

**Testimony Before the
U.S.-China Economic and Security Review Commission**

**Hearing on:
“China’s Relations With Northeast Asia and
Continental Southeast Asia”**

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Commissioners Cleveland and Stivers, and distinguished Members of the Committee: thank you for your kind invitation asking me to testify before you today. I am honored to have the opportunity to share with you my thoughts on the topic on the People’s Republic of China’s (PRC) relations with its neighbors in Northeast Asia, specifically the Republic of Korea (ROK).

I was asked to focus on four specific issues: (1) China’s interests and strategies shaping its relationship with South and North Korea; (2) South Korean views regarding China’s role in the region (3) how PRC-ROK economic relations affect South Korean strategic concerns; and (4) how the U.S.-ROK alliance and bilateral economic relations affect PRC-ROK relations. I conclude my examination of these issues by offering specific recommendations for the U.S. Congress to consider in addressing the dramatically changing landscape in East Asia.

(1) China’s Interests/Strategies on the Korean Peninsula

Chinese interests, strategies, and goals regarding South Korea cannot be comprehended fully unless considered within the context of the entire Korean Peninsula. Moreover, it is important to understand that the Peninsula’s strategic value cannot be examined in isolation, but is considered as only one key geographic asset in Northeast Asia for the PRC. In turn, this sub-region is one part of China’s broader neighboring periphery. With the distinction of having the largest number of foreign countries bordering its land territory --fourteen -- China has understandably maintained a hyper-vigilant preoccupation with protecting not only its territorial integrity, but a wariness of the potential for instability or conflict in all of its neighboring states, for fear of its destabilizing effects within its own borders.¹

¹ China shares land borders with 14 sovereign countries: Afghanistan; Bhutan; India; Kazakhstan; North Korea (DPRK); Kyrgyzstan; Laos; Mongolia; Myanmar (Burma); Nepal; Pakistan; Russia; Tajikistan; and Vietnam.

Unlike other global western powers, such as the United States or Great Britain, China's national security interests are not prioritized in the context of the global environment, but rather derived from the primacy of its domestic condition and national circumstances. In other words, the drivers of modern China's external strategies emanate from deeply embedded domestic interests and are simultaneously dedicated almost exclusively to their pursuit; their impact in the regional and global arenas are thus of secondary value.

Such an orientation has been endemic to the PRC since its foundation in 1949, and have remained consistent throughout the ensuing challenging decades of nation-building and development. Despite the rapid modernization achieved in this century, the state has firmly maintained this framework of core national interests. These were articulated clearly in the state's *Peaceful Development White Paper* issued in 2011, to uphold: state sovereignty; national security; territorial integrity and national reunification; the political system established by the Constitution; overall social stability; and basic safeguards for ensuring sustainable economic and social development.²

Notably, while these core interests have consistently remained the pillars of Chinese strategic goals, the contours of how the state defines and achieves these objectives have expanded in the recent decade, commensurate with an exponential increase of material capabilities across the spectrum of economic, political, and even social arenas. In turn, such confidence has given rise to growing ambitions to further reinforce the priority goal of ensuring domestic stability by venturing beyond its borders for the first time. Under Xi Jinping's leadership, the country has embarked on a dramatic shift away from China's long-standing foreign policy axiom in place since Deng Xiaoping dictated that the country "keep a low profile" in international affairs in order to focus on domestic economic modernization and stability.

Under Xi, the familiar national goals have been recast by the articulation of the "Chinese Dream" to achieve "national rejuvenation."³ The long-standing taboos against Chinese foreign intervention, such as building overseas bases, deploying troops in peace-keeping mission abroad, developing clear spheres of influence, creating buffer zones, and forging alliances have steadily eroded. But perhaps the boldest and most dramatic manifestation of the country's shift in foreign policy activities is the launch of a grand project to reconstruct the network of historical silk roads connecting the ancient Chinese empire with the Western world: "One Belt and One Road".⁴ [See Exhibit 1]

² *China's Peaceful Development*, White Paper, Information Office of the State Council, The People's Republic of China, September 6, 2011.

(http://english.gov.cn/archive/white_paper/2014/09/09/content_281474986284646.htm)

³ Note that the four parts that comprise the "Chinese Dream" are a direct reflection of the traditional core interests: (1) "strong China": economically, politically, diplomatically, scientifically, militarily; (2) "civilized China": equity, fairness, culture, morality; (3) "harmonious China": amity among social classes; and (4) "beautiful China": healthy environment, low pollution. (Robert Lawrence Kuhn, Op-Ed, "Xi Jinping's Chinese Dream," *New York Times*, June 4, 2013.)

⁴ For a detailed analysis of OBOR, see: Balbina Y. Hwang, "A Fork in the Road? Korea and China's One Belt, One Road Initiative," *Academic Paper Series*, Korea Economic Institute, November 16, 2017.

Spanning some 65 countries, approximately 4.4 billion people or 60 percent of the world's population, and about 40 percent of global GDP if and when fully implemented, OBOR has the potential to make China the driving economic and diplomatic force for a development strategy and framework that will integrate the entire Eurasia region.⁵ The path includes countries in regions situated on the original "Silk Road": Central Asia, the Caucasus, the Middle East, and Southern and Central Europe.⁶ But the plan is even more geographically expansive, looking north to connect China's northeastern rust-belt with energy-rich Mongolia and Siberia; south towards the Asian subcontinent and Southeast Asia; and even south-west towards Africa, seeking to create a cohesive economic area by creating land transportation networks.⁷

A second "Maritime Road" seeks to build maritime infrastructures throughout the Indo-Pacific, Middle East, and African coastal regions, ultimately linking the Pacific and Indian Oceans with the Mediterranean and Red Seas, via the Suez Canal. These would essentially connect the South China Seas to maritime Europe, to include the east coast of Africa along the way.⁸ From the east coast of Africa, MSR will then connect to the Red Sea via Djibouti, where China is building a naval base.⁹ From there, the maritime connection will continue into the eastern Mediterranean, and eventually central and southeastern Europe.¹⁰

⁵ Bert Hofman, "China's One Belt One Road Initiative: What We Know Thus Far," *East Asia on the Rise*, December 4, 2015; <http://blogs.worldbank.org/eastasiapacific>

⁶ Two major rail projects are already in the planning stages: one will likely link China's Henan and Sichuan Provinces and the Xinjiang region to hubs in Serbia, Hungary, Poland, Germany, and the Netherlands by way of Central Asia, Iran, and Turkey. The other major rail connection links China to Europe by way of Russia via the "New Eurasian Land Bridge." (Ian Mount, "Spain to China By Rail: A 21st Century Silk Road Riddled With Obstacles," *Fortune*, December 24, 2014.)

⁷ By 2015, almost \$900 billion in more than 900 projects, involving some 60 countries, was pledged towards building the six primary land corridors comprising OBOR: (1) China-Mongolia-Russia; (2) New Eurasian Land Bridge; (3) China-Central and West Asia; (4) China-Indochina Peninsula; (5) China-Pakistan Economic Corridor (CPEC); and (6) Bangladesh-China-India-Myanmar (BCIM). Note that both CPEC and BCIM have not been officially classified as part of OBOR strategy, but the Chinese government has stated they are "closely related to the OBOR Initiative." ("China, India fast-track BCIM Economic Corridor Project," *The Hindu*, June 26, 2016).

⁸ These maritime corridors will be developed through construction of new ports and surrounding special economic zones to support them. Specifically, MSR includes plans to connect ports in Kenya, Tanzania, and Mozambique with the Indian Ocean; the Chinese government has already announced plan for a \$3.8 billion railroad connecting Nairobi to the Indian Ocean port of Mombasa ("Prospects and Challenges on China's 'One Belt One Road': A Risk Assessment Report," *Economist Intelligence Unit Report*, 2015.; and Nayan Chanda, "The Silk Road: Old and New," *Global Asia*, (Vol. 10, No. 3) Fall 2015).

⁹ The naval base in Djibouti – opened in 2016 – is the PRC's first foreign military base since it withdrew its military forces from North Korea in 1958. In addition, a new counter-terrorism law passed at the end of 2015 legalized for the first time the dispatch of Chinese military forces for combat missions abroad without a UN mandate; this is considered a precursor for more active foreign military operations in the future. (Charles Clover and Luna Lin, "FT Big Read: China Foreign Policy," *Financial Times*, September 1, 2016)

¹⁰ Although all of these corridors have not been officially identified as part of MSR, China has already pursued projects that serve as key components of these routes; for example, the Greek government agreed to sell a 67 percent stake in Piraeus, the country's largest port, to China Cosco Holding Company, a Chinese state-owned enterprise (SOE). Cosco already operates two container terminals in Piraeus under a 35-year concession it acquired in 2009. (Nektaria Stamoulim "Greece Signs Deal to Sell Stake in Port of Piraeus to China's Cosco," *Wall St. Journal*, April 8, 2016.)

Notably, OBOR is not a “new” initiative because China has been heavily investing in overseas infrastructure construction across Eurasia for the last decade. Instead, it is the articulation of a broad plan that encompasses economic priorities emanating from the most immediate goal of stabilizing China’s struggling domestic economy by opening new markets, generating increased demand for Chinese exports, and boosting the development of increasingly competitive global industries.

Maintaining steady domestic economic growth, however, is closely interwoven with the leadership’s preoccupation with political and social stability, and it views promotion of broad stability in all neighboring countries as an integral aspect of reinforcing domestic harmony at home.¹¹ Thus, while OBOR’s projects are targeted towards achieving national economic goals, they ultimately serve the state’s *political* objectives of promoting national stability and strength.¹² In turn, this contributes to China’s dominance regionally, by expanding the boundaries of the region itself.

In this sense, OBOR can be considered a prophylactic strategy to promote long-term stability in neighboring countries through economic investments to prevent China being “forced” into a military confrontation with another major power. Underlying China’s preoccupation with stability both internally and in bordering countries is the Chinese Communist Party’s (CCP) most immediate concern: eliminating separatist movements that endanger the unity of the state’s political system and its functioning as a unified state. In a country of over 1.38 billion people, increased agitation among the 11.5 million Muslim Uighurs – the largest ethnic minority – is becoming a serious domestic security concern due to their growing extreme and violent efforts to gain greater autonomy and even independence from Beijing’s increasingly harsh authority and oversight.¹³

The possibility of any separatist movement succeeding is anathema to the Chinese leadership and is an unacceptable development because of its potential to trigger a domino effect that could lead to the collapse of the entire state system. Elections last year in Taiwan and Hong Kong have intensified Beijing leadership’s concerns about challenges to its central authority.¹⁴ Movements calling for independence may actually be more threatening to the Chinese leadership than pro-democracy movements, because they are a direct threat to the President Xi’s dream of building a strong nation-state. While separatist versus pro-democracy agitations may be a distinction without a difference for the much of the world, especially in the West, for the CCP, pro-democracy

¹¹ OBOR’s goal is to link vast new markets with the Chinese economy which will boost sluggish domestic demand and provide relief for inefficient state-owned enterprises (SOEs) suffering from over-capacity. Struggling SOEs, are not just an economic burden on the government, but fraught with risk because they cannot readily be eliminated without instigating severe social and political repercussions for the leadership. Moreover, OBOR provides a useful rallying agenda for the Chinese Communist Party (CCP) which has struggled with uncertainty and internal divisions under Xi’s toughening “reform” campaign

¹² Another objective is to secure energy supplies through new pipelines and other transport lanes – both rail and sea – in Central Asia, Russia, and through South and Southeast Asia’s deep-water ports. The countries within the orbit of OBOR account for 70 percent of the world’s energy reserves.

¹³ The government officially recognizes 56 ethnic groups comprised of some 105 million people; the Han represent the largest ethnic group comprising nearly 92 percent of the population.

¹⁴ “Elections in Hong Kong: A Not-So-Local Difficulty,” *The Economist*, September 10, 2016.

efforts are so threatening in great part because they might trigger calls for separatism or independence by ethnic minority groups.

Thus, while some analysts argue that the geostrategic aspects of OBOR are “overstated” because its primary objective is ultimately to “advance key economic goals,” the argument here is that there seems little doubt that for Beijing, economic goals are subordinate components of broader national goals, which in turn formulate the basis for geo-political calculations.¹⁵ In essence, OBOR is a manifestation of a new “extra-territorial” project by China that seeks to shape a new defacto architecture in surrounding regions which prioritizes stability – across the economic, political, and social realms --- as the primary goal for nations within OBOR’s orbit.

Thus, OBOR at least presently, reflects more myopic Chinese goals of expanding the country’s influence in surrounding regions in order to shape existing international rules and norms to better reflect its own preferences, which are not always synchronous with global standards. Nevertheless, the integration of sub and neighboring regions is being driven primarily by great powers such as China, and as in the past with the ancient silk road that unleashed an enormous flow goods, peoples, and ideas between the two continents, Chinese actions and ambitions have profound consequences for the myriad smaller states and societies that occupy strategically valuable real estate along the integration path.

Such a detailed and rather laborious examination of China’s core national interests and broader regional strategies are crucial to contextualize the country’s interests and strategies regarding the Korean Peninsula. For China, Korea is just one -- albeit crucial – geographically strategic asset. What is exceptionally striking, however, about Beijing’s ambitious vision to link several continents under a new informal architecture shaped by its desire to expand extra-territorial stability, is that it sweeps outward in every direction – north-east, north, north-west, west, south-west, south, and south-east -- with the *explicit exclusion* of its easternmost neighbor, the Korean Peninsula. [*Refer to Exhibit 1*].

The glaring omission of the Korean Peninsula in the sweep of OBOR is particularly stark, given that its inclusion is economically and strategically crucial for any truly complete regional integration. This is not just because of the instrumental role of the South Korea in the regional and global economy – ROK is East Asia’s third largest economy, the world’s 12th largest, and the 7th largest trading country in the world – but because geographically, the southern tip of the Korean Peninsula is the easternmost launching point for an eastward expansion to link the Pacific, including Japan with mainland Asia.

The exclusion of Korea is even more conspicuous given that South Korea’s President Park Geun-hye had articulated her own version of building a “Silk Road Express” with the launch of a “Eurasia Initiative,” (EAI) almost simultaneously with Xi’s grand

¹⁵ Christopher K. Johnson, “President Xi Jinping’s ‘Belt and Road’ Initiative,” Center for Strategic and International Studies, March 2016 (p. 20)

pronouncement in September 2013. Park's "Era of Eurasia," announced in October that year, called for physically linking the Western European continent with the farthest eastern end of the Asian continent, the Korean Peninsula, evoking the romantic image of boarding the Orient Express train in London and disembarking weeks later in the South Korea's southern port of Busan.¹⁶

While Park's EAI shared OBOR's general vision to promote closer inter- and intra-regional cooperation, the underlying motivation was to permanently alter dynamics on the Korean Peninsula by "the establishment of permanent peace" by attempting to draw North Korea out of isolation and integrating it into a regional network. After all, the North's stubborn reclusiveness is its ultimate weapon of last resort to keep the ROK a virtual geographic island disconnected from mainland Asia.

China's purposeful exclusion of the Korean Peninsula is perhaps further confirmation that for Beijing, maintenance of the status quo – division of the Korean Peninsula – even with North Korea's ongoing pursuit of nuclear weapons programs, sufficiently serves Chinese core interests of ensuring extra-territorial stability in its bordering countries without having to incorporate it within the broader orbit of OBOR.

While EAI is now a defunct strategy given Park's impeachment and ouster, the new South Korean President Moon Jae-In has articulated a generally similar goal of achieving "peace on the peninsula," although his methods and tactics may differ widely from his predecessor. Nevertheless, it is becoming evident that South Korea's vision for the region, supported by its growing confidence as a solid middle power, is increasingly at odds with China's.

China's interests on the Korean Peninsula are deeply rooted in historical precedent. As the dominant land and maritime empire in Asia for centuries, China's easternmost neighbor juts out from the main continent "pointed like a dagger at Japan" or alternatively as the "bridge to Asian mainland" from Japan's perspective. Thus, its location, and more importantly who has control or influence over the Peninsula has shaped the strategic and security environment in the region for centuries. While Japan was naturally insulated from the mainland due to its archipelagic geography, Korea was perennially encircled by great empires and located at the nexus of great power interests. Therefore, throughout its history, the Peninsula has been valued more for its strategic attributes than its intrinsic ones, suffering hundreds of foreign invasions throughout its 2,000 year history, the majority originating from its northern territorial neighbor: China.

China has undeniably been the foreign nation of the greatest importance to Korea throughout its long history, beginning with a short-lived Chinese Yen Kingdom's conquest of the ancient Chosun kingdom at the end of the fourth century B.C. For more than two thousand years since then, the fate of the two cultures has been inexorably

¹⁶ For a detailed analysis of ROK's EAI strategy, see: Balbina Y. Hwang, "A Fork in the Road? Korea and China's One Belt, One Road Initiative," *Academic Paper Series*, Korea Economic Institute, November 16, 2017

intertwined. The Korean Peninsula served as the natural conduit for access both to and off the Asian mainland. Indeed, the final death knell of Imperial China, marked by its ignominious defeat by the upstart Japan in the Sino-Japanese War (1894-1895), was essentially a battle over control and access to the Korean Peninsula, as was the subsequent Russo-Japanese War in 1904.

And China's special relationship with the North Korean leadership was forged as comrades joined in the bloody struggle for "independence" from the yoke of Imperial Japanese rule. This long history with the "Middle Kingdom" has meant that both South and North Korea's relationship with their neighboring giant is profoundly complex. And as the "shrimp among whales," the smallest of independent countries surrounded by powerful neighbors, Korea – both unified and divided – has been particularly sensitive to the maneuverings of great powers.

The division of the Korean Peninsula in the aftermath of WWII, which almost all Koreans – both in the North and South – believe was forced upon them by the machinations of the Great Powers, has been a profound legacy that has shaped the strategic considerations of both Koreas, and lingers today as an underlying challenge to a viable and permanent end to the Korean War.

China's role in the War contributed to the particularly complex relationship it has with both Korea's today, more so than perhaps any other country. China sacrificed the most in human costs – other than the Koreans themselves – with nearly one million Chinese forces ultimately supporting the Democratic People's Republic of Korea (DPRK) and suffering an estimated 500,000 casualties.¹⁷ The United States, and fifteen other countries under the auspices of UN Forces also contributed an estimated one million troops in support of the ROK, but suffered far fewer losses (U.S. military casualties were just over 37,000).

The breadth of Chinese support of North Korea during the War, as well as the close relationship the two countries have developed and maintained for the last seven decades have contributed to the myth of extreme closeness between the two allies. In fact, while Beijing has maintained its position as Pyongyang's closest ally, their relationship is one based on mutual necessity and convenience rather than any genuine affection, and is rife with mistrust and suspicion. Indeed, the PRC which had initially rebuffed the DPRK's calls to support its invasion of the ROK in June 1950, reluctantly entered the Korean War in October later that year, only after U.S.-led UN Forces had reached North Korea's border with China at the Yalu River, and threatened to cross it.

Thus, for China, entering a war it had not condoned or supported, particularly so soon after its own civil war and hard-won Communist victory only one year earlier in 1949, was a necessity borne from its hypervigilant preoccupation with protecting its territorial integrity and preventing instability or conflict in any neighboring state, as previously noted. Moreover, Beijing's continuous support over the decades – both implicit and tacit

¹⁷ An estimated 2.5 million Korean civilians and military personnel were killed or wounded during the Korean War; 1.5 million were from the North. Tens of millions more were permanently displaced.

– of the regime in Pyongyang despite immense international pressure against such policies further demonstrates China’s strategic priority of supporting and protecting its neighbors no matter how unpalatable or high the costs.

Nevertheless, the outbreak of the Korean War and the ensuing Cold War was in many ways a period of clarity for both Korea’s position vis-à-vis China. As long as the PRC (together with the Soviet Union) and the United States stood on opposite sides of the Cold War divide, the two Koreas were secure in their proper places in the shadows of their larger partners.

North Korea and China, however, were hardly model allies even during the height of the Cold War. Although almost wholly dependent on the Beijing and Moscow as the guarantors of its security, Pyongyang skillfully remained at arms-length from both powers, often playing one against the other, particularly during the Sino-Soviet split beginning in the early 1960s. But it was the Sino-American rapprochement begun secretly in July 1971 that was the catalytic event which convinced North Korea that China, as with all other powers, ultimately could not be trusted. While the target of Nixon’s triangular diplomacy with China and the Soviet Union was North Vietnam – notably another client state of the two communist powers – this only reinforced North Korean fears of betrayal, as well as having the unintentional but equal mirror effect on South Korea’s sense of betrayal vis-à-vis its alliance with the United States.

The acute sense of insecurity due to fears of abandonment and betrayal by their respective Great Power rivals drove both Koreas to act astonishingly: in August 1971, they began a series of secret inter-Korean dialogues for the first time since the Armistice in 1953, leading to a shocking Joint Statement on July 4, 1972; the symbolism of this date marking independence from a Great Power not being lost on either Korea. The two Koreas reached agreement on three principles for achieving unification: independence from foreign interference, peaceful means, and national unity transcending differences in ideology and system.¹⁸

Ultimately, the agreement proved inconsequential in improving inter-Korean relations or breaking the deadlock on the Korean Peninsula, but it marked the beginning of Pyongyang’s hedging strategy against Beijing. Undoubtedly, it spurred North Korea to begin to pursue an indigenous nuclear program in earnest in the early 1980s, setting the stage for the ensuing “first” North Korean nuclear crisis in 1993.¹⁹ And of course the cataclysmic watershed moment in Sino-North Korea relations was the collapse of the Soviet Union and the subsequent normalization of relations between the newly formed Russian Federation and the ROK on September 30, 1990. It was followed by Beijing’s normalization of relations with Seoul on August 24, 1992.

¹⁸ For greater detail on this extraordinary development, see: Balbina Y. Hwang, “North Korea: the Foreign Policy of a Rogue State,” in *Routledge Handbook on Diplomacy and Statecraft*, November 2011.

¹⁹ For greater details, see: Balbina Y. Hwang, “North Korea: An Isolationist Nuclear State,” in *Handbook of Nuclear Proliferation*, ed. Harsh Pant, Routledge Press, 2012.

While both Russia and China pledged their reassurances of continued political support to North Korea, they both substantially reduced their concessionary fuel shipments to the North due to their respective domestic economic conditions. Regardless of the cause, the economic damage to North Korea was acute and a devastating famine ensued (exacerbated by severe drought conditions in the North), from which the country and economy has never fully recovered.

An examination of China's intimate history with North Korea reveals that Beijing's continued support of Pyongyang and periodic abatement have little to do with developments on the Korean Peninsula itself and have been driven almost entirely by domestic calculations based on narrow core national interests. China's paramount priority is maintaining internal political, economic, and social cohesion. Maintenance of the status quo of a divided Korean Peninsula, even with an increasingly recalcitrant, disobedient, and even antagonistic junior partner, may be a distasteful but preferred outcome for Beijing whose leadership faces a crucial 5-year transition of power later this year.

As anathema as the possibility of an outbreak of war on the Korean Peninsula may be for China, the longer-term specter of a unified, highly nationalistic Korea, most likely democratic, with a strong market economy and a vibrant and activist civil society, on its southern border is a chilling prospect given the existing two million ethnic Koreans currently residing in the self-autonomous Jilin Province. The concern is less about the specific ramifications of increased ties among ethnic Koreans, but rather the broader implications such a development may have for the other 55 ethnic groups in the vast country, especially those agitating for independence, such as the Uighurs in Xinjiang, or Tibetans. Thus, Beijing will remain vigilant, and even militant in all its surrounding border regions in order to maintain strict national cohesion; anything less would invite the possibility of the unraveling of the entire system.

Ever since normalization of relations between Seoul and Beijing in 1992, China's relations with the two Koreas have been a delicate balance of intersecting and often conflicting interests. Today, China has surpassed the United States as the ROK's largest bilateral trading partner, but China also continues to be the lifeline for North Korea's economic survival. China's continued tolerance if not outright support for the North Korean regime, despite its continued recalcitrant behavior, has served to encourage Pyongyang to behave with impunity.

Both Koreas have long tolerated China's bifurcated strategies to maintain ties with both sides of the Peninsula even if it has meant that Beijing plays one against the other. And both are long familiar with China's assertions of superiority and dominance over the Peninsula, as evidenced by the grand controversy that erupted between Beijing and Seoul in 2004 over the origins and historical legacy of the Goguryeo Kingdom (37 B.C. to 668 A.D.).²⁰ While the bitter recriminations over an ancient and defunct kingdom may

²⁰ For a detailed discussion of the controversy over Goguryeo, see: Peter Hays Gries, "The Koguryo Controversy: National Identity, and Sino-Korean Relations Today," *East Asia*, (Winter 2005, Vol. 22, No. 4), pp. 3–17.

seem to be a bemusing historical anomaly to those outside Asia, for Koreans the incident was a profound manifestation of deep and unsettling Chinese strategic ambitions in the region. For China, downplaying the historical importance of an ancient Korean kingdom that had challenged imperial China no matter how long ago, serves its core interests today of preventing any resurgence of ethnic or nationalist challenges to its carefully constructed national identity as a unified state.

While Japan has long-served as an easy and emotional target of Korean recriminations against historical injustices suffered by the Korean people during brutal colonization (1910-1945), it is the uncertainty about future Chinese dominance that has always presented the far more profound challenge to Korean interests, more than any potential resurgence of Japanese power. This dynamic, long-buried and until recently grudgingly acknowledged, is becoming more manifest in South Korea's defense strategies in the last decade.

The ROK's incorporation of policies to address the broader challenges posed by an increasingly assertive China into a new national security framework, however, was triggered by direct provocations by North Korea in 2010, and China's tacit defense of the heinous acts. An international investigation concluded that on March 26, North Korea torpedoed a South Korean warship – the *Cheonan* – killing forty-six sailors.²¹ And on November 23, North Korea shelled South Korea's Yeonpyeong Island in an artillery barrage, killing four and wounding eighteen.²²

The 2010 provocations had the immediate effect of coalescing divergent South Korean opinions about the North Korean threat and led to increased concentration of ROK deterrent and defensive capabilities. But these actions drew sharp criticism from Beijing, contributing to South Korea's growing willingness to meet Chinese challenges more openly. In late 2010, Beijing unleashed a steady stream of objections against pro-active defense measures involving the United States in cooperation with the ROK and Japan following the shelling of Yeonpyeong Island.²³

China also openly disapproved of U.S.-Japan naval exercises, condemning the announced deployment of the *USS Ronald Reagan* to East Asia in response to North Korea's threat of a "sacred war" on the Korean Peninsula using nuclear weapons. Beijing accused the United States of increasing the danger of war in the region even as it claimed the DPRK had shown restraint amidst a number of ROK drills deemed to be

²¹ Sang-Hun Choe, "South Korea Publicly Blames the North for Ship's Sinking," *New York Times*, May 19, 2010.

²² Mark McDonald, "Crisis Status' in South Korea After North Shells Island," *New York Times*, November 23, 2010.

²³ For example, in reaction to the U.S.-ROK naval drills in the Yellow Sea involving the *USS George Washington* on November 28 to December 1, the Chinese Foreign Ministry warned that "China opposes any military acts in its exclusive economic zone without permission." (Ian Johnson and Helene Cooper, "Beijing Proposes Emergency Talks on Korean Crisis," *New York Times*, November 29, 2010.)

“provocative.”²⁴ Later that same year, an unprecedented level of South Korean public demand for strengthening national defenses against perceived Chinese threats was unleashed after a violent clash between Chinese fishing vessels and the South Korean coast guard, in an incident eerily similar to earlier one involving Japan and China.

Such Chinese actions, and increasingly harsh rhetoric reinforced the view in South Korea – and in the rest of Asia – that China’s growing military capabilities combined with more powerful and assertive actions, are indicative of Beijing’s intent to challenge U.S. power in the region. While certainly not ready or capable of loosening close military ties with the United States, South Korea – similar to Japan – has nevertheless been carefully expanding its own independent capabilities in order to better exert its relative position in a regional hierarchy that has become increasingly uncertain.

In the subsequent few years, ROK-PRC relations improved in no small part due to the concerted efforts by the new South Korean leader Park Geun Hye (inaugurated in February 2013) who calculated that Beijing’s cooperation would be crucial to eliciting progress on resolving the North Korean nuclear issue. The bilateral relationship was further solidified with the signing of the ROK-PRC Free Trade Agreement in June 2015, culminating in Park’s highly symbolic attendance at Beijing’s 70th anniversary commemoration of the end of WWII in September.²⁵ Notably absent at the highly publicized event was the relatively new North Korean leader, Kim Jong Un, who has to this day failed to meet with Chinese leader Xi, reflecting the poor state of PRC-DPRK relations.²⁶

Whatever positive capital Park had accrued with Beijing, however, quickly deteriorated in 2016 after North Korea conducted its fourth nuclear test on January 6, followed by a fifth test on September 9.²⁷ In addition, a series of missile launches throughout the year all contributed to growing public outrage in South Korea and a growing sense of urgency among the public about the growing threat from North Korea. This led to unprecedented popular support for the installation of a Terminal High Altitude Area Defense (THAAD) anti-missile system, which had been a particularly contentious issue for several years in the U.S.-ROK alliance, and the decision to deploy was made in July 2016.

The announcement, however, unleashed unexpectedly harsh criticism from China and in the ensuing months, Beijing began to pursue several retaliatory measures against South Korean retailers and Chinese imports of “Hallyu” (Korean popular culture). Heavy-handed Chinese attempts to pressure South Korea on national security

²⁴ Along with the *USS Vinson* in Guam, “three aircraft carriers in the same region are going to be interpreted as a signal of preparing for war,” according to Major General Luo Yuan of the PLA’s Academy of Military Sciences. (“New ROK Drills Add to Tension on Peninsula,” *China Daily*, December 27, 2010.)

²⁵ Park Geun-Hye was the only leader among U.S. allies who attended the ceremony, drawing criticism from many for participation.

²⁶ Negotiations for the ROK-PRC FTA began in May 2012 and concluded in November 2014. It was signed on June 1, 2015, and went into force on December 20, 2015.

²⁷ North Korea’s first nuclear test was on October 9, 2006, followed by a second on May 25, 2009, and its third on February 12, 2013.

decisions have rankled the South Korean public and may have actually increased support for THAAD at least in the short-term. Since then, THAAD's deployment has fallen victim to domestic political squabbles related to former President Park's impeachment trial, and the election of progressive leader Moon Jae-In, who in the past had been a vocal critic of U.S.-led missile defense systems.²⁸

Notably, although THAAD remains a divisive issue domestically in the ROK, many South Koreans have coalesced against China and its retaliatory tactics. Since January of this year, China's favorability rating among South Koreans dropped precipitously to a level even below that of Japan's, which until now has consistently been South Koreans' least favored country with the exception of North Korea. The favorability rating of the United States also dropped slightly since the change of administration in Washington, indicating perhaps that overall, South Koreans respond negatively towards what they consider to be excessive interference by regional superpowers on Korean issues.²⁹

While it is unwise to draw definitive conclusions from opinion polls that are notoriously ephemeral, particularly in a society that is well-known for its heightened sense of emotional nationalism and volatile public opinions, changing public perceptions about China reflect a broader shift in South Korea's national security strategy and a new-found willingness to address challenges emanating from China more openly.

South Korean frustrations with China are in effect a direct result of Beijing's refusal to acknowledge the obstructionist role that North Korea plays not only against stability on the Peninsula but regional integration. This in turn has contributed to increased South Korean suspicions about broader Chinese motives and ambitions in the region.

And Chinese willingness to insert itself into the domestic debate on South Korea's sovereign right to defend itself is indicative of the extent to which China's preoccupation with stability in its extra-territorial regions is crucial to its *own* perception and needs regarding its national security. Meanwhile, North Korea's ability to assert its own independent actions despite regional and global pressures, highlight the opportunities for exploitation created by the inability of regional powers to cooperate when national security interests diverge.

Thus, China's grandiose project to revive the ancient Silk Roads in order to promote regional integration may paradoxically unleash greater divisions in the Asia-Pacific, and fail to deliver the regional stability all regional nations ostensibly desire.

²⁸ For a more detailed discussion, see: Balbina Y. Hwang, "President's Impeachment Exacerbates South Korea's Defense Concerns," *Janes Intelligence Review*, HIS, January 26, 2017.

²⁹ China's rating in January 2017 was 4.31, which dropped to 3.21 in early March (A rating of 5 is highly favorable; 0 is least favorable). Even more surprising is that Koreans are now more favorable toward Japan (3.33) than China (3.21). ("Changing Tides: THAAD and Shifting Korean Public Opinion toward the United States and China," Asan Institute, March 20, 2017 (<http://en.asaninst.org/contents/changing-tides-thaad-and-shifting-korean-public-opinion-toward-the-united-states-and-china/>))

(2) South Korean Views of China's Regional Role

The prevalent perception in East Asia today is that the region is experiencing a shift in the balance of power in which Chinese power is dominant while U.S. influence is in precipitous decline. Although the reality is debatable, such a *perception* has accelerated in the advent of the new Trump Administration whose inconsistent actions and statements at times questioning or even challenging American allies around the globe have caused uncertainty and consternation. However, doubts about the U.S. ability to provide a credible counterweight China's increasing regional and global influence predate the current administration.

Uncertainty about U.S. commitment and capabilities in the region were unintentionally reinforced by President Obama's administration in 2009 when it triumphantly declared that "America has returned to Asia," and punctuated this "new" approach with a "Pivot" to the region.³⁰ Ironically, the attempt to show its prioritization of the Asia-Pacific region by framing U.S. strategy in Asia as a "return" to the region only served to reinforce unjustified criticism among many Asian nations that the United States had previously retreated or withdrawn its interests and presence in this critical region.

The greater negative consequence of framing of U.S. interests in the region in that manner was that Washington ceded to Beijing control of the rhetorical narrative about shifting regional dynamics. Because the world seems to have accepted the inevitability of a globally powerful China, and Beijing has done a remarkable marketing job categorizing this rise as "peaceful," uncertainties resulting from changes to the regional status quo are now readily assigned to the "reassertion" of U.S. interests or challenges presented by American actions in the region, rather than as a result of changes wrought by China itself.

Note for example Beijing's reaction to Washington's efforts towards closer regional military engagement in 2010 following a series of North Korean provocations against South Korea: labeling joint U.S.-ROK activities as "interference" in the Yellow Sea, the *Global Times* – an official Chinese publication – proclaimed that "since the United States declared its return to Asia, the frequency of clashes in the Korean Peninsula has accelerated. Instead of reflecting on this, South Korea became more obsessed with its military alliance with the United States."³¹

The rapid economic growth and development of China alone do not account for the depth of uncertainty and anxiety about the future power structure in the region; after all, countries throughout Asia, such as Japan, South Korea, and the "Little Dragons" of Southeast Asia have achieved spectacular economic prosperity without engendering commensurate concerns about their wealth being transferred to aggressive military might and ambition. China's rise seems to be different not just due to its sheer magnitude in size and breadth, but because it has been accompanied by a significant

³⁰ Mark Manyin, et al., *Pivot to the Pacific? The Obama Administration's "Rebalancing" Toward Asia*, CRS Report for Congress, U.S. Congressional Research Service, R42448, March 28, 2012, pp. 1-2.

³¹ David Pilling, "Beijing is Not About to Prise Lips from Teeth," *Financial Times*, December 2, 2010.

shift in Beijing's foreign policy stances beyond the military realm. These include China's increasing leadership role in regional multilateral groupings and arrangements, including the establishment of the Asian Investment and Infrastructure Bank (AIIB) in January 2016. As of mid-May, the Bank already had 52 member states with another 25 signed on as prospective members.³² The high-profile OBOR Forum held last month in Beijing, attended by 29 world leaders, further highlighted China's outsized leadership role not just regionally but globally. Notably, the United States (and Japan) were open skeptical of the former, and have shown wary interest in the latter.

After decades of abiding by Deng Xiaoping's admonition to restrain Chinese foreign policy in order to advance its peaceful rise, a much more confident Beijing now seems to relish displaying its achievements and exerting its strength in the region. Thus, it is not just the increase in Chinese capabilities but rising uncertainty about Beijing's intentions, punctuated by its increasingly assertive behavior particularly in maritime activities, which is cause for uneasiness.

Regardless of disagreements over perceived responsibility for shifting regional dynamics today, changes in the regional and global status of the United States and China as well as their interaction is of great concern to every nation in Asia, but especially for one of America's closest allies, South Korea, as well as its adversary on the Peninsula, North Korea.³³

At the core of South Korean and other regional allies' anxieties are fears that China is challenging the dominance of a U.S.-centric order in Northeast Asia and that increased Chinese capabilities will lead Beijing to re-establish a modern version of the ancient Sino-tributary system. This Sino-centric order is perhaps more sophisticated than cursory Western analyses tend to allow, for under this system hegemonic power is wielded through nominal equality but substantive hierarchy.

Historically, China was at the apex of a hierarchical tributary relationship with "lesser" powers that retained their "sovereignty" and territorial integrity within the stratified order. As such, under this system territorial conquest was never necessary for China, the "Middle Kingdom," to retain dominance and regional hegemony. For example, China never bothered to conquer the ancient Kingdoms of Koryo (Korea), Annam (Vietnam) and the Ryukyu (Okinawa) which all remained independent and sovereign under Chinese suzerainty. Note that it was the West and Japan – which was the first Asian nation to embrace the western Westphalian notion of sovereignty – that forcibly seized control over these traditionally independent territories. As Christopher Ford (in his book *Mind of Empire*) observes, China "lacks a meaningful concept of so-called equal, legitimate sovereignties," and as its strength grows, "China may well become much

³² "China-led AIIB Approves Seven New Members Ahead of New Silk Road Summit," *Reuters*, May 13, 2017.

³³ For a more detailed discussion, see: Balbina Y. Hwang, "The U.S. Pivot to Asia and (South) Korea's Rise," *Asian Perspective*, vol. 41, no. 1, (January – March 2017.)

more assertive in insisting on the sort of Sino-centric hierarchy its history teaches it to expect.”³⁴

Indeed, increasingly assertive Chinese maritime behavior in the last several years may be part of a broader strategy of “attrition” to exercise authority over smaller neighbors in the near term by pushing U.S. forces away from its maritime borders to demonstrate rights over the entire South and East China Seas. Such actions underpin Beijing’s “anti-access area denial” doctrine.³⁵ Once under Chinese dominance, “lesser” powers will not necessarily have to give up their independence or even have to emulate China ideologically, but they will have to show due respect, and if necessary provide appropriate concessions; one necessary concession in China’s view will be the reduction of U.S. influence in the region.

This shift towards increasing Chinese influence in the region is not due to any decline of U.S. power presence in the region per se, nor a function of China’s military modernization alone, but rather an increase in Chinese confidence borne from its explosive economic growth and expanding global presence. But recent self-assurance – reinforced by its China’s relative immunity from the global economic crisis in 2008 – has contributed to the expansion of Chinese strategic thinking to include the need to assert China’s national interests in maritime, air, space, and cyber environments, both near its borders and beyond.

This new boldness was evident in Beijing’s astonishing unilateral declaration in November 2013 of an air defense identification zone (ADIZ) above contested waters in the East China Sea, provoking angry responses from South Korea, Japan, and the United States.³⁶ South Koreans were especially shocked, because although they were used to periodic territorial spats between China and Japan, China’s surprising inclusion of leodo (or “Parangdo” in Korean), a rock previously completely unknown to most Koreans, but that China claims as part of its territorial rights (Suyan Rock) was a completely unanticipated development.³⁷ It was the first time South Koreans began to consider Chinese sea and air defense area denials as tangible threats to the Peninsula and not just broader regional strategic concerns.

Fueling South Korean wariness about Chinese intentions in the region is Beijing’s reinforcement of military capabilities with increased expenditures. Although China still spends about one-quarter of total annual U.S. defense spending, Beijing recently announced that its 2017 military budget will increase by 7 percent, to \$151.4 billion, compared with the annual U.S. military budget of more than \$500 billion.³⁸

³⁴ Christopher A. Ford, *The Mind of Empire* (University Press of Kentucky, Lexington, KY: 2010)

³⁵ Nathan Freier, “The Emerging Anti-Access/Area-Denial Challenge,” Center for Strategic and International Studies, May 17, 2012; (<http://csis.org/publication/emerging-anti-accessarea-denial-challenge>)

³⁶ Chico Harlan, “China Creates New Air Defense Zone in East China Sea Amid Dispute With Japan,” *Washington Post*, November 23, 2013.

³⁷ Choe Sang-Hun, “China’s Airspace Claim Inflames Ties to South Korea, Too,” *New York Times*, November 27, 2013.

³⁸ “China Confirms 7 Percent Increase in 2017 Defense Budget,” *Reuters*, March 6, 2017.

In the face of such developments, but more importantly given the *lack* of fundamental changes in the basic security dynamics in the region, there is no question that U.S. bilateral alliances with South Korea and Japan remain the fundamental pillars upon which continued stability rests. Yet, despite the fact that the stark lines of contrasting Cold War security interests remain intact, the blurring of economic interests have served to amplify the twin fears of entrapment and abandonment that have perennially plagued America's junior allies. The two countries' worst fear – as is the case of many other nations in East Asia – is to be caught in the middle of a U.S.-China battle for regional supremacy.

While these fears have ebbed and flowed to varying degrees throughout the history of U.S. alliances in post-WWII Asia, they have been amplified in recent months under President Trump due a series of contradictory statements and actions. Despite the valiant and repeated efforts by top administration officials, including Secretary of Defense Mattis, Secretary of State Tillerson, and Vice President Pence to firmly articulate the unwavering resolve of U.S. commitment to its regional allies, other actions such as the U.S. withdrawal from the Transpacific Partnership (TPP) free trade agreement signal more profound concerns about U.S. leadership and influence in the region.

The U.S. withdrawal from TPP is not just a blow to its economic viability because the United States accounted for three-fifths of the bloc's combined GDP, but because the region – including China – viewed it as a tangible sign of U.S. strategic commitment to the region as a counterweight to China's growing regional influence. Moreover, the more recent U.S. withdrawal from the Paris Climate Agreement seems to signal that the United States may be moving away from its historical role as champion of an open and rules-based trading order, of which the Asia-pacific region, including China, has been its greatest beneficiary.

The sudden U.S. shifts away from its traditional roles are particularly worrisome for regional allies such as South Korea because they seem to offer opportunities for China to step into the breach. TPP had been widely criticized by China as yet another attempt by the United States and its allies to constrain China's economic opportunities and isolate it from the regional economy. Its questionable future has only propelled the relative weight of the Regional Comprehensive Economic Partnership (RCEP), an alternative effort to liberalize trade in Asia.

Although mistaken as Chinese-led, RCEP is an imitative led by the ten-member Association of Southeast Asian Nations (ASEAN) and is intended to meld existing free-trade agreements that ASEAN has with six other countries. One of these is indeed China, but four others – Japan, South Korea, Australia and New Zealand – are American allies, while the sixth, India, is hardly a Chinese acolyte. Nevertheless, the sheer gravity of Chinese participation in any multilateral grouping tends to eclipse the other members relative weight. Perhaps most significantly, Chinese participation all but guarantees that RECEP is far from a “gold standard” in trade agreements as the

KORUS FTA was often referred to; TPP opens all services to all members, while RECEP negotiations start from a much lower base and are expected to achieve only minimum, not maximum standards of liberalization.³⁹ Ultimately, if RCEP is to replace the vacuum left by U.S. withdrawal from TPP, this would signal yet another reduction in U.S. economic influence in the region, as well as a capitulation of standards to minimal Chinese levels.

(3) PRC-ROK Economic Relations, and Effects on South Korean Strategic Concerns

2010 was a pivotal year for the ROK: as host of the G20 Leaders' Summit—the first non-G7 and non-Western country to do so—the relatively small country earned international recognition as a significant force in the global arena. If the 1988 Seoul Olympics was South Korea's debut on the international stage, then the Seoul G20 Summit was the equivalent opportunity to star as a lead economic role in front of a “standing-room only” global audience, at a crucial time in the aftermath of the 2008 global financial crisis. This was an astonishing achievement for a country which exactly 100 years prior had been formally annexed by the Japanese empire, marking a century of struggle to overcome humiliating defeat, division, and internecine war. With Seoul's subsequent role as host of the Nuclear Security Summit in 2012, it emerged from these successful global responsibilities as an acknowledged “middle power.”

Seven years later, South Korea faces another pivotal year with the regional environment in a state of flux exacerbated by a stubbornly entrenched and determined North Korea, the emergence of an assertive and global-minded China, and the change of U.S. leadership. Given the confluence of these changes, especially under a new leadership in South Korea itself, it is unclear if South Korea will be able to maintain its position as a significant middle power, especially in the economic realm. The future of its global position and influence are as much dependent on dramatic changes in the international system today as they are on domestic factors, as well as on whether a “middle power” status meaningfully captures the country's national identity, capabilities, and ambitions.⁴⁰

One of the greatest challenges confronting South Korea today is that it faces an economic crossroad, largely shaped by China. Whereas for most of its 70 year history as a Republic, South Korea was supported and guided by its staunch ally the United States, in the last decade China's power has grown exponentially, while U.S. influence has declined relatively, commensurate with rise of ROK's own status and capabilities. While South Korea's most important overall relationship is still with the United States, China is now the ROK's largest bilateral trading partner, with South Korean exports to China totaling \$495.4 billion in 2016. Comprising one-quarter of total exports, this dependence on the Chinese market has exposed an uncomfortable vulnerability made

³⁹ “Back From the Dead,” *Economist*, May 6, 2017.

⁴⁰ For a more detailed analysis of South Korea's “middle power” ambitions, see: Balbina Y, Hwang, “The Limitations of ‘Global Korea’s’ Middle Power,” *The Asan Forum: Open Forum*, February 24, 2017 (March-April, vol. 5, no. 2).

stark by Chinese attempts to pressure South Korea on defense issues using economic levers.⁴¹ Beijing has been strongly opposed to the U.S.-led THAAD anti-missile system, which it argues allows for greater surveillance of its own activities, but ultimately fears is the first step in enhancing a broader U.S. security architecture in the region.

Since July 2016, when Seoul first announced its decision to deploy THAAD, Beijing made its displeasure clear and began to implement unofficial boycotts mainly of South Korean cultural products, such as sales and access of K-Pop (music) and dramas. It also targeted specific South Korean companies citing health and safety issues. But since mid-March of this year when Seoul accepted the first installation of the system, Beijing has unleashed a barrage of moves including curbs on sales of Korean cosmetics and Chinese tour packages to South Korea – they numbered 8 million in 2016.

Wang Yi, China's foreign minister, issued a stern warning to South Koreans that they "will only end up hurting themselves."⁴² Since then, Chinese inspectors descended on Lotte, a large Korean retail group's facilities in China, halting construction of a multi-billion dollar project, and suspending operations at 55 of 99 Lotte Marts. Lotte has been specifically targeted because it sold a golf course in Korea to the government on which the THAAD system was installed. Beijing also began to implement other measures, such as hold up Korean goods at customs, and harass employees at Korean companies.

And Chinese state-sponsored hackers began to target South Korean entities involved in deploying THAAD. In April, two cyber-espionage groups linked to Beijing's military and intelligence agencies launched a variety of attacks against South Korea's government, military, defense companies, as well as Lotte. While South Korea has long been a target of Chinese hackers, there was a discernible rise in the number and intensity of attacks in the weeks since THAAD's deployment.⁴³

The Chinese government's campaign against THAAD even attracted children as young as seven, whose schools have urged them to join impromptu rallies and boycotts of Korean goods across the country.⁴⁴ The unofficial boycotts were extended to include South Korean autos: Kia experienced a 36 percent drop in first quarter year-on-year sales, and Hyundai reported sales in China were down 14 percent during the same period, even though the country's auto sector grew four percent. This was not an insignificant number for Hyundai, as China accounts for more than one-fifth of the company's auto sales by volume. It also operates four factories in China with a fifth due to come on line later this year. Thus, it was forced to eliminate a second shift in three of its factories in March.⁴⁵

⁴¹ Chun Han Wong, "Seoul-Based Conglomerate Bears Brunt of China's Ire," *Wall St. Journal*, March 11-12, 2017.

⁴² Ben Bland, et al. "Boycott Diplomacy," *Financial Times*, May 4, 2017.

⁴³ Jonathen Cheng, "China Fights Missiles With Hackers," *Wall St. Journal*, April 22-23, 2017.

⁴⁴ Tm Mitchell, "Children Join Rally Against Seoul's Missile Defense System," *Financial Times*, March 20, 2017.

⁴⁵ Bland, "Boycott Diplomacy," *Financial Times*, May 4, 2017.

This development highlights the complexities of pursuing boycotts as an economic tool to achieve political goals. Beijing maintains firm control over the economy and through state-owned enterprises retains powerful leverage over private sector businesses. And while China's role in the global manufacturing and end-markets is now significant lending it much greater leverage, China's economic integration into the global market also means that the government must act with some restraint. South Korea is one of China's largest supplier of imports including high-tech and machinery components that fuel Chinese manufacturing industries. Moreover, Chinese firms rely on importing intermediate Korean goods to complete assembly and sell to other markets. Thus, carried too far, economic retaliation against South Korean firms will ultimately harm the Chinese economy because they also employ Chinese workers, and South Korea is China's fourth largest export market

Indeed, the Chinese leadership understands the tremendous leverage controlling access to its vast market provides, not just over trading partners but also over the domestic audience by signaling nationalist credentials. But it also understands the delicate balancing act required to ensure that its guided boycotts do not damage the Chinese economy or unleash nationalistic forces that could threaten Communist-party rule.

Ultimately, China's tactics against South Korea have been focused and relatively minor, designed to exert maximum "psychological" and political impact with minimum economic damage. Notably, targets were limited to sectors that would have widespread impact across South Korean society but with little direct repercussions for the Chinese economy, such as retail, cultural and tour groups. Temporarily banning immensely popular South Korean cultural groups may have also provided a useful opportunity to limit the spread of what some Chinese government officials have begun to complain is "cultural infiltration" by South Korea.

The specific targeting of Lotte was also likely deliberate in order to send a broader message to South Korea's other large chaebols or conglomerates, which are politically powerful in South Korea, with enough economic leverage to pressure their government. Most certainly, Beijing had hoped to take advantage of the political chaos and leadership vacuum in March and April due to the impeachment of President Park Geun-hye and dissuade the next leader of South Korea from fully deploying THAAD.

But Beijing may have underestimated the public backlash from the South Korean public against Chinese tactics. Although the progressive leader Moon Jae-in, known to have previously been a THAAD opponent was ultimately elected, he has been careful to calibrate his decision thus far to reverse the decision. Moreover, Beijing likely miscalculated the power of the chaebol, as President Moon has pledged to dismantle the chaebol's dominance of the domestic economy as one of his top priorities.

Indeed, it is not evident that Chinese attempts to force South Korea to make a stark choice between its military alliance with the United States, and its commercial economic ties with China will ultimately succeed. Despite the Chinese bluster and heightened

public anxiety in South Korea, the reality is that the ROK economy as a whole was not negatively impacted by Chinese retaliation against THAAD. South Korea's exports increased 13.4 percent for the month of May 2017 (from a year earlier) to \$45 billion, with total shipments to China increased 7.5 percent in May.⁴⁶

Meanwhile, South Korea was able to adequately expand markets beyond China, a long-term economic strategy that may be inevitable given the longer-term challenges that China poses, beyond what South Korean Vice-Foreign Minister Ahn Chong-ghee identified as near-term "attempts to weaponize markets for political and security purposes."⁴⁷

Well before Chinese boycotts started to affect sales at Korean companies such as cosmetics, they were encountering challenges in the Chinese market due to more stringent government regulations and rapidly growing domestic competition. As an export powerhouse decades before China began to open its economy, South Korea benefitted greatly from China's rapid development, much as Japan benefitted from South Korea's modernization in the 1960s: Chinese factories soaked in Korean-made components, and a growing Chinese consumer class had a voracious appetite for Korean devices, cosmetics, television shows, music, and shopping trips to South Korea. Irregardless of the political dispute over THAAD, the bilateral economic relationship between the two countries had already begun to shift, with China now a competitor in many areas such as consumer goods, and industrial sectors such as steel and ship-building, as much as it is a customer of South Korea.⁴⁸

Thus, China's attempt to retaliate against South Korea using economic tools may have been less about causing any substantial economic damage and more about testing its ability to assert its influence through economic coercion and exploiting the shadow of its economic power. Nevertheless, the implications for the region, and even globally are profound: if Seoul is seen as capitulating to Beijing's economic threats, intimidation of other nations will likely increase across the region. As such, there has never been a more crucial time for the United States allay any doubt about the steadfastness of its commitment not only to its allies, but its presence in the region as a reliable partner and counterweight to China's growing influence.

(4) U.S.-ROK Alliance and Bilateral Economic Relations, and Effects on PRC-ROK relations

For the first time in its 70-year history as an independent state, the ROK finds itself an indisputable regional and global "middle power." This new and relatively unfamiliar status has profoundly altered South Korea's national ambitions since 1996 when it joined the OECD (Organization for Economic Cooperation and Development) and broadened the country's ability to achieve them, even as the security challenges and

⁴⁶ Seung-Woo Kang, "Exports Grow for Seven Consecutive Months," *Korea Times*, June 2, 2017.

⁴⁷ Kwanwoo Jun, "Seoul Denounces China Trade Moves," *Wall St. Journal*, April 5, 2017.

⁴⁸ Motoko Rich, "A Reliance on China Jeopardizes the South Korean Economy," *New York Times*, March 9, 2017.

regional power structure have remained largely unchanged and constant. Thus, regardless of its middle-power heft today, South Korea – and indeed North Korea – has and always will be overshadowed by far larger powers which surround it geographically and impose an inescapable sense of vulnerability.

Exacerbating South Korea's insecurity in particular is the peculiar challenge posed by North Korea, which since its very inception as the Democratic People's Republic of Korea (DPRK) in September 1948, has posed an existential threat to the ROK, and vice versa. Moreover, because the DPRK occupies the northern half of the Korean Peninsula, its continued existence effectively makes the ROK a geographic island, physically cut off from the Asian continental landmass. Thus, South Korea has unsurprisingly maintained a remarkably consistent national security strategy given the persistent threat from the North since the Korean War ceased with an Armistice rather than a permanent peace treaty in 1953.

Conventional wisdom dictates that small powers -- such as the two Koreas -- have little freedom to forge independent foreign policies, particularly when situated in a region dominated by much larger powers, because they are hindered by the overwhelmingly disproportionate power of regional neighbors. Nevertheless, both Koreas have separately demonstrated exceptional ability to leverage their respective limited relative power into surprisingly independent strategies.

For South Korea, the primary driver of its foreign policy orientation particularly since the end of the Cold War, has been an internally-based shift in its self-perception of national power, which in turn has been reinforced and shaped by changes in the external environment.⁴⁹ Interestingly, North Korea too may have adopted a new self-perception of its own national power, fueled –perhaps unrealistically -- by its relentless pursuit of nuclear weapons and their delivery systems. But in contrast to the South, the North persistently refuses to allow the external environment to shape its internal development, forming the basis of South Korea's existential dilemma and future uncertainty.⁵⁰

Saddled with this uncertainty and ongoing threat posed by the North, South Korea has relied on the United States and its "ironclad" alliance forged in "blood, sweat, and tears" for 64 years. Unwavering U.S. commitment not only to defend its security but protect its values allowed South Korea to develop into one of the most if not *the* most vibrant, stable democracies in East Asia, as well as achieve miraculous economic development and modernization. The U.S.-ROK alliance has thus served as a model security relationship not just in the region but globally.

It is rather surprising then, that the new Trump administration in the United States has generated considerable uncertainty in Asia, where the lack of a formal regional

⁴⁹ For a more detailed discussion of South Korea's "independent" foreign policy development, see: Balbina Hwang, "The U.S. Pivot to Asia, and South Korea's Rise," *Asian Perspective*, "Special Issue, No 1." 2017

⁵⁰ Balbina Y. Hwang, "A Fork in the Road: Korea, and China's One Belt, One Road," *KEI Academic Paper Series*, (Korea Economic Institute) November 16, 2016.

multilateral security mechanism has meant that stability in the post-WWII era has been almost entirely dependent on a system of bilateral alliances with the United States and its firm commitment and presence in the region. Yet, during his electoral campaign, then-candidate Trump pledged to “rebalance financial commitments” with U.S. allies, by ending what he termed Washington’s generosity towards “free-loading” allies and to “put America first.”⁵¹

Such rhetoric reawakened latent concerns in South Korea, Japan, and among other allies about the possibility of U.S. abandonment of its partners. Since assuming office, senior Administration officials, including the Secretaries of Defense and State, as well as Vice President Pence have pointedly and repeatedly expressed firm U.S. commitment to its allies, especially in Asia. Nevertheless, President Trump’s frequent off-the-cuff statements that have not always been consistent with this message, and his performance during the recent NATO summit was not encouraging to U.S. allies around the world.

These doubts about U.S. commitment to its allies comes at a particularly precarious time in Northeast Asia given the growing urgency of threats from North Korea, and China’s increasingly assertive and muscular activities throughout the region. Moreover, U.S. withdrawal from multilateral and global agreements, such as TPP and the Paris Climate Agreement have ceded U.S. leadership, providing opportunities for the leader of China to step in to promote global principles and values that seem inconsistent with China’s current system.

Uncertainty about future U.S. policies and direction come at a particularly vulnerable time for South Korea. Although much of the country’s own uncertainty has been diminished with the election of President Moon Jae-in, how he will address the likely challenges posed by an unpredictable U.S. administration is an open question, as the two leaders prepare for their first summit in late June.

Notably, since President Trump has taken office, a significant shift in American orientation seems to be taking place due to his inordinate preference for focusing on bilateral relationships and narrow issues, to the exclusion of broader regional or global implications. While a certain efficiency can be derived from such a fixation and perhaps a greater quantity of discrete agreements or “deals” can be achieved in the immediate term, they may be limited in scope and achieve short-term results at the sake of long-term gains.

Moreover, the predilection towards quid-pro-quo actions may reinforce China’s (and North Korea’s) zero-sum mentality and calculations, which measure successes and failures according to relative gains and losses. The disadvantage here is that the system of interdependent alliances the United States has nurtured and supported in the post-WW II global environment will be more successful if mutual gains for the entire region are sought and pursued.

⁵¹ Balbina Y. Hwang, “President’s Impeachment Exacerbates South Korea’s Defence Concerns,” *Jane’s Intelligence Review*, January 26, 2017.

It remains unclear whether President Trump's preference for bilateral deals will be a welcome opportunity for President Moon Jae-in to pursue his dual track approach towards North Korea, of strong pressure on the one hand to force denuclearization, and inducements on the other to tame Pyongyang's aggressive behavior. The U.S. administration's seeming reliance on China to take responsibility for North Korea's behavior may defer or delay any resolution of the nuclear issue further. Or it could provide an intriguing opportunity for Seoul to maneuver independently.

While it is uncertain what the effect if any on North Korea will be, the danger is that unless the two allies move in complete concert as they have done over the last decade, dangerous signals about the erosion of the alliance will be conveyed, not just to Pyongyang but to Beijing. Any daylight between the United States and ROK will be considered opportunities for them, and even Russia to pursue more adventuresome behavior and test U.S. commitments in the region. Moreover, any cracks in the U.S.-ROK relationship will negatively affect other alliance relationships throughout the region.

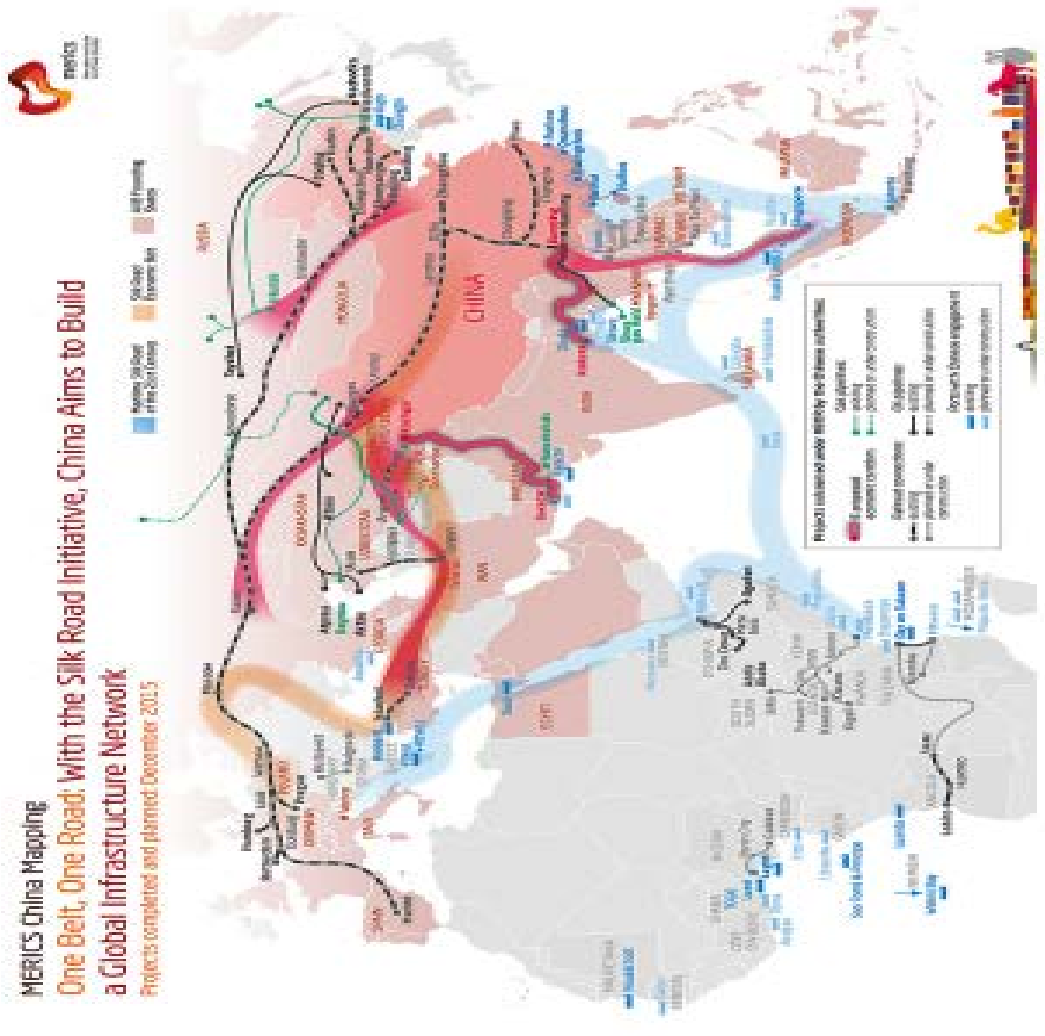
Another serious challenge awaiting President Moon is the future of the KORUS FTA. Statements to date by President Trump and other senior administration officials indicate that the United States will press for some alteration or renegotiation. While there is certainly room for improvement in some areas of the existing agreement for both sides, commencing what is likely to be protracted and contentious negotiations on an agreement already functioning smoothly for five years at this particular time of heightened tensions with North Korea again invites further opportunism by Pyongyang and Beijing.

Above all, both leaders in Washington and Seoul must reach a clear consensus on their expectations of each other, the alliance, and their respective roles in the region. Without such clarity of vision, the East Asia region may be headed towards a destabilizing future.

Recommendations for Congress

- The most important task for the United States in East Asia is to clarify its future role and commitments to the region. The Congress can and should play a role by articulating its own clear position on the future of U.S. alliances in the region.
- The Congress should issue a clear position regarding the status of the KORUS FTA.
- One of the enduring weaknesses of the existing U.S.-led alliance system, especially in Northeast Asia, is the deep divisions that remain between two of America's strongest allies: South Korea and Japan. Lingering historical animosities between the two have been intractable hurdles that seem to prevent greater cooperation. The Congress can play an exceptionally invaluable role by initiating regular dialogue with counterparts from both countries and holding frank discussions and proposing constructive steps that the legislatures of each country can pursue with their domestic constituents.

EXHIBIT 1



<http://www.merics.org/en/merics-analysis/infographic/one-belt-one-road-mapping-china>