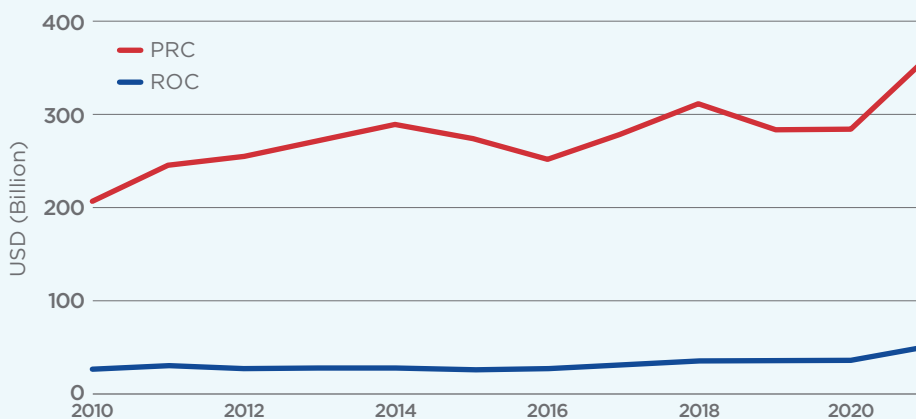
As part of their parallel economic growth trajectories, both South Korea and Taiwan each made major moves in the 1980s to establish themselves as leading producers of semiconductors. Seoul and Taipei each poured significant state backing into establishing Samsung and TSMC, respectively, as national champions in chip production. Both these companies benefitted from strong connections with the U.S. chip sector. The semiconductor ecosystems in South Korea and Taiwan that sprouted around Samsung and TSMC also benefitted from Washington's support for their growth; this development provided a cost-effective solution to Washington's strategic conundrum at that time—finding ways to dilute Japan's dominance of the technology sector.<sup>3</sup>

Relations between South Korea and Taiwan came to an abrupt halt in 1992. On August 24, Beijing and Seoul announced normalization of relations. They signed a communique that, among other things, caused Seoul to break official relations with Taipei as a condition of establishing relations with Beijing.



In the decades since, ROK leaders have exercised caution in their interactions with Taipei and in their statements on Taiwan. This caution has stood in contrast with America's and Japan's more forward-leaning approach of signaling support for Taiwan. Chris Miller writes in *Chip War*: "The net effect has been that in many fields the gap in the breadth, depth, and practical significance of exchange between Korea-China and Korea-Taiwan has expanded greatly."<sup>4</sup> South Korea now trades seven times more with China than with Taiwan.

**FIGURE 1 | South Korea total trade with China and Taiwan**



Sources: Bureau of Trade of the Republic of China, UN Comtrade

## DEEPENING SOUTH KOREA-CHINA TIES

In the years since Seoul and Beijing normalized relations, China-South Korea trade has grown almost 50-fold. China now is South Korea's top global trading partner. Nearly one-quarter of all South Korean exports are shipped to China. South Korea's semiconductor industry also is heavily reliant on sales to China; nearly 40% of South Korea's semiconductor exports go to China. To put South Korea's trade with China in perspective, Chris Miller notes that "since 2009, China's share of Korea's overall trade has exceeded the total *combined trade* with US and Japan."<sup>5</sup>

Even as China has become central to South Korea's economic growth model, the situation in the Taiwan Strait has not diminished in importance for the country's fortunes. Cross-Strait stability has been a core feature of the long peace in Asia, a period of non-war since the 1970s that has enabled rapid economic growth and upward mobility in every country in the region except North Korea.<sup>6</sup> South Korea has been one of the most notable beneficiaries of this period of strategic stability. Its share of global GDP has more than tripled since 1980.<sup>7</sup> The country's per capita GDP similarly has ballooned, from \$1,715 in 1980 to \$34,758 in 2021.<sup>8</sup>

In the event of disruption in the Taiwan Strait, South Korea would suffer significant economic damage. Around half of the world's container ships transit the Taiwan Strait on a daily basis. These container vessels carry food and energy to support the population of South Korea. Nearly 90 percent of the world's high-end semiconductor chips are sourced from Taiwan, including those that power innovative advances in South Korea.<sup>9</sup>



In the event of a cross-Strait crisis, Seoul would be cut off from many of its major trading partners, including critical suppliers of natural resources such as Saudi Arabia, Qatar, Kuwait, and Australia. South Korea also would face pressure to cut off business transactions with China. The United States likely would impose significant pressure on countries to halt dollar transactions with Beijing. China almost certainly would retaliate. This action-reaction dynamic likely would set off a devastating global economic crisis, potentially resembling the international crisis that followed the outbreak of World War I in August 1914, when asset controls and commercial closures brought the global economy grinding to a halt.<sup>10</sup>

## THE UNSPOKEN IMPORTANCE OF CROSS-STRAIT STABILITY

Yet, in spite of the direct and incontrovertible link between cross-Strait stability and South Korea's pursuit of economic, food, and energy security, Taiwan rarely appears as an issue in South Korea's foreign policy discourse. For example, during South Korea's recently concluded 2022 presidential election, Taiwan hardly received any mention, despite the fact that elevated cross-Strait tensions were receiving global attention during that period. Even in the presidential candidates' respective articles in *Foreign Affairs*, where the top two candidates laid out their foreign policy visions, neither Yoon Suk-yeol<sup>11</sup> nor Lee Jae-myung<sup>12</sup> made a single reference to Taiwan. Recent South Korean diplomatic white papers also do not substantively discuss South Korea-Taiwan relations or cross-Strait issues in any meaningful depth.<sup>13</sup>

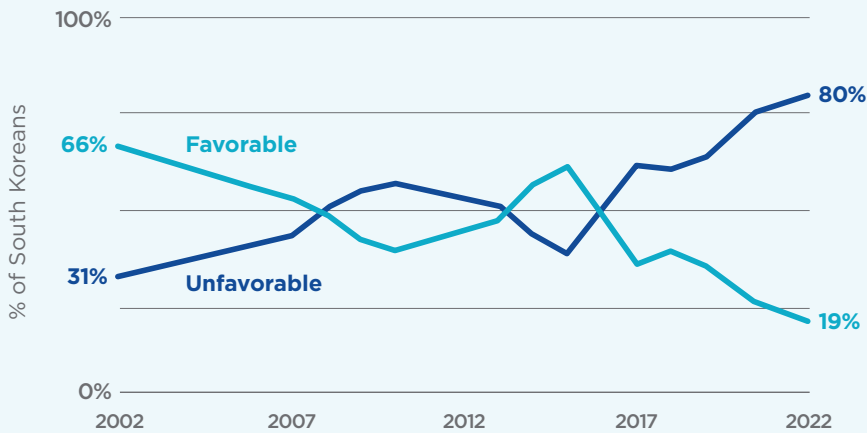
There are several likely reasons for South Korea's ostrich-like approach of seeking to avoid involvement in matters relating to Taiwan. First, South Korea-China relations already are fraught. Beijing long has chafed at Seoul's alliance relationship with the United States. After South Korea installed a U.S. Terminal High Altitude Area Defense (THAAD) missile battery on the peninsula in 2016, China imposed economic penalties on South Korean firms that totaled upward of \$6 billion in damages.<sup>14</sup> In the period since, Chinese senior officials have stressed their expectation to South Korean counterparts that Seoul refrain from joining American-led efforts against China. Chinese officials have emphasized that South Korea must not interfere in China's internal affairs, including Taiwan. And they have underscored that South Korea must not weaponize its exports to harm China's economic growth if South Korea wishes to continue benefitting from rising two-way trade.<sup>15</sup>

These and other actions have prompted a South Korean think tank, the Asan Institute, to grumble that "China's view of the Korea-China relationship is hierarchical and condescending rather than horizontal and reciprocal. Of all the countries with which we have diplomatic relations, there is no other country that treats South Korea as dismissively as China."<sup>16</sup>

Such sentiment appears to be widely shared in South Korea. According to a Pew poll from June 29, 2022, around three-quarters of Koreans think bilateral relations with China are in poor shape, and the country stands out for having the highest share of people (54%) who say China's involvement in domestic politics is a very serious problem for the country. South Korea is also the only country surveyed by Pew where young people have more unfavorable views of China than older people.<sup>17</sup>



**FIGURE 2 | South Koreans see China more unfavorably than ever**



Source: Pew Research Center, Spring 2022 Global Attitudes Survey. Q5b. "Negative Views of China Tied to Critical Views of its Policies on Human Rights"

## SOUTH KOREA'S COMPETING PRIORITIES

Even so, South Korea has a range of issues where it must deal directly with China. In spite of tense overall relations and souring South Korean public opinion toward China, both countries continue to look for ways to advance their shared economic agenda. For example, at an August 27 meeting on economic cooperation, both countries announced agreements on standing up a new bilateral body to coordinate on supply chain cooperation, coordinating on public and private sector responses to global uncertainties, and jointly advance efforts on overseas projects in energy and other fields.<sup>18</sup> It remains an open question as to whether this momentum toward greater economic coordination will continue, though. As China moves up the value chain, its companies will inevitably come into more direct competition with South Korea's leading conglomerates.

At the same time, Seoul must contend with the risk of economic punishment from Beijing if it becomes more actively involved in Taiwan affairs. Among U.S. allies in Asia, South Korea is among the most vulnerable to Chinese economic pressure. According to South Korea's Trade Association, 94.7 percent of South Korea's tungsten oxide (a key material for semiconductor manufacturing), 83.5 percent of its lithium hydroxide (important for rechargeable batteries), and 100 percent of its magnesium (for vehicle light panels) were imported from China in 2021.<sup>19</sup>

North Korea is another inescapable issue in the China-South Korea relationship. Although the Yoon administration has prioritized North Korea less in its overall foreign policy than its predecessor, Seoul nevertheless cannot afford to be seen as negligent in managing its ever-present threat from the North. Pyongyang's cycle of provocations in 2022 has kept North Korea on the list of bilateral priorities in the South Korea-China relationship.<sup>20</sup> Many in Seoul worry that a crisis in the Taiwan Strait could provide an opening for North Korea to scale up military provocations against South Korea and/or strengthen its ties with China.



There also is concern that South Korean alignment with the United States and Japan on Taiwan could compel China to form a stronger partnership with Russia. Seoul is sensitive to the fact that Beijing and Moscow conducted their first long-range joint air patrol in July 2019 in the vicinity of the Korean Peninsula. Aircraft from both countries also entered South Korea's air defense identification zone without prior notice in November 2021 and again just hours before a North Korean ICBM test on March 24, 2022.<sup>21</sup> Seoul likely does not want to offer a pretext for Beijing and Moscow to take further steps that erode South Korea's external security environment, absent circumstances demanding that it do so.

These concerns heighten a sense of vigilance in Seoul against diverting the focus of the U.S.-ROK alliance away from its central *raison d'être*: deterring and defeating North Korea. The structure of the Combined Forces Command is designed to address North Korea. The current operational plan, OPLAN 5027, has been jointly written by the United States and South Korea to defeat an invasion from North Korea.<sup>22</sup> The alliance is not presently oriented to address other contingencies, including Taiwan.

Washington ignited a furor the last time it sought to reorient the military alliance away from addressing threats posed by North Korea. In 2005, then-Secretary of Defense Donald Rumsfeld called for United States Forces Korea to adopt a policy of "strategic flexibility" to flow troops from South Korea to wherever they may be needed around the world. President Roh Moo-hyun (2003–2008) publicly opposed this unilateral shift in the alliance. The United States later stood down and redoubled its focus on strengthening capabilities to deter and defeat threats from North Korea.

Given this constellation of factors, it is understandable that Seoul would be reluctant to take major substantive steps to become more active on Taiwan. Above all, South Korea appears to not want to blunder into trouble by centering Taiwan in its foreign policy when it judges there is not (yet) an urgency for it to do so.

That said, Seoul has made important rhetorical steps toward acknowledging the strength of its interests in the Taiwan Strait. In his meeting with President Biden on May 21, 2021, President Moon Jae-in became the first South Korean leader since Seoul switched its diplomatic recognition to Beijing in 1992 to publicly commit with an American president to preserve peace and stability in the Taiwan Strait.<sup>23</sup> President Yoon Suk-yeol reiterated that commitment one year later, emphasizing that peace and stability in the Taiwan Strait is "an essential element in security and prosperity in the Indo-Pacific region."<sup>24</sup> South Korea's military and diplomatic leaders similarly have emphasized the importance of Taiwan in their respective meetings with American counterparts.<sup>25</sup> South Korea's National Security Office Director Kim Sung-han also reiterated South Korea's interest in upholding peace and stability in the Taiwan Strait in a trilateral meeting with American and Japanese representatives on September 1, 2022.<sup>26</sup>

As notable as these shifts in South Korea's public posture on Taiwan have been, they do not betray any major shift in Seoul's risk appetite for becoming more directly involved. Washington may need to accept that, absent a major crisis in the Taiwan Strait, Seoul's attention likely will remain focused on the threat it perceives from North Korea and the challenges it faces in its relationship with China and by extension Russia. Seoul is not likely to organically adjust its posture on Taiwan much beyond its current rhetorical support for preserving peace and stability in the region. Any major shift likely will be driven by events.



On the flip side, Seoul will need to find ways to quietly acknowledge to Washington that in the event of a cross-Strait crisis, Seoul recognizes it will not have an option of sitting the crisis out. South Korea's interests would be too deeply implicated by events in the Taiwan Strait to remain an impartial bystander.

## CRITICAL QUESTIONS FOR U.S.-ROK COORDINATION ON TAIWAN

In this respect, the key conversation between Washington and Seoul going forward should not be whether South Korea would become entangled in a cross-Strait crisis, but rather how South Korea could contribute to deterring a crisis, and if necessary, responding to it. Given Seoul's allergy to speculating publicly about how it would respond to future hypothetical events in the Taiwan Strait, any such discussions would be exquisitely sensitive, and thus, would need to be advanced by empowered officials capable of operating with discretion. To be maximally effective, any quiet consultations on future responses to Taiwan contingencies likely would include defense, diplomatic, economic, and intelligence representatives from both countries.

To this end, there are six central questions that could help orient efforts to quietly advance U.S.-ROK coordination on future Taiwan contingencies.

### 1 What are the shared objectives of Seoul and Washington in the Taiwan Strait?

Both the United States and South Korea benefit from the status quo in the Taiwan Strait—unimpeded commerce, open access to international waters and airspace, Taiwan's political autonomy and dynamism, and no war. This convergence of interests should compel greater coordination to preserve the equilibrium in the Taiwan Strait, including by pushing back on efforts by Beijing or Taipei that seek to unilaterally alter the status quo.

Projections of unity of purpose bolster Washington's and Seoul's capacity to protect their shared interest. Conversely, visible divisions between the United States and South Korea over Taiwan undermine such efforts. This reality should militate against public speculation about future hypothetical scenarios in the Taiwan Strait and how U.S. forces in South Korea or South Korean forces would respond. The only party that benefits from visible divisions between Washington and Seoul on this sensitive question is Beijing.



## 2 Is there more the ROK can do now to bolster Taiwan's psychological confidence in its future?

Although military conflict is a real risk, it is not the only risk to Taiwan's future. Even as Beijing builds military capacity for a potential future conflict, it also is pursuing a range of actions to wear down the confidence of Taiwan's people in their future. Beijing's strategy is predicated on efforts to convince the people of Taiwan that resistance to unification is futile, China controls Taiwan's future destiny, and the sooner the people of Taiwan embrace a union with China, the sooner they will be able to enjoy the fruits of peace and prosperity. Beijing is aggressively employing cyber, disinformation, diplomatic, economic, and military pressure against Taiwan, all with a goal of demonstrating that Taipei is alone and isolated and will not be able to withstand pressure indefinitely. While war remains a hypothetical possibility, this is already an everyday reality.

Against this backdrop, the United States has been leading efforts to reframe the Taiwan challenge as a matter of global concern, rather than as a narrow issue between China and Taiwan or an annex of U.S.-China competition. Along these lines, Washington has been building platforms for Taiwan to contribute to global challenges, including through the U.S.-Taiwan Global Cooperation and Training Framework,<sup>27</sup> and also by advocating for Taiwan's participation in international organizations that do not require statehood as a condition of membership.<sup>28</sup> Washington also has been encouraging international efforts to support Taiwan's economic diversification, including through new trade and investment opportunities to help limit the island's overreliance on China's market for its future economic growth.

Following Russia's invasion of Ukraine, the United States has been working to stimulate quiet coordination among allies and partners about how they would contribute to responding to any future Chinese assault on Taiwan. For most American allies, their responses would be weighted more toward diplomatic and economic measures than direct military involvement in a cross-Strait conflict.<sup>29</sup>

American and South Korean officials could coordinate on how Seoul's posture toward Taiwan could evolve if China ratchets up its pressure on Taiwan further. Even a slight evolution of South Korean leaders' statements to underscore that Taiwan's security is a matter of regional and global concern that directly implicates South Korean interests would represent a meaningful signal to Beijing.

## 3 Under what circumstances could South Korea declare support for USFK exercising "strategic flexibility" to respond to a cross-Strait contingency?

There may be value in coordinating ahead of a crisis in the Taiwan Strait on tripwires that could trigger Seoul to declare support for the United States Forces Korea exercising "strategic flexibility" to operate outside of the Korean Peninsula. Such an announcement would remove an impediment to U.S. forces on the Korean Peninsula being activated in a Taiwan contingency and would send a signal to Beijing that Chinese forces would not have a free hand in the region to use force against Taiwan.

The United States has significant military infrastructure in South Korea. This includes two air bases, one naval base, and twelve ground bases that house a total of roughly 28,500 American personnel. American military planners likely would seek use of facilities in South Korea to develop regional redundancy in the event of a cross-Strait conflict.







Seoul likely would seek assurances that, in the event of declaring support for “strategic flexibility,” United States Forces Korea would retain credible combat capability to fulfill their primary mission of deterring North Korean provocation or attack. Washington would need to be prepared to articulate how it would handle this simultaneity of challenges as part of any such consultation.

#### **4 What practical military contributions could South Korea provide in any Taiwan military contingency?**

South Korea’s military contributions to any contingency in the Taiwan Strait should be viewed along a continuum. At one end of the continuum, Seoul could provide rear-area support, including support for non-combat evacuations from Taiwan and intelligence-sharing on operational issues. South Korea has significant unmanned aerial and surface vessel capabilities that it could employ to augment situational awareness around Taiwan. A more significant South Korean contribution could include provision of munitions—particularly precision-guided munitions like Stingers, Javelins, and cruise missiles—which presently are in short supply as Ukraine draws down America’s stockpiles in its defense against Russia’s invasion. South Korea also could use some of its defensive assets, such as the AEGIS Weapon System, to support America’s combat operations. And at a high end of the continuum, South Korea could assume responsibilities for maritime defense of the Korean Peninsula or potentially even deploy its own forces in defense of Taiwan. While this high-end scenario is unlikely absent a direct threat by China against South Korea, it is worth noting that Seoul maintains the world’s eighth largest active-duty force and is tenth in the world in military spending. It is a formidable force.<sup>30</sup>

#### **5 How will US doctrine for cross-Strait contingencies evolve, and are there opportunities for collaboration on capability-building?**

The United States is in the process of adapting its capabilities and doctrine to respond to China’s growing capacity to hold big, easily targeted platforms and bases in the western Pacific at risk. This shift could lead Washington to place greater emphasis on the role of sensors, unmanned reconnaissance platforms, long-range missiles, and greater redundancy in space and cyber assets. The goal of such a shift would be to deny China the ability to seize Taiwan by force.<sup>31</sup> Joint U.S.-ROK production of these or other similar capabilities would bolster redundancy and provide an additional equipment node in any Taiwan contingency.<sup>32</sup>



## 6 What more could be done now to make ROK less vulnerable to PRC economic coercion?

China believes it maintains economic leverage over South Korea that it can employ when needed to prevent Seoul from getting involved in cross-Strait issues.<sup>33</sup> In reality, China-South Korea economic interdependence cuts in both directions. China sources 46.9% of imports of semiconductors from South Korea.<sup>34</sup> Nevertheless, it might be prudent for Seoul to use this current period to map where it has vulnerabilities in its supply chains that Beijing could weaponize in event of conflict. The more that South Korea can reduce overreliance on China's market for key components of its supply chains, the more freedom of action it will have to act according to its interests and objectives in the future.

Ultimately, quiet, purposeful consultations that are organized around these six questions would put the United States and South Korea in a stronger position to respond to cross-Strait contingencies, should it ever become necessary to do so. These consultations, or others like them, will be difficult. The goal of such efforts would be to make steady, incremental gains toward putting the United States and South Korea in a stronger position to respond cohesively to any effort by Beijing to assert its will on Taiwan.

## CONCLUSION

Progress toward building U.S.-ROK cohesion for responding to cross-Strait contingencies likely would be more achievable if American officials build their outreach around a few organizing precepts. First, they need to remain steadfast in conveying that war is not the plan and that success means the avoidance of conflict. Preparation for contingencies does not mean enthusiasm for confrontation or conflict with China. Second, American officials need the humility to acknowledge that they are not viewed as blameless in much of the region for the escalation of tensions in the Taiwan Strait in recent years. Third, American officials would be wise to approach any such consultations with confidence in South Korea's national spirit. Throughout its history, the people of South Korea have stood their ground repeatedly against China, even when the odds have been stacked against them.<sup>35</sup> To be sure, there is no constituency in South Korea clamoring for a conflict with China. By the same token, there is not public enthusiasm for submitting to Chinese bullying either.

Tensions in the Taiwan Strait have reached a point where they cannot be wished away or ignored. Prudence demands preparations for how best to defend American and South Korean interests if China initiates conflict in the Taiwan Strait. Any such conflict would be devastating for all involved. South Korea's interests would not be spared, even if it avoids direct involvement in combat. The central question facing leaders in Washington and Seoul is how to use the time they have now to maximize their ability to protect their interests. Such efforts will require close and quiet coordination. Given the scale of the risk and potential impacts on American and South Korean interests, there is no time to waste.

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# SOUTH KOREA AND THE U.S.-CHINA COMPETITION OVER CYBERSPACE

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## INTRODUCTION

The United States and China are engaged in an intense and broad competition in cyberspace. Policy makers in both countries see cyberspace as central to national and economic security and view the other as posing a significant, if not the primary, threat to their respective interests. In response, Beijing and Washington have promoted new domestic cyber regulations and institutions. They have developed offensive capabilities and conduct cyber operations against each other (as well as other nations). They also use diplomatic and other tools to define legitimate state behavior in cyberspace and to consolidate international support for their competing visions.

In addition, while tightly interconnected hardware and software supply chains brought Chinese and American technology companies lower costs, increased efficiency, and greater innovation throughout the 1990s and 2000s, policy makers in both countries now view the risks and vulnerabilities of interdependence as significantly outweighing the benefits. As a result, the United States and China are decoupling from each other in select supply chains in search of greater domestic cybersecurity.

This competition creates challenges and opportunities for South Korea. Seoul has been the target of Chinese cyber operations but has so far been reluctant to call out Chinese hacking. South Korea has developed strong bilateral cooperation with Washington on cybersecurity at the operational and diplomatic level yet also has its own vision of cyber governance. In addition, Seoul needs to manage selective decoupling so that emerging supply chains improve domestic security and resilience while maintaining the competitiveness of the South Korean technology sector. Critical for South Korea is to manage this process, hoping that the United States will eventually develop a strategic framework for decoupling, identifying which technologies are truly strategic but also preparing for an approach that is more ad hoc, lurching from one technology to another.

## U.S. CYBERSPACE POLICY

Washington and Beijing describe each other as the primary competitor in cyberspace. The 2022 Annual Threat Assessment of the U.S. Intelligence Community, for example, states: “We assess that China presents the broadest, most active, and persistent cyber espionage threat to U.S. Government and private sector networks.”<sup>1</sup> Comparing the threat of Russian and Chinese cyber operations, Rob Joyce, the National Security Agency’s director of cybersecurity, argued that “Russia is like a hurricane. If you look at the activities in Ukraine, [they’re] loud and aggressive and



it is the near-term threat right now. But China is climate change. They are the long-term pacing threat for us. And if you look at the challenge we have ahead of us, we have to be ready to deal with China.”<sup>2</sup>

Chinese officials have often countered that it is, in fact, the United States that is the most active operator in cyberspace. In the wake of the reports from the China National Computer Emergency Response Center that the NSA had breached networks at Northwestern Polytechnical University, Ministry of Foreign Affairs spokesperson Wang Wenbin said, “The U.S. has long been known as the empire of hacking and champion of secret theft.... There is ample evidence that the U.S. is no doubt the greatest threat to global cyber security.”<sup>3</sup>

The threat from China, as well as high-profile breaches attributed to Russian-state backed hackers and the growing risk to critical infrastructure from ransomware gangs, has catalyzed domestic, military, and foreign policy action.<sup>4</sup> Biden administration officials moved quickly to fill the position of Deputy National Security Advisor for Cybersecurity and Emerging Technology, which had been eliminated under the Trump administration, and the 2021 National Defense Authorization Act created the new Office of the National Cyber Director within the Executive Office of the President. In May 2021, the president issued an Executive Order on Improving the Nation’s Cybersecurity (EO 14028), which removed barriers to intelligence sharing between the public and private sectors, ordered government agencies to adopt security best practices, and enhanced software supply chain security.<sup>5</sup>

Although offensive cyber operations are cloaked in secrecy, the Biden administration appears to have continued the more offensive-oriented cyber strategy begun under its predecessor. In 2018, U.S. Cyber Command (CYBERCOM) released a strategic vision announcing that it would maintain “the initiative in cyberspace by continuously engaging and contesting adversaries and causing them uncertainty wherever they maneuver.”<sup>6</sup> In August 2018, President Trump issued new classified guidelines giving the Defense Department greater authority to launch offensive cyber operations without first having to vet through an elaborate interagency process.<sup>7</sup> Provisions in the 2019 John McCain Act (as the defense authorization was dubbed) preauthorized CYBERCOM to take “appropriate and proportional” action in foreign cyberspace to “disrupt, defeat, and deter” an “active, systematic, and ongoing” campaign of attacks on government or private networks by China, Iran, North Korea, or Russia.<sup>8</sup>



Most of the public information on how persistent engagement has been implemented has concerned disrupting Russian influence operations, but former National Security Advisor John Bolton suggested that Cyber Command was “opening the aperture, broadening the areas we’re prepared to act in,” possibly launching operations against Chinese hackers.<sup>9</sup> In addition, senior officials have said that Cyber Command has deployed personnel to launch “hunt forward” missions in fourteen countries in Asia, Eastern Europe, and the Middle East to monitor adversary activities as well as identify malware and share it with U.S. partners.

Washington has pursued norms—expectations about behavior that make it possible to hold other states accountable—to define the rules for responsible state behavior in cyberspace. During the Obama administration, the United States attempted to establish a normative difference between espionage conducted for competitive commercial advantage and espionage for national security purposes. As Washington framed it, cyber espionage for national security purposes is to be expected by all states and is fair game. Hacking private companies for commercial gain, on the other hand, is illegitimate.

In response to a massive, multi-year cyber campaign conducted to steal U.S. intellectual property and business secrets, the United States began to publicly call out and confront China. In May 2014, in a significant escalation of public pressure, the Department of Justice indicted five People’s Liberation Army officers for stealing trade secrets from Westinghouse, U.S. Steel, and other companies.<sup>10</sup> In the summer of 2015, news reports suggested that the administration was ready to use Executive Order 13694, which authorizes sanctions against companies or individuals that profit from cyber theft, to punish state-owned enterprises and senior Chinese officials associated with cyber theft.<sup>11</sup> These actions would have overshadowed General Secretary Xi Jinping’s first summit in Washington, and, in response, Beijing dispatched a high-ranking official to negotiate an agreement. In September 2015, China and the United States announced that neither would “conduct or knowingly support cyber-enabled theft of intellectual property, including trade secrets or other confidential business information, with the intent of providing competitive advantages to companies or commercial sectors.”<sup>12</sup> In the months after the summit, China reached similar agreements with Australia, Canada, and the United Kingdom. Beijing also signed off on Group of Seven and Group of Twenty statements that proscribed cyber industrial espionage.<sup>13</sup>

At the United Nation, the United States has shaped the discussions of the Governmental Experts on Advancing Responsible State Behavior in Cyberspace in the Context of International Security (GGE).<sup>14</sup> In 2015, the GGE issued a consensus report on a set of norms that largely reflected the U.S. delegation’s position on the application of international law in cyberspace.<sup>15</sup> Eleven norms were eventually formally adopted by the United Nations General Assembly, including the norms of state responsibility and the duty to assist, as well as prohibiting states from intentionally damaging or impairing others’ critical infrastructure or targeting another state’s computer emergency response teams during peacetime.<sup>16</sup>

Progress on norms, however, has been slow and uneven. The 2017 meeting of the GGE failed to issue a consensus report because the group was divided over how to apply international law in cyberspace. China agrees that international law is applicable in cyberspace but has resisted concrete descriptions of states’ rights and



responsibilities. In fact, Beijing has characterized the call for greater explication of rights and responsibilities, especially *jus ad bellum* (the body of law that addresses uses of force triggering the use of force in self-defense) and *jus in bello* (the body of law governing the conduct of hostilities), as leading to the “militarization of cyberspace.” China, along with Russia, prefers a new treaty covering cyberspace. The joint statement issued by China and Russia during President Vladimir Putin’s February 2022 visit, for example, called for the consolidation of norms into a binding treaty: the two sides “consider it necessary to consolidate the efforts of the international community to develop new norms of responsible behavior of States, including legal ones, as well as a universal international legal instrument regulating the activities of States in the field of ICT [information and communication technologies].”<sup>17</sup>

Moreover, Chinese officials never seem to have truly embraced the distinction between economic and political cyber espionage, often calling the United States’ denunciations of Chinese cyber operations hypocritical, especially in the wake of the revelations of widespread U.S. espionage activities by Edward Snowden. By 2017, it was clear that Chinese cyber industrial espionage had returned, with Chinese groups targeting companies operating in sectors that Beijing believes are important for future economic competitiveness, such as aerospace, semiconductors, and information technology.

Parallel to these efforts, Washington has deployed public attribution, indictments, and sanctions to reinforce norms and to try to deter and impose costs on Chinese hackers.<sup>18</sup> These include indictments in November 2017 of three Chinese hackers who worked at the cybersecurity firm Boyusec for the theft of confidential business information; in December 2018 of two Chinese individuals for theft of intellectual property; in May 2019 for the hack on Anthem; in February 2020 of four military hackers for targeting Equifax; in July 2020 of two Ministry of State Security (MSS) hackers for targeting intellectual property, including COVID-19 research; in September 2020 of members of a Chinese hacking group known as APT 41; and in July 2021 of hackers associated with the Hainan MSS.

The United States has called on friends and allies to join in the public attribution of cyber-espionage operations. The December 2018 indictment, for a campaign known as Cloud Hopper, identified a hacking group operating in China known as Advanced Persistent Threat 10 (APT10) with connections to the Tianjin State Security Bureau.<sup>19</sup> Thirteen countries either joined the attribution or expressed concern about malicious cyber behavior. The “Five Eyes” intelligence-sharing alliance (the United States, United Kingdom, Canada, Australia, and New Zealand) joined in the attribution; Berlin and Tokyo issued statements approving of, and supporting, the attribution.

In July 2021, the United States attributed “with a high degree of confidence” the Microsoft Exchange Server attack to the MSS. The attack exploited a “zero day” vulnerability and appears initially to have targeted think tanks and other espionage targets. Moreover, knowing that Microsoft was pushing out a patch for the vulnerability, the Chinese scanned almost the entire internet to find exposed servers to be compromised. The White House called out China’s “irresponsible behavior in cyber space” as being “inconsistent with its stated objective of being seen as a responsible leader in the world.” The Biden administration also trumpeted that an “unprecedented” group of allies and partners joined the attribution of the Microsoft Exchange





Server attack.<sup>20</sup> The group included Canada, the United Kingdom, the EU, and NATO. While NATO did not directly attribute to China, it acknowledged national statements by allies “attributing responsibility for the Microsoft Exchange Server compromise to the People’s Republic of China.”<sup>21</sup> The EU assessed that the activity had been “conducted from the territory of China for the purpose of intellectual property theft and espionage,” rather than directly calling out the Ministry of State Security.<sup>22</sup>

## CHINA’S SEARCH FOR CYBER POWER

Under General Secretary Xi Jinping, China has become more active in its efforts to shape the global norms of cybersecurity. In February 2014, Xi declared that there was “no national security without cybersecurity” and announced that he would chair a central leading group on internet security and informatization, now known as the Central Commission for Cybersecurity and Informatization.<sup>23</sup> A new agency, the Cyberspace Administration of China (CAC), was established with a mandate that includes controlling online content, bolstering cybersecurity, and developing the digital economy. China has also developed overlapping and interlinked strategies, laws, measures, regulations, and standards focused on critical infrastructure, data storage, security reviews, and the protection of personal data, including the Cybersecurity Law, (2017), the Data Security Law (2021), and the Personal Information Protection Law (2021).<sup>24</sup>

Beijing long denied it had any cyber forces, but the 2015 Defense White Paper acknowledged cyberspace’s role in military planning. The White Paper announced the country would “expedite the development of a cyber force, and enhance its capabilities of cyberspace situation awareness, cyber defense, support for the country’s endeavors in cyberspace and participation in international cyber cooperation, so as to stem major cyber crises, ensure national network and information security, and maintain national security and social stability.”<sup>25</sup>

The same year, the People’s Liberation Army created the Strategic Support Force (SSF), integrating space, cyber, electronic, and psychological warfare capabilities into a single organization. The SSF’s Network Systems Department is expected to conduct strategic, operational, and tactical cyber operations in order to establish information dominance and defend national network security.<sup>26</sup>



China has participated in the Group of Government Experts since the first meeting in 2004. While U.S. officials have stressed the group's acceptance of international law, Chinese officials have highlighted the GGE's embrace of state authority, non-interference, and equality. Beijing has also used the reports to push back against attribution by the United States and its allies. When Chinese hackers have been publicly named, Chinese officials have often responded that such efforts are "unprofessional" and "unscientific." The 2015 report notes that, while states must meet their obligations for internationally wrongful acts attributable to them, "indication that an ICT activity was launched or otherwise originates from the territory or the ICT infrastructure of a State may be insufficient in itself to attribute the activity to that State." Given this challenge, the report concludes that "accusations of organizing and implementing wrongful acts brought against States should be substantiated."<sup>27</sup>

Beijing recently appears to have found a two-step solution to wanting to call out U.S. operations without abandoning its position on the difficulty of state attribution. Qihoo 360, a private cybersecurity firm, has released several reports on NSA and CIA hacks of Chinese targets. These reports are then brought up by reporters during the official Ministry of Foreign Affairs press conference, allowing Chinese officials to criticize U.S. operations. In March 2022, for example, 360 released a report on an NSA tool they called "Quantum." Asked about the U.S. operation, the Foreign Ministry spokesperson responded, "We once again urge the U.S. to act responsibly in cyberspace and stop cyber theft and attacks on China and the rest of the world. The United States should implement the framework that it insists all other states abide by."<sup>28</sup>

Beijing is also trying to promote its own norms of cyber governance. In a September 2020 speech, Chinese Foreign Minister Wang Yi unveiled the "Global Initiative on Data Security" (GIDS). The proposal highlighted eight principles, including "opposition to the use of information and communications technology for theft or modification of states' 'critical infrastructure'," and "swift action for the offenders of abuse] of ICT to conduct mass surveillance against other states or... unauthorized collection of personal information of other states."<sup>29</sup> The GIDS has, so far, had limited uptake. The Arab League and the Shanghai Cooperation Organization issued statements in support of the Initiative; ASEAN was more noncommittal, expressing a willingness "to strengthen cooperation with China in global digital governance and cybersecurity."

## SELECTIVE DECOUPLING

U.S. and Chinese actions at the domestic, operational, and diplomatic level have been accompanied by selective decoupling, the partial dismantling of supply chains, collaborations, and partnerships that facilitated the cross-border movement of money, products, data, and people. From a cybersecurity perspective, decoupling is expected to reduce or mitigate vulnerabilities from at least two types of digital threats. First, software and hardware could have "back doors"—vulnerabilities that allow attackers to avoid detection by normal security measures. Intelligence services could insert and exploit back doors for data collection and espionage or for more disruptive and destructive attacks. Chinese authorities, for example, could rely on China's 2017 National Intelligence Law, which declares that



“all organizations and citizens shall support, assist, and cooperate with national intelligence efforts in accordance with law,” to introduce these vulnerabilities, or they could place back doors without the knowledge and cooperation of Chinese firms by interdicting products along the supply chain or placing intelligence operatives in facilities. Even before the revelations of NSA contractor Edward Snowden, Chinese analysts warned that U.S. intelligence agencies exploited their relationship with U.S. firms to access data through back doors, “corporate partnerships,” and legal measures.

Second, access to large data sets could aid intelligence and counterintelligence operations. This data can be gathered legally, by apps collecting data on mobile phones or through third-party sellers on commercial markets, or more malevolently through cyber espionage. Using personal data, for example, from the Office of Personnel Management, Equifax, and Anthem hacks, Chinese intelligence officers could more effectively approach, recruit, or blackmail individuals to spy for Beijing.

In response to these perceived threats, the Trump White House blocked Huawei, the Chinese telecom giant, from doing business in the United States and lobbied friends and allies in Asia, Europe, and Latin America to exclude the company from the rollout of 5G networks. In May 2019, President Trump signed an executive order on Securing the Information and Communications Technology and Services Supply Chain, which gave the Commerce Department broad authority to block the inclusion of any component, equipment, or service from companies controlled by “adversary governments.”

Beijing has pushed to make technologies “secure and controllable” and reduce dependence on foreign suppliers. In 2019, the Chinese Communist Party’s central office ordered every government office and public institution to remove all foreign software and hardware within three years. In the last three years, China has issued more than three hundred national standards related to cybersecurity and requirements relating to the secure and controllable use of information and communication technology.

In an effort to keep the data of U.S. citizens out of China’s hands, President Trump banned the mobile apps WeChat and TikTok in August 2020 and tried to force a sale of the latter to Oracle. Those decisions were eventually blocked by the courts, but the Biden administration signaled that, while it would take a different approach on Chinese apps, it had similar security concerns. In June 2021, the White House issued an executive order calling for “rigorous, evidence-based analysis” of potential risks posed by apps designed, developed, manufactured or supplied by China and other foreign adversaries.<sup>30</sup> In addition, an executive order in September 2022 provided direction to the Committee on Foreign Investment in the United States on the types of risk it should consider, including investments that could create cybersecurity risks that threaten to impair national security or that could allow a foreign investor the ability to exploit U.S. persons’ sensitive data.<sup>31</sup>

Beijing has likewise moved to protect Chinese citizens’ data. The Cybersecurity Law, Data Security Law, and Personal Information Protection Law require certain categories of data handlers to store data within the country due to their importance to China’s national security and economy. Companies may only transfer such data outside of the country with permission from regulatory authorities. The law also defines “important data” that all operators must store inside China.



## SOUTH KOREA AND CYBERSPACE

Chinese cyber espionage threatens South Korean technological competitiveness. Korean agencies have not publicly attributed Chinese operations, but in 2020 Mitsubishi Electric announced that it had been the victim of a group it called Tick that had also targeted tech companies in South Korea. In addition, China retaliated against South Korea's decision to deploy the U.S. THAAD missile defense system with diplomatic pressure, economic coercion, and cyber attacks. According to FireEye, hackers affiliated with the PLA and MSS launched a variety of attacks against government, military, and defense industry networks.<sup>32</sup> Lotte Group, which sold land to enable the deployment of the THAAD battery, as well as ROK embassies and other businesses, had their websites knocked offline by distributed denial of service attacks.

In 2019, the Moon administration introduced the National Cybersecurity Strategy, which identified securing critical infrastructure, enhancing cyber defense capabilities, promoting the growth of a domestic cybersecurity industry, and strengthening international cooperation as priorities. While the strategy states that South Korea will "ensure a proactive deterrent against cyberattacks," Seoul has not acknowledged the use of its own cyber capacities to disrupt attackers' operations.<sup>33</sup> In an August 2022 speech, President Yoon stressed the need to advance cyberwarfare capabilities and technologies to better respond to evolving cyber threats. He also announced that South Korea would produce over 100,000 new cybersecurity specialists, create a cyberwarfare reserve force, and expand information security education in colleges and universities.<sup>34</sup>

The United States and ROK have developed close cybersecurity cooperation and coordination, driven in large part by the threat from North Korea.<sup>35</sup> In 2013, the Pentagon and the Ministry of National Defense announced the formation of a Cyber Cooperation Working Group "to strengthen cooperation in information sharing, cyber policy, strategy, doctrine, personnel, and exercise to improve our collective readiness against cyber threats." The State Department and the Ministry of Foreign Affairs hold the Bilateral Cyber Consultations, reinforcing cooperation between the two countries on "detering cyber adversaries, cybersecurity of critical infrastructure, capacity building, information sharing, and international security issues in cyberspace."



In May 2022, Presidents Biden and Yoon issued a joint statement vowing to “significantly expand cooperation to confront a range of cyber threats from the DPRK, including but not limited to, state-sponsored cyber-attacks.” The two also pledged that they would “continue to deepen ROK-U.S. cooperation on regional and international cyber policy, including cooperation on deterring cyber adversaries, cybersecurity of critical infrastructure, combatting cybercrime and associated money laundering, securing cryptocurrency and blockchain applications, capacity building, cyber exercises, information sharing, military-to-military cyber cooperation, and other international security issues in cyberspace.”<sup>36</sup>

In May 2022, the National Intelligence Service joined NATO’s Cooperative Cyber Defense Center of Excellence (CCDCOE). CCDCOE, which focuses on research and training, holds Locked Shields, the world’s largest international live-fire cyber exercise, which South Korea has participated in twice.

The ROK has also been an active participant in the norm development process. South Korea has participated in four of the six GGEs. South Korea has endorsed the view that international law applies in cyberspace, and like the United States, called for further discussions on how accepted norms can be implemented as well as how the right of self-defense and international humanitarian law can be applied in cyberspace. Heavily focused on the threat from North Korea, ROK officials have highlighted the need to address the problem of cyber proxies at the GGE.

At the UN, and in other multilateral fora, Seoul has been a leader on the need to develop and implement bilateral and regional confidence building measures, such as publishing white papers on national cyber strategies, strengthening cooperative agreements among computer emergency response teams, and exchanging information on points of contact for responses to incidents. In addition, South Korean officials have frequently stressed the need for cyber capacity building, since many attacks are routed through developing countries with weak legal frameworks and limited technical capabilities.

## CONCLUSION

Deepening cyber cooperation is a high priority for the Biden and Yoon administrations. Much of the focus of the bilateral relationship will be on the threat from the DPRK. The two sides, for example, will look to quickly operationalize the ransomware working group, exploring ways to jointly disrupt criminal infrastructure, and trace, freeze, and seize crypto currency payments made to ransomware groups. The two sides are also likely to try to deepen public and private sector cooperation on developing cyber technologies, as well as artificial intelligence and quantum information sciences. Seoul will look to strengthen similar agreements with other regional cyber powers including Australia and Singapore.

With the Yoon administration talking about creating a “deeper alliance” with the United States, it may eventually choose to publicly attribute cyber attacks to China or, at the least, join in a joint attribution effort.<sup>37</sup> The joint attribution might be indirect, with Seoul choosing to acknowledge others’ attribution or calling out actors conducting operations from Chinese territory. Such a move will certainly provoke a rebuke from the Chinese Foreign Ministry, but is unlikely to result in any other significant retaliatory measures.



Given South Korea's dependence on exports to China, there are, however, limits to how far South Korea will go to supporting Washington's efforts to reduce technological interdependence with Beijing. Still, there are some easier areas of cooperation such as coordination on cybersecurity standards and investment screenings for supply chain security and resilience. The United States and ROK should also work together in global standard-setting bodies around cyber technologies.

Cybersecurity and cyberspace are obvious domains for the Yoon administration to pursue its goal of making South Korea a "global pivotal state," with a focus on the rule-based order and cooperation. Seoul can be an effective proponent of the norms developed by the UN process, engaging with developing economies on why a rules-based cyber order serves their interests and is not simply a competitive terrain among cyber powers Russia, China, and the United States. This engagement should also include continued capacity building efforts, with South Korea bridging the divide in cybersecurity expertise and talent between developed countries and developing ones.

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# PROSPECTS FOR SOUTH KOREA-CHINA RELATIONS IN XI JINPING'S 3RD TERM

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## RETROSPECT OF SOUTH KOREA-CHINA RELATIONS

In 2022, South Korea and China celebrated the 30th anniversary of diplomatic ties in a relatively downbeat mood. South Korea and China face a turning point in their bilateral relations. The prospects of bilateral relations for the next 30 years are gloomy, mainly due to two recent structural changes. The first change is that the U.S.-China strategic competition is in full swing. The second change is that bilateral economic relations are gradually shifting from a mutually dependent and cooperative relationship to a more competitive one in which China dominates. Furthermore, the Yoon Suk-yeol government, the most pro-US government in South Korean history, came into power. Under the given conditions, the possible scope for future relations between South Korea and China would be somewhere between status quo minus and hostile relations/military clashes.

The 30 years of South Korea-China relations before establishing diplomatic ties in 1992 were hostile in the Cold War period. The bilateral diplomatic relations gradually developed from "Friendly and Cooperative relations" to the "Strategic Cooperation Partnership" in 2008, as seen in table 1. Before COVID-19, people-to-people exchanges between Korea and China exceeded 10 million visitors in 2019. Trade between the two countries set a target by President Park and Xi in 2015 of USD \$300 billion by 2020 and eventually met that goal in 2021. China has been South Korea's most important trading partner since 2014, and South Korea has become China's third-largest trading partner. According to an analysis by the Chinese Academy of Social Sciences in 2022, South Korea is the second most attractive investment destination among 56 countries participating in the China-led Belt and Road Initiative.<sup>1</sup>

**TABLE 1** Evolution of South Korea-China Formal Relations<sup>2</sup>

Period (Government)	Status	Statistics	
		Trade (Bil./Year)	Personal Exchanges (Mil./Year)
Kim, YS (1993-1997)	Friendship & Cooperation	6.37 / 1992	0.13 / 1992
Kim, DJ (1998-2002)	Cooperative Partnership	41.15 / 2002	2.26 / 2002
Roh, MH (2003-2007)	Comprehensive Cooperative Partnership	145.0 / 2007	5.85 / 2007
Lee, MB (2008-2012)	Strategic Cooperative Partnership	240.0 / 2012	6.91 / 2012
Park, GH (2013-2017)	Execution of Strategic Cooperative Partnership	211.4 / 2016	12.83 / 2016
Moon, JI (2017-2022)	Realization of Strategic Cooperative Partnership	243.4 / 2019 Realizing 300.0 in 2021	10.37 / 2019



**TABLE 2 Changes to South Korea-China Relations<sup>3</sup>**

<b>CRITERIA</b>	<b>Sino-ROK Relations 1.0 (1992-2002)</b>	<b>Sino-ROK Relations 2.0 (2003-2012)</b>	<b>Sino-ROK Relations 3.0 (2013-2021)</b>	<b>Sino-ROK Relations 4.0 (After the 2022 Elections)</b>
<b>Leadership</b>	Jiang Zemin	Hu Jintao	Xi Jinping	Extended rule of Xi Jinping
<b>China's State Identity</b>	Large developing country/third world country	Developing great power	Emerging Great Power	Socialist Great Power
<b>Key Policy Principle</b>	"Hide Your Strength and Bide Your Time (韬光養晦)"	"Make a Difference when Necessary (有所作為)" and "Peaceful Rise"	"Striving for Achievements (奮發有為)"	Maintain Alertness and Caution (清醒和謹慎)
<b>Internal/ External Changes</b>	Rapid economic growth of China	China joins the WTO Global Financial Crisis China's emergence as a G2 state	RCEP vs. TPP China's launch Belt and Road Initiative (BRI)	Core strategic industries Adjustment of the GVC U.S. pursues IPEF
<b>US-China Relations</b>	Sino-U.S. Economic Cooperation	Sino-U.S. Strategic cooperation	Start of Sino-U.S. strategic competition	Intensified Sino-U.S. strategic competition
<b>ROK-China Formal Diplomatic Relations</b>	Normalization of Relationship (1992) Cooperative Partnership (1998)	Comprehensive Cooperative Partnership (2003)	Strategic Cooperative Partnership (2008)	?
<b>Assessment of ROK-China Relations</b>	Increasing Cooperation and Interdependence in Economy	Mutually Complementary Relations and Seeds of Frictions growing	The initial Honeymoon period, later adversity, cautious 'Wait-and-See'	Unstable and Uncertain
<b>ROK-China Economic Relations</b>	Specialization across Industries	Specialization within Industries	Competition and Specialization within Products	Competitive & Limited Cooperation in Advanced Industries, Period of Ultra-Minimal Advantages pursued
<b>GVC in Korean Perspective</b>	South Korea → China → Global Market	South Korea → China → Global Market China's domestic market	Diversification of the GVC China + Southeast Asia + ROK → Global market	Divided blocs of Technology led by the U.S. and China



South Korea-China relations after the establishment of diplomatic relations can be divided into four periods as illustrated in table 2. The first phase of Korea-China relations refers to the 1990s. South Korea and China recognized each other from a pragmatic point of view, moved away from the mutual Cold War perception, and strengthened the basis of cooperation and interdependence in the economy. China was getting more detached from its alliance with North Korea.

The second phase of South Korea-China relations is about 10 years from when China joined the World Trade Organization (WTO) in 2001 to the financial crisis that started in the United States in 2008-09. China conformed to the US-centered international order and pursued a strategic cooperative relationship with the US. South Korea and China enjoyed a honeymoon and increased mutual strategic understanding developed on the North Korean nuclear issue. The two countries eventually established a strategic cooperative partnership even under the conservative Lee Myung-bak government. The active promotion of engagement policies to North Korea by the progressive Kim Dae-jung and Roh Moo-hyun governments coincided with the national interests of China. China gradually recognized South Korea as a strategic partner with whom it could engage in a strategic dialogue about North Korea.

The third period of South Korea-China relations was when the strategic cooperative relationship between the US and China gradually weakened, and friction and conflict increased as China emerged as a global power after the US financial crisis. Korea-China economic relations gradually deteriorated. Their economic relationship went from complementary to competitive, and the THAAD issue arose due to the increasing rivalry between the US and China. Before January 2016, when North Korea conducted its fourth nuclear test, the Park Geun-hye government pursued a harmonizing relationship with China while strengthening the ROK-US alliance. However, after the THAAD deployment, China imposed economic sanctions on Korea, and the bilateral relationship was strained.



The Moon Jae-in government focused on policies to improve inter-Korean relations to draw cooperation from China. However, the successful tests of missiles and nuclear weapons by North Korea meant the failure of Moon's China policies. South Korea was forced to recognize China's limited influence on North Korea's military provocations and China's changing strategic calculation, which prioritized Beijing's geopolitical interests over North Korea's denuclearization during the era of the US-China strategic competition. Most of the governmental dialogues between South Korea and China stopped.

As of 2022, South Korea-China relations are entering a new era, the fourth phase. In recent years, the US and China have entered an era of strategic competition. Complementary economic relations between South Korea and China, which have been the foundation of non-adversarial relations between the two countries, were greatly weakened. In the last two decades, South Korea enjoyed a trade surplus. The period of surplus over China ended in 2022.<sup>4</sup> However, South Korea's import dependence on China has not been reduced despite South Korea's efforts. As a trading country whose trade dependence is tantamount to roughly 60%-70% of its GDP, South Korea became extremely vulnerable to China's economic pressure, the US-China strategic competition, and disruption of the global value chains.

The possibility of clashes between South Korea and China has greatly increased. China's economic competitiveness has already surpassed Korea's except for a few areas like semiconductors. South Korea depends on China for more than 80% of its imports of 1,800 items. As a result, South Korea is under tremendous pressure in the strategic competition between the US and China. There is growing concern that if the conservative Yoon Suk-yeol government pursues a values-oriented foreign policy, it could lead to a rapid deterioration of bilateral relations between South Korea and China and lead to clashes and crisis for the Yoon government itself and the ROK-US alliance in the future.

## STRUCTURAL CHANGES OF BILATERAL RELATIONS

The following three factors have largely contributed to the positive bilateral relationship of Korea and China over the past 30 years. First, the US-China strategic cooperation provided a favorable international environment. From the perspective of South Korea, living under the military threat of North Korea, the ROK-US alliance is at the heart of foreign and security policy, and an environment in which the US and China cooperate has greatly contributed to the development of ROK-China relations. Second, the Korean and Chinese economies were complementary. Third, the historical and cultural familiarity between the two countries served as a lubricant in developing mutual relations.

However, this friendly environment has recently changed for the worse. The most important exogenous variable in Korea-China relations is the US-China relationship. South Korea-China relations are closely interrelated with changing US-China relations.

The US's hope is to transform the existing ROK-US alliance from a military alliance with North Korea to a comprehensive global alliance targeting China. The Yoon Suk-yeol government's diplomatic and security policymakers are willing to accept this. According to the US plan, the US Indo-Pacific missile defense system and



South Korea's THAAD missile defense system would be linked by 2023. This means that, regardless of the will of the Yoon Suk-yeol government, it will be difficult to protect the THAAD-related 3 No's (no additional deployment, no US missile defense system linkage, no South Korea-US-Japan security cooperation), which the Chinese government strongly opposes.

The positive impact of economic interdependence between South Korea and China is gradually collapsing, and now it is becoming a competitive situation favorable to China. South Korea was in danger of being subjugated to China's economy. However, the unexpected acceleration of the strategic competition between the United States and China has had the effect of buying time in this crisis of the Korean economy.

The domestic political situation has also contributed to developing negative relations with China. Due to structural factors such as the US-China relationship, North Korea's pursuit of nuclear weapons, the rigidity of China's policy-making process as in the THAAD issue, and the naivete of South Korean diplomacy to China, the bilateral relationship quickly deteriorated from 2016 on.

The rapid deterioration of the Korean people's perception of China has negatively influenced Korea-China relations. Although 70% of the recent Chinese people's perception of Korea is still positive, after the THAAD incident in 2016, the South Korean unfavorable perception of China soared to over 80%. The antipathy of South Koreans towards China is the highest in the world, along with the United States, Sweden, Australia, and Japan. What is noteworthy is the rapidly deteriorating mutual perception among the younger generations of both countries as protectionist and nationalist sentiments grow.

## SOUTH KOREA-CHINA RELATIONS IN XI JINPING'S 3RD TERM

On October 23, 2022, the third term of Xi Jinping as a leader of the Chinese Communist Party (CCP) was officially launched at the first plenary session of the 20th CCP. The party completely broke away from the framework of collective leadership and concentrated power in the hands of Xi Jinping. Another noteworthy point is that ideological elements have become rampant in Chinese foreign policy and domestic politics. This may be a useful means of legitimizing internal governance, but it could act as a factor that causes more conflict and clashes externally. Many experts in South Korea have expressed great concerns over the potential impact of China's much more aggressive foreign policy in the near future.

However, it seems very unlikely that China's global strategy and perception would rapidly change during the next Xi Jinping era. China might make tactical changes according to changes in circumstances/variables that would strengthen efforts to achieve Xi's dream by the mid-21st Century of achieving Chinese greatness and unifying with Taiwan. Unprecedented global changes are taking place, and China is at a historical turning point. The awareness of international upheavals became an important basis for Xi Jinping's justification to go beyond the conventional practice and rules of leadership formation in China. The party congress report emphasized "security(安全)" more frequently than any other party congress, a bilingual terminology for domestic stability and international security in China. In this environment, Xi





has presented an ambitious vision of pursuing socialist modernization by 2035 in the short term and realizing the “Chinese dream” by becoming a socialist great power by the middle of this century. The next five years have been defined as a “crucial period” for pursuing these goals.

China believes that the world is moving in the direction of a multipolar system. In Xi Jinping’s third term, China will continue to oppose the US and the West-centered world order and insist on the importance of a multipolar order in line with supporting the UN system. China will insist on the principle of “establishing new great power relations” proposed for the formation of a new US-China relationship, which is composed of non-hostility, mutual respect based upon an equal and reciprocal relationship, and win-win outcomes. And while further pursuing the existing global strategy of One Belt, One Road, China would continue to build a global network of aligned countries.

President Xi Jinping issued a strong warning in his 2021 speech on the 100th Anniversary of the founding of the Chinese Communist Party that any force that is hostile to China would face “their heads in front of the Great Wall of Steel broken and bleeding.”<sup>5</sup> The 20th Party Congress Report<sup>6</sup> emphasized that it would respond unwaveringly and without succumbing to external provocations, further strengthen its military force, and ensure that China would unify with Taiwan by force if necessary. China perceives the U.S.-China strategic competition as a “state of prolonged warfare.”

For the time being, China will intensify competition for the sphere of influence in areas in the middle zone, that is, Eurasia and Southeast Asia. Xi Jinping’s third term probably will focus on regional diplomacy. China has traditionally reacted to periods of great power tensions by focusing on nearby states. In particular, Beijing recognizes that it has become strategically important to connect neighboring countries through friendly supply chains. Along with Southeast Asia, South Korea and Japan would be the most important strategic space for China. The fact that Foreign Minister Wang Yi, who was in charge of relations with Asian countries, was appointed as a Politburo member responsible for the Chinese diplomacy reveals China’s foreign policy’s future orientation.

However, careful analysis of the report’s contents shows that China’s foreign strategy is inherently defensive, contrary to the perceptions of the West. A review of Xi Jinping’s recent speeches to China’s key apparatus reveals that China will focus



on maintaining prudence and caution like a person “taking civil service examinations in the past(赶考的清醒和谨慎).”<sup>7</sup> China still assumes the supremacy of the US and Western powers in the international order and military capabilities. In response, China’s strategy prioritizes strengthening China’s internal capacity for self-reliance rather than the projection of power externally. The goal of “development” will still be at the fore of its policy priorities. While praising multilateralism, China will more actively emphasize establishing regional economic cooperation and promoting the construction of a new supply chain.

The CCP report makes clear that it does not want a new Cold War, adhering to the path of peaceful development. At the same time, the report refers to the people’s war and limited warfare strategies. The rhetoric of these strategies is radical, but in reality, it presupposes China’s inferiority in capacity and doesn’t suppose an all-out war with great powers. In difficult circumstances, China would adopt Mao Zedong’s guerrilla warfare strategy instead of an all-out war. Of course, these statements do not necessarily imply that China’s foreign and security policy is peaceful or passive, because the most important thing for Xi Jinping and the CCP would be the authority and legitimacy of governing China.

In this respect, China would place its best efforts to prevent South Korea and Japan from adhering to the US alliance. China has already suggested the creation of a regional supply chain with South Korea, Japan, and Southeast Asia when China’s vice president Wang Qishan visited South Korea in May 2022. Both South Korea and China must hedge against each other: China between South and North Korea and South Korea between the US and China. If one party moves against the other, the other almost automatically chooses against the mover. The first mover would take all the responsibility and blame for breaking bilateral relations. Therefore, China would be cautious until the Yoon Suk-yeol government took a side. If the South Korean government chooses one side, it has to prepare wholeheartedly for retaliation from China. At this point, the issue of confidence in the US has brought tremendous agony and apprehension to South Korea, as illustrated in the introduction of the Inflation Reduction Act (IRA 2022), which does not treat South Korean companies favorably.

## THE FUTURE OF SOUTH KOREA-CHINA RELATIONS

Considering the foreign and security personnel composition of the Yoon Suk-yeol administration and existing policies, it is impossible to be optimistic about the future of Korea-China relations. South Korea is focused on how much China could cost us rather than what benefits China could bring. The ROK and Chinese authorities do not want an immediate clash but hope to maintain the status quo. However, the future of Korea-China is more likely to lie somewhere between hostility/conflict and a status quo minus rather than the current status quo.

In future bilateral relations, some crucial factors must be considered. The first and foremost important factor is US-China relations. South Korea and China relations have historically been the function of US-China relations.

Second is South Korea’s calculations of costs and benefits, as illustrated in the metrics of table 3. Without dramatic concessions from China, South Korea would choose the US as an alliance.



**TABLE 3** Consequences of choices leaning towards either the U.S. or China, per issue<sup>8</sup>

POLICY DIRECTION	South Korea's Choice		
	Politics, Diplomacy, Security	Science and Technology	Values
<b>Pro-China</b>	Clashing with the U.S. Weakening capability to deter North Korea Diplomatic isolation from the U.S. and other western countries Benefits from aligning with China on diplomacy and security uncertain	Exclusion from new technology cooperation with the U.S. Becoming subordinate to the Chinese economy South Korea-China cooperation uncertain—China failing to sufficiently propose an alternative for regional cooperation	Weakening legitimacy and sovereignty as a liberal democracy
<b>Pro-U.S.</b>	Tensions and conflict with China	Economic retribution by China The benefits of a technological alliance with the U.S.	Maintaining the legitimacy of the domestic political system

Third is Koreans' historical experiences with China. In this regard, South Korea is a natural ally of the US. For South Korea, past experiences with China bring the national memories of threats, humiliation, frustration, and rejection rather than friendship, pride, and inclusion. South Korea's national identity is based on the success and experiences after World War II under the US leadership. China is trying to reconstruct the Chinese nation based on the territory and glory of the Qing Dynasty. The identities constructed based on these different viewpoints are becoming a major factor in the antagonism between the two countries.

Related to the third point, South Korean public opinion on China is at its worst. According to the Pew polls, more than 80% of South Koreans have unfavorable views of China, which is one of the highest percentages in the world.<sup>9</sup> South Koreans have more confidence in the future of the US economy than anyone else, including the American people. Naturally, a pro-China position mean political suicide in South Korea.

Fifth is the resilience issue of supply chains. South Korea is a trading country, depending upon trade for 60%-70% of its GDP. China, in turn, heavily depends on Korea for the supply of semiconductors, which are vital for the Fourth Industrial Revolution. However, it is unclear how long China's dependence on Korea will last now that transitions to a new generation are underway in semiconductors.

Sixth are domestic political variables in the United States. The United States is increasingly inclined towards protectionism and nationalism. The Inflation Reduction Act (IRA 2022) highlights this trend in the United States. This trend will be further strengthened if a Republican administration comes back to power.

The final factor is China's foreign policy orientation, how much and earnestly China can provide public goods in the region and the world. China has not fully digested the horizontal relationship of the current sovereign state system. Although China accepted it rhetorically, the behavior is inconsistent, so there is a large gap and conflict between perception and behavior. China should be able to present new alternatives and visions to the world instead of the "by China, of China, for China" policy.



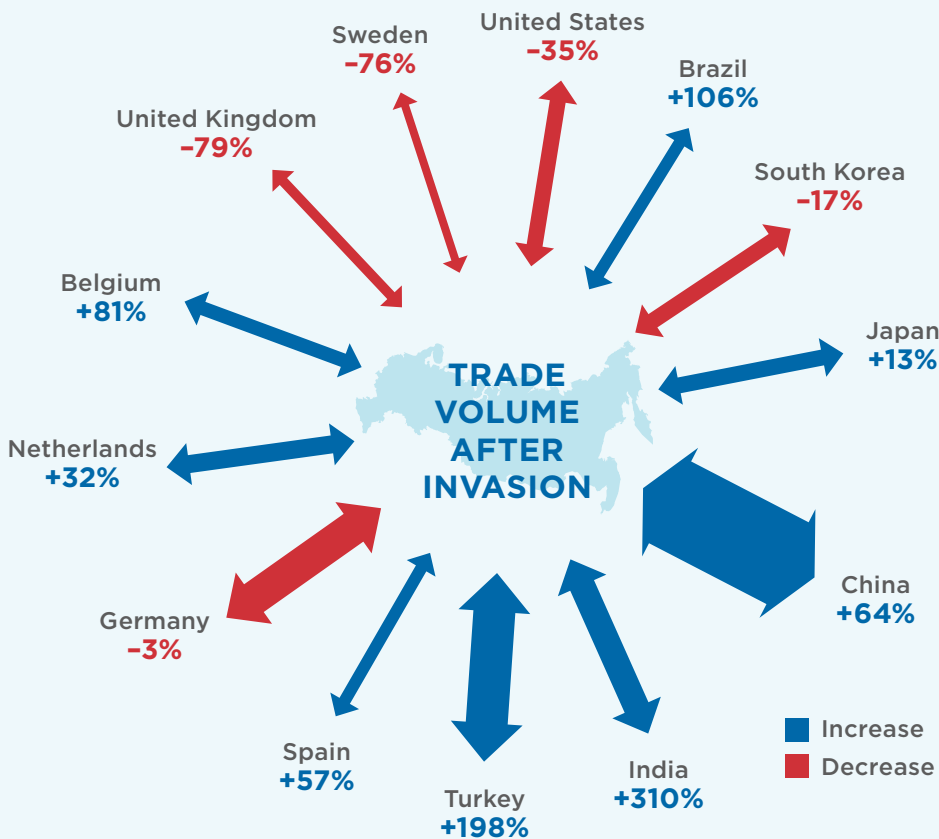


## CONCLUSION

In the Biden era, US-China strategic competition is expected to intensify. Both the US and China are tenacious. Don't be overly optimistic about the outcome and process. South Korea has become a strategic lynchpin for both the US and China, and will be under strong pressure. The foreign policy of Xi Jinping's third term is expected to intensify pressure on neighboring countries.

In the current world, three divisions of diplomatic lines are becoming obvious. Status-quo, anti-status-quo, and opportunists, according to the graph of the New York Times on trade relationships after the Russo-Ukraine war, illustrated in Figure 1. South Korea is supporting the US in the status-quo side along with the United Kingdom and Sweden. China, India, Brazil, and Turkey comprise the anti-status-quo side. Japan, Germany, Belgium, Netherlands, and Spain are pragmatists and opportunists.

**FIGURE 1** International Trade Relationships with Russia after the Russo-Ukraine war



Arrows sized by post-invasion monthly trade value with Russia.  
Percent change is the monthly average trade value after the invasion compared with the monthly average in 2017–2021.

Source: Lazaro Gamio and Ana Swanson, "How Russia Pays for War," *New York Times*, October 30, 2022: <https://www.nytimes.com/interactive/2022/10/30/business/economy/russia-trade-ukraine-war.html>



From Korea's point of view, getting closer to China and at odds with the US is an unacceptable option in the short and medium term. More than confidence in China is needed to build a better relationship. Nevertheless, while constructing various scenarios, it is necessary to carefully manage the ROK-China relationship so that it does not become extreme.

In summary, although a certain degree of a strategic distance from China is inevitable for South Korea as a natural ally of the US, it should also have room for a conditional piggyback strategy with China as a middle power. Diplomacy should be like a living creature. Right now, both South Korea and China need mutual patience and self-control. In the current situation, it is not strange that ROK-China relations abruptly soured. There is a need to curb excessive outbursts of potential conflicts and readjust the bilateral relationship from a strategic perspective. Both countries must recognize that fighting and confrontation are not the way to go. South Korea should increase its ability to manage crises with China rather than pursuing confrontation. Without any alternatives, confronting China would result in the devastation of the ROK-US alliance and a collapsing economy for South Korea. I sincerely hope the US possesses the wisdom to pay keen attention to its allies' apprehension and interests and work together with them.

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# U.S.-CHINA STRATEGIC COMPETITION AND ECONOMIC SECURITY STRATEGY OF KOREA

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## ECONOMIC COMPETITION BETWEEN THE U.S. AND CHINA AND ECONOMIC SECURITY

Strategic competition between the United States and China is driving the rise of economic security discussions. Economic security is the safeguarding of a nation's survival against foreign economic threats or risks. The issue of ensuring a reliable supply chain directly affects the economy's survival in the present, and the survival in the future depends on securing cutting-edge technology and supporting critical industries that will define a country's competitiveness. Both the United States and China are competing strategically for cutting-edge technology while also reorganizing their core supply chains.

If a nation is able to take a lead in cutting-edge technologies (many of them dual use), it will soon achieve economic and military dominance. In this regard, China's recent rise in high-tech technologies such as AI, semiconductors, quantum computing, and aerospace has increased U.S. vigilance, resulting in the opening of a new era of U.S.-China strategic competition.

In terms of supply chains, China's Belt and Road Initiative (BRI) is raising anxiety in the United States. The United States refers to China's BRI as a critical tool for "asymmetric decoupling." It is asymmetrical in the sense that it reduces China's reliance on the rest of the world while increasing the world's reliance on China. It should be highlighted that growing ties between countries along the BRI corridors and China's economy increase reliance on Chinese goods, give China more input in creating global standards, and offer China an advantage in the global fight for digital innovation and technology standards. The United States is afraid that this may lead to China's regional dominance.

Based on purchasing power parity (PPP), the Chinese economy has already exceeded the U.S. economy since 2017.<sup>1</sup> Before 2000, over eighty percent of countries traded with the United States more than they did with China. However, China has already supplanted the United States as the world's leading trading partner.<sup>2</sup> Accordingly, it is likely that China plays a significant role in the supply chains of these countries. From 2001, when China joined the WTO, through 2007, just before the global financial crisis, China and the United States each contributed about 20% to global GDP growth. However, as the U.S. contribution reached zero during the global financial crisis, China contributed almost 60%, playing a critical role in overcoming the crisis. Since 2010, the United States has again been responsible for 20% of world economic growth, while China is now responsible for 40%.<sup>3</sup> China's rise has been astonishing, and it is altering U.S. perceptions of China as well as U.S. policy toward China.



## U.S. PERCEPTIONS OF CHINA'S RISE

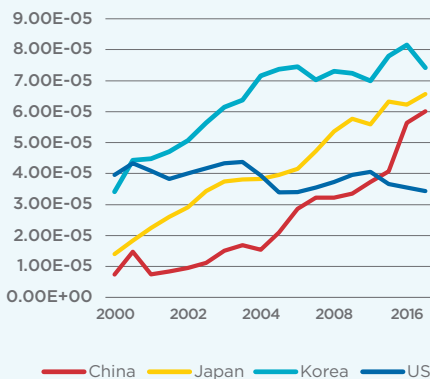
The 2021 withdrawal from Afghanistan was a major event in U.S. politics. President Biden endured severe domestic and international criticism at the time, but he pushed the Afghan withdrawal to its conclusion. Biden argued at the time that the national interest of the United States is to respond to contemporary challenges, not ones from 20 years ago. He also mentioned that the current biggest threat to the United States is serious competition with China.<sup>4</sup> In its National Security Strategy, published in October 2022, the United States identifies China as its sole competitor with both the intent to reshape the international order and power to advance that objective.<sup>5</sup>

The United States is concerned about China's progress in a variety of domains, including the economy, military, and diplomacy spheres, but technology is the most crucial. According to a December 2021 analysis by the Harvard Belfer Center, technology is the mainstay of the U.S.-China strategic competition, and China is anticipated to exceed U.S. capabilities in key high-tech sectors in 10 years.<sup>6</sup>

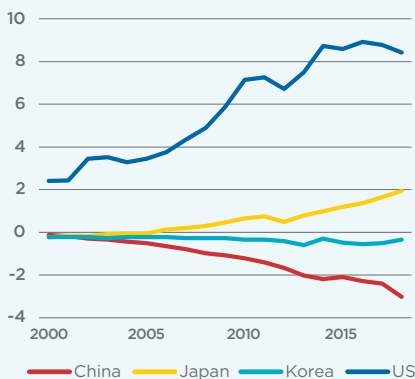
The United States finds the source of China's rapid technological advancement in China's unfair trade tactics. The U.S. Trade Representative's "Special 301" Report served as the backdrop for President Trump's issuance of an executive order in March 2018, which led to the trade war between two countries. The special report focused on (1) compelled Chinese government technology transfer; (2) discriminatory technology licensing; (3) aggressive acquisition of foreign high-tech companies by Chinese enterprises backed by the Chinese government; and (4) unauthorized hacking to get technology and trade secrets.<sup>7</sup>

The United States believes China appears to have considerably increased its innovation-productivity through these measures. According to a recent study, China has applied for more worldwide patents with fewer researchers and less R&D expenditures than the United States since 2015.<sup>8</sup> China, however, still lags in the development of fundamental technology while being very efficient in creating applied technologies by using legally or illegally acquired source technologies from technologically advanced countries such as the United States.

**FIGURE 1A Innovation Productivity (index)**



**FIGURE 1B IP Balance (unit: 10 Billion USD)**



Source: Yeon(2020). "U.S.-China Technological Rivalry and Its Implications for Korea." World Economic Brief Vol. 10 No. 33, KIEP



## U.S. POLICY TOWARD CHINA

Knowing the weakness of China, the U.S. policy objective is apparent; it seeks the decoupling of fundamental technology in the high-tech field.

In particular, in Secretary of State Antony J. Blinken's May 2022 China policy speech, the United States identifies "invest," "align," and "compete" as three crucial responses to China's challenge.<sup>9</sup> "Investment" means enhancing the U.S. capability for domestic production. The recently enacted CHIPS and Science Act, the Inflation Reduction Act, and the Bio Executive Order (E.O. 14081) can all be understood in this context. "Alignment" centered on the United States also has been accelerated. In particular, since the launch of the Indo-Pacific Economic Framework (IPEF) in May 2022, the United States has launched a number of U.S.-led groupings, including the Minerals Security Partnership (MSP), the Americas Partnership for Economic Prosperity (APEP), and the Partnership for Global Infrastructure and Investment (PGII). "Competition" can be understood as strengthening efforts to create an arena for fair competition by using various measures including export controls, import controls, and investment review policies that have bipartisan support.

What we should pay attention to at the same time is the recent shift in the U.S. approach toward China. The United States seems to have given up on the idea of tolerating China's progress in the high-tech sector. The United States intends to freeze China's capabilities in certain advanced technologies. In a speech on September 16, 2022, National Security Advisor Jake Sullivan insisted on widening the gap with China as much as possible in certain technologies—including computing-related technologies, biotech, and clean tech, which he called "force multipliers."<sup>10</sup>

## U.S.-CHINA CONFLICT AND UNCERTAINTY

China's economic growth strategy is founded on innovation. According to recent research jointly conducted by the Development Research Center of the State Council of China and the World Bank, China seems to have set three steps for its future growth: "reducing distortions," "accelerating diffusion," and "fostering discovery." The first phase is to reform the financial, labor, and real estate sectors, which will make resource allocation more efficient and competitive. The second phase is to increase the quality of education, access to foreign advanced technologies, and distribute modern technology within China. The third phase is to encourage fundamental research in order to generate innovative technologies.<sup>11</sup> China's strategic competition strategy with the United States is to keep its economy growing at a high rate by completing these three stages. President Xi Jinping pledged in 2021 to double China's GDP by the year 2035.<sup>12</sup> China is projected to surpass the nominal size of the U.S. economy if all three of the aforementioned phases are successfully fulfilled. Seeing China as its main competitor, the United States does not accept this and has been using its tech decoupling strategy to impede China's second and third steps. As a result, this geopolitical competition between the United States and China continues to create uncertainty in the global economy.



## ECONOMIC SECURITY CHALLENGES FOR KOREA

As the U.S.-China competition for dominance intensifies under the pretense of economic security, Korea faces three major challenges: the development of international trading blocs, the reorganization of supply chains, and industrial policy competition.

### Development of International Trading Blocs

The United States has been constructing regional and functional minilateral frameworks based on shared values and strengthening solidarity with its allies and major partners. These include the U.S.-EU Trade and Technology Council (TTC), the Australia-United Kingdom-United States (AUKUS) “nuclear submarine” alliance, the Indo-Pacific Economic Framework (IPEF), the Americas Partnership for Economic Prosperity (APEP), and the Partnership for Global Infrastructure and Investment (PGII) which were all launched in succession since 2021. The Ukraine conflict was also an opportunity to hasten the decoupling between authoritarian powers like Russia and China and liberal democracies in the West.

In the meantime, the United States asks for strong solidarity from South Korea as an ally. Conversely, China continually pressures South Korea to oppose U.S. China policy in order to both offset the U.S. drive to check China and preserve beneficial relations between the two countries. For Korean enterprises seeking simultaneous access to both Chinese and U.S. markets, there is growing uncertainty in the business environment. The greatest risk is that Korean businesses might be forced to make a choice between the two. If the United States pushes for forming economic blocs that intentionally exclude China and urges South Korea to join, it seems likely that Korea has no option but to join them. However, at the same time economic relations between South Korea and China will deteriorate, and that is currently the backbone of Korea’s economic prosperity. Both U.S. sanctions against China and China’s economic retaliation against Korean companies would have a direct effect on Korea’s exports to China.

In terms of economic security, there is no doubt that all nations share the overarching goal of protecting against external economic dangers or risks, but detailed policies are likely to vary from country to country due to the differences in industrial base and trade structure. Thus, Korea should define its clear role, determine what kind of benefits it can provide or share within the minilateral initiatives, and find ways to jointly respond to China’s economic coercion.

### Supply Chain Restructuring

The current system of global division of labor is a result of globalization. Particularly, (1) the growth of computer and communications technology, (2) the end of the U.S.-Soviet Cold War, (3) the promotion of free trade, and (4) the EU’s integration. All of this provided an optimal environment for the expansion of globalization and the emergence of global supply chains. The United States and China had also established a win-win relationship that enhances structural complementarity and mutually benefits each other by reducing production costs and increasing supply and demand of each other’s products in the market place.

However, as demonstrated by the aftermath of COVID-19, in times of crisis the importance of maximizing economic efficiency and profit is likely to be downgraded while the interest of national security is likely to be prioritized. The intensification of



strategic competition between the United States and China raises concerns that a strategic weaponization of interdependence using supply chains may occur not only in times of crisis, but also in times of normalcy.

The recent emphasis on building a resilient supply chain stems from the recognition of supply chain vulnerabilities, in particular, the supply chain's reliance on certain untrustworthy countries that may pose a threat to national security. At the signing of the Executive Order on America's Supply Chains in February 2021, President Biden mentioned that, "We shouldn't have to rely on a foreign country—especially one that doesn't share our interests or our values—in order to protect and provide our people during a national emergency."<sup>13</sup> This clearly suggests a change in the international trade paradigm.

The problem is that the establishment of a resilient supply chain inevitably entails economic costs because it emphasizes building redundancy to cope with any unexpected disruptions. Building domestic production facilities, stockpiling significant quantities of items, and acquiring more talent to prepare for a crisis that has not struck is economically inefficient. Both Korean enterprises and the government must pay opportunity costs and friction costs during the reorganization of global supply chains.

It is important for us to think about how to minimize nationalism or protectionism. We should work together in advance so that the independent measures of each country do not harm others. In this regard, Korea should actively participate and become more involved in the discussions of global and regional rule-making or framework-making by the United States, EU or even China.

### **Intensifying Tech and Industrial Policy Competition**

The long and stiff U.S.-China competition appears to be unavoidable due to the structural struggle for technological supremacy. Increased pressure from the United States is expected to strengthen China's R&D efforts in indigenizing advanced technology and accelerating its competitiveness in emerging industries. In return, the West will perceive China's efforts as a threat and expand their industrial policies to outperform China, which will eventually open an era of unlimited competition in high-tech industries. In brief, maintaining global competitiveness in technological innovation has become a vital task for every country including Korea.

South Korea is concerned that its period of technological superiority could end in the near future as China's technological ascent accelerates. In 2015, China unveiled "Made in China 2025," a high-tech industry promotion strategy. In 2017, Chinese President Xi Jinping stated at the 19th National Congress of the Communist Party: "We will accelerate the creation of a manufacturing powerhouse, the development of advanced manufacturing industries, and the promotion of high convergence with the Internet, big data, artificial intelligence, and the real economy."<sup>14</sup> As strategic competition between the United States and China intensifies, China's industrial policies are increasingly being considered not only in terms of economic growth but also of national security. In 2021, China announced that it would employ high-tech self-reliance tactics such as establishing fully independent supply chain within the nation and increasing investment in developing core source technologies.<sup>15</sup> Due to China's industrial development and plan to replace imports with domestic goods, there are growing worries that Chinese goods will replace Korean exports to China.



Korea faces challenges from the West too, as both the United States and the EU have announced that they will strengthen their industrial policies in the industries where Korea has a comparative advantage at the moment. The United States enacted the CHIPS and Science Act to promote competitiveness in major advanced industries, including semiconductor chip manufacturing. In May 2021, the EU also announced a new industrial policy and began expanding its production capacity in the region. To close the gap with U.S. and East Asian competitors in high-tech industries such as semiconductors, batteries, and artificial intelligence, the EU has allocated more than \$150 billion to dramatically strengthen the EU's technological autonomy by 2030.<sup>16</sup>

With every major economy joining the industrial policy race, we should work together to create a fair and predictable business environment. When pursuing industrial policies, all countries should not implement discriminatory measures toward others, especially their allies and friends. Faced with the rapidly changing global economic paradigm and high global economic policy uncertainties, it is important to share the economic costs. If this balance is upset, economic and political pressures for the country paying the higher costs will increase. We should make our best efforts to avoid this situation and achieve a win-win situation for all.

## OPPORTUNITIES IN KOREA IN THE ERA OF ECONOMIC SECURITY

As the United States checks China, South Korea may benefit as China's technological growth rate slows. Given that competition between Chinese and Korean businesses is getting stronger, it is likely that Korean businesses will buy time to develop novel technologies and upgrade existing ones.

For example, in December 2020, the United States placed China's No.1 semiconductor foundry, SMIC, on the export control list and prohibited SMIC from importing EUV equipment from ASML in the Netherlands, which is required for the production of sub-10nm high-tech semiconductors. Consequently, Taiwan's TSMC and South Korea's Samsung Electronics, which are the only companies that create semiconductors more accurate than 10nm, would be able to expand the technological gap with China. Currently, it is estimated that the technology gap between Korean companies and Chinese companies in the semiconductor foundry sector is approximately four years. Even if China is able to produce high-tech semiconductors





smaller than 10nm in four years, Taiwan and Korea are expected to have secured much more advanced technologies.

The trend of tightening foreign investment screening is another crucial element in limiting China's technological progress. Since the United States expanded the CFIUS review mechanism in 2018, most European countries and Japan have also joined the strengthening of the screening process. These nations are not explicitly targeting China, but in practice, they have been preventing China's aggressive acquisition of their high-tech companies.

In the past, Europe was particularly attracted to China's exploding market and active in expanding commercial links with China, but recently there has been a heightened public awareness of the China risk, especially after 2016 when China bought the renowned German robot manufacturer KUKA.<sup>17</sup> Restrained by the United States, China has been seeking a solution to the technology gap through cooperation with other technologically advanced regions such as Europe and Japan. But now that China is in a more difficult situation, it will give Korea a chance to stay ahead of China in terms of technology.

### **New Market Opportunities**

It is anticipated that the technological hegemony competition between the United States and China will have a negative effect, as it generates unnecessary costs for the Korean economy. Nevertheless, there are also economic opportunities stemming from U.S.-centered high-tech supply chains and networks.

Korea could take advantage of a unique chance to expand its global market share without having to compete with China in major advanced industries. As Korea becomes active in areas where China has been expelled from the U.S. and Western markets, economic opportunities may increase for Korea. In addition, the development of a new U.S.-led technology standard in which Korea actively participates will assist in maintaining and enhancing Korea's industrial competitiveness.

Particularly, the Biden administration's initiative to restructure supply chains could present Korea with an opportunity. Since the "Made in America" strategy of the Biden administration only refers to "production in the United States" and not "production in the United States by American enterprises," Korea can utilize it as an opportunity to enter the U.S. market and expand Korea's market share. Moreover, the policy intention of the U.S. government may present an opportunity for Korean SMEs to enter the United States, as it encompasses not only the production of final products in the United States, but also the development of entire supply chains in the United States. It will also help Korea spread out its supply chains which are mostly based in China.

As technological cooperation has been added to the ROK-U.S. alliance, it is likely that the United States allows cooperation with South Korea in high-tech areas where the United States used to limit external cooperation, such as the aerospace and nuclear power domains. This will also serve as an opportunity for Korea to enter new markets.

### **Enhancing Korea's Strategic Status**

If the competition for technological supremacy between the United States and China continues at the current level, the United States and China can offer benefits such as joint research in advanced science and core technology transfer as part of their efforts to attract Korea to their respective areas of technological hegemony. There



is a chance that the United States will try to work with Korea on technology development or commercialization in areas where it does not want to lose ground to its rival China. In addition, there is a good chance that China will try to cling to economic and technological cooperation with Korea. This is because China sees Korea as a country that is relatively easy to cooperate with. China's recent efforts to strengthen the Regional Comprehensive Economic Partnership (RCEP), the Korea-China-Japan FTA, and modernize the Korea-China FTA all support this.

As long as the United States strengthens its decoupling policy in an effort to limit China, South Korea will find it challenging to engage with China in fields of vital interest to the United States. However, it is projected that the United States will extend its relationship with Korea as a technological ally against China. Korea and the United States will be able to strengthen technological ties in high-tech areas such as semiconductors, artificial intelligence, and 5G/6G communications, which would be advantageous for Korea's international relations and economy. Specifically, opportunities as well as strategic autonomy will be maximized if Korea can maintain a technological super-gap in key areas. As indicated by the recent restructuring of semiconductor and battery supply networks, the United States will undoubtedly value Korea in terms of creating a solid supply chain, which will also help Korea to develop strong partnerships with countries in the region such as Japan, Australia, and India.

The formation of AUKUS had significant implications for Korea due to the U.S. agreement to develop Australia's nuclear-powered submarines. As stated previously, there is a considerable likelihood that the United States will permit cooperation with South Korea in civil-military sectors, where cooperation with other nations has been prohibited for security reasons. In fact, the Korea-U.S. Summit Joint Statement of May 2021<sup>18</sup> and May 2022<sup>19</sup> said that the two countries would work together on nuclear energy and all areas of space.

## KOREA'S ECONOMIC SECURITY STRATEGY

To cope with global uncertainty, most countries primarily respond in two ways: strengthening domestic manufacturing capability and promoting cooperation with like-minded countries. Countries seek to increase domestic production capacity for critical products such as semiconductors by bolstering government-led industrial policies and cooperating with trusted nations. This is also Korea's economic security strategy as well. By reinforcing industrial and technology policy, and domestic and international collaboration, Korea hopes to stabilize its supply chains, promote high-tech and strategic industries, and have Korea's voices heard in implementing standards in emerging areas like the digital economy. Now is not the time to step back and wait for each country to take action. Now is the time to actively communicate Korea's intentions to the United States, China, and the rest of the world.

First, since the Biden government even says that it will cooperate, compete, and confront China, it is unnecessary for Korea to establish a strategy that assumes only a complete confrontation between the United States and China. Despite the tightening of sanctions against China in the high-tech sector, there is a simultaneous demand in the United States to establish a market environment that can safely continue business with China. During a time with great uncertainty like the present, Korea needs to focus on strengthening its own capabilities along with setting its





own guidelines. In order to eliminate the uncertainty caused by the U.S.-China conflict, Korea must establish its own clear trade and diplomatic principles and respond with consistency.

Second, with advanced technology acting as a key factor in both economy and security, it is becoming increasingly important to possess the core technological capabilities needed to compete. China has not yet taken any particular retaliatory actions against Japan, despite Japan's swift support for the United States in the battle over Huawei's 5G network equipment, Hong Kong's "one country, two systems," and Xinjiang Uyghur's "human rights" issue. This indicates that China places a greater emphasis on nations with fundamental technology, such as Japan and Germany, due to limited access to U.S. high-tech technologies. Therefore, Korea must maintain its technological edge by developing choke-point technologies. In order to increase Korea's strategic value and increase profits at the same time, Korea should become a technology leader.

Third, it is essential to strengthen communication channels between South Korea and the United States and South Korea and China. We should avoid placing undue emphasis on the diplomatic and military term "alliance" in technological and trade issues and adopt a strategy that emphasizes the framework of universal norms of "fair competition" versus "unfair competition" rather than the confrontation between "democratic" and "authoritarian" systems. South Korea must simultaneously make diplomatic efforts to persuade the United States and China to maintain economic interdependence in the future in order to improve its diplomatic standing and safeguard its national interests. It is important for Korea to work together with European countries, which are in a similar position to Korea, to find a way to respond to pressure from both the United States and China as a group.

Lastly, the Korean government, along with Korean companies, should pay attention to the trends in economic security legislation in the United States and China. Korea also needs to update its own economic security-related legal system. As the U.S.-China conflict escalates, the strengthened legal system will serve as a useful foundation for Korea's actions and will ensure policy flexibility, given that it is based on "rules" and not "blocs." Also, the value of Korea's technological skills and productivity has recently gone up, which has enhanced Korea's external leverage and strategic status. It is time for Korea to respond strategically with confidence rather than excessive worry.



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# DEFENDING AGAINST CHINA'S ECONOMIC COERCION: STRATEGIC OPTIONS FOR THE ROK-US ALLIANCE

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## INTRODUCTION

South Korea's diplomatic maneuverability since the normalization of its relationship with China in 1992 has received much undeserved skepticism from both Beijing and Washington. While Beijing implicitly acknowledges the imperatives for Seoul to ally with Washington, it has become critical of the alliance since the deployment of THAAD was agreed between the United States and Korea in 2016. Not only did Beijing respond with a series of economic retaliation measures, but it also took the occasion to try to drive a wedge between the United States and South Korea. In March 2017, Beijing incorporated North Korea's long-demanded peace treaty as part of its demands for a peaceful path to North Korea's denuclearization. China's new formula, also known as the "dual-track" approach, challenges the fate of the alliance as well as the legitimacy of U.S. forces in Korea.

Korea's burgeoning economic relationship with China started to concern the United States. China's replacement of the United States as Korea's largest trade partner in 2004 was one big warning. Washington's concern was about the gravitational effects it places on the alliance, pulling Korea more towards China and away from the United States. At the time, South Korea had a progressive government with a strong propensity to be anti-American and hopes of forging a political as well as economic relationship with Beijing. From the U.S. view, the China-Korea trade relationship poses risks to the alliance, because China is a communist state allied with North Korea.

From the Korean perspective, the value of the Chinese trade relationship needs to be reevaluated in light of the reality that Korea's trade surplus with China has been in steady decline since 2019. The trend is most likely to continue unless there is a fundamental change in Korea's approach to the Chinese market. Korea had hoped to translate the economic relationship with China into Chinese support for North Korean denuclearization and the ultimate reunification of the peninsula, but this has not been forthcoming. China has been explicit with its support to the North Korean way of unification to realize its long-sought goal of displacing U.S. forces in Korea and dissolving the alliance. And China has not used its influence to push North Korea to denuclearize. Accordingly, South Korea needs a more realistic and less optimistic perspective in its dealings with China.





## KOREA'S CHINA TRADE SURPLUS IN DECLINE

ROK-U.S. security cooperation is becoming more critical to both nations as China becomes a regional, if not global, power. China is now challenging the regional status quo which is founded on the leadership of the United States and the values that most East Asian states have come to embrace. This order has led to the expansion of democracy and market economies in many states across the region.

Since the establishment of diplomatic relationship between Korea and China in 1992, China now is Korea's largest trade partner and foreign investment destination. Before the outbreak of the COVID pandemic, China accounted for 26.8% and 24.9% of Korea's total trade in 2018 and 2019, respectively, while the United States accounted for just 12% and 13.5%.

The biggest story, vis a vis U.S.-South Korea trade, is not the sheer size in the reduction in Korea's trade dependence on the United States—down from 27.7% of its total trade in 1990. It is the rapid decline in the trade deficit that Korea has recorded in its trade with the United States. From 2016 to 2018, there was a 41% decrease in the Korean trade surplus from the U.S. market. In 2019, the surplus stood at just \$11.5 billion. In 2020, South Korea's surplus from the American market would recover to \$16.6 billion. It would increase again to \$22.7 billion in 2021. As of October 2022, the surplus for the year had already reached \$23.2 billion.

Korea's trade surplus against China has increased by 48% in the same period. Korea's China trade surplus hit a record low in 2016 at \$37.5 billion but soon recovered to \$44.2 billion in 2017 and \$55.6 billion in 2018. The latter marked the highest level since 2013. In 2019, Korea's surplus from Chinese market was \$29 billion. It was further reduced in 2020, standing at \$23.7 billion. A slight recovery was made in 2021, rising to \$24.3 billion.<sup>1</sup>

It seems the effect of China's economic sanction on Korea following the THAAD deployment decision in 2016 is almost a non-factor or irrelevant to the changing trade structure between Korea and China. It is, rather, the U.S.-China trade conflict, coupled with effects of China's "Made in China 2025," that are taking a toll on Korea's trade with China. The U.S.-China trade war directly affected Korea's export of intermediary goods and products to the Chinese market in a negative fashion that saw a sharp decrease by \$28.2 billion. Moreover, China's aspiration to become the leading manufacturing force in the world as reflected in the "Made in China 2025" is now being materialized. China has overtaken in a wide range of intermediary and consumer goods and is fast closing the technological gap that once favored Korea.



## THE KOREAN PUBLIC'S PERSISTENT DEMAND FOR STRONG PARTNERSHIP WITH THE U.S.

Korea's growing economic stake in the relationship with China, coupled with diminishing U.S. market value in Korea's trade, is one factor challenging the ROK-U.S. alliance and security cooperation. China's ability to communicate with the leaders in North Korea is another factor that strengthens the imperatives for Korea to maintain a good relationship with Beijing not only for solving the North's denuclearization question but also for unification purposes. The more Beijing proactively engages with Pyongyang, the more it is going to effectively sway those favoring better inter-Korean relations in Korean society to side with its endeavor. A recent poll concurs that Korean perception of China's rise is moving in a positive direction for China. 29.8% of the Korean public views China's rise as being a helpful development, a slight increase from 22% in 2018. The percentage who hold negative views on China's rise has fallen to 35.6% in 2019 from 49.5% the year before.

According to the same survey, however, 43.4% of the Korean populace supports enhancing cooperation with the United States when it is in conflict with China, a slight increase from 39.2% in 2018. In 2019, only 6.6% said that increasing cooperation with China would be beneficial to Korea against the United States, a slight drop from 7.6% in 2018. In 2019, 49.9% of the respondents favored maintaining a neutral position in the conflict between the United States and China, also a slight drop from 53.2% from the year before. In 2020, more Koreans (65.4%) favor their nation to remain neutral, a rise by 15.5 percentage point from the previous year.<sup>2</sup>

When it comes to Korean unification, the majority of the Korean populace (53.1%) believes that the United States will want Korean unification whereas 89.2% thinks otherwise with China. More than 82% of the respondents saw the United States as a cooperative partner, while 47.7% was wary of China. Furthermore, 71.7% is convinced the United States will uphold its commitment to the defense of Korea.<sup>3</sup>

Koreans in general show a much greater appreciation for the ROK-U.S. alliance and security cooperation with the United States than they do for ROK-China economic relations. For example, a survey in 2020 showed that 92% of the Korean public supports the alliance. In 2021, a survey by the Asia Center at Seoul National University revealed that 71.6% of the respondents picked the United States as the most trustworthy nation. Japan and China, respectively, received 13.3% and 6.8%, ranking them the 19th and 20th out of the 20 nations surveyed. To 69.2% of the Koreans, the United States is the most sought-after nation for cooperation. On the question of who will win the U.S.-China competition, more than half of the Korean populace (53.7%) predicted the United States, while a mere 11.1% saw China as the winner. On a question asking with whom Korea should cooperate over issues such as the South China Sea and semiconductors, 65.7% named the United States.<sup>4</sup>

In sum, the findings of the surveys show that there is a growing concern among Koreans over China's rise. They also show strong confidence in the United States and support for the ROK-U.S. alliance.



## KOREA'S CHALLENGE IN COOPERATING WITH CHINA: IDEOLOGY

An important factor impeding South Korean cooperation with China is China's communist ideology. Had China become a nation that shares a similar if not identical ideology with Korea and the United States, it would be most likely that the United States and China would not be having the conflicts that are otherwise unnecessary and unwanted. Because of China's growing emphasis on ideology in all walks of life, however, it is becoming less likely that China can share a similar perception of the world with Seoul and Washington. For instance, for ideological reasons, China will remain adamantly supportive of North Korea.

In official statements and public addresses by the Chinese Communist Party's top leaders, China wants the world to respect every country's sovereign right to choose its own path of development and governance. The CCP's defense against Western values was elaborated in a new concept of so-called "core interests." In 2009, Senior Councilor Dai Bingguo interpreted CCP's core interests to include (1) the preservation of China's political system and state security; (2) state sovereignty and territorial integrity; and (3) the stable development of its economy and society. Since then, the scope of China's core interests has been broadening. The 2011 White Paper added "peaceful development" and "national reunification" to "China's core interests." Basically, any (foreign) challenges to the CCP's governance system and leadership would be perceived as a threat to the regime. The right to sustainable development and social stability will be protected at all costs and by any means necessary. Starting with the Anti-Secession Law of 2005, the regime declares its intolerance of any attempts both internally and externally to challenge the integrity of Chinese territory, which of course is said to include Taiwan. Moreover, any challenge to its right to rule and leadership will be perceived as a threat to the Party and met with all countermeasures. The Party feels entitled to monitor any potential challenges and therefore the right to censor and control all activities of the general populace.





Under the circumstances, there is little space for Western values and ideologies to penetrate Chinese society. As long as the CCP stays in power, it will be difficult to see China transform into a democracy with a market economy. China will continue to adhere to communist ideology and socialist values. The mission is to complete the basis of socialist modernization by 2035 and make China become a strong and modernized socialist state by 2049.

## CHINA'S UNWAVERING GOAL: DISSOLUTION OF ROK-US ALLIANCE

China also reserves to itself the right to interfere in the internal affairs of South Korea. The THAAD case speaks volumes. Beijing's decision to place tacit sanctions on Korea was only the beginning. Many more of such attempts to exert Chinese influence on Korea's policy will come, as evidenced in Xi Jinping's remarks to then-President Moon Jae-in at the 2019 Osaka G-20 meeting. Xi warned Moon not to be susceptible to outside influence when making decisions. Xi's implication was obviously directed towards the United States. The message was reiterated in Kim Jung-un's New Year address last year. China is clearly on the side of the North. Xi's warnings might have come from his foreseeable concerns related to a possible deployment of intermediate range missiles in South Korea and Korea's position on U.S. pressure not to use Huawei and other Chinese technologies for cyber security reasons.

China understands the deployment of THAAD and other weapon systems to be solely and exclusively the decision of the United States with South Korea totally irrelevant. In the past, it was true that in many cases U.S. weapons were deployed without the Korean government's knowledge. Deliveries of goods to U.S. bases in Korea are also out of jurisdiction for the Korean Customs Office. But the Korean government was involved in the THAAD case largely because the citizens of Pyongtaek City opposed the deployment. The Korean government had to offer land for a new U.S. military base to host THAAD. This led to China's criticism and eventual sanctions.

## STRATEGIC OPTIONS FOR ROK-US ALLIANCE

As demonstrated by the responses from the Korean public in the surveys shown above, more than three-quarters of the population has a friendly feeling towards the United States, and more than half has confidence in the ROK-U.S. alliance. Koreans feel threatened by the rise of China. But the Korean government is acutely conscious of Chinese retaliation if it sides too closely with the U.S. agenda. Korea has not been able to act proactively to the interest of the alliance and has sometimes bewildered the United States.

America's assurance is the only strategic option that will emancipate Korea from the excessive fear of Chinese retaliation—China phobia, as I call it—that has developed in the past few years. To assuage Korean concerns, there are three principal steps the United States can take.

First, the United States must abide by its commitments to the defense of allies, friendly nations, and like-minded states against Chinese coercion. In the 2021 Interim National Security Strategic Guidance, the United States declared its commitment to "support China's neighbors ... in defending their rights to make independent political



choices free of coercion or undue foreign influence.” Moreover, the 2021 March QUAD leaders’ joint statement also includes America’s assurance “to strive for a region ... unconstrained by coercion.” Passing a bill like the Countering Economic Coercion Act of 2022 (S.4514) will offer reassurances to allies like South Korea that the United States will not waver no matter who is in the White House.

Second, the United States should be more aware of the external effects of its legislation. It is particularly the case when some of its legislative activities are directly and closely related to the interest of allies and the like-minded states. A mere introduction of a bill can have a butterfly effect. But the foreign impact of bills is often neglected in the Congressional debates. In short, the United States should take into account the repercussion of U.S. legislation moves on its allies’ national interest and foreign relations.

Third, America’s export control regulations should be benign, open and inclusive when it comes to the interest of its allies. Export control regulations are a sensitive matter and the prerequisite to provide waivers must be based on confidence and trust.

Last but not least, there is a need for strong communication that gives a head-up to allies and friends about America’s policy decisions in advance. There are various strategic dialogues between the United States and its allies. However, their focus of topics is overwhelmingly issue-specific. Without prior knowledge as to the origin of America’s decision, the announcement of the decision can only sound unilateral to the ears of its allies.

## CONCLUSION

While the Korean public appreciates the value of the ROK-U.S. alliance, U.S. support for unification, and the U.S. commitment to the stability of the Korean Peninsula, Korean politicians must show a corresponding, if not commensurate, appreciation. The one major reason that Korea often finds itself stuck in the dilemma of choosing between the United States and China is fundamentally that politicians do not know how to be bipartisan on their nation’s security interest. Emotional sympathy and sentiment towards North Korea cannot come in as a determinant. There is room for them only within the confines of the human rights situation in the North. Without bipartisanship in the policymaking community in Korea, it is most likely Korea will remain stuck for good on the horns of this dilemma.

What Korea needs to confront is the obvious reality that China is a communist country. It is a country that upholds values and ideology that are not compatible to those of a democracy. The stone-cold reality is that China will never see and perceive our interest in the same terms. China will not change as long as the CCP remains in power and the Party upholds communism. China will continue to wage an ideological struggle with others. It will continue to attempt to decouple an alliance that it perceives to be encircling it. It will continue to seek ways to expel U.S. forces from its vicinity and dominate its surrounding region.

To deal with this challenge, Korea must expand its concept of alliance cooperation to something beyond military. Alliance cooperation opportunities in areas other than security are bountiful. From world heritage protection efforts to environmental protection, there are so many issues and areas where the ROK-U.S. alliance can



contribute to the well-being of humanity. Unfortunately, Korea has restricted its own concept of alliance to the confine of security and defense. It must now overcome the restriction it has put on itself and think globally with its ally as it now can afford to do so.

There will soon be a fundamental change in Korea's trade structure with the United States and China. One indicator lies in the persistent shrinking in Korea's surplus on these two markets. Korean industry has yet to do a complete makeover and therefore relies on a limited number of goods for exports. Without a fundamental change in Korea's export structure, it will be difficult to expect that surplus will recover in the foreseeable future. Hence, Korea's dilemma between the United States and China will transpire into something unprecedented. The strongest recommendation at this particular juncture is to defend our values and ideology.

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- <sup>3</sup> Hak-jae Kim, et. al., *Unification Perception Survey*, (Seoul: The Institute for Peace and Unification Studies Seoul National University, 2019).
- <sup>4</sup> Yong-ho Kim and Yoon-ho Kim, "Special Issue (2): 2021 Analysis of survey on Korea's perception of Asia," *Asia Brief: Current Issues and Policy Implications*, Vol. 2, No. 2, (Seoul: Seoul National University Asia Center, 2021). P. 3. The 20 nations surveyed included the United States, Sweden, Australia, Germany, France, Singapore, Taiwan, Mongolia, Uzbekistan, Thailand, the Philippines, Vietnam, Indonesia, South Africa, Russia, Ghana, India, China, North Korea, and Japan.



# REPUBLIC OF KOREA—CAUGHT IN THE MIDDLE OR PROBLEM SOLVER?

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## INTRODUCTION

The global challenges facing all countries are heightening nationalistic competition. While competition between countries has often driven both technological advances and protectionist pressures, today's fraught political and economic environment is leading to dramatic fragmentation. Future global growth will likely be lower, with greater inequality and increased volatility across markets.

China and the United States are the most obvious example of these tendencies, but other countries are also turning inward and becoming more wary of the risks to their economic security arising from dependence on foreign suppliers. This fragmentation will impede sharing knowledge and methodologies to address the health, climate, and demographic challenges that all countries face.

Overcoming these tendencies remains out of reach at the current time, due to severe political, security, and economic stresses. The key question for national leaders is how to shape policies to meet national priorities while not worsening the external impacts that fall on other countries. Ideally, new opportunities for economic cooperation should emerge to demonstrate that cross-border cooperation can deliver results. Bilateral, regional, and multilateral efforts should focus on addressing common problems.

This analysis will focus on the economic and financial aspects of the U.S.-China competition. South Korea's dependence on trade and investment with both countries provide an opportunity to seek areas where it can play a mediating or neutral role in proposing possible areas for agreement. To signal trust in its allies, the United States should deepen bilateral and regional outreach, support private sector engagement, and encourage deeper multilateral engagement.

## ORIGINS OF US-CHINA ECONOMIC COMPETITION

China's rapid reduction in poverty and improvement in living standards has been impressive. China was able to take advantage of relatively open global markets and focus on export-led growth based on low-wage manufacturing. At the same time, productivity was enhanced by significant state investment in infrastructure, education, and financial modernization as part of the market-oriented reforms of China's internal markets. Investment by foreign manufacturers and services providers helped accelerate these trends. The Chinese economy recorded strong economic growth and over the decades contributed significantly to overall global growth.

Other countries benefited by selling technologically advanced industrial and consumer goods to China. Germany, for example, over the years has sold a significant percentage of its industrial exports to China. U.S. high-tech firms welcomed



Chinese demand for their products and services and located manufacturing and assembly plants in China. Korea's exports to China grew significantly and focused increasingly on technology related products, helping propel Korea into the ranks of advanced nations.

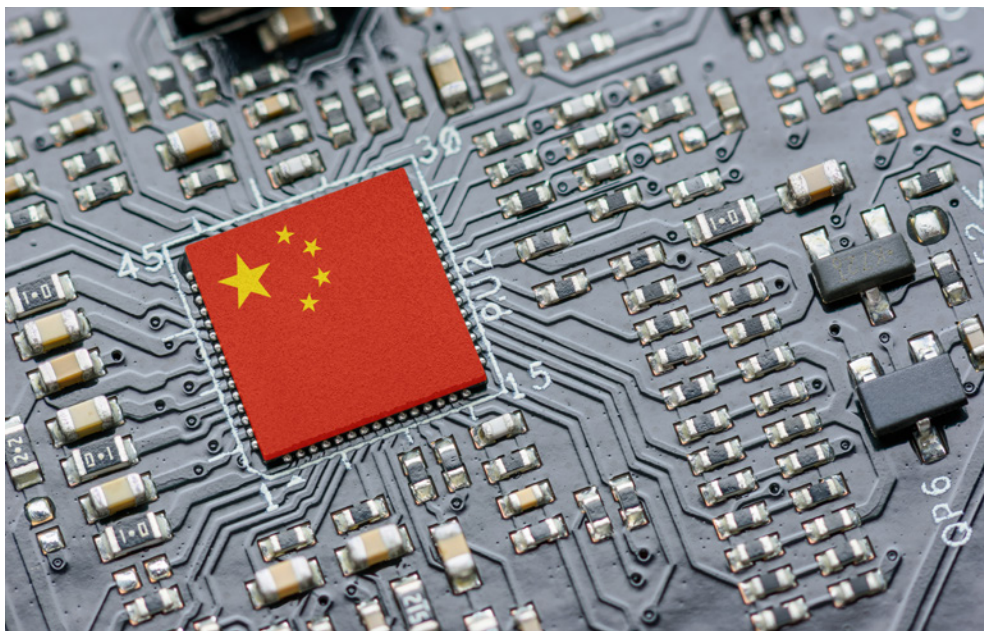
When China joined the World Trade Organization over 20 years ago, many predicted that China would become more open and its economy more market driven. In joining the World Trade Organization, China agreed to adopt many of the reforms urged by multilateral institutions and commit to the rules-based trade norms of the WTO charter. The extensive reach of state-owned enterprises was expected to shrink.

After an initial period of unleashed private sector initiative, however, President Xi Jinping has returned to the China of the past: It is now suspicious of a large private sector, and more committed to expanding state control over the economy and Chinese citizens.

## CONCERNS OVER CHINA'S USE OF TECHNOLOGICALLY ADVANCED PRODUCTS

As a result, the United States, Europe, and others have grown increasingly wary of how China has used imports of advanced technology. Sophisticated products and technological methodologies were sold to Chinese firms and used to produce products sold around the world. US authorities now appear confident that these advanced technologies have migrated to China's military. In response, the Biden Administration has recently placed restrictions on these exports, including from other countries exporting products using advanced US technologies. While US policymakers may be comfortable with Chinese firms producing and assembling consumer electronic goods, they are reluctant to see China become a technological equal or apply advanced Western technologies to military uses.

China's goal of securing regional dominance appears clear, given its efforts to establish footholds among the South China Sea islands and political/security agreements with some Pacific nations. China's actions against Taiwan, a major computer chip manufacturer, are also increasing regional and global tensions.



Despite security jitters, many Asian nations remain dependent on trade with China for growth, job creation, and income generation. Japan and South Korea have highly developed technology sectors, trading with and investing in Chinese firms, whether state-owned or private. Other Asian economies rely on China's huge market as a buyer for their manufactured goods or commodity exports. China's large share of metals refining adds to dependence on Chinese exports for inputs needed in many newer technologies such as electric vehicles.

For the United States to effectively contain China's ability to produce technologically advanced goods without the critical inputs produced elsewhere, other countries, including Korea, Japan, Germany, and the Netherlands, must also limit their exports of these inputs to China.

The export controls imposed on these products will lead China to accelerate development of its own highly advanced technological capabilities. China has already demonstrated its ability to reprogram Chinese talent and resources into high priority sectors, including space launches and expanded military readiness.

These competitive pressures are leading the United States and China to engage in immediate and negative competition, applying economic sanctions to meet national security priorities. Korean firms are impacted given their high levels of trade with China. Some exceptions are being granted, but firms will be wary of crossing the U.S.-imposed line on technology transfers. This is a very difficult situation for firms in third countries, and the U.S. government should make every effort to pursue concrete alliances that deepen economic ties with key partners and strengthen supply chains.

As the United States formulates its sanctions policies, it should simultaneously reach out to economic partners with assurances about how economic consequences in third countries will be addressed and impacts lessened. Partners should be able to make suggestions regarding sanctions application to reduce adverse effects while securing compliance. U.S. policies should aim to encourage deeper economic ties with Korea, to offset the impacts of restrictions on linkages with Chinese firms. South Korea, with its network of free trade agreements around the Pacific Rim and elsewhere, will look to these markets as well.

## ECONOMIC COMPETITION AND IMPLICATIONS FOR EXCHANGE RATES

President Xi has said China's currency, the Renminbi, or yuan, should play a larger role in the global economy, befitting China's status as the second largest economy in the world. China has succeeded to some extent and is beginning to issue a digital currency for domestic use, perhaps in part to help with eventual internationalization of the yuan. China pays for some imports in yuan and receives payment in yuan for a small portion of exports. China uses the yuan in some investment projects, including Belt and Road Initiative spending.

Other countries are willing to utilize the yuan in trade with China when they both export and import goods and services to and from China. Foreign central banks have begun to hold yuan in their foreign exchange reserves, for the convenience of their own firms and to demonstrate to China their recognition of the importance of the Chinese economy.





Nonetheless, a country cannot simply by decree internationalize its currency. Global market practices drive currency preferences, and many internationally traded goods are priced in US dollars. The advantages of using dollars for paying for goods and services even when not transacting with a U.S. firm have relegated other reserve currencies to a much smaller role. Even the formation of the Eurozone, with an economy and population larger than in the United States, did not drive the euro to global dominance.

The U.S. dollar has continued its currency dominance for several reasons. In the post-World War II period, the United States was the largest market for many countries, resulting in their firms' focus on competitive dollar pricing. Trade with the United States brought dollars to Europe and ultimately generated a large market, with U.S. dollars moving through European banks and being spent on trade with countries other than the United States. Firms being paid in dollars for their goods could safely deposit those dollars in U.S. banks and other banks located in global financial centers such as London with the knowledge they could withdraw those funds as needed. The U.S. financial market offered a range of financial instruments for holding currencies, including bank accounts, U.S. Treasury securities, corporate stocks, and bonds. Finally, U.S. financial markets have been large enough to absorb these flows and accommodate inflows and outflows. This trade was made easier once the US and other countries abandoned fixed exchange rates and lifted controls.

The search for an alternate global reserve currency leads many to the International Monetary Fund (IMF), which decided in 2016 to include the Chinese Renminbi or yuan in the valuation of the IMF's Special Drawing Right (SDR). IMF members must approve any issuance of new SDRs, which are held in countries' foreign exchange reserves. While SDRs are not used for international trade or investment, countries can exchange their SDRs with other IMF members for hard currencies when needed. In determining which currencies are included in the SDR basket, the IMF looks at trade denominated in yuan, used in about 12 percent of global trade transactions. However, in terms of variables measuring a currency's use in global financial transactions, the yuan's share is significantly below that of the U.S. dollar, euro, Japanese yen, or UK pound. This may reflect the Chinese government's controls on financial flows into and out of its markets.

The People's Bank of China, the Chinese central bank, has over the years taken steps to increase the role of market forces in its financial markets, with the aim of



improving resource allocation. But the PBoC is not an independent central bank akin to the U.S. Federal Reserve or European Central Bank. The PBoC must respond to the demands of China's political leadership regarding domestic financial regulation, exchange rate policy, and key monetary policies. This central control limits the attractiveness and availability of Chinese financial instruments to foreign investors, which has the added benefit to China of limiting upward pressure on the foreign exchange value of the yuan. Until the Chinese authorities are willing to give up tight control over financial markets and policy instruments, global markets will not seek to make it the dominant currency.

In sum, the Chinese Renminbi or yuan is unlikely to replace the U.S. dollar as the global reserve currency or preferred currency for international transactions.

With that said, concerns have grown relating to the volatility of the U.S. dollar in 2022 as the Federal Reserve has tightened monetary policy far more quickly than most other jurisdictions. The dollar has appreciated most rapidly against the euro, yen, Chinese yuan, Korean won, and other Asian currencies. For countries with dollar denominated external debts, local currency costs of servicing that debt have risen. Countries experiencing rapid depreciations against the dollar may find exports booming, but critical imports priced in dollars become more expensive and squeeze domestic consumers and producers who may be dependent on imported inputs such as oil and gas.

To help countries manage dollar liquidity in their foreign exchange markets, the U.S. Federal Reserve has standing swap lines with several central banks, which allow foreign central banks to exchange dollars for their currency to meet dollar liquidity needs in their financial markets. The Federal Reserve has in the past agreed to swap lines with the Bank of Korea, but that arrangement is not currently active. Given Korea's role in trade, investment, and capital markets, the Fed might consider including the Bank of Korea in the list of standing swap lines. China's central bank, the PBoC, also has extended swap lines with many central banks, including the Bank of Korea and even the European Central Bank. Swap lines help these central banks meet demand for yuan in their markets but are not a long run financing tool.

Global demand and supply drive overall currency utilization but national policies can influence a country's exchange rates. Under U.S. law, the Treasury Department evaluates country currency practices and calls out those countries that it believes are acting to depreciate their currency to gain unfair competitive advantage. Several countries have been cited in the past, and Korea was included in [Treasury's monitoring list](#) earlier this year.

Currently many Asian countries, including South Korea and Japan, are using their foreign exchange reserves to cushion the downward movement of their own currencies while raising domestic interest rates, making it difficult for the Treasury to cite these countries for unfair currency practices. China has not sold official reserves to cushion significant yuan depreciation in 2022, which increases the stress on other Asian currencies.

The clear message is that currency volatility adds to uncertainty and raises costs. This can encourage more bilateral trade priced in currencies other than the U.S. dollar. Countries will maintain large foreign exchange reserves for their own protection. The Bank of Korea and other central banks will be tested as the global economy experiences both inflation and the risk of recession.





## GLOBAL COMPETITION PRESENTS RISKS FOR GLOBAL FINANCIAL INSTITUTIONS

China plays an important role in the key international financial institutions, including the International Monetary Fund (IMF), World Bank, Asian Development Bank (ADB), and Asian Infrastructure Investment Bank (AIIB). The IMF draws its funds for lending from its members' quota subscriptions. A subset of countries with strong balance of payments positions comprises the pool of currencies the IMF prioritizes as sources for loanable funds. In addition, China, the United States, European countries, Japan, Korea, and many other advanced and middle-income countries provide back-up funding commitments to the IMF to be activated if necessary.

China's funding commitments to the IMF show its support for this multilateral institution. China's IMF membership share, or quota, is about six percent of total quotas, however, far below its weight in the global economy, now over 15 percent. Increased membership share for China can only come via a reduction in other members' quota shares. This has been a difficult ongoing negotiation for many years, and China is justifiably frustrated by these delays.

The IMF has set the end of 2023 as a deadline for agreeing on an updated set of country quotas, but agreement is unlikely. In the past, the United States supported reallocating quota shares to better reflect China's role in the global economy and secure China's commitment to the multilateral institution. The reality today is that IMF members will not approve a significantly higher quota for China that would result in reduced shares for Europe, some emerging markets, and lower income countries. Furthermore, while the U.S. veto power will mean the U.S. quota share would likely change little, Congress must approve any increase in the U.S. quota. For the foreseeable future, neither Congress nor the White House will have any interest in approving a quota agreement that results in a meaningful increase for China.

While China's quota and voting power at the IMF have remained below China's economic weight in the global economy, China has nonetheless achieved influence and a strong voice within the IMF. As noted above, China's currency was added to the SDR basket of currencies several years ago, despite its limited use as an international currency. A Chinese official has been added to the roster of deputy managing directors, with responsibility for managing IMF relations with a number of countries and with oversight over a subset of IMF activities. With the IMF's focus on widely shared buy-in for its policy and lending decisions, the Executive Board seeks to reach a broad consensus on activities. China has a strong voice in policy and lending deliberations, not least because it has become a major bilateral creditor to many middle income and developing countries.

This does not mean that other countries cannot have a strong voice. South Korea's representatives at the IMF have influenced policy deliberations, speaking from experience in weathering periods of severe economic stress in the past. Korea's role at the multilateral development banks provides opportunities as well for a leadership role.



## CHINA'S BELT AND ROAD INITIATIVE

China's Belt and Road Initiative has brought new railroads, highways, ports, and other infrastructure to many developing countries, enhancing their production and export capacities. These projects have been welcomed by national and local officials seeing opportunity for growing skills and incomes in their jurisdictions.

Unfortunately, a number of these projects have not generated enough income to enable the country to repay the associated debt. Countries seeking restructuring of these debts have encountered obstacles.

A high priority project has been the China-Pakistan Economic Corridor, or CPEC, building a transportation connection from China's border to the Arabian Sea. Work has been underway for several years, but associated debts are starting to come due before the corridor is generating substantial revenues for Pakistan's borrowers. Economic troubles, including its unmanageable debts, are leading Pakistan back to the IMF for another lending program. Recently, Pakistan's Minister of Finance told Reuters that Pakistan will seek to restructure its debts, with some \$23 billion owed to Chinese lenders.

IMF programs require countries to report their debts, including the terms and payments coming due during the program period. For many countries seeking the IMF's help dealing with their debt distress, details cannot be disclosed due to clauses in the contracts with Chinese lenders that forbid disclosure. Chinese lenders often resort to quietly stretching out payments coming due but do not agree to forgive any of the principal or overdue interest payments. With no public comment from Chinese lenders regarding Pakistan's debt troubles, it is unclear as to the likely outcome and its impact on Pakistan's IMF request.

Low-income countries are particularly vulnerable to debt distress, as emphasized repeatedly by the IMF and World Bank. The United States has a long history of renegotiating debts owed by developing countries facing a payments crisis. The United States, Korea, and other creditor countries are part of the Paris Club, an informal grouping that collectively negotiates with debt distressed countries and commits to deliver debt relief on the part of their official or government owned lenders. Low-income countries benefited from debt forgiveness over the past 20 years as well, and Korea, as a creditor nation, has participated in these initiatives.



With China the major bilateral creditor for many low-income countries, the G20 Common Framework is now the forum for negotiating low-income country debt restructurings. Zambia is currently trying to renegotiate its debts with its creditors, but some Chinese lenders have held back. The IMF approved a lending program in August 2022 and released an initial disbursement. Further IMF financing under this program is dependent on Zambia and its official bilateral creditors reaching agreements on restructuring details. IMF management and IMF board members will hesitate to disburse funds if they fear Zambia might repay Chinese lenders when other official creditors are agreeing to postpone and reduce future debt service repayments.

Chinese officials co-chair the group under the G20's Common Framework negotiating with Zambian borrowers, but they are unable to compel all the Chinese government-owned lenders to agree to a Zambian debt workout. With other low-income countries already seeking debt treatment under the Common Framework and more likely to do so in the near future, this is an important test of China's commitment to assist low-income countries and of the PBoC and Finance Ministry's power to secure debt relief from all Chinese lenders.

## ALTERNATIVE INVESTMENT INITIATIVES

In response to the Belt and Road Initiative, the U.S. government is increasing the resources it has committed to development projects around the world. The U.S. International Development Finance Corporation, which folded together the Overseas Private Investment Corporation and other financing and investment-oriented arms of various U.S. agencies, is helping countries develop local capital markets, providing financing for green investments, education, and infrastructure to help modernize financing and build productive sectors around the world. The G7 announced the Partnership for Global Infrastructure and Investment, aimed at generating \$600 billion in additional investment globally. These amounts do not match China's commitments but aim to attract and reassure private capital that developing country investment can pay off.

U.S. commitments to the World Bank, its low income arm the International Development Association, and to the Asian, African, and Inter-American Development banks can deepen the focus on development projects that result in less debt, more job creation and income generation, and generate environmental improvements. Finally, the U.S. has worked with Asian countries in developing the Indo-Pacific Economic Framework. The next step is to energize these partnerships and deliver projects that draw private sector participation, promote cleaner production methods, jobs, and investment in human capital.

In this competition to foster development around the world, China likely is winning the numbers game, although BRI investments are being scaled back as recipient countries experience more debt distress. Countries such as the United States and Korea can instead focus on using their technological expertise and familiarity with longer-term financing structures to expand private sector participation in needed development projects. Promoting open, transparent investment while addressing local needs will be beneficial to all parties.



This argues for an enhanced role for the World Bank and the regional development banks. While the United States remains the largest shareholder in the World Bank, China plays an increasingly important role as a source of funding and as a provider of the project management and related services. At the same time, China continues to borrow from the World Bank, despite China's own abundant financial resources, but claims that World Bank involvement in projects helps generate reform and modernization in various areas.

The Chinese roles in the Asian Infrastructure Investment Bank, the Asian Development Bank, and other regional institutions give it a strong voice in determining how these institutions operate. In these organizations, China must cooperate with other members who bring to the table high standards for project evaluation and transparency. Korea is also an important member of these organizations, and multilateral development banks have issued bonds in Korean won to broaden sources of development financing.

All these institutions will be challenged to help countries manage the impacts of changing demographics, climate, technology, and global political dynamics. Russia's war in Ukraine, with its impacts on food and energy supplies and prices, puts pressure on global financial institutions to step up to cushion the blow to countries in Africa, Asia, and elsewhere. Russia is a member of the World Bank and regional banks but has a far smaller role and therefore is not able to prevent support flowing to affected countries, including Ukraine. China's focus on trade with, and investment in, emerging markets and developing countries gives it far greater influence but also far greater exposure to being the major source of excess debt.

China's conflicted relationship with many indebted countries gives South Korea and others the opportunity to propose initiatives to help middle- and low-income countries manage these transitions.

Besides immediate challenges, all countries face longer-run problems now surfacing daily in climate disasters, migration flows, ongoing pandemics, and aging populations, among other trends. These challenges call for a refocus of multilateral institutions on mobilizing more private financing for new investments and retooled infrastructures around the world. All the institutions have searched for ways to provide assurance to investors that longer-run payoffs will emerge even if short- to medium-term returns are low.

Korean firms have long been active in construction, transport, and manufacturing inside and outside Korea. Korean banks and investors have financed these longer-term projects, often working with multilateral development banks and other private investors. Korean expertise will become even more valuable in the future in addressing burgeoning problems. Regulators and policymakers in all countries should focus on how to attract flows from pension funds and insurance companies, as well as sovereign wealth funds, into an increased role in direct funding of these long-term transitions. Educating investors on the need for increased tolerance of funding for lengthy payouts will be challenging. Innovative thinking on the part of official lenders and financial sector regulators will be needed.





## FOCUS ON THE POSITIVE

Political leaders remain focused on their immediate challenges—national security and economic prosperity—both of which are more difficult to achieve in today’s stressed global environment. U.S. and Korean officials realize these tensions call for improving regional ties, supporting growth and development around the world, and building deeper ties among like-minded countries. Korea is an active participant in global and Asian economic forums and is well placed to bring countries together by sharing its expertise and achievements in rapid development.

All countries face the same global trends: changing climates, aging populations, and continued risks of virulent pandemics. Korea has had to adjust to changing conditions in the context of a very worrisome security situation on its own peninsula. Korean firms’ adaptability and government policies position Korea to play a central role in bringing countries together on strategies to address these problems. Korea can share methodologies and investment expertise to encourage cooperation and find solutions to these problems. Seoul can play a vital role in beginning to repair our fragmented global economy.

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# POSTSCRIPT: HOW U.S. ALLIES IN ASIA CAN HELP AVERT A U.S.-CHINA WAR

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The danger of war in the Western Pacific is rising, and so is the importance of U.S. allies in such a conflict. This is true as a matter of warfighting; it is just as important as a matter of deterrence. The consequences of any great-power war between America and China will be horrific, which means that a conflict deterred is far preferable to a conflict won. Yet deterring China from reordering maritime Asia by force may well require convincing Beijing that any war it starts will become a big, regional war it probably cannot win—and this, in turn, will require more public support from U.S. allies and partners, including South Korea, well before a conflict starts.

As recently as 2020, the conventional wisdom in Washington was that conflict with China this decade—over Taiwan or some other East Asian hotspot—was unlikely. That is no longer the case. China’s capabilities are improving rapidly; its behavior toward Taiwan has become more coercive and threatening. Now, many U.S. officials are warning publicly that war could come by 2027, or perhaps even before that.<sup>1</sup> Privately, administration officials—even those who I would hardly characterize as card-carrying China hawks—say much the same thing. No one really knows what is in Xi Jinping’s head, of course. But as regional tensions rise and the military balance of power shifts in China’s favor, it is only prudent to worry that war could come sooner rather than later.

If war occurs, it will be a terrible, world-changing event. Great-power conflict in the Western Pacific would rip apart supply chains and trade routes, causing—at best—a severe global recession. The fighting might sprawl geographically, as the United States seeks to choke off China’s energy supplies, sink its navy, and destroy its global military infrastructure. It would carry significant risks of nuclear escalation. It is hard to say how such a conflict might end, because both sides would have strong incentives to keep fighting even if they suffered heavy losses.<sup>2</sup> Indeed, even the side that “won” a U.S.-China war, in the sense that it achieved its strategic objectives, might emerge from the conflict badly weakened for years to come. In one recent wargame, for instance, the United States prevailed in a Taiwan conflict, but only by accepting losses—two aircraft carriers and hundreds of combat aircraft—more reminiscent of World War II than of Afghanistan or Iraq.<sup>3</sup>

Such a war would also have dramatic implications for every U.S. ally and partner in the Indo-Pacific. A Sino-American war would not simply be a war over Taiwan or the Senkaku Islands; it would be a war to determine which country sets the terms of order along the First Island Chain and beyond. A Chinese victory could put Beijing in position to dictate military, diplomatic, and economic relations with its neighbors, upending the “regional operating system” U.S. power has long underpinned.<sup>4</sup> So even countries that did not participate in a U.S.-China war would feel its impact, especially if America lost. If, moreover, the United States were perceived to have



lost in part *because* key allies opted to sit out the fighting, the postwar blowback against those allies in Washington would be severe.

Today, unfortunately, the United States is sliding into a position where it could well lose a war that erupts in the next 3–5 years, and the trends (at least through the end of this decade) are likely to remain unfavorable. The Pentagon remains far too dependent on a small number of bases, aircraft carriers, and other large, expensive, and highly vulnerable platforms. It probably does not have enough long-range, precision-strike munitions even for a short, sharp conflict; it certainly lacks the robust defense industrial base needed to replenish depleted stockpiles, replace lost ships and planes, and otherwise thrive in an extended struggle. Although the United States and some key allies are now modernizing their forces with a Western Pacific contingency in mind, the military balance will get worse before it gets better. The United States is set to retire an array of aging ships, submarines, and airplanes later this decade, just as China—which is slated to complete its current set of military reforms in or around 2027—reaches a higher state of readiness.

To deter—and if necessary—win a war with China, the United States thus needs to be improving its capabilities on something like an emergency basis, in ways that Michael Beckley and I have described at greater length in our recent book.<sup>5</sup> What Taiwan does—whether it truly embraces an all-out effort to adopt an asymmetric defense strategy and prepare for whole-of-society resistance—is even more critical. Yet defense and deterrence in the Western Pacific is a three-legged stool, and the decisions that U.S. allies and partners make will go far in determining the outcome of a clash for regional hegemony.

In some cases, this is a matter of capability: A war in which China confronts the combined military power of the United States, Japan, Australia, and Taiwan is different than one in which it confronts just Washington and Taipei. In some cases, it is a matter of strategic real estate: A war in which Beijing has to suppress U.S. forces operating from the Philippines, South Korea, northern Australia, and a number of Japanese islands is different than one in which it simply has to knock out facilities on Guam, Okinawa, and a few other aim points.<sup>6</sup> (In the same vein, access to India’s Andaman and Nicobar Islands could facilitate a far seas blockade of China’s energy imports.)

The United States might also turn to allies for industrial help during a conflict, by utilizing their shipbuilding capacity to replace lost vessels; it might ask non-combatants to help replenish depleted U.S. munitions stockpiles, provide intelligence, or participate in an economic and technological punishment campaign.<sup>7</sup> In short, whether the United States envisions a short war or a long war, whether it pursues defense by denial, coercion by cost-imposition, or some combination of the two, it will have better prospects if the allies help.

South Korea is a crucial potential partner for the United States in any future Pacific conflict. It has not only one of the world’s largest economies, with a substantial defense-industrial base and top-tier high-tech sector, but also one of the world’s largest and most capable military forces—with more than 625,000 troops on active duty, more than 1,500 aircraft (fixed wing and rotary), and 234 naval vessels. Among U.S. allies in East Asia, only Japan can rival South Korea for military capabilities. (It has a more capable navy and a roughly comparable air force but a much smaller army.)

The prospect of a coalition response may also be the best way to deter China from starting a conflict in the first place. My view is that even a more risk-acceptant



China will be deterred from attacking Taiwan if it fears that: (a) there is a substantial danger such an attack will fail, perhaps jeopardizing the regime's stability in the process; and (b) even if the attack succeeds, China will have derailed its own rejuvenation by turning the region and much of the world against it. The larger and stronger the coalition China expects to face in a conflict—the more countries it will have to batter and bloody to get its way—the more likely both conditions are to be met.

Here, though, lies a key challenge: Only intentions and capabilities that are known *before* a war begins can help prevent it. The relatively strong European reaction to Vladimir Putin's invasion of Ukraine was a welcome surprise, but it was worthless from the perspective of deterrence precisely because it was a surprise. Similarly, many countries in the Indo-Pacific and beyond may not want to lean too far forward in advertising their willingness to contest, militarily or otherwise, a Chinese invasion of Taiwan, for fear of suffering economic punishment or other retaliation by Beijing. They may think that the shock of an actual Chinese attack on Taiwan will be helpful, even indispensable, in convincing their populations that intervention (military or otherwise) is necessary. Yet this approach makes U.S. planning and preparation very difficult; it makes deterring Beijing even harder.

It seems likely, then, that the intensity and urgency of U.S. conversations with key allies, including the ROK, will ramp up significantly and soon. The United States will struggle to win a Sino-American conflict over Taiwan without strong support from allies and partners; it may struggle to deter such a war if that support is not signaled in advance. This decade is shaping up to be very dangerous. Expect the United States to push its allies hard, now, so that they are collectively ready for a conflict that we all hope will never come.

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