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HARVARD UNIVERSITY

NAVIGATING ECONOMIC SECURITY IN GEOPOLITICS: SOUTH KOREA'S FTA STRATEGIES, INDO-PACIFIC POLICIES, AND TRADE DISPUTES

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Harvard Program on U.S.-Japan Relations
Occasional Paper Series
24-KJ

https://us-japan.wcfia.harvard.edu/publications

INTRODUCTION

Economic security has become a pivotal concern for nations in the 21st century, intertwining national security with economic policies to safeguard a nation's stability and resilience. For South Korea, a country positioned at the nexus of East Asia's dynamic geopolitical landscape, economic security encompasses strategies that mitigate external threats, ensure stable supply chains, and enhance economic independence. The complexities of South Korea's economic security policy are best understood within the broader context of its geopolitical strategies, notably its active engagement in Free Trade Agreements (FTAs), its strategic alignment with the Indo-Pacific framework, and the implications of its trade disputes with neighboring Japan.

South Korea's economic strategy has evolved significantly since the late 20th century, moving from reliance on multilateral trade systems, such as those governed by the World Trade Organization (WTO), to a more focused approach on bilateral and regional FTAs. This shift was driven by the necessity to diversify export markets and secure stable supply chains, particularly after the 1997 Asian financial crisis, which exposed the vulnerabilities of the South Korean economy. FTAs have thus become a cornerstone of South Korea's economic policy, aimed at bolstering its global trade presence, reducing dependency on single markets, and enhancing its economic resilience.

The significance of FTAs extends beyond economic gains, they are integral to South Korea's broader economic security framework. By forming strategic trade partnerships, South Korea not only secures economic benefits but also strengthens its geopolitical alliances, enhancing its influence in regional and global affairs. This is evident in South

Korea's extensive network of FTAs, which includes agreements with major economies such as the United States, China, the European Union, and ASEAN countries. However, South Korea's selective participation in mega-regional trade agreements, like its absence from the Trans-Pacific Partnership (TPP) and its successor, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), raises intriguing questions about its strategic considerations.

Furthermore, the Indo-Pacific region has emerged as a critical arena for geopolitical and economic competition, particularly between the United States and China. South Korea's strategic orientation towards the Indo-Pacific reflects its efforts to balance these competing influences while enhancing its own economic security. The United States' Free and Open Indo-Pacific (FOIP) strategy, aimed at countering China's Belt and Road Initiative (BRI), has significant implications for South Korea. The country's proactive engagement in the Indo-Pacific Economic Framework (IPEF) and its emphasis on resilient supply chains underscore its commitment to maintaining a strategic balance in the region.

A critical case study that highlights the intersection of economic security and geopolitical strategy is the 2019 Japan-South Korea trade dispute. This conflict, sparked by historical tensions and exacerbated by trade restrictions on semiconductor materials, underscores the vulnerabilities in South Korea's supply chains and the broader implications of economic coercion. The dispute also reveals the complex interplay between economic policies and historical grievances, offering valuable insights into the challenges and strategies of maintaining economic security in a geopolitically volatile region.

Given that situation, how do South Korea's FTAs and its Indo-Pacific strategy enhance its economic security amidst regional geopolitical tensions, particularly in the context of its trade disputes with Japan and the broader US-China rivalry? To address this question, this paper aims to provide a comprehensive analysis of South Korea's economic security policy within the broader context of East Asian geopolitics. It will examine the strategic use of FTAs, the implications of South Korea's Indo-Pacific strategy, and the impacts of the Japan-South Korea trade dispute. By exploring these interconnected elements, the paper seeks to contribute to a deeper understanding of how South Korea navigates the intricate dynamics of regional and global economic security.

“NEW NORMAL” AND ECONOMIC SECURITY

The "New Normal" International Order and U.S.-China Competition

In recent years, the competition between the United States and China has ushered the world into an era referred to as the "New Normal." This term signifies a period where traditional norms and paradigms no longer hold, giving way to new realities and standards. Post-COVID-19, the world has entered new phases in various sectors, including the economy, technology, and geopolitics.

The competition between the U.S. and China in the semiconductor industry has intensified, with the U.S. imposing regulations on technology exports to China, while China pursues self-reliant technological development. Over the past few years, the two countries have engaged in a trade war over tariffs, and this conflict continues post-pandemic with ongoing revisions to supply chains and economic reconfigurations. Both nations are advancing their economic "decoupling," aiming to build their respective economic spheres (Lawrence 2018).

In terms of geopolitical competition, the U.S. is bolstering its influence in the Indo-Pacific region, while China is expanding its presence through the BRI (Hillman 2018). These actions have become increasingly pronounced in the post-pandemic world, marking a new phase in U.S.-China competition and altering the balance of international political and economic power.

Additionally, there is a growing emphasis on the impact of trade and technology flows on national security, a trend referred to as the "securitization of the economy."(Buzan 2007). This involves managing choke points in supply chains and imposing import sanctions, effectively weaponizing economic interdependence. The U.S. and China entered a trade war in 2018, escalating tariffs and counter-tariffs. Since 2020, geopolitical tensions in the Indo-Pacific have intensified due to the U.S.-China power struggle, against the backdrop of a global supply chain collapse triggered by the pandemic.

In response, the U.S. is promoting strategies like "reshoring" and "friend-shoring" to build supply chains centered on itself. Reshoring involves bringing production back from overseas to create domestic jobs and enhance supply chain security. Friend-shoring, on the other hand, relocates production to friendly countries, distributing risk while ensuring supply chain stability. These strategies aim to make U.S. supply chains more secure and robust.

Conversely, China is advancing the construction of a "Red supply chain[1]" to counteract U.S. decoupling. This strategy seeks to complete the entire supply chain domestically, reducing reliance on foreign technology and achieving economic independence. By strengthening domestic production in advanced technology fields like semiconductors, China aims to overcome supply chain vulnerabilities. The accelerating U.S.-China competition raises the potential for fragmentation in the global trade order.

This heightened U.S.-China rivalry is often termed the "New Cold War[2]." Unlike the Cold War between the U.S. and the Soviet Union, however, the U.S. and China are deeply interdependent, making complete decoupling unrealistic. Additionally, the Russian invasion of Ukraine in 2022 has intensified discussions on the impact of geopolitical conflicts on the economy, bringing "economic security" to the forefront of international political paradigms.

In this context, South Korea is exploring its own strategic approach. Given its deep economic ties with both the U.S. and China, South Korea navigates these relationships carefully. It plays a crucial role in semiconductor and electronic device manufacturing, strengthening cooperation with the U.S. while maintaining significant involvement in the Chinese market. Concurrently, South Korea is advancing policies to enhance its technological capabilities and diversify its supply chains, reflecting a strategic balance

[1] The "Red Supply Chain (红色供应链)" refers to a network of companies, infrastructure, and logistics systems under significant control or influence by the Chinese government, strategically designed to advance China's global economic and geopolitical interests.

[2] The "New Cold War" describes the ongoing geopolitical tension and strategic rivalry, primarily between the United States and China, characterized by economic competition, military posturing, ideological conflict, and cyber warfare, reminiscent of the original Cold War dynamics.

between its economic and geopolitical interests.

“Weaponizing Interdependence” in Economic Security

Historically, international relations have categorized economics as "low politics" and security as "high politics." However, the oil shocks of the 1970s underscored the direct connection between energy supply issues and national security, leading to a closer integration of economics and security. This shift facilitated the emergence of the new academic field of international political economy.

Economic security refers to the policies a nation employs to protect its economy from external threats and maintain the stability of its economic system and society. These policies aim to enhance strategic autonomy and reduce dependence on other countries, thereby preventing economic threats (Hasegawa 2013).

Suzuki defines economic security as "ensuring the independence, survival, and prosperity of a nation from an economic perspective," emphasizing the necessity of government regulations and subsidies to strengthen strategic foundational industries (Suzuki 2022). Contemporary discussions on economic security encompass a broad range of measures, including economic sanctions, export controls, and the stable supply of energy and critical materials. Baldwin examines how states employ economic tools like sanctions, trade policies, and financial incentives to influence international behaviors and achieve strategic objectives (Baldwin 2020).

Davis and Meunier argue that economic interactions, such as trade and investment, often continue despite political tensions between countries (Davis and Meunier 2010). The study highlights the resilience of economic ties, particularly in sectors with high fixed costs and involving multinational corporations, challenging the effectiveness of economic sanctions and trade restrictions. Katada discusses how economic statecraft is used by nations to achieve broader strategic objectives, including enhancing national security and geopolitical influence (Katada 2020). Her work underscores the importance of using economic tools, such as FTAs, to achieve a resilient and secure economic system.

By maintaining a broad network of trade agreements and fostering domestic capabilities, South Korea can better withstand economic pressures from external actors. Economic security is intertwined with national security. This integration involves managing trade and technology flows to prevent threats to national stability. Measures include securing critical technologies, ensuring energy supplies, and protecting strategic industries.

A significant concept within economic security is "weaponized interdependence," as introduced by Farrell and Newman (Farrell and Newman 2019). They describe it as a strategy by which powerful actors manipulate global economic networks to exert control over others, leveraging central roles within these networks to influence flows of goods, information, or capital. They identify "panopticon effects," involving surveillance and data collection, and "chokepoint effects," which exploit critical nodes to disrupt or control flows, as the two primary mechanisms of this phenomenon (Drezner, Farrell, and Newman, 2021).

While economic interdependence offers mutual benefits to involved nations, it also entails substantial costs and risks. Keohane(1998) highlighted that asymmetry in interdependence can render states vulnerable, exposing them to the exercise of power.

He cautioned that the expansion of economic exchanges could centralize power in specific hubs.

Thus, economic security represents a critical strategy for ensuring a nation's economic autonomy and stability. As a component of international political economy, its importance is expected to grow. The COVID-19 pandemic has revealed vulnerabilities in global supply chains, prompting many countries, including South Korea, to bolster their supply chain resilience. This effort underscores the ongoing significance of economic security in maintaining national stability and prosperity.

FTAs and Economic Security

The proliferation of FTAs has been a defining feature of international economic relations in the 21st century. Scholars such as Baldwin have discussed the 'domino effect' of FTAs, where the formation of an initial agreement triggers subsequent agreements as nations seek to avoid competitive disadvantages (Baldwin1995; 2016). This theory is particularly relevant in East Asia, where the competitive dynamics between major players like China and Japan have led to a proliferation of FTAs.

Aggarwal and Lee (2010) have examined the interplay between economic and security strategies in the Asia-Pacific region, highlighting the strategic use of FTAs as tools for geopolitical maneuvering. Their work provides a framework for understanding the competitive landscape of FTA negotiations in East Asia, where economic agreements are closely tied to broader security considerations.

Mochizuki (2009) has emphasized the importance of political and security considerations in shaping trade policies, particularly it is applied in the context of South

Korea's strategic decisions. This study builds upon Mochizuki's insights to explore how economic security considerations influence South Korea's FTA strategies.

In the context of South Korea's economic security, FTA play a crucial role. As of May 2024, South Korea has concluded 59 FTAs, including agreements with the United States, China, the EU, India, ASEAN countries, Canada, and Australia. These agreements cover a wide range of areas including tariff reductions or eliminations, reduction of non-tariff barriers, liberalization of trade in services, protection of investments, and strengthening of intellectual property rights[3]. Through these agreements, South Korea secures access to diverse markets and promotes exports. Given that South Korea adopts an export-led economic model, access to foreign markets is vitally important.

FTAs serve as a means for South Korea to diversify the risk of dependence on specific markets or countries. By concluding FTAs with many major trading partners, South Korea diversifies its export markets, reducing the risk of reliance on any single market and enhancing economic stability. Furthermore, FTAs contribute to strengthening South Korea's supply chains. Particularly in critical industrial sectors such as semiconductors and batteries, FTAs help establish stable supply chains and maintain international competitiveness.

Additionally, FTAs play a crucial role in facilitating the transfer of technology to South

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[3] South Korea's FTAs are known for their high level of comprehensiveness and depth. These agreements not only cover traditional trade aspects such as the elimination of tariffs and non-tariff barriers but also encompass a wide range of areas including services, investment, intellectual property rights, competition policy, government procurement, and sustainable development.

Korea. Through agreements with developed countries, South Korea gains access to the latest technologies and know-how, significantly enhancing the competitiveness of its domestic industries and increasing technological autonomy. Notable examples include the KORUS FTA and the Korea-China FTA, which have enabled South Korea to integrate advanced technologies and practices into its industrial framework (Kim 2017, Sohn 2016).

FTAs also enhance South Korea's geopolitical influence. By securing FTAs with regions such as the Asia-Pacific and Europe, South Korea bolsters its economic presence and establishes a foundation for regional leadership. For instance, the KORUS FTA has expanded South Korea's access to the US market, boosting trade and investment flows between the two countries. This agreement has provided a critical market for South Korea's export industries and has played a significant role in strengthening its economic security.

In this context, FTAs are integral to South Korea's economic security strategy. They facilitate market diversification, strengthen supply chains, enhance technological capabilities, and bolster geopolitical influence (Dent 2010, Pempel 2010). Through strategic utilization of FTAs, South Korea aims to ensure economic stability, resilience, and growth in an increasingly complex and competitive global environment.

SOUTH KOREA'S POLICY SHIFT IN GEOPOLITICS

South Korea's "Ambiguous" Diplomacy and Its Shift

South Korea's current focus on economic security policies represents a relatively recent shift in its strategic priorities. Historically, economic security was not a primary concern due to South Korea's ambiguous economic diplomacy. Since the Korean War, the nation has prioritized military security in response to external threats, particularly the persistent tensions with North Korea. This emphasis on military preparedness significantly influenced South Korea's overall security policies, resulting in comparatively lower attention to economic security.

South Korea's economic policies have been characterized by "strategic ambiguity," balancing its alliance with the United States while maintaining a cooperative relationship with China. For instance, the decision to deploy the Terminal High Altitude Area Defense (THAAD) system in 2016, aimed at countering North Korean missile threats, elicited strong opposition from China. In response, China imposed unofficial economic sanctions on South Korean businesses, severely impacting sectors such as tourism and the operations of the Lotte Group, as well as restricting the activities of K-pop artists and television dramas in China. Nevertheless, The South Korean government avoided direct countermeasures, instead seeking diplomatic resolutions.

Cha (2023) emphasizes that South Korea navigates its complex relationships with both the United States and China by leveraging strategic ambiguity to maximize its security and economic benefits while avoiding direct confrontation or alignment with either power. This strategy is crucial for South Korea to balance its key security alliance with the United States and its significant economic ties with China. By not fully committing to one side, South Korea manages strategic and economic pressures from both nations, maintaining a degree of autonomy in its foreign policy decisions. This balancing act allows South Korea to adapt to changing geopolitical dynamics without provoking major powers, thereby safeguarding its national interests.

In 2018, the Trump administration demanded renegotiations of the FTA with South Korea and increased burden-sharing for U.S. military forces stationed in South Korea. South Korea made several concessions to maintain its alliance with the U.S. During the U.S.-China trade war escalation in 2020, South Korea adopted a neutral stance, striving to sustain economic relations with both superpowers, particularly in light of the impact on semiconductor and electronic product exports. This strategy aimed to mitigate economic risks and preserve favorable relations with both countries.

In 2022, the U.S. encouraged South Korea to join the CHIPS4 alliance, a framework aimed at securing a U.S.-led semiconductor supply chain. South Korea considered this positively while also formulating policies that took China's interests into account. This approach highlights South Korea's historically "reactive" stance on economic security, marked by cautious responses to geopolitical shifts.

However, in 2021, South Korea established the National Strategy Meeting on External Economic Security, elevating economic security to a core national agenda. This shift signifies a departure from the traditional strategic ambiguity towards a more proactive stance on economic security (Panda and Ahn 2023). Key incidents, such as China's retaliatory measures following the THAAD deployment and Japan's export restrictions on semiconductor materials in 2019, heightened South Korea's awareness and prioritization of economic security.

In response, South Korea has concentrated on nurturing domestic semiconductor technology, strengthening supply chains for critical industries, and actively promoting FTAs to enhance economic partnerships. These efforts aim to achieve economic autonomy and maintain competitiveness in the global economic environment, thereby fortifying the country's economic security.

This shift towards prioritizing economic security illustrates South Korea's adaptation to the evolving international landscape, where economic and military security are increasingly interlinked. As global supply chains face disruptions and geopolitical tensions rise, South Korea's proactive measures in economic security underscore the importance of resilience and strategic autonomy in safeguarding national interests.

"Economic Territory" and the KORUS FTA

South Korea refers to the GDP of countries with which it has concluded FTAs as its "economic territory" and through this concept, it seeks to expand its economic influence. "Economic territory" refers to strengthening economic ties with other countries through FTAs and extending the scope of South Korea's economic activities into international markets.

As an "open small economy," South Korea's domestic market is limited in size, making access to foreign markets crucial for economic growth. This is one of the main reasons South Korea has actively pursued FTAs. Since the early 2000s, South Korea has aggressively promoted its FTA strategy to enhance its competitiveness in international markets amid globalization. The KORUS FTA, concluded in 2003, is a symbolic example of this effort.

The negotiation process of the KORUS FTA involved several contentious issues. The main points of contention included the automotive industry, the opening of agricultural markets, and the investor-state dispute settlement (ISDS) clause[4]. The ISDS clause allows foreign investors to sue the host government in international arbitration. There were intense debates on both sides regarding the import of automobiles and beef. South Korea was cautious about importing US beef while the US sought to increase automobile exports to the South Korean market.

Additionally, there was strong opposition to the KORUS FTA from various agricultural and labor groups such as the Korean Peasants League (*Jeonguk Nongminhoe Chong-yeonmaeng*). They argued that the FTA would negatively impact domestic agriculture and employment, leading to large-scale protests and demonstrations. These protests often involved violent clashes, and the government responded with compensation and protection measures, though the opposition remained persistent (Kim 2017, Solis 2013).

Nevertheless, the KORUS FTA holds both economic and political significance. Economically, it is an FTA with one of South Korea's major trading partners and the world's largest market, aiming to improve efficiency in the internationally lagging agricultural sector. Former President Lee Myung-bak lauded the agreement, stating, "South Korea may have a small land area but its economic territory is the largest in the world," and boasted that "no other country has concluded FTAs with 45 countries[5]." He emphasized that "exports are the key to our existence; our way of survival is through

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[4] The ISDS mechanism in the KORUS FTA has been a subject of both praise and criticism. Proponents argue that it provides necessary protection for investors and fosters a stable investment environment. Critics, however, contend that ISDS can undermine national sovereignty and regulatory autonomy, as it allows foreign investors to challenge domestic laws and regulations outside of the national legal system.

[5] Lee Myung-bak, https://korea.kr/news/policyNewsView.do?newsId=148755931.

exports." Politically, the FTA strengthened the US-Korea alliance and contributed to accumulating negotiation skills by engaging in difficult negotiations within a limited timeframe, earning high praise for successfully concluding the agreement.

"Simultaneous FTAs" Promotion and Policy Shifts

As a "trading nation," South Korea initially relied on the multilateral trade system centered on the WTO. South Korea is considered an excellent example of a nation effectively utilizing the WTO system. However, the 1997 Asian financial crisis exposed the vulnerabilities of the South Korean economy, making it urgent to diversify export markets and build stable supply chains.

Consequently, South Korea adopted a strategy of promoting "simultaneous FTAs[6]." This strategy simultaneously aims to diversify its export markets and enhance economic stability, technological advancement, and geopolitical influence, thereby ensuring resilience and competitiveness in the global market. Through this strategy, South Korea rapidly expanded its economic territory and strengthened its competitiveness in international markets.

In 2015, the Korea-China FTA was concluded, securing South Korea's access to the Chinese market while maintaining competitiveness. The negotiation process of the Korea-China FTA primarily revolved around the market opening of agricultural and industrial products. South Korea was cautious about opening its agricultural market while China was reluctant to open its market for industrial products, including automobiles. Ultimately, an agreement was reached by excluding certain agricultural

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[6] Ministry of Trade, Industry and Energy, https://www.fta.go.kr/main/.

products from the FTA. The Korea-China FTA holds both economic and geopolitical significance as it strengthened South Korea's access to the Chinese market, reducing geopolitical risks and enhancing economic security (Sohn 2016).

Furthermore, the Regional Comprehensive Economic Partnership (RCEP), which came into effect on January 1, 2022, further expanded South Korea's economic territory. RCEP is one of the world's largest free trade agreements, covering approximately 30% of global GDP and including 15 countries, such as the 10 ASEAN countries, Australia, China, Japan, South Korea, and New Zealand. Originally, RCEP negotiations included 16 countries, but India withdrew in November 2019 due to concerns about a significant trade deficit with China and the potential influx of Chinese products into the Indian market through other RCEP member countries. Domestic opposition also influenced the Indian government's decision.

Notably, RCEP has more relaxed standards compared to CPTPP, particularly in areas such as intellectual property rights, labor standards, and environmental protection. The diversity of participating countries led to the establishment of minimal common rules to reach an agreement.

The Path to TPP/CPTPP

The TPP aims to achieve a high level of market openness and deepen economic integration among participating countries (Capling and Ravenhill, 2011). It seeks to establish new 21st-century economic integration rules across various fields including tariffs, services, investment, e-commerce, and intellectual property. The TPP began with the P4 agreement, which included Singapore, Brunei, Chile, and New Zealand. Initially, TPP included 12 countries, but after the US withdrew in 2017, the remaining 11 countries reconstituted it as the CPTPP, which came into effect in December 2018.

South Korea maintained an ambiguous stance on joining the TPP despite repeated requests from former U.S. President Obama. Several reasons contributed to South Korea's decision not to join the TPP. Firstly, there was strong domestic political opposition, particularly from the agricultural sector, which feared significant harm from TPP participation. In particular, the TPP was a high-level FTA, with no exceptions and the elimination of 100% of tariffs, unlike typical FTAs. Additionally, South Korea already had a bilateral FTA with the U.S., making it the only country with such an agreement when Japan and China had yet to conclude FTAs with the U.S. Therefore, the perceived benefits of joining the U.S. and Japan-led TPP were limited. At the time, South Korea was also negotiating an FTA with China, lowering the priority of TPP participation. Furthermore, the TPP was regarded as a containment policy towards China, and the South Korean government was cautious about its relationship with China, needing to balance these considerations[7].

The Yoon Suk-yeol government is currently considering joining the CPTPP. The administration anticipates that CPTPP membership would expand access to markets such as Japan, Canada, and Australia, effectively providing the practical benefits of a Japan-Korea FTA, which has stalled since 2015 due to historical disputes. Economic associations, such as Keidanren (Japan Business Federation) and the Korean National Economic Federation in both Japan and South Korea, have been cautious about the FTA

[7] Author interview with a former government official of the MOFA, June 2023.

due to competitive economic structures, particularly in industries like automobiles, electronics, and electric appliances. As a result, there is currently no prospect of resuming Japan-Korea FTA negotiations.

Joining the CPTPP is viewed as a crucial step for South Korea to enhance economic security and promote geopolitical stability. With the U.S. having withdrawn and China applying to join the CPTPP, South Korea can consider participation without overly concerning itself with relations with China. However, obstacles remain, particularly strong opposition from the agricultural sector and domestic political conflicts. The 2019 export restrictions on semiconductor materials by Japan highlighted the importance of CPTPP membership for South Korea's economic security, emphasizing the need to diversify supply chains.

The South Korean government plans to include CPTPP membership in its 2024 "New Trade Policy," working to align domestic opposition while laying the groundwork for participation[8]. CPTPP is regarded as a vital measure for South Korea to strengthen economic security and enhance competitiveness in international markets.

Japan’s Role in CPTPP

Japan has played a significant role in shaping the regional economic order through its proactive engagement in trade agreements. After the US withdrew from the TPP, Japan took the lead in forming the CPTPP, which came into effect in December 2018. The CPTPP includes 11 countries and maintains the high standards of the original TPP, covering trade in goods and services, investment, and intellectual property rights.

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[8] *Seoul Gyoungjae Shinmun*, 2024, February 26.

Japan’s leadership in the CPTPP underscores its commitment to regional multilateralism and economic integration, with the aim of rejuvenating its economy, often described as having “lost 30 years,” and balancing China’s regional ascent (Solis 2023).

Despite historical tensions and political disputes with South Korea, Japan remains a crucial economic partner, with both nations recognizing the mutual benefits of strengthened economic ties. Japan's economic policies, particularly concerning FTAs, have often been intertwined with its complex relationship with South Korea. This dynamic illustrates the broader interplay between economic cooperation and historical grievances that influence regional geopolitics.

Japan’s strategy extends beyond the CPTPP. It also engages in bilateral and regional trade agreements to strengthen its economic position and counterbalance China’s influence. For instance, Japan’s involvement in RCEP signifies its commitment to regional economic integration while ensuring that it remains a key player in East Asia’s economic landscape. By participating in these trade agreements, Japan seeks to enhance its economic resilience, secure its supply chains, and maintain its strategic autonomy.

BEYOND AMBIGUITY: SOUTH KOREA'S INDO-PACIFIC STRATEGY

China's Belt and Road Initiative (BRI)—A Debt Trap?

The BRI is a large-scale economic project proposed by Chinese President Xi Jinping in 2013. It consists of two main components: the land-based "Silk Road Economic Belt" and the sea-based "21st Century Maritime Silk Road." Covering Asia, Europe, and Africa, the initiative aims to promote trade and infrastructure development. Funding for these projects comes from institutions like the Asian Infrastructure Investment Bank (AIIB) and the Silk Road Fund, both led by China.

Opinions on the BRI are highly polarized. On the positive side, the development of necessary infrastructure in developing countries can boost trade and promote economic growth, which also leads to regional stability. On the negative side, critics argue that the BRI is merely a tool for China to enhance its geopolitical dominance (Smith 2021). There are concerns about the "debt trap," where some participating countries, unable to repay their high-interest loans, end up ceding control of infrastructure to China (Hurley, Morris, and Portelance 2018). The case of Sri Lanka's Hambantota Port, which was leased to a Chinese company for 99 years, is a prime example. There are also concerns about political instability stemming from infrastructure investments, such as security issues in Pakistan's China-Pakistan Economic Corridor (CPEC). This project involves building infrastructure like roads and railways from China's Xinjiang region to Pakistan's Gwadar Port. However, frequent attacks by armed groups in Pakistan highlight the local opposition to what they perceive as exploitative Chinese projects.

FOIP Strategy and IPEF Issues

In response to China's BRI, the United States has launched the "Free and Open Indo-Pacific" (FOIP) strategy. FOIP emphasizes democracy, rule of law, free navigation, and security with three main pillars: ensuring free navigation in international waters, maintaining an order based on international law, and promoting economic prosperity and security. This strategy, clearly articulated during the Trump administration, has been continued and strengthened under the Biden administration.

The Quadrilateral Security Dialogue (QUAD), involving Japan, Australia, India, and the United States, has played a crucial role in shaping this strategy. QUAD aims to enhance security cooperation in the Indo-Pacific region, thereby strengthening regional security. South Korea has not formally joined QUAD. During the Moon administration, Foreign Minister Kang Kyung-wha expressed reservations about QUAD, indicating concern for China's response by stating that excluding any country's interests was not a good idea. However, the Yoon administration aims to strengthen cooperation through the "QUAD Plus" framework, which includes countries like Vietnam and New Zealand and is sometimes referred to as an "expanded NATO" (Panda 2022).

The Biden administration launched the Indo-Pacific Economic Framework (IPEF) in 2021. Unlike FOIP, which focuses primarily on security and maintaining international order, IPEF emphasizes specific economic policies. This framework includes four key elements, such as trade, supply chains, infrastructure and clean energy, and tax and anti-corruption measures. While FOIP serves as a comprehensive strategy mainly for security, IPEF complements it by addressing the economic aspects.

However, IPEF has been criticized for not including traditional FTA elements such as market access and tariff reductions. This lack of clear economic benefits for participating countries has led some, like India, to abstain from joining. India, which prioritizes strategic independence and avoids excessive dependence on any single country, likely viewed IPEF's US-led framework as potentially restrictive to its independent foreign policy.

"Global Pivotal State": A Turning Point Toward Proactive Diplomacy

Following the inauguration of the Yoon Suk-yeol administration in 2022, South Korea is shifting from an ambiguous strategy to a more proactive approach. The Yoon administration aims to position South Korea as a "Global Pivotal State," promoting active diplomacy and robust economic policies.

In particular, from the perspective of economic security, South Korea seeks to balance its relationship with China. In December 2022, the Yoon administration announced South Korea's first Indo-Pacific strategy titled "Strategy for a Free, Peaceful, and Prosperous Indo-Pacific." This strategy is based on the principle of "inclusiveness," which neither targets nor excludes any specific country. Unlike the Indo-Pacific strategies of the United States and Japan, South Korea's approach aims for broader regional cooperation. The core of this strategy lies in three principles of cooperation: inclusiveness, trust, and mutual benefit. It promotes cooperation in seven regions, including Africa, Latin America, and Europe, with the goal of establishing South Korea as a hub for an economic security network.

South Korea's Indo-Pacific strategy aims to promote free trade and establish resilient supply chains through frameworks like RCEP and CPTPP, clearly aligning the promotion of FTAs with economic security. This strategy is significant from the perspective of economic security. There are notable differences between the Moon and Yoon administrations in their approaches to the Indo-Pacific strategy. The Moon administration adopted an "ambiguous strategy" that balanced relations with both the US and China, emphasizing economic ties with China. For instance, it strengthened economic cooperation with ASEAN through the "New Southern Policy[9]."

In contrast, the Yoon administration, while continuing the "New Southern Policy," has articulated a clearer strategy shifting towards strengthening trilateral cooperation with Japan and the US. This shift is evident in South Korea's participation in the US-led IPEF. The Yoon administration's abandonment of "strategic ambiguity" in favor of "strategic clarity" illustrates this change (Lee and Kim, 2024). However, the administration remains cautious regarding China. Emphasizing "inclusiveness" in the Indo-Pacific strategy is a way to avoid being perceived as excluding China. The fact that South Korea announced its Indo-Pacific strategy at a summit with ASEAN leaders is symbolic of this approach.

South Korea's diplomatic prowess is being tested as it navigates the challenging position of maintaining economic relations with China while strengthening security ties with the US. This balancing act is crucial for South Korea's role as a Global Pivotal State in the complex geopolitics of the Indo-Pacific region.

JAPAN-SOUTH KOREA TRADE DISPUTE

Origins and Impact of the Trade Dispute

The 2019 trade dispute between Japan and South Korea stands as a significant case study in economic security, illustrating the intersection of trade policies, historical

[9] The "New Southern Policy" was a strategic initiative launched by Moon administration in 2017. Its primary objective was to strengthen South Korea's diplomatic, economic, and cultural ties with the countries of Southeast Asia and India, thereby diversifying its foreign relations and reducing dependence on traditional partners like the United States and China.

tensions, and geopolitical dynamics.

The trade dispute between Japan and South Korea erupted in July 2019 when Japan announced tighter export controls on three key materials crucial for semiconductor manufacturing, such as hydrogen fluoride, photoresists, and fluorinated polyimides. These materials are essential for producing semiconductors and display panels, industries where South Korea holds significant global market shares with companies like Samsung and SK Hynix leading the sector. Japan cited national security concerns, suggesting that these materials could be diverted for military use, possibly in North Korea, although the specifics were not detailed publicly (Farrell and Newman, 2019).

The move was widely perceived as retaliatory, linked to a South Korean Supreme Court ruling in 2018 that ordered Japanese companies to compensate Korean victims of forced labor during World War II. Japan argued that all wartime compensation issues were settled by the 1965 Japan-Korea Claims Agreement, which included reparations and economic assistance from Japan to South Korea (Kimura, Tanaka, and Kim 2020).

This ruling and Japan's subsequent export controls intensified historical tensions between the two nations, bringing historical grievances into the realm of economic policy.

The impact on South Korea's semiconductor industry was immediate and significant. The restricted materials were vital for producing semiconductors, which are critical to South Korea's economy and its technological industries. South Korean companies faced potential disruptions in their production lines, highlighting the vulnerabilities in their supply chains and the broader economic risks associated with such geopolitical disputes (Kim 2019).

The trade friction not only strained economic relations but also had significant security implications. In response to Japan's export controls, South Korea announced its decision to terminate the GSOMIA in August 2019. GSOMIA was a crucial intelligence-sharing pact between Japan and South Korea, particularly important for monitoring North Korean military activities. The termination of GSOMIA threatened to weaken trilateral security cooperation between Japan, South Korea, and the United States, potentially impacting regional security dynamics.

The United States played a mediating role, urging both Japan and South Korea to maintain GSOMIA, highlighting the importance of intelligence sharing for regional security. Under U.S. pressure, South Korea eventually decided to conditionally extend GSOMIA, but the episode underscored how economic disputes could escalate to affect broader security arrangements. The situation highlighted the intricate linkages between economic policies, historical grievances, and security considerations, illustrating the complex dynamics of East Asian geopolitics.

The dispute also had significant economic repercussions beyond the immediate impact on the semiconductor industry. It affected investor confidence, disrupted supply chains, and prompted companies in both countries to reconsider their reliance on each other for critical materials and components. The broader economic implications included potential shifts in trade patterns and the re-evaluation of strategic partnerships in the region.

Trade Weaponization?

The Wall Street Journal characterized Japan's stricter export controls as a form of "trade weaponization," drawing parallels to the approach taken by former President Donald Trump's administration in its economic sanctions against China since 2017. Historically, Japan's implementation of measures that could be perceived as economic sanctions within its economic diplomacy is quite unusual. Typically, Japan has refrained from using economic measures, particularly against other countries, as a tool in bilateral disputes, with the notable exception of sanctions against North Korea related to the abduction issue (Kim and Oyane, 2023).

While Japan has previously imposed economic sanctions, these measures have generally been responses to significant violations of international norms or actions that have garnered widespread condemnation from the global community. Notable instances include responses to nuclear developments and tests by countries such as China, India, and North Korea, the former Soviet Union's invasion of Afghanistan, Iraq's invasion of Kuwait, and Russia's invasion of Ukraine. In these contexts, Japan's sanctions have been perceived as less stringent compared to those imposed by Western countries, leading to criticism for not adopting tougher measures.

Furthermore, Japan has occasionally refrained from implementing economic sanctions even in cases where other countries have done so, due to its unique perspective and interests. For instance, Japan's response to the military coup in Myanmar in February 2021 reflected its cautious approach to economic sanctions, considering its complex relationship with Myanmar (Kim and Oyane, 2023).

Although Japan's use of economic measures in foreign policy has been relatively rare and less stringent than that of some Western countries, it has occasionally employed such measures in response to significant international issues or violations of norms.

Japan's approach is significantly influenced by its unique geopolitical considerations.

In the context described, the measures taken by Japan against South Korea in 2019 were distinctive because they were initiated in response to a bilateral issue and escalated rapidly, leading to a significant deterioration in relations between the two countries (Kim and Oyane, 2023). While there have been previous instances where economic and historical issues between Japan and South Korea have become intertwined and complex, the level of confrontation reached in this case was unprecedented.

Supply Chain Diversification

The 2019 Japan-South Korea trade dispute highlighted the intricate connections between economic policies, historical tensions, and security considerations. This conflict emphasized South Korea's vulnerabilities within its supply chains, particularly in critical industries like semiconductors, and underscored the broader implications of economic coercion and supply chain dependencies.

In response to Japan's export controls, South Korean companies accelerated efforts to diversify their supply chains by seeking alternative suppliers and increasing domestic production capabilities. For instance, South Korean firms began sourcing hydrogen fluoride from Taiwan and China, supported by government initiatives to develop local production facilities. Additionally, the South Korean government implemented financial incentives and subsidies to bolster the domestic semiconductor industry, focusing on research and development to enhance technological capabilities and build a more resilient supply chain (Kim, 2021).

On the diplomatic front, South Korea filed a complaint with the WTO against Japan's export controls, arguing that they were unjust and violated international trade rules. This legal challenge was part of a broader strategy to garner international support and pressure Japan to lift the restrictions, demonstrating South Korea's commitment to defending its economic interests through multilateral institutions.

The dispute also prompted South Korea to reassess its strategic alignments and economic policies. While maintaining economic ties with Japan, South Korea intensified efforts to strengthen partnerships with other key regional players, including China and the United States. This involved deepening economic cooperation through existing FTAs and exploring new trade agreements to diversify its economic dependencies.

The 2019 Japan-South Korea trade dispute serves as a critical example of how economic security concerns can drive strategic policy shifts. It underscores the need for supply chain diversification, government-industry collaboration, and proactive diplomatic measures to mitigate risks associated with geopolitical conflicts. By navigating these challenges, South Korea aims to enhance its resilience and maintain its strategic autonomy in a region characterized by historical disputes and competitive dynamics.

CONCLUSION

This paper has examined how South Korea navigates its economic security policy within the broader context of geopolitics, focusing on its strategic use of FTAs, its Indo-Pacific strategy, and the implications of the 2019 Japan-South Korea trade dispute.

Through this detailed exploration, it is evident that South Korea employs a multifaceted approach to enhance its economic security, leveraging trade policies, strategic alliances, and diplomatic maneuvers.

South Korea's engagement in FTAs demonstrates its strategic effort to diversify economic partnerships and secure stable supply chains. By entering into bilateral and regional agreements, such as the KORUS FTA and the RCEP, South Korea not only gains economic benefits but also strengthens its geopolitical standing. These agreements are crucial for reducing dependency on single markets, enhancing industrial competitiveness, and fostering technological advancements, all of which are essential for South Korea's economic security.

The rivalry between major powers like China and the United States significantly influences South Korea's trade policies. The complex dynamics of the US-China rivalry, illustrated by initiatives such as the TPP and the BRI, necessitate a strategic balancing act by South Korea. Its selective participation in mega-regional agreements, combined with a focus on bilateral FTAs, reflects a nuanced approach to maintaining strategic autonomy while maximizing economic and security benefits.

The 2019 Japan-South Korea trade dispute serves as a critical case study highlighting the intersection of economic policies, historical tensions, and security considerations. The dispute underscored vulnerabilities in South Korea's supply chains and prompted strategic responses, including the diversification of supply sources, enhancement of domestic production capabilities, and proactive diplomatic measures. These actions illustrate South Korea's ability to adapt to geopolitical challenges and reinforce its economic resilience.

South Korea's Indo-Pacific strategy further demonstrates its commitment to maintaining a strategic balance in a region characterized by competitive dynamics. By aligning with the United States' FOIP strategy and participating in frameworks such as the IPEF, South Korea aims to secure its economic interests and enhance regional stability. The "Global Pivotal State" strategy under the Yoon administration emphasizes proactive engagement, aiming to position South Korea as a central player in regional and global economic and security affairs.

South Korea's economic security policy exemplifies its strategic agility in navigating the complexities of East Asian geopolitics. Leveraging FTAs, aligning with Indo-Pacific strategies, and responding adeptly to trade disputes, South Korea strengthens its economic resilience and geopolitical influence. Future research should continue to explore the evolving dynamics of economic security in international trade, considering the implications of new trade agreements, technological advancements, and geopolitical developments. South Korea's experience offers valuable insights into the interplay between economic policies and national security in a rapidly changing global geopolitical landscape.

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