

Status, Transition, and Impact of the Yoon Suk-yeol Administration's Trade Policy with China

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Abstract: China is Korea's main trade partner in East Asia and one of its key economic and trade partners worldwide. The two countries have complementary industrial structure and a long history of trade exchanges. However, against the backdrop of a return to global trade protectionism and the politicization of international affairs with Yoon Suk-yeol coming to power, South Korea has undertaken a strong trade shift toward the United States (US), triggering a change in the pattern of economic cooperation in East Asia and challenging the regional trade structure. A review of the trade policy agenda of the Yoon Suk-yeol administration toward the US and China, along with a comparative review of Korea's foreign trade stance under Moon Jae-in, allows for an analysis of the turnaround and characteristics of Yoon's trade policy toward China during his tenure. The implications for global trade governance and regional security are further analyzed with an aim of finding a Nash equilibrium in trade cooperation among East Asian countries.

Keywords: Yoon Suk-yeol administration; Trade policy with China; Transition; Economic cooperation; Economic layout of East Asia

Online publication: February 14, 2023

1. Introduction

The year 2022 marked the 30th anniversary of the normalization of relations between China and South Korea. Driven by global economic integration with the expansion of economic and trade cooperation between China and South Korea as well as the increasing coupling of industrial structures, both sides have become important trading partners of each other. A series of economic and trade organizations and bilateral and multilateral cooperation have been established. However, with the administration of Yoon Seok-yeol, there has been a return to trade protectionism and conservatism within South Korea, a change from the previous economic and trade model to an economic policy that emphasizes "pro-US, distant-China" and "selective barriers" in addition to a radical politicization of economic issues. While undermining the inherent economic and trade cooperation system between China and South Korea, the political identity of South Korea on the Chinese side has been affected to a certain extent with increasing tensions in East Asia. Using the comparative analysis method and the historical agenda review method, by reviewing the proposed trade policy of Yoon's administration toward China and its main contents as well as comparing it with the previous government, the main features of its economic and trade policy transitions can be identified and further analyzed in terms of the impact they have had on the Korean economy and politics, such as benefitting the construction of a new self-cyclical industrial ecosystem, enhancing its international economic influence, cooling relations with China, increasing geopolitical tensions, *etc.*

2. Status

Korea is an export-oriented country with a total trade import and export value of US\$ 1.2596 trillion in 2021, ranking eighth in the world. The country's economy is influenced by foreign trade to a relatively large extent. Due to the continuous growth of China, Korea's number one trading partner, the industrial complementarity between the two countries in a number of areas is gradually decreasing, and the trade structure between China and Korea is changing from a complementary structure with division of labor to a competitive structure. The trade specialization index (-1 to +1) has shown that from 2011 to 2021, China and Korea were in a "competitive" relationship in the aerospace sector (0.082), but Korea was at an "absolute disadvantage" and a "relative disadvantage" to China in the fields of pharmaceuticals (-0.516) and computer and office equipment (-0.433), respectively^[1]. The continuous growth of the siphoning effect of China's trade and economic activities on Korea has absorbed a large amount of Korean investment in China. By the end of 2021, Korea had invested a total of US\$ 90.23 billion in China, while China had invested only US\$ 7.61 billion in Korea. South Korea, formerly an information technology (IT) powerhouse, had also "ceded" its technological dominance in several high-tech industries to China, with Korea Technology Planning and Evaluation Institute (KTPI) stating in its 2020 Technology Level Report that South Korea's technological level, which was three years ahead of China's in 2010, will be 0.1 years behind China's in 2020^[1]. As the leader of the Conservative Party, Yoon chose to pursue a conservative economic policy after becoming president, politicizing the country's economic issues and causing a return to trade protectionism across Korea. In terms of multilateral relations, Yoon has made "pro-US and distant-China" the core ideology of his policy, shifting from the diplomatic neutrality of his predecessor's administration, mainly in the form of Korean-US integration and decoupling from China.

3. Key elements of the transition

3.1. Refocusing foreign economic cooperation through a "tilt toward the US" policy

Moon's government was facing not only domestic conflict over the impeachment of Park Geun-hye, but also high international tensions over the US-Korea-North Korea nuclear issue and the US-China Terminal High Altitude Area Defense (THAAD) crisis. Hence, the goal of foreign economic cooperation at that time was to stabilize people's livelihoods and seek a new impetus for Korea's economic growth within limited diplomatic space. This was why the Moon Jae-in administration adopted the "New Economic Vision for the Korean Peninsula," the "New North Policy," and the "New South Policy" to divert the focus of foreign economic cooperation. In addition to strengthening the military alliance between South Korea and the US, the government also strengthened economic cooperations with Russia, ASEAN, India, and other countries, maintaining normal economic relations between China and South Korea under the China-Korea Free Trade Agreement (FTA) and reducing the impact on Korean companies that have close economic relations with China due to the US sanctions against China. At the same time, North Korea was also included as the focus of South Korea's foreign economic cooperation in order to ease tensions over the nuclear issue on the peninsula and improve South Korea's international political status.

However, with the deepening international strategic competition between the US and China, the pressure on Korea to compete with the big powers intensified. The US no longer tolerated South Korea's "two-way hedging" strategy and initiated a number of multilateral cooperation mechanisms, such as the Indo-Pacific Initiative and the Quadripartite Talks, with the aim of geopolitically isolating China and politically grouping it. The US also adopted a political bloc approach. The 2021 US National Medium-Term Strategy Report repeatedly states that the US will promote cooperation with "like-minded" countries. Therefore, whether due to political oppression by the US or the coercion of other capitalist countries, South Korea must expand its economic cooperation with the US. In addition, the rapid development of China's high-tech industries, the deepening of structural industrial conflicts between China and South Korea, as

well as the shift from cooperation to competition between the two countries made it necessary for South Korea to adjust the depth of its industrial cooperation with China based on industrial interests.

As a traditional Western establishment politician, Yoon places emphasis on the Korea-US partnership, attempting to use the policy tilt to focus the fragmented economic partnership and expand the reach of Korea's economic influence based on this. While structuring economic cooperation, it has greatly strengthened the adhesion of the Korea-US industrial chain and intentionally maintained the technological generation gap with China to safeguard Korea's economic pre-eminence and independence ^[2]. At the same time, political and economic alliances have been used to actively explore the Indo-Pacific, ASEAN, and Eurasian markets in an attempt to politicize the economy and seek collective economic security. The core path of the Yoon administration is to establish Korea as a "global hub country" by participating in economic and political organizations and connecting Europe, Asia, and Africa, while taking the Indo-Pacific Economic Framework (IPEF) as the core ^[3].

3.2. Two-way hedging, cooperation with China

South Korea's political, diplomatic, and military autonomy was greatly affected by the 2016 THAAD's entry into the Republic of Korea (ROK), leading to a freeze in Sino-South Korean relations, and the security dilemma caused by the division of the peninsula and the ROK-US alliance. As a result, Moon's government adopted an "ambiguous strategy" policy toward China and the US in order to reduce tensions. The policy consists of three external dimensions: not taking sides neither with China nor the US; a vague discourse on China and the US, without expressing a clear position; and a specific analysis of the economic and military aspects of China and the US. At the same time, Moon actively promoted economic ties with India, ASEAN, Russia, and other countries and was committed to reducing its trade dependence on China and the US by diversifying its import and export markets as well as building multiple import and export market focuses, so as to achieve "China-US-other-country" risk hedging.

Under the Yoon Seok-yeol administration, China has been Korea's top foreign trade partner for 18 consecutive years, with large volumes of transactions. China is also a major supplier to Korea in the materials market, in which more than 80% of the key raw materials for electric vehicle batteries imported by Korea, including lithium, cobalt, and graphite, come from China, and nearly 85% of the anodes and 73% of the cathodes used in electric vehicle batteries are imported from China ^[4]. There are conflicting diplomatic tendencies and political relations between South Korea and the US, and China has a high geo-security priority for South Korea. There are also cultural and historical commonalities between South Korea and China ^[5]. A systematic pattern of intensive cooperation has developed over the three decades of diplomatic relations between China and South Korea. As a result, it is difficult for South Korea to achieve complete economic decoupling from China. Yoon has attempted to maintain a generally dynamic and balanced structure in the economic exchanges between major powers, rather than completely falling back on the US, thus adopting a "two-way hedging" strategy between China and the US and to some extent maintaining cooperation with China and granting relevant policy preferences. After the Regional Comprehensive Economic Partnership (RCEP) came into effect, both China and South Korea made high-level open commitments to creating better conditions for trade and investment liberalization and facilitation between the two countries, forming a superposition effect with the existing FTA between China and South Korea, promoting cross-border flows of goods, technology, services, and capital, as well as injecting strong momentum into regional economic integration.

4. Impact

4.1. Alleviating structural contradictions within Korea

The supply chain of Korea, as an export-oriented country, is becoming increasingly vulnerable as the

strategic game between China and the US intensifies. The geo-economic competition between the two countries is intensifying as the industrial division of labor between China and South Korea is gradually shifting from a vertical one to a horizontal one. There is a serious brain drain from some of South Korea's advantageous industries and an erosion to its advantages due to the lack of industrial innovation; in addition, the technology gap with China is narrowing. In the age of the pandemic, Korea's economy has suffered a serious downward spiral, resulting in a decline in the quality of national life, a surge in housing prices, and a rise in the Gini coefficient, which has led to sharp social tensions and other problems ^[6]. Therefore, in order to strengthen the security of the country's supply chain, the Yoon Seok-yeol administration has promoted a new level of bilateral and multilateral cooperation based on a supply chain restructuring strategy by adjusting partnerships with India, ASEAN, and European countries and changing the focus of Korea's global industrial division of labor. The new foreign economic policy has strengthened cooperation with the US in high-tech fields, such as semiconductors, increased investments in high-tech fields, promoted industrial innovation, and maintained the technology gap with China. In addition to this, Yoon's administration has vigorously pursued domestic industrial reforms aimed at expanding domestic demand and building Korea's internal circulation, which are conducive to ensuring the country's economic security and injecting vitality into the country's economy in an international context of competition between major powers.

4.2. Exacerbated political and economic tensions in East Asia

The geopolitical impact of Yoon's trade policy shift toward China has been mainly in the form of increased regional rivalry and a "new cold war" dynamic. Intuitively, it has directly led to a certain degree of rigidity in Sino-Korean relations. The economic decoupling has also brought about political indifference, with its connotations of diplomatic gifts, and dragged the economic relations between China and South Korea into a political narrative, sensitizing and sharpening the economic and trade exchanges between the two countries. The exchange of core technologies, their personnel, and pillar industries, and the openness of markets have all suffered as a result of the political breach of trust, prompting an unbundling of regional cooperation between two important East Asian economies, a spillover of resources that had been circulating within the region, and the reawakening of political conflicts in East Asia that had been put on hold, thus resulting in region-wide economic sensitivity. Both North Korea and Japan, which are closely linked to South Korea, can hardly remain oblivious.

On the one hand, the promising inter-Korean relations have taken a turn for the worse due to political polarization. China and North Korea, as important political and cooperative allies in close proximity, have strongly bound diplomatic and geo-bloc interests. The strong westernization of South Korean economic policy has triggered a crisis of confidence in North Korea, a socialist state that has not undergone full marketization. It is difficult to break the security dilemma between the two countries. In its quest for international status and political alliance, an economically hampered North Korea may develop a nuclear strike capability vertically, seeking to break down economic barriers with the political leverage that comes with nuclear deterrence. In March 2022, North Korea resumed its test of an intercontinental ballistic missile, which passed through the South Korean mainland and a part of the Japanese island chain before crashing into the Sea of Japan, bringing the situation in the Korean peninsula back into a new cycle of tension.

On the other hand, Japan and South Korea, which are in the same Western camp, have difficulties in generating complete mutual trust due to complex historical and cultural issues, geopolitical locations, and similar industrial models and structures established after the war; at the same time, it is impossible to have embedded cooperations in their economic structures. As South Korea and Japan are both allies of the US in the Asia-Pacific region, they are naturally very concerned about the level of cooperation and diplomatic alignment of the US. The rapid turnaround and aggressive international performance of Yun's

administration under US influence is likely to sting Japan, which is in a similar position, and force Japan to reluctantly choose to cede more domestic interests or make more drastic diplomatic statements, causing economic and political internal conflicts between the two countries in search of alliance recognition to achieve a higher priority for cooperation. With competition gradually replacing cooperation between Japan and South Korea, the already thin political identity could easily turn into bitter rivalry, further fragmenting the East Asian landscape.

5. Conclusion

The shift in Yoon's policy toward China is mainly in areas of "building a comprehensive alliance between the ROK and the US" and "maintaining limited cooperation with China." However, its overall foreign economic and trade policy shows a clear "pro-US" stance. As a result of the Yoon administration's regional political bloc, relations between China and South Korea are turning cold and the situation in East Asia is becoming more tense. However, with the help of the US, South Korea will expand their cooperation with the US in various fields, trade protectionism between the two countries will rise, there is hope that South Korea's domestic economy will see a certain degree of recovery, and South Korea-Japan relations will also see normalization in the short term. However, in view of the escalating strategic competition between China and the US and given that South Korea is already in a multi-dimensional and complex level of dependence with both the US and China, South Korea should adopt a balanced policy between the two countries and dynamically adjust the depth of cooperation with both countries in different industries in order to achieve South Korea's foreign strategic objectives in a phased manner. A blind defection to the US, however, will raise the threat to South Korea's economic and military autonomy. As the sixth largest economy in the world, South Korea is located in the buffer zone between the continental and maritime civilizations of East Asia, and its geographical location is of great strategic importance.

Disclosure statement

The author declares no conflict of interest.

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