

CHAPTER I

INTRODUCTION

1.1 Background

Trade war refers to a situation where two or more countries retaliate against one another by increasing import tariffs and placing restrictions on the other countries' imports. In addition, when one country perceives that a competing nation has unfair trading practices, a trade war can be commenced to protect national interest and provide aid to local businesses to lessen the impact from the other countries' unfair trading practices. The impact of trade war does not only affect the countries directly related, but often extends to the global scale causing major fluctuations in the global economy.

China's economic growth was achieved through a reformation called "Reform and Opening Up" in 1978, which slowly boosted China's economy. China was able to grow from being under the top 10 largest economies in 1990 to becoming the 10th largest economy in 1993 and the second largest in 2010, overtaking Japan.¹ The trade surplus that China was able to obtain through the reformation eventually lead China to economically grow into an advanced economic country and increased every year obtaining more than 50 %of its global

¹ Wu, Guoguang. "China in 2010: Dilemmas of 'Scientific Development.'" *Asian Survey* 51, no. 1 (2011): 18–32. <https://doi.org/10.1525/as.2011.51.1.18>.

trade surplus from the United States (US) by 2017.² Due to the massive economic growth and trade surplus of China, The US and China have been each other's largest trading partner with high degree of economic interdependence. Nevertheless, of its economic growth and trade partner, the Trump Administration waged the trade war with China.

While China's growth was independent from the US, China accounted for the largest proportion of the US trade deficit, according to the US Department of Commerce, in 2017, the US exported \$134 billion to China while it imported \$505.6 billion, resulting in a deficit of \$375 billion for the year.³ President Donald Trump believed that China had maintained an unfair trade relationship with the US, running a one-sided trade surplus while simultaneously stealing jobs from the American people. With the start of the Trump presidency, President Donald Trump had put increasing pressure on China, the US' largest trade deficit partner. In response, China did not back down from the US, but rather confronted it to revive a strong China and strengthen its position in the international community, resulting in two countries to clash beginning the trade war between the US and China.

In August 2017, the US launched China's intellectual property rights violations and forced technology transfers. In March 2018, based on the results of the investigation, the Trump administration announced a policy which imposed 25%

² ParkJeongSoo, and jeongdajung. "The effect of G2 trade war on Korean trade." *Chinese Academic Conference* no. 65 (2020): 265-285.

³ Office of Technology Evaluation, "U.S. Trade with China Overall Trends," (2018). <https://www.bis.doc.gov/index.php/documents/technology-evaluation/ote-data-portal/country-analysis/2356-2017-statistical-analysis-of-u-s-trade-with-china-pdf>

tariff on steel and 10% tariff on aluminum, as well as \$50 billion tariffs in Chinese imports. In July of the same year, the US imposed 25% tariffs on \$34 billion of Chinese imports, and China responded by imposing 25% retaliatory tariffs on the same \$34 billion in US imports of agricultural products, automobiles, and seafood, escalating the trade war between the two countries⁴. However, since the US and China each accounted for 40.7% and 22.8% of the global economy and trade, US and China trade war have had a huge impact not only on the two countries but also on many countries around the world.⁵

South Korea on the contrary is a highly export-dependent economy, with the US and China being the country's number one and two trading partners, respectively. South Korea's export dependence on the US and China is as high as 37%, with China accounting for over 25 % of South Korea's total exports.⁶ At the time of diplomatic relations with China in 1992, South Korea's mass export dependence was only 3.5%. However, since 2003, China has been South Korea's largest export destination instead of the US, and since 2004, China has been South Korea's largest trading partner. In 2016, South Korean exports to China exceeded 25.1 % and continued to rely on China for trade and has made it the fourth most

⁴ Li, Minghao, Wendong Zhang, and Chad Hart. "What Have We Learned from China's Past Trade Retaliation Strategies?" *Choices* 33, no. 2 (2018): 1–8.
<http://www.jstor.org/stable/26487436>.

⁵ Korea institute for industrial economics and trade, "Trade Policy Changes and Industrial Impacts due to the U.S.-China Trade War."
https://www.kiet.re.kr/kiet_web/?sub_num=8&state=view&idx=57967.

⁶ Choi, Jaedeok. "US-China Trade Conflict and South Korea's Countermeasure."
Yonsei University,
<https://www.yinks.or.kr/post/%EC%A0%9C129%ED%98%B8-%EC%B5%9C%EC%9E%AC%EB%8D%95-%EC%A0%84%EB%AC%B8%EC%97%B0%EA%B5%AC%EC%9B%90-%EB%AF%B8%EC%A4%91%EB%AC%B4%EC%97%AD-%EA%B0%88%EB%93%B1%EA%B3%BC-%ED%95%9C%EA%B5%AD%EC%9D%98-%EB%8C%80%EC%9D%91>

closely tied economy among Asian countries.⁷ However, due to the trade war, there was a big shift in China trade, and causing South Korea's export to China decreased 10.3 %in 2019 due to its reliance to China.⁸

South Korea's exports to China peaked at \$268.6 billion in 2018, but after the US-China trade war, South Korea's exports to the China dropped 16%in 2019 and 9.4 %year-on-year in the first five months of 2020.⁹ Intermediate goods accounted for 79 %of South Korea's exports to China as China imports intermediate goods from South Korea, processes them, and exports them back to countries such as the US.¹⁰ However, as the US imposed hefty tariffs on Chinese goods, China's exports to the US declined, and the proportion of intermediate goods imported by China from South Korea decreased significantly as demand fell.

South Korea's largest export product semiconductor memories also saw a 30.4 % drop in exports to China in 2019.¹¹ Many South Korean companies were affected as the US government has gone beyond imposing tariffs on Chinese imports, imposing sanctions on specific Chinese companies and asking allies to

⁷ Korea institute for industrial economics and trade, "25th anniversary of diplomatic relations between Korea and China."

https://www.kiep.go.kr/gallery.es?mid=a10102020000&bid=0003&act=view&list_no=3364

⁸ Korea Development Institute, "South Korea, an export powerhouse, needs to focus on internal rather than external growth." <https://eiec.kdi.re.kr/userdata/nara/201712/201712.pdf>

⁹ Korea International Trade Association, "30 Years of Diplomatic Relations between Korea and China Trade Structure Changes and Implications."

https://www.kita.net/researchTrade/report/reportMain/reportMainList.do;JSESSIONID_KITA=D8CB8862889CF5047B5DDAEA33B9FF47.Hyper?logGb=

¹⁰ Choi, Hyuk Jun. "Changes in the US.-China Trade Relations and Measures to Enhance Korean Companies Competitiveness in Exporting to China." *Changes in the US.-China trade relations and measures to enhance korea companies competitiveness in exporting to china* 21, no. 3 (June 30, 2020): 187–202. <https://doi.org/10.20462/tebs.2020.06.21.3.187>.

¹¹ Korea Institute for International Economic Policy, "Causes and challenges of the recent plunge in exports to China."

https://www.kiep.go.kr/gallery.es?mid=a10102020000&bid=0003&act=view&list_no=3457

cooperate with the sanctions by cutting off business with them. South Korea's largest semiconductor companies, such as Samsung Electronics and SK Hynix, have had difficulty exporting semiconductors to Huawei. In addition, South Korea's petrochemical industry, which relied on China for 47.5 %of its exports, saw a 11.6 %decline in exports to China last year.¹² As a result, China's share of South Korea's exports fell from 26.8 %in 2018 to 25.1 %in 2019.¹³ Resulting to South Korea becoming the country with the largest decline in exports to the China among China's top 10 importers in 2019, with the exception of the US.

The US-China war affected many countries, especially those with high export dependence on the US and China. South Korea is one of the countries with high export dependence on China, and the retaliatory tariff war between the two countries was enough to affect the exports of consumer goods. Therefore, it can be argued that the US-China trade war is hindering South Korea's exports to China. Thus, the research to be discovered will be titled "The Impact of the US-China Trade War on South Korea's to China".

1.2 Research Question

This thesis will focus on the US-China trade war and South Korea's dependence on exports to China, and specifically on the changes to South Korea's

¹² *Ibid.*

¹³ Korea Institute for International Economic Policy, "Causes and challenges of the recent plunge in exports to China."
https://www.kiep.go.kr/gallery.es?mid=a10102020000&bid=0003&act=view&list_no=3457

export to China during the ongoing the US-China trade war. Thus, suggesting the following research question to be answered comprehensively in the thesis:

1. How did the US-China trade war impact South Korea's export to China?
2. What actions can South Korea take to respond the effects of the US-China trade war?

1.3 Research Objective

Based on the above research questions, the objective of this research is:

1. To analyze South Korea's countermeasures towards export, decrease due to US-China trade war
2. To provide an observation on South Korea's trade structure and its problems that was revealed through US-China trade war, and possible response policy to deal with similar crisis in the future.

1.4 Research Significance

The study will research and discover the connections between the US-China export war and the South Korea's dependence on exports. This research also aims to discover and explain the factors impacting the decline rate in South Korea's export during the US-China trade war, as well as response and countermeasures that can be considered to decrease the decline in exports.

Moreover, this study hopes that other countries may learn from South Korea's case to acknowledge, learn and respond to the export-decline issue that may arise.

1.5 Structure of Thesis

The first chapter of the thesis would discuss the background of the US-China trade war and how it affects South Korea, research question, research objective and the research significance.

The second chapter will explain the theory and concept that would support the whole research which covers the theory of neoliberalism and, with the concept of economic cooperation, interdependence, and globalization.

The third chapter of this research will cover the methodology used which is explained through the elaboration of research approach, research method and the data collection technique.

The fourth chapter of this thesis would be the main highlight of this research. This will discuss the impact of the US-China trade war on South Korea's export dependence towards China and what actions can South Korea take to mitigate the effects of the US-China trade war.

The fifth chapter, which marks the conclusion and recommendations, completes the whole discussion of the chapters. This chapter also shows the recommendations for studies.