

China and Northeast Asian Economic Cooperation: ROK's Perspective

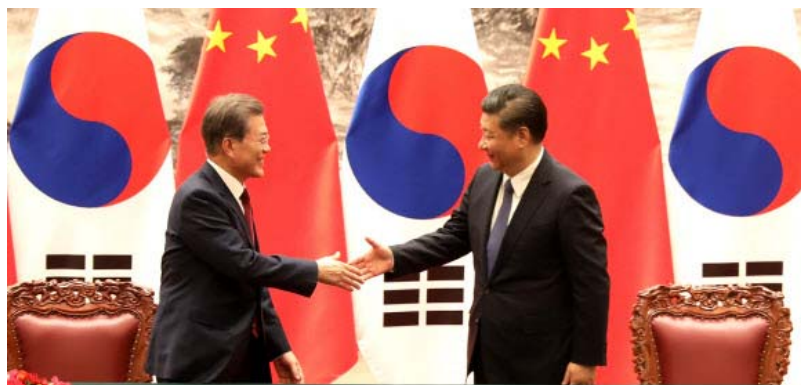
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Introduction

- The first state visit to China (December, 2017). President Moon Jae-In proposed the three principles and eight ways of cooperation for building a renewed economic relationship with China. The three principles are
 - 1) **Strengthening the institutional foundations for economic cooperation**
 - 2) **Future-oriented cooperation based on economic strategy**
 - 3) **Trust building through human and cultural exchange.**



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Eight Areas for the ROK-China Cooperation

- The eight areas included
 - ① Strengthening institutional foundations (or framework)
 - ② Upgrading bilateral trade structure (China-South Korea FTA)
 - ③ Cooperation in the 4th Industrial Revolution
 - ④ Promotion of Venture and Start-ups
 - ⑤ Clean Energy
 - ⑥ Environment
 - ⑦ BRI (Belt and Road Initiative)
 - ⑧ Human exchange

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Background: Before THAAD

- When the TPP negotiations were concluded in October 2015, South Korea was not there, while Japan showed a leading role along with the U.S.
- Instead, **South Korea decided to pursue a FTA with China**. South Korea signed an agreement with China on June 2015.
- **South Korea also joined the China-led AIIB** (Asia Infrastructure Investment Bank) as a founding member, despite all the pressure from the U.S.
- On September 3, 2015, **President Park Geun-hye stood along with President Xi Jinping at the Tiananmen Gate for the military parade commemorating the 70th anniversary of the end of the World War II**.
- However, few months later, the situation completely changed since Seoul's decision to deploy the U.S. Terminal High Altitude Area Defense (THAAD) anti-missile shield in South Korea.

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What was wrong with THAAD?

- At that time, security concerns were escalating in the wake of DPRK's nuclear provocations. Of course, there is no perfect defense measure, but the THAAD was an inevitable choice for South Korea.
- But, China argued that THAAD could be used to spy on its own missile program. The above THAAD case vividly showed that the **China** could use retaliatory economic measures for resolving non-economic (security) disputes.
- In the presence of the US-ROK military and security alliance, that issue would emerge anytime in the future.
- On Sept. 8, 2017, South Korean President Moon Jae-in said that pushing ahead with deploying the remaining four THAAD launchers was "the best course of action available to the South Korean government in the current situation."

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After the THAAD

- Since then, bilateral economic relation was severely damaged by tangible and intangible retaliatory measures.
- Lotte, a chemical-retail Korean company became a public enemy of the Chinese consumers because the company agreed to a government proposal in February 2017 to provide land for the installation of the THAAD system. Nearly all of the 112 Lotte Mart stores in China were shut down for much of the year over alleged fire safety issues.
- Group tours to South Korea was banned.
- Films and K-pop concerts were also banned.
- New mobile game publishing were also banned.
- Serious sanctions on Korean wave, hallyu (限韓令), still remained.

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CJK (China-Japan-Korea) Summit in 2019

- Two years later, on December 23, 2019, President Moon had a summit meeting with President Xi Jinping in Beijing before heading off to CJK trilateral meeting in Chengdu.
- At the meeting, Moon endorsed Xi's vision of "a community with a shared future for humanity."
- South Korea once again tried to improve bilateral economic ties by completely removing China's prolonged retaliation. However, Seoul and Beijing came to no real progress.

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Main Contents of the Presentation

- In the presentation, following issues will be briefly examined.
- First, the impact of the US-China trade conflict on the ROK
 - Also the impact of the COVID-19 on the Korean exports
 - Some thoughts on US-China trade conflict
- Second, the ROK's position on China's BRI policy
- Third, Feasibility and Desirability of CJK FTA
- Fourth, future cooperation agenda in the Northeast Asia

US-China Trade War and Its Impact on the ROK

- January 15, 2020, the US and China have reached a “phase one” deal to prevent further escalation of their bilateral trade war.
- The deal represents just a temporary truce. A much larger US-China strategic competition will continue in the future, even in the Biden Administration.
- South Korea has also suffered serious collateral damage from the US-China trade spat, simply because South Korea heavily relies on both the US and China in terms of exports.
- South Korea’s exports to both countries account for almost 40-45% of its total exports.

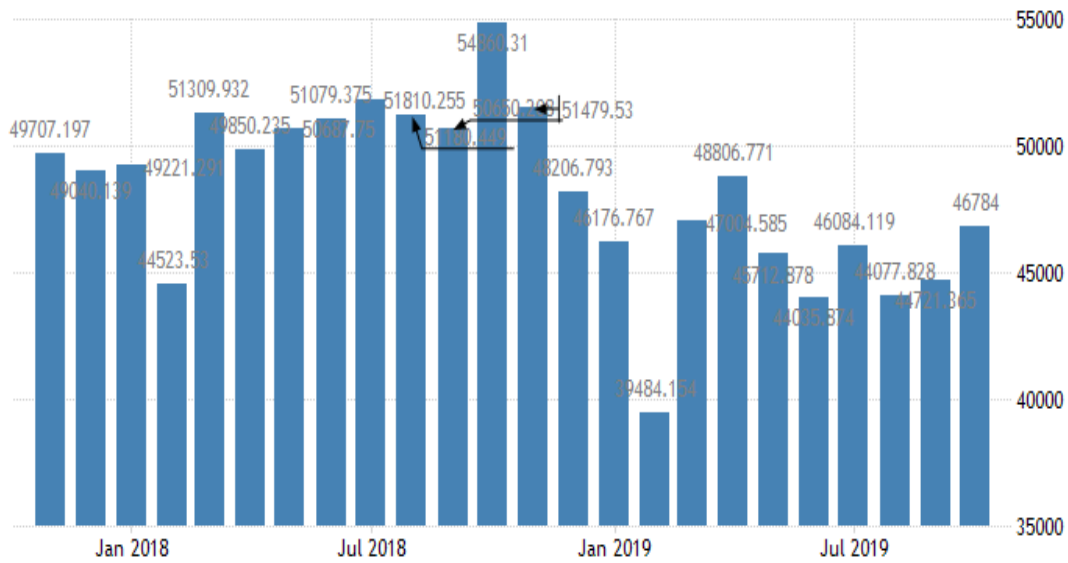
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Impacts on Korean Exports

- In 2017, South Korea’s exports to China totaled USD 181.2 billion (32%) and to the U.S. totaled USD 72.7 billion (12%).
- In 2018, South Korea’s exports to China **dropped** to USD 162.2 billion (28%), while to the U.S. slightly **increased** to USD 73.1 billion (13%).
- In 2019, South Korea’s exports to the US moved up 0.9% as the world’s top economy purchased more petrochemical products and home appliances from South Korea. However, its exports to China fell 16%.
- In 2020, South Korea’s exports to the US increased by 1.1%, while its exports to China fell 2.7%.

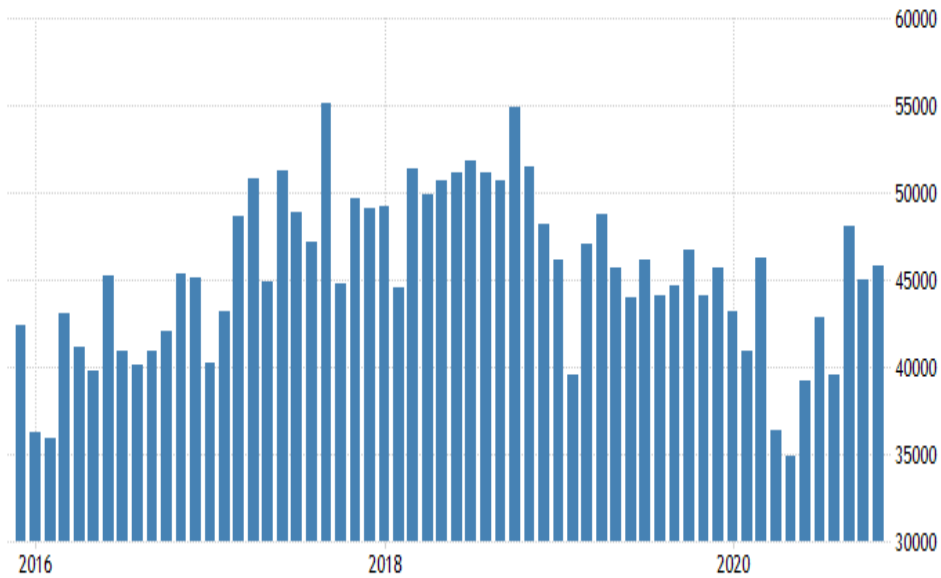
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Korean Exports



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Korean Exports



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COVID-19 and Its Impact on Korean Exports

- In 2020, South Korea's exports slid 5.4% as the coronavirus pandemic swept world trade, but that was much better than a 10.4% fall in 2019. Outbound shipments came to \$512.8 billion, and imports moved down 7.2 percent on-year to \$467.2 billion, resulting in a trade surplus of \$45.6 billion in 2020, according to the data compiled by the Ministry of Trade, Industry and Energy.
- It is positive that Korea's trade with China, the United States and the EU all posted positive growth from the third quarter.
- For 2021, uncertainties will still linger for exporters due to the virus pandemic, the growing protectionism around the globe and the launch of the new US administration.

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COVID-19 and Its Impact on Korean Economy

- First, we have observed setback in the supply network during the crisis period. Some core components required for production were not timely supplied from China. Now such temporary disruptions returned to the normal, but there exists an awakening recognition of the need for "diversification of such supply chain networks."
- Re-shoring (or localization) policy could be an option, but the business environment for encouraging re-location from foreign to domestic does not seem to be bright. The re-shoring of high-tech industries from China to Korea is not feasible because of many technical and physical problems. Decoupling between China and South Korea is not desirable. Instead, we must think about how to stabilize the supply chain networks, which has been created by trade and investment for more than two decades.

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Importance of the Supply-Chain Resilience

- Now supply-chain resilience becomes more and more important by ensuring adequate redundancy. But that is very difficult, because there may not be alternative with the needed quality and capacity.
- However, the COVID-19 crisis revealed that inter-dependence (globalization) brings benefits as well as risks.
- Can the CJK FTA prevent such things in the future?
- **Not Sure.**
- **Can we trust each other?**
- **THAAD and Japan-South Korea Trade Spat.**

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US-China Strategic Competition

- The US-China Trade Conflict is just one dimension of the US-China strategic competition.
- Since its diplomatic normalization with China in 1992, ROK's choice has been the hedging strategy, cooperating with China on the economic front, but cooperating with the US on the military/security front.
- **安美經中, is it viable?**
- The US-China strategic competition has created a very uncomfortable position to South Korea.

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ROK's Hedging Strategy will be viable?

- The US and South Korea have maintained their alliance for almost seven decades to cope with the threat from North Korea.
- **Unless that such nuclear threat is completely eliminated, the US-ROK alliance should be preserved.**
- However, China is also a very important strategic partner in the region. Thus, South Korea and China must make more efforts to upgrade their bilateral strategic partnership in both economic and non-economic areas.
- More importantly, both the US and China should not pressure the ROK to choose only one side between Washington and Beijing.

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ROK's Perspective on the BRI

- BRI has two strategic points. One is to build a China-led Financial Architecture, AIIB. The other is to embrace neighboring countries by enhancing the diverse aspects of the connectivity.
- From the beginning, South Korea decided to welcome the first initiative by joining the AIIB as a founding member.
- However, South Korea has not been rightfully treated as a BRI country. The Korean government anticipated the extension of China's BRI (more specifically China-Mongolia-Russia Economic Corridor) into the Korean Peninsula's logistics program under the wishful expectation of the DPRK's denuclearization.
- There has been no meaningful progress as the US-DPRK dialogue has stalled.

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- The Korean government also would like to pursue the opportunity to invest jointly with China in a third country. But, that has not yet been accomplished.
- Probably, there may be two reasons. One is lack of feasible (bankable or profitable) projects or lack of willingness in both parties.
- Many Korean E&C companies are doubtful about the feasibility, simply because lucrative projects would not be shared between China and South Korea. But, we must change this narrow-minded view.
- The BRI must be a **provision of a global or regional public good** through infrastructure building for developing countries that could not access to the financing.
- Some observers also pointed out the potential risks such as debt service problem, so called debt trap, and biodiversity and climate stability.

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ROK's Perspective on the RCEP

- In November 15, 2020 Asia-Pacific countries signed the Regional Comprehensive Economic Partnership (RCEP) Agreement. The signing ceremony can be seen as a significant achievement during the COVID-19 pandemic.
- However, the RCEP itself alone cannot save the dysfunctional multilateral trading system. Although the RCEP can be seen as members' firm commitment to promote much freer and fairer trade at the regional level, the agreement would seem to be a low-level trade deal, vis-à-vis USMCA or CPTPP.
- It rules out the protection of environment and workers. Nonetheless, I think it would be very difficult to jump onto a high-level trade deal with ASEAN members. We should not downgrade the achievement of the RCEP. We can move forward in the future.

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Expansion of the RCEP

- India did not join the RCEP at the last moment. But the RCEP remains open for accession by India, as an original negotiating country, from the date of its entry into force.
- But, furthermore, we may think about how to invite more countries, like Russia and Mongolia, into the RCEP.



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RCEP vs. CPTPP

- Japan joined both RCEP and CPTPP. However, China and South Korea did not join the CPTPP. Japan may invite both China and South Korea at the same time to join the CPTPP.
- Furthermore, the U.S. is not a member of the CPTPP. Trump administration left on Day 1 when Trump entered the White House. Now, the Biden administration may more favorably consider joining the CPTPP or another upgraded version of the CPTPP (maybe TPP version2).
- In my view, bilateral trade deal is not desirable. In particular, the first phase trade deal between China and the U.S. is more like a managed trade deal, favoring only U.S. exporters. In order to stabilize the disrupted regional value chains, particularly in the Asia-Pacific region, we must think about how to invite both U.S. and China to join the Asia-Pacific trade initiative.

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ROK's Perspective on the CJK FTA

- Former Chinese Prime minister Zhu Rongji suggested a joint study on the feasibility for the CJK FTA during a trilateral summit in November 2002, held in Phnom Penh, Cambodia.
- A year later, October 2003, the result of the joint study was presented at the trilateral summit. But, as you expect, there was no official agreement on the necessity for the CJK FTA among the three countries.
- The three countries only indicated some interest for the sake of diplomatic rhetoric. There was no genuine consensus and any possible consensus would not be made anytime soon.
- Nonetheless, it is more important to start a dialogue on the economic and trade integration at the summit level rather than do nothing.

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- In that sense, the envisaged CJK FTA not only opened a new stage of regional economic cooperation, but also showed a possibility of reshaping the regional economic integration through a more formal and government-initiated institutional framework rather than a market-based approach.
- At that time, the ASEAN 10 countries had already launched an AFTA. In order to show some leadership in the East Asian economic integration, the three countries needed to suggest a vision and roadmap.
- As regards the East Asian economic integration, there would be two possible ways. One is East Asian FTA without the CJK FTA, or the other is East Asian FTA with the CJK FTA.
- The RCEP is similar to the East Asian FTA without the CJK FTA, but with other members including Australia and New Zealand.

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- In the early 2002, the Korean government under the Rho Moo-Hyun Administration, started to consider the feasibility and desirability of the CJK FTA.
- The KIEP, in which I was a senior research fellow, was responsible for the three-year research project on that issue from 2003 to 2005. At that time, I was very much interested in more ambitious issue about the economic and monetary integration beyond the CJK FTA.
- No matter how big are the benefits for any type of economic integration – deep or shallow, **political capital** must be required to achieve the consensus. We need to invest and accumulate more political capital among the three countries.
- More trade integration is definitely beneficial for the three countries to guarantee the stable supply chains, particularly with respect to intra-industry trade.

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- In December 2004, I wrote a paper on “How does Trade Structure Affect Economic Growth?: The Case of the FTA among Korea, China, and Japan,” published in a Korean academic journal.
- In that paper, I consider the dynamic gains from trade, particularly the effect on the economic growth. By using a dynamic panel estimation for the data of 66 countries during 1991-2001, I found that **intra-industry trade** would increase if the CJK FTA is created, simply because China, Japan and Korea has been increasingly trading more through the intra-industry trade rather than inter-industry trade based on the conventional comparative advantage.

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How to Overcome Cultural Decoupling?

- Recently, China and South Korea decided to designate 2021-2022 as the Years of Cultural Exchange to celebrate the 30 anniversary of China-South Korea formal diplomatic normalization.
- China and Japan normalized the diplomatic relation in 1972, twenty years ahead of China and South Korea's normalization.
- Now we need to more seriously consider how to promote more favorable recognition (perception) about each other. Now we are facing very serious negative bias and prejudice about our close neighbors.
- Through **echo chamber effect** and **confirmation bias**, people are becoming more and more hostile to each other. It is high time to extend the Years of Cultural Exchange between China and South Korea to the CJK's Years of Cultural Exchange in 2021 and 2022.

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Northeast Asian Economic Cooperation

- What are the challenges and opportunities from the rise of China?
- What are the future course of Northeast Asian economic cooperation?
- Does Northeast Asia have common interests? Yes, We have. Peace and Prosperity
- Does Northeast Asia have a common identity? I am not sure.
- **Lack of leadership → shared vision, shared value and resources**
- **Qualifications of Good Leaders: attractiveness, trust (democracy and rule of law), soft power (not hard power)**
- **Lack of institutional building**
- Historical legacies and Security issues still remain unresolved.
- Do not necessarily be impatient. That is the job of the Next Generation, because they will be smarter than us to find a good solution.

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