

**MORE HARM  
THAN GOOD:  
WHY CHINESE  
SANCTIONS OVER  
THAAD HAVE  
BACKFIRED**

BY DANIEL MITCHUM

Issues & Insights

Vol. 21, WP15

December 2021



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# More Harm than Good: Why Chinese Sanctions over THAAD have Backfired

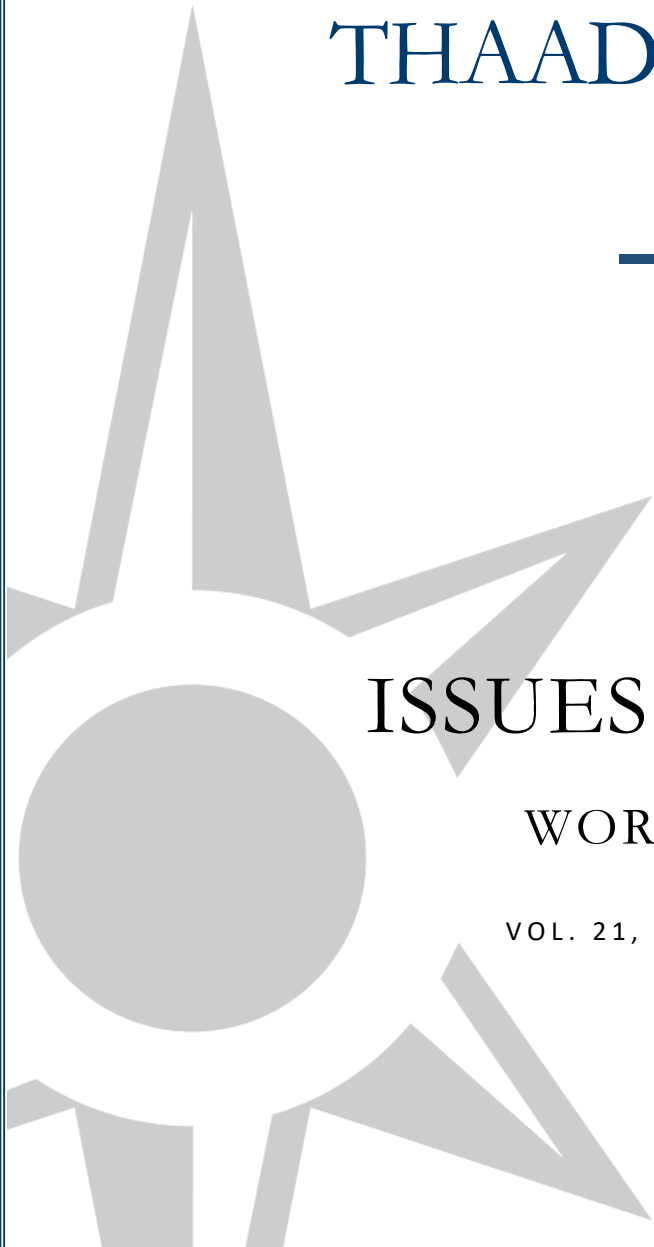
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ISSUES & INSIGHTS

WORKING PAPER

VOL. 21, WP15 | December 2021



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# TABLE OF CONTENTS

EXECUTIVE SUMMARY.....	iii
INTRODUCTION.....	1
A SHRIMP CAUGHT BETWEEN WHALES .....	3
EVOLUTION OF ASYMMETRY.....	8
MORE HARM THAN GOOD .....	13
A DRY RUN .....	18
CONCLUSION .....	22
ABOUT THE AUTHOR .....	23

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## EXECUTIVE SUMMARY

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In 2017 South Korean Moon Jae-in, in response to North Korean ballistics testing, adopted a resolution to implement the THAAD missile interceptor system. Beijing had long been opposed to the system and as a result initiated a series of unofficial, punitive economic sanctions against South Korea which covered a range of industries. However, Beijing's actions did little to alter Seoul's decisions and have instead damaged China-South Korea relations. A similar paradigm has since appeared within China-Australia relations. How nations respond and adapt to such tactics in the future is a question of critical importance.

## INTRODUCTION

The rise of China has brought Mearsheimer's thesis to the forefront of international politics as his theory of offensive realism maintains that the highest aim of a state is to achieve regional hegemony.<sup>1</sup> Indeed, as China has grown and continued to assert itself on a regional level, it has engaged in behavior commensurate with that of a power-seeking nation asserting its influence.<sup>2</sup> One avenue which China has pursued toward such ends has been the use of economic coercion. While countries such as Australia have undoubtedly benefited from Chinese purchasing power, they have also seen their reliance on the market create vulnerabilities that China is willing to seize upon. This predicament sits at the heart of the economic-security nexus.<sup>3</sup>

Norway, the Philippines, and Japan have all been subjected to economic sanctions—on products ranging from salmon to bananas to rare earth elements—as a punitive response from Beijing for engaging in actions counter to its desires. Such measures have typically shared three traits; they have been imposed unofficially, in a highly targeted manner, and have leveraged trade asymmetry. Beginning in 2016, South Korea also felt the impact of Chinese economic retaliation over its decision to deploy the Terminal High Altitude Area Defense (THAAD) system.

Seoul's approach in its handling of the intractable North Korea dilemma has vacillated with varying levels of engagement between administrations. While the progressive Kim Dae-jung had sought reconciliation with North Korea, presidents such as Lee Myung-bak took a significantly less compromising tact. Regardless of the methods employed by South Korean administrations, North Korea has moved inexorably forward in its pursuit of nuclear and long-range strike capabilities. Thus, the gravitational force exerted by a truculent North Korea has long been the central independent variable in South Korean security calculations.

The US had proposed deployment of THAAD in South Korea as early as 2014. However, it wasn't until 2016 when South Korean President Park Geun-hye, in response to North Korean nuclear and ballistic adventurism, adopted a resolution to install it.<sup>4</sup> A joint statement by the US and South Korea delineated the purpose of THAAD as a “defensive measure to ensure the security of ROK and its people, and to protect Alliance military forces from North Korea's weapons of mass destruction and ballistic missile threats.”<sup>5</sup>

THAAD is an anti-ballistic missile defense system; an X-Band active electronically scanned array radar detects hostile projectiles, which is then followed by the THAAD's fire control and support equipment's process of identification, verification, and launcher initiation. Finally,

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<sup>1</sup> Mearsheimer seminal piece, *The Tragedy of Great Power Politics*, covers this in significant detail.

<sup>2</sup> Valeri Modebadze, “US-China Rivalry for Global Hegemony.” *Journal of Liberty and International Affairs* 6, No. 2, (2020): 167-173.

<sup>3</sup> Albert Hirschman, *National Power and the Structure of Foreign Trade*, (Berkeley, University of California Press, 2018).

<sup>4</sup> IDSP, “THAAD on the Korean Peninsula. Institute for Security and Development Policy,” *Institute for Security & Development Policy*, Backgrounder (October 2017).

<sup>5</sup> Hyun Lee, “The South Korea Protest Movement against the THAAD Missile System. ‘Seongju is Korea and Korea is Seongju,’” *Center for Research on Globalization*, (August 2016).

an infrared seeker head-equipped THAAD missile is launched that uses kinetic energy to destroy incoming ballistics. The unique component of the THAAD system is the 'high altitude' moniker, as it possesses the ability to intercept missiles at both endo- and exo-atmospheric altitudes.

North Korea's 2016 hydrogen bomb test would mark a change in Sino-South Korean relations. Long a vociferous opponent of THAAD, China viewed its deployment as an encroachment into its sphere of influence. This concern reflected a broader geopolitical competition between Beijing and Washington, with the former asserting itself as regional a hegemon. As such, Seoul acknowledged Beijing's concerns and made considerable efforts to account for them. However, it may also be the case that President Park's feelings of betrayal stemming from Xi Jinping's non-response to the 2016 test catalyzed Seoul's deployment of the system in spite of Xi previously promising better working relations over the issue.

President Park was eventually ousted for reasons which included abuse of power, bribery, and leaking government secrets. The Moon administration that succeeded hers pursued closer cooperation with Beijing, placing a moratorium on THAAD's deployment. However, the relentless pace of North Korean ballistics tests in 2017 ensured this status was to be a short lived one. Pyongyang's belligerence proved an exigent matter with Moon, eventually reversed course and accepted the need for the system.

South Korea experienced limited domestic resistance to the deployment of THAAD. When it was first announced by the Park administration, public opinion was sharply divided, with a Gallup Korea poll placing 50% of respondents in favor of its deployment while 32% opposed. One major point of contention was the negative impact which THAAD would have on Sino-South Korean relations. The concerns of those 32% would be largely vindicated by forthcoming events.<sup>6</sup>

Following President Park's ousting, newly elected President Moon Jae-in originally opposed the Korean use of THAAD, placing a moratorium on its deployment. However, the relentless pace of North Korean ballistics tests in 2017 ensured this status was to be a short lived one. Beijing was highly vocal in its condemnation over the deployment of THAAD, claiming that its radar would impart Washington with greater regional surveillance capabilities.<sup>7</sup> Beijing's frustration with Seoul became manifest in a series of punitive economic sanctions, targeting specific areas of Korean commerce—intangible cultural goods, tourism, cosmetics, food stuffs, electric vehicle batteries, and the Lotte corporation. South Korea is hardly the first victim of Chinese dog house politics; the economic and diplomatic isolation of a nation until China deems they have learned their lesson.<sup>8</sup>

While the taxonomy of Chinese sanctions placed on countries like Norway and those levied over THAAD are similar in many ways, there are striking differences. Sanctions against South Korea were comprehensive, covered a broad range of specific industries, and sought to

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<sup>6</sup> Nam-il Kim, "Poll: 56% of South Koreans Support THAAD Deployment, 31% opposed," *The Hankyoreh*. August 13, 2016. [http://english.hani.co.kr/arti/english\\_edition/e\\_national/756532.html](http://english.hani.co.kr/arti/english_edition/e_national/756532.html)

<sup>7</sup> Tucker Reals, "Why THAAD is Controversial in South Korea, China, and Russia." CBS News. May 2, 2017. <https://www.cbsnews.com/news/why-thaad-is-controversial-in-south-korea-china-and-russia/>

<sup>8</sup> Richard McGregor, "China's Doghouse Is Smaller Than It Looks." *Lowly Institute*. April 5, 2019. <https://www.lowyinstitute.org/publications/china-s-doghouse-smaller-it-looks>



protect domestic Chinese production from intentional competition. At a cursory glance, there appears to be a thematic disconnect between the sectors that fell victim to Chinese sanctions. However, they were areas in which China was able to leverage the significant trade asymmetry that had developed over a number of years prior between them and South Korea.

This research will attempt to address the following questions: What was the purpose of Chinese sanctions and were they effective? What impact did these sanctions have on South Korea? What are the implications of these sanctions for other nations? This paper will show that while Chinese sanctions were a direct representation of concerns over regional hegemony, such measures have backfired. They have had a negative impact on Sino-Korean relations, fomented anti-Chinese sentiment among Koreans, catalyzed a South Korean effort to reduce trade asymmetry, and diluted Chinese influence on the nation. This paper will illustrate that the economic measures employed against South Korea may represent an evolution in the tactics of Chinese coercive diplomacy and mark a trend we should expect to continue.

## **A Shrimp Caught Between Whales**

Being dragged into a competition of regional hegemony is not a new problem for the Korean peninsula. The self-ascribed metaphor conceptualizing Korea's orientation, a shrimp caught between whales, was coined to explain the precariousness of the nation-state's status in light of the regional power struggles between China, Japan, and Russia in the early 1900s. This term is still representative of the challenges facing the peninsula today as the Sino-US competition over regional influence is undoubtedly the most important structural variable driving contemporary strategic behavior of East Asian states.<sup>9</sup>

China's desire to expand its regional influence has been growing at pace with the nation's development. Its ambitions to broaden its geopolitical influence inform us of the nature of the Asia Infrastructure Investment Bank (AIIB) along with programs such as the Belt and Road Initiative (BRI), a particularly striking showcase of China's desire to establish itself as regional hegemon. Despite Beijing's assertion that the BRI is an economic tool aiming to foster a "community of common destiny," the geopolitical implications run significantly deeper.<sup>10</sup> The BRI represents a piece of Beijing's vision for a rising China sitting at the heart of a Sino-centric regional order resulting in the expansion of its power, the consolidation of China-friendly governments like Cambodia, and a retrograde of liberal international norms through its support and engagement with autocratic regimes. The project seeks to ultimately connect Beijing's employment of its growing economic power to its ability to be a regional rules-maker.<sup>11</sup>

The prodigious build-up of ground and naval forces, claimed by Chinese leaders as a security necessity for its infrastructure projects, can be interpreted as an arm of state policy to generate

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<sup>9</sup> Some states, such as Cambodia, have sought to align as closely as possible with China while others, like Japan, have continued to strengthen their US partnership. Others, such as Vietnam or the Philippines have sought a more balanced position.

<sup>10</sup> "A common destiny" or 人类命运共同体 has been the slogan used by the propaganda organs of the CCP to describe China's foreign policy goals. The phrase was first used by Hu Jintao but has been frequently employed by Xi Jinping. See: <https://thediplomat.com/2017/10/the-community-of-common-destiny-in-xi-jinpings-new-era/>

<sup>11</sup> Nadège Rolland, "China's Eurasian Century? Political and Strategic Implications of the Belt and Road Initiative." *The National Bureau of Asian Research* (May 2017).

influence, expand Beijing's military footprint, and forge a security environment conducive towards goals of hegemony.<sup>12</sup> The consequences of such expansion are already being felt in more economically vulnerable countries such as Sri Lanka, Cambodia, and Pakistan. Analysts from China, when unofficially discussing port projects in these regions, routinely emphasize China's national security interests over official policy documents pledging mutually beneficial economic development.<sup>13</sup>

While the residue of Cold War alliance structures continues to cling to the region, South Korea has made adjustments to its policies that reflect the understanding that China's rise needs to be accommodated. Some of the policies adopted by South Korea include its decision to join the AIIB as well as their rejection of US overtures to become a founding member of Washington's renewed grand Asia plan, the Trans-Pacific Partnership. Seoul's original hesitancy to deploy THAAD also reflects the Blue House's apprehension in acting directly against Beijing's interests. This would vary significantly with Seoul's previous efforts to engage with both great powers the US and China to promote both strategic and economic stability while working to not move against either nation's geopolitical interests.<sup>14</sup>

Theories from scholars such as Waltz and Walt are of limited utility in explaining the South Korean decision-making process in regards to its great power relations. As Waltz explains, balance of power is a perpetual process whereby states must be concerned about survival in an anarchic system.<sup>15</sup> However, balance of power theory falls short when the asymmetry of power between the US and China is juxtaposed to the South Korea's decision to remain allies with the former.<sup>16</sup> In contrast, Walt claims that states balance not against power alone, but against perceived threats.<sup>17</sup> Balance of threat theory as a framework of analysis would also be somewhat paradoxical given that Korea has yet to balance against China's rise, in spite of the growing evidence which shows that it is viewed as a security threat.<sup>18</sup> Clearly, a hedging strategy is being employed by Seoul, as evidenced by its expanded economic, social, and cultural engagement with China combined with the continuation of long-standing alliance commitments with the US.

Politically, ties between China and South Korea could be described as mixed during the Lee Myung-bak era. While Lee recognized the importance of upgrading cooperation with China over economic issues, his administration would bind itself closer to the US through its security commitments. Additionally, Chinese claims that the ancient kingdom of *Goguryeo* was Chinese, rather than Korean (as is historically recognized), along with the assault on a group

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<sup>12</sup> Carlos Muñoz, "China Military Ambitions Seen in One Belt One Road." *The Washington Times*. April 18, 2018. <https://www.washingtontimes.com/news/2018/apr/18/china-military-ambitions-seen-one-belt-one-road/>

<sup>13</sup> Devin Thorne and Ben Spevack, "Harbored Ambitions: How China's Port Investments are Strategically Reshaping the Indo-Pacific." *C4ADS* (2017).

<sup>14</sup> Suk-hee Han, "From engagement to hedging: South Korea's new China policy." *Korean Journal of Defense Analysis* 20, No. 4 (2008): 335-351.

<sup>15</sup> Kenneth Waltz, *Theory of International Politics*. (New York: McGraw-Hill Publishing, 1979).

<sup>16</sup> Stephen Brooks and William Whorlforth "The Rise and Fall of the Great Powers in the Twenty-First Century: China's Rise and the Fate of America's Global Position." *International Security* 40, No. 3 (2016): 7-53.

<sup>17</sup> Stephen Walt, *The Origins of Alliances*. (Ithaca: Cornell University Press, 1987).

<sup>18</sup> Jae-ho Chung and Ji-yoon Kim, "Is South Korea in China's Orbit?: Assessing Seoul's Perceptions and Policies." *Asia Policy*, No. 21 (2016): 123-46.

South Korean anti-Chinese protesters by Chinese nationals at the 2008 Olympic torch relay in Seoul would ignite public feelings of mutual animosity.<sup>19</sup>

The following Park Geun-hye administration appeared to offer Beijing brighter prospects for a closer Sino-South Korean relationship. Park enunciated Korea's strategic dilemma in her employment of the phrase Asia Paradox. Within such a paradox, Park identified the Sino-US competition for regional influence as one of the most serious threats to regional stability.<sup>20</sup> Park's 2013 state visit to Beijing generated considerable hope for improved relations. Seoul saw this as an opportunity to receive Chinese cooperation on the North Korea issue while Beijing signaled its desire to work together in its efforts to further isolate Japan. In a demonstration of solidarity, Beijing approved the opening of a museum in Harbin to honor Ahn Jung-geun, a Korean freedom fighter who assassinated Japan's colonial general Ito Hirobumi in 1910. The two nations also pledged to consolidate the Strategic Cooperative Partnership established in 2008 and additionally, the two countries established an ROK-China Joint Committee on Humanities Exchange.<sup>21</sup> Such a program sought to reinforce their security partnership through soft power cooperation, contributing to deeper cultural understanding between the two countries.<sup>22</sup>

Xi traveled to South Korea to continue diplomatic talks the next year, resulting in an agreement with Seoul on three specific areas; a reduction of pollution, cooperation in rescue operations in case of accident or natural disasters, and increased collaboration in public health. Interestingly, while the ground work was put down for what would later be a ratified China-Korea FTA, the lack of a detailed blueprint for large scale economic cooperation between the two nations was conspicuous.<sup>23</sup> Evident too was the rift between the respective nations' vision for regional order. Xi's refusal to publicly condemn the North over its weapons testing along with a renewed call for six-party talks was merely a continuation of a thus-far failed dialogue. Similarly, Xi's desire to see Seoul vilify Japan was rejected by South Korea. In fact, no mention of Japan was made in any of the documents signed between the two leaders and a united front against Japan failed to materialize, much to Xi's chagrin.<sup>24</sup>

Seoul's initial indecision over THAAD was also contextualized by its efforts to navigate the rise of China. Beijing had expressed concerns over THAAD on the Korean peninsula as early as November 2014 when the US first proposed its deployment. At this time the Chinese ambassador to South Korea warned that any decision to deploy THAAD would damage Sino-South Korean relations.<sup>25</sup> These admonishments were repeated again in March 2015 when,

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<sup>19</sup> Scott Snyder "Lee Myung-bak's Foreign Policy: A 250 Day Assessment." *The Korean Journal of Defense Analysis* 21, No. 1 (2009) 85-102.

<sup>20</sup> Geun-Hye Park, "A Plan for Peace in North Asia." *The Wall Street Journal*, November 12, 2012.

<https://www.wsj.com/articles/SB10001424127887323894704578114310294100492>

<sup>21</sup> Jea-ho Hwang, "The ROK's China Policy Under Park Geun-hye: A New Model for ROK-PRC Relations." *The Brookings Institution Center for East Asian Policy Studies* (2014). <https://www.brookings.edu/wp-content/uploads/2016/06/south-korea-china-policy-hwang-working-paper.pdf>

<sup>22</sup> Ibid.

<sup>23</sup> Jae-ho Chung, Ji-yoon Kim. "Is South Korea in China's Orbit?: Assessing Seoul's Perceptions and Policies." *Asia Policy*, No. 21 (2016): 123-46

<sup>24</sup> Xi's condemnation of Tokyo during an otherwise pragmatic speech at Seoul National University may have been a product of his frustrations with Seoul's refusal to do the same. See: <http://www.theasanforum.org/a-south-korean-perspective/>

<sup>25</sup> Yonhap, "S. Korea, China experts spar over US Missile Defense System." *Yonhap News*. November 28 2014. <https://en.yna.co.kr/view/AEN20141128007500315>

during a visit to Seoul, Chinese Assistant Foreign Minister Liu Jianchao advised Seoul to respect Beijing's "attention and concerns" in light of the US push for a Korean deployment of THAAD.<sup>26</sup> With pressure mounting, Seoul maintained a face of ambiguity.

Even following North Korea's purported hydrogen bomb test of January 2016 and long-range missile test a month later, China continued to warn South Korea. Qui Guyhong, Chinese ambassador to Korea, threatened that Sino-South Korean ties would be instantly destroyed were the system deployed.<sup>27</sup> Xi's later remonstrance encapsulated the root of Chinese regional concerns when he warned that THAAD's deployment in South Korea would, as a byproduct, also caused harm to the US.<sup>28</sup> North Korea would conduct its first ICBM test a day after Xi's remarks and Beijing's refusal to place tougher sanctions on or censure North Korea played heavily into Seoul's decision to deploy THAAD in July, 2016. From a geopolitical standpoint, China is loathe to turn North Korea into an adversary, driving it closer to South Korea or US. As such, China has historically opted for softer measures to reign in its ally.<sup>29</sup>

Understanding the necessity of allaying Beijing's concerns, Seoul made efforts towards accommodation when President Park finally began its deployment. It was announced that THAAD's X-band radar would be limited to only 600 kilometers in an effort to specifically deal with North Korea weapons. Seoul additionally reported that they would not be purchasing THAAD. Instead, the US would be shouldering the costs of operation and deployment. Finally, in order to allay Beijing's geopolitical concerns, Seoul made clear its lack of intent to join Washington's East Asian ballistic missile defense (BMD) system.<sup>30</sup>

It appeared, in the beginning at least, that Park's ousting and Moon's overwhelming electoral victory as presidential candidate would make THAAD's deployment unlikely. Even before becoming president, Moon expressed opposition to THAAD. In a Facebook post on THAAD's deployment he stated that "In terms of the national interest, this is a decision where the losses are greater than the gains."<sup>31</sup>

Moon's opposition to THAAD stem from two primary sources. Domestically, it is typically the Korean political left, which Moon is considered part of, who question the status quo of the US-South Korea alliance.<sup>32</sup> His skepticism of the alliance was a matter of realpolitik. At an intentional level, Moon pursued a hedging strategy in accommodating the rise of China. His opinion on the strategic implications of the US-South Korea alliance was further

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<sup>26</sup> Dong-a Ilbo, "National Interest Must be Top Priority." *Dong-a Ilbo*. March 17 2015.

<https://www.donga.com/en/article/all/20150317/410295/1/National-interest-must-be-top-priority>

<sup>27</sup> Sang-Hun Choe, "South Korea Tells China Not to Intervene in Missile-Defense System Talks." *New York Times*. February 24, 2016. <https://www.nytimes.com/2016/02/25/world/asia/south-north-korea-us-missile-defense-thaad-china.html>

<sup>28</sup> Katsuji Nakazawa "Xi Warns Obama over THAAD missile System" *NIKKEI Asian*. April 8, 2016.

<https://asia.nikkei.com/Politics/Xi-warns-Obama-over-THAAD-missile-system>

<sup>29</sup> Jae-ho Chung and Myung-hae Choi, "Uncertain Allies or Uncomfortable Neighbors? Making Sense of China-North Korea relations, 1949-2010." *The Pacific Review* 26, No. 3 (2013): 243-264

<sup>30</sup> Yonhap, "Local THAAD will not be incorporated into wider U.S.-led MD system: Defense Chief." *Yonhap News*. July 20, 2016. <https://en.yna.co.kr/view/AEN20160720006451315>

<sup>31</sup> Byong-su Park and June-ae Lee, "President Moon's THAAD Flip-Flopping Continues with Call for Additional Launchers." *Hankyoreh*. August 3, 2017. [http://english.hani.co.kr/arti/english\\_edition/e\\_national/805423.html](http://english.hani.co.kr/arti/english_edition/e_national/805423.html)

<sup>32</sup> Byoung-Keun Jhee, "Anti-Americanism and Electoral Politics in Korea." *Political Science Quarterly* 123, No. 2 (2009): 301-318

enunciated in a book published in January 2016 when he said that South Korea should learn to “say no to the Americans.”<sup>33</sup> During his campaign, Moon criticized economic pressure over THAAD as excessive but acknowledged Chinese worries as reasonable.<sup>34</sup>

Yet Moon’s rhetoric shifted from rejection to a “wait and see” attitude when he said a decision to move forward with the deployment of THAAD should be left to the incoming administration.<sup>35</sup> Upon winning the election, Moon ordered a moratorium on the deployment of THAAD, citing a pending study that sought to assess the environmental impacts of its deployment. Some would view this as a precursor for Seoul’s ultimate rejection of the system.<sup>36</sup> However, given Moon’s concerns over Chinese opposition to THAAD, the case of the environmental study was likely part of Seoul’s hedging strategy which allowed Moon to maintain the appearance of agency while also signaling to Beijing that the issue has yet to be settled in Washington’s favor.

Regardless of the intentions behind Moon’s environmental study, the moratorium he had placed on THAAD was reversed and its deployment green-lit following North Korea’s second long range missile test in July 2017.<sup>37</sup> Seoul’s positionality within the hegemonic competition between Washington and Beijing presented both the Park and Moon administrations the difficult task of balancing economic and security interests. Yet, in spite of his attempt to find a middle ground, Beijing’s refusal to act against North Korean provocations presented Moon with few viable options.

Chinese motivations behind economic retaliation, particularly the claim that it was concerned over THAAD’s ability to augment the ballistic balance of power in the Asia Pacific, warrant significant examination. Publicly, Beijing has stated it opposes the deployment of THAAD on security grounds and the syllogistic nature of such objections can be surmised as follows; Washington seeks to protect the contiguous US (CONUS) from ballistic attacks, THAAD transfers surveillance data to other BMD assets, thus the US can use THAAD to shield itself from Chinese ballistic attacks.<sup>38</sup> The logic guiding this assessment appears to be relatively sound. Part of THAAD’s mission is to bolster American defenses against the possibility of a North Korean ballistic attack on the CONUS and its range of abilities could theoretically be applied against China as well. Yet the US already had a THAAD battery installed on Guam with two additional AN/TPY-2 radars located in Japan. This defensive network is further bolstered by a wide range of both ship and land-based radars located throughout the Pacific theater.<sup>39</sup> Fundamentally, the Korean adaption of THAAD did little to alter the ballistic balance of power in the Pacific.

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<sup>33</sup> Sang-hun Choe “Ouster of South Korean President Could Return Liberals to Power.” *The New York Times*. March 10, 2017. <https://www.nytimes.com/2017/03/10/world/asia/south-korea-liberals-impeachment.html>

<sup>34</sup> Jung-ae Lee, “Moon Jae-in Says Korea Should be Able to Say “No” to the US.” *Hankyoreh*. March 13, 2017. [http://english.hani.co.kr/arti/english\\_edition/e\\_national/786316.html](http://english.hani.co.kr/arti/english_edition/e_national/786316.html)

<sup>35</sup> Christine Kim and James Pearson, South Korea Presidential Hopeful: U.S. Missile Defense Should Wait.” *Reuters*. December 15, 2016. <https://www.reuters.com/article/us-southkorea-politics-idUSKBN1440QJ>

<sup>36</sup> Catherine Chung, Trump Expresses Fury over Korea’s Decision to Delay THAAD: Official.” *The Korea Herald*. June 19, 2017. <http://www.koreaherald.com/view.php?ud=20170619000123>

<sup>37</sup> Kingston Reif, “Moon Reserves THAAD decision.” *Arms Control Today*. September 2017. <https://www.armscontrol.org/act/2017-09/news/moon-reverses-thaad-decision>

<sup>38</sup> Ankit Panda, “What is THAAD, What Does it Do, and Why Is China Mad About It?,” *The Diplomat*. February 25, 2016. <https://thediplomat.com/2016/02/what-is-thaad-what-does-it-do-and-why-is-china-mad-about-it/>

<sup>39</sup> Rod Lyon, “THAAD, South Korea, and China,” *The Strategist*. February 24, 2016. <https://www.aspistrategist.org.au/thaad-south-korea-and-china/>



Ultimately, Chinese concerns over geopolitical influence, rather than ballistic defense balance, likely informed its decision to impose sanctions on South Korea. This is evidenced by the “Three Noes,” which was agreed upon in a joint statement on Oct. 31, 2017 where Seoul stated its commitment to the following; no additional THAADs, no participation in US missile defense networks, and no trilateral alliance with the US and Japan.<sup>40</sup> The third ‘no’ is particularly germane. If China was primarily concerned over the ballistic balance of the Pacific, why include a provision regulating a trilateral alliance? Considering its inclusion within the context of a wider push for regional hegemony, it seems clear that Beijing’s concerns over THAAD were highly motivated by concerns of geopolitical influence.

## Evolution of Asymmetry

During the THAAD controversy, Beijing displayed a willingness to take advantage of the asymmetry that had come to define its economic relationship with South Korea. As noted by Hirschman, states can and will leverage expanded trade relations into political influence.<sup>41</sup> The root of such influence is derived from the ability of one nation to disrupt the financial well-being of another as the manifold effects derived from the influence of foreign trade create an economic—security nexus, which, as happened in the case of the THAAD incident, can be exploited.

While Seoul began a push to transform itself into an export-led economy in the late 1980s, this would not be fully realized until it adopted structural adjustments in the wake of the Asian Financial Crisis. Korean businesses, in particular *chaebol* (mega-conglomerates), became the primary drivers of South Korean economic expansion into the global market while Seoul invested in newly developing economies and expanded its export frontiers into markets with lower tariffs, such as America and Europe.<sup>42</sup>

The flood of direct investment from around the world into China following its entrance into the World Trade Organization (WTO) in 2001 quickly marked it as one of the top destinations for South Korean money, reaching 40% total Korean FDI between 2003 to 2005. As trade intensified, South Korean exports to China included materials, parts, and machine instruments. Negotiations for an FTA began in May 2012 with a basic agreement reached in September 2013. The China-South Korea Free Trade Agreement that was signed on June 2015 was shortly thereafter undermined by Chinese sanctions over THAAD.

The majority of South Korea’s exports to China come in the form of “electrical machinery, optical photographic, cinematographic, measuring, checking, precision, medical, or surgical instruments and apparatus, parts, and accessories” and “nuclear reactors, boilers, machinery,

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<sup>40</sup> Kristian McGuire, “China-South Korea Relations: A Delicate Détente.” *The Diplomat*. February 27, 2018. <https://thediplomat.com/2018/02/china-south-korea-relations-a-delicate-detente/>

<sup>41</sup> Albert Hirschman, *National Power and the Structure of Foreign Trade*, (Berkeley, University of California Press, 2018).

<sup>42</sup> Ministry of Culture, Sports and Tourism and Korean Culture and Information Service, “The Korean Economy - the Miracle on the Hangang River.” *korea.net*. <https://www.korea.net/AboutKorea/Economy/The-Miracle-on-The-Hangang>

and mechanical appliance parts.”<sup>43</sup> In 2017 these areas accounted for 75.8% of South Korea’s total exports to China. Specifically, the bulk of such areas were composed of DRAM chips, monolithic integrated circuits, and p-xylene. During the same year, Korea’s main imports from China included electrical machinery, “nuclear reactors, boilers, machinery, and mechanical appliance parts thereof,” and “iron and steel.” Finally, electrical machinery and equipment comprised 46.7% of such imports.<sup>44</sup>

As a country with a relatively small domestic market and an export led economy, Korea is highly reliant on trade. The value of South Korea’s exports and imports divided by its aggregate GDP reflect the exact level of dependency. As seen in Figure 1, from 2004 to 2016, roughly half of South Korea’s GDP was dependent on trade, peaking at 70% in 2012. In contrast, export dependence among the member of the Organization of Economic Cooperation and Development (OECD) averaged 27.9% in 2016.

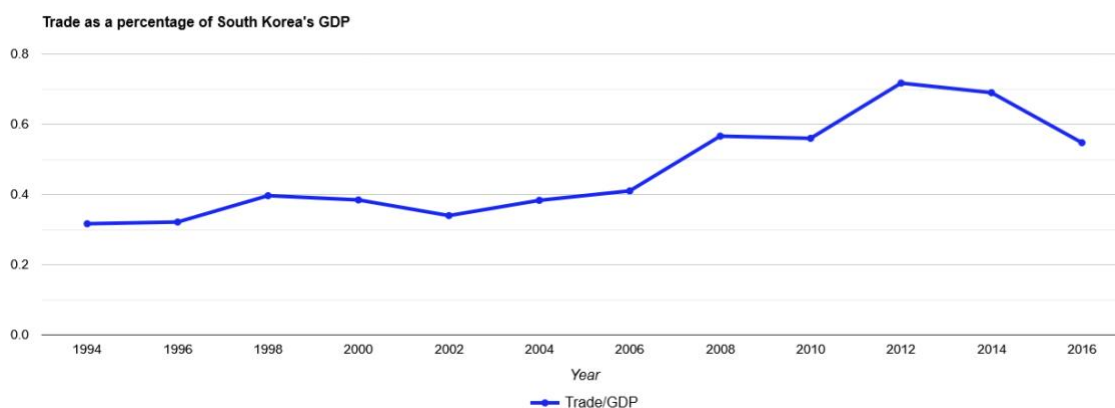


Figure 1 Value of trade expressed as a percentage of South Korean GDP. Source: calculated by author with data from World Bank.

China became Korea’s largest trade partner a mere two years after its entry into the WTO and is also the country with South Korea’s largest trade deficit. By 2013, 26.1% of all South Korean exports were destined for China, making it more than a quarter of total exports. Yet as Korea’s dependence on Chinese purchasing power has grown, China has gradually relied less on Korea as a market and its exports have shifted into the US, Europe, ASEAN, Latin America, and Africa. Such imbalance is expressed in Figure 2.

<sup>43</sup> Korean International Trade Association database

<sup>44</sup> Korean International Trade Association database

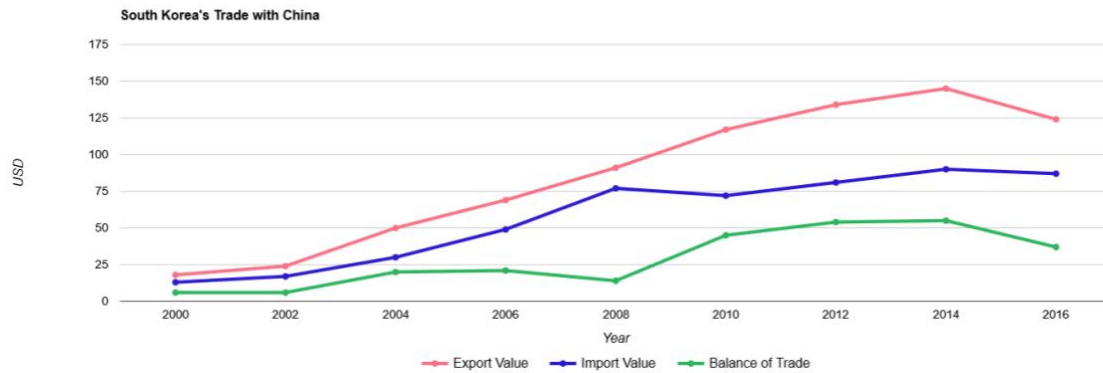


Figure 2 Trade value of South Korea to China in thousand USD. Source: Calculated by author with data from Korean Customs Service

To help contextualize the discussion, China is also Australia’s first trading partner, with 32.6% of its exports going to China in 2017-2018, totaling around \$120 billion. Australia’s total trade in 2016 was \$502 billion while its total GDP was \$1.209 trillion.<sup>45</sup> China was Japan’s second largest trading partner in 2016 yet the percent of its exports to US were nearly equal, 20.2% and 17.7% respectively.<sup>46</sup>

The increase in Chinese tourists to South Korea has also created a reliance on China by South Korea’s domestic service industry. Figure 3 compares the number of tourists from Japan, the previous source for most tourists visiting South Korea, with the growth in Chinese tourists to South Korea. Such figures reveal that while Korea is reliant on China as an export destination, its domestic industries such as tourism and hospitality have also benefited from Chinese spending.

While a variety of South Korean economic actors and industries experienced varying levels of disruption during the dispute, South Korea exports to China along with total bilateral trade actually increased by 14.1% in 2017. A large portion of this growth was fueled by sectors such as semiconductors and petrochemicals, areas covered by the Korea-China FTA.<sup>47</sup> What is particularly revealing about this information is the essence of Chinese sanctions; they were highly selective and industry specific. The intensity of government involvement in the coordination of sanctions varies depending on areas, but there are some cases in which intervention was centrally directed.<sup>48</sup>

<sup>45</sup> Australian Department of Foreign Trade and Affairs, “Australia’s Trade in Goods and Services 2016.”

<https://www.dfat.gov.au/about-us/publications/trade-investment/australias-trade-in-goods-and-services/Pages/australias-trade-in-goods-and-services-2016>

<sup>46</sup> Data retrieved from World Integrated Trade Solutions:

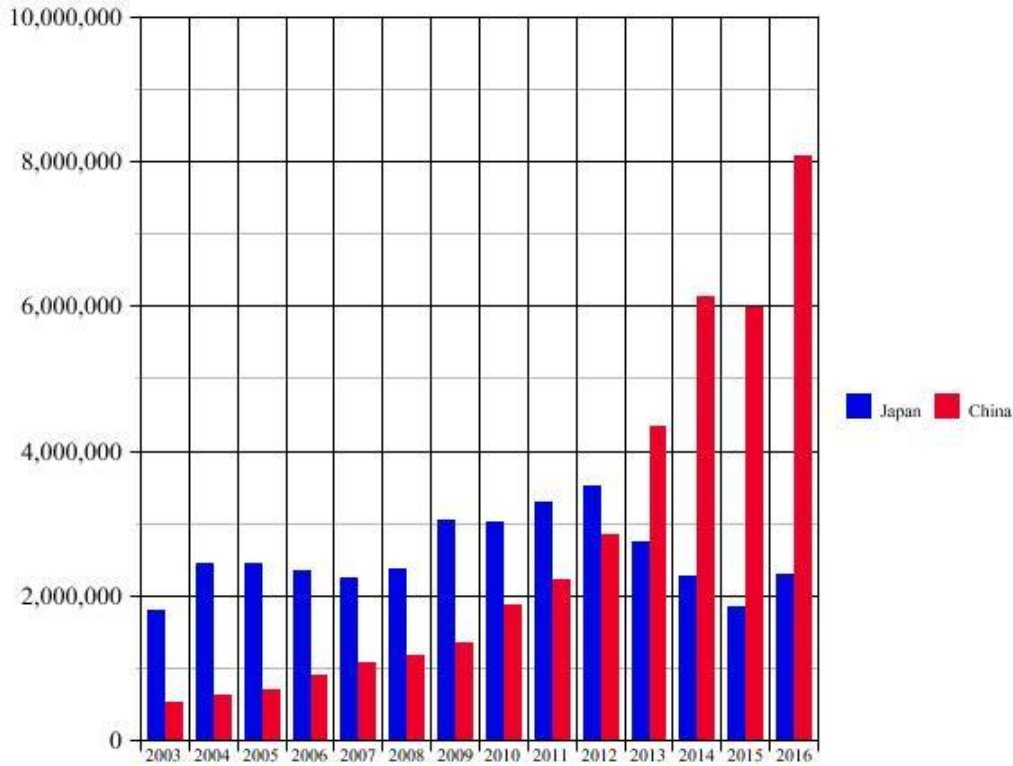
<https://wits.worldbank.org/CountryProfile/en/Country/JPN/Year/2016/Summarytext#:~:text=Japan%20top%205%20Export%20and%20Import%20partners%202016&text=Japan%20exports%20to%20China%20worth,partner%20share%20of%2017.65%20percent>.

<sup>47</sup> Jung Suk-yeo Jung, “Bilateral Trade between S. Korea and China Increased Despite THAAD Conflict.” *Business Korea*. December 20, 2017. <http://www.businesskorea.co.kr/news/articleView.html?idxno=20126>

<sup>48</sup> Darren Lim, “Chinese Economic Coercion during THAAD Dispute.” *The Asan Forum*, December 28, 2019.

<http://www.theasanforum.org/chinese-economic-coercion-during-the-thaad-dispute/>





Calculated by author with data from Korea Tourism Organization

Figure 3 Total inbound arrivals to South Korea from Japan and China.

The Lotte Group, South Korea’s fifth largest *chaebol*, had previously relied on China for \$2.7 billion in revenue in 2015. This included not only sales in its superstores located throughout China, but also Korea’s largest duty-free shop, where 70% of its revenue was generated by Chinese tourists.<sup>49</sup> The targeting of Lotte by Chinese authorities was not arbitrary as the corporation had signed the land deal with the South Korea Defense Ministry which provided the space for THAAD’s installation in February 2017. Chinese economic retaliation devastated the Lotte Group. By March 2016, 23 of Lotte’s China-based superstore locations had been forcibly closed, ostensibly for fire code violations.<sup>50</sup> This pattern continued to repeat itself until August by which time 74 of 112 total Chinese Lotte locations had been shuttered and Lotte made the independent decision to shut down its remaining 13 stores. By October 2018, after having suffered a 76.9% decrease in sales in 2017, Lotte would announce its complete withdrawal from the Chinese market.<sup>51</sup>

However, it was not only Lotte superstores targeted by Chinese reprisals. Charges of fire code violations were also levied at additional Lotte facilities, such as confectionery factories while

49 JTBC News, ” ‘A Sigh’ Without Sharp Countermeasures As Lotte Targeted Is by Chinese Economic Retaliation.” “중국 경제보복 표적 된 롯데, 뒤흔친 대책 없어 ‘한숨’.” *JTBC News*. March 1, 2017. [https://news.jtbc.joins.com/article/article.aspx?news\\_id=NB11430906](https://news.jtbc.joins.com/article/article.aspx?news_id=NB11430906)

50 Oi-hyun Kim, “More Lotte Marts in China Closed Down for one Month over Supposed Safety Violations.” *Hankyoreh*. March 7, 2017. [http://english.hani.co.kr/arti/english\\_edition/e\\_international/785471.html](http://english.hani.co.kr/arti/english_edition/e_international/785471.html)

51 Micheal Herh, “Lotte Shopping to sell off 21 Lotte Mart Stores in Beijing.” *Business Korea*. April 27, 2018. <http://www.businesskorea.co.kr/news/articleView.html?idxno=21921>

a \$2.6 billion then-in-development project in Shenyang was halted along similar justifications.<sup>52</sup> Lotte's duty free service was also left in shambles when the Chinese National Tourism Administration (CTNA) began discouraging trips to South Korea along with Beijing imposing a ban on the sale of package tours.<sup>53</sup> Fines and the revocation of tour licenses were also reported to have been offered as a punishment by the CTNA for agencies that failed to cancel all group tours after March 15, 2017.<sup>54</sup> While Beijing refused to publicly acknowledge that such efforts were coordinated, the efficiency and speed with which they came into effect is consistent with a high level of government involvement.<sup>55</sup>

The sudden cessation of Chinese tourists was keenly felt with numbers dropping by 48.3% between the years of 2016 and 2017.<sup>56</sup> The economic costs of Beijing's intervention were steep given that, in 2016, 47% of all inbound tourists to South Korea were Chinese nationals and that Chinese buyers comprised 70% of all duty free sales.<sup>57</sup> The loss of revenue to tourism along with derivative industries such as hospitality and medical tourism is estimated to be around \$15.62 billion and 402,000 jobs.<sup>58</sup>

China as an entertainment market, a previously \$5.3 billion industry, was another sector to feel the sting of economic retaliation.<sup>59</sup> Various incidents, beginning in 2016, of K-pop stars having their concerts canceled or actors being literally removed (their faces blurred out for broadcast) from television programs soon evolved into a systemically applied ban on Korean cultural exports. It is impossible to know what Beijing's specific orders were, but the ban seems to have been broadly applied. Korean TV shows and films were not approved for release, the streaming of Korean media was blocked, musicians had concerts canceled, while idols and actors had contracts and visas withdrawn.<sup>60</sup> Similarly, Korean video game developers were no longer allowed to renew the license for titles, losing access to the world's largest gaming market.<sup>61</sup>

There were some sanction areas in which government involvement was likely, but not nationally coordinated. This was mainly seen in electrical vehicle batteries when in 2016

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<sup>52</sup> Reuters, "China halts Construction at Major Lotte project amid THAAD tension." *Reuters*. February 8, 2017. <https://news.trust.org/item/20170208080834-7cz1a>

<sup>53</sup> Adam Jordan, Mar 3 2017, China hints at trade war strategy in South Korea standoff." *Reuters*. March 3, 2017. <https://www.reuters.com/article/us-southkorea-china-dispute-idUSKBN16A0T1>

<sup>54</sup> Bryan Harris, Song Jung-a, Sherry Fei Ju, and Tom Hancock, "China bans tour groups to South Korea as defense spat worsens." *Financial Times*. March 3, 2017. <https://www.ft.com/content/9fc4b1b4-ffb1-11e6-96f8-3700c5664d30>

<sup>55</sup> Darren Lim, Victory Ferguson, and Rosa Bishop. "Chinese Outbound Tourism as an Instrument of Economic Statecraft." *Journal of Contemporary China* 29, Issue 126 (2020): 916-933.

<sup>56</sup> Yonhap News, "S. Korea Still Smarting from China's THAAD Retribution." *Yonhap News*. March 14, 2018. <https://en.yna.co.kr/view/AEN20180314002700320>

<sup>57</sup> Jenna Gibson, "Chinese Tourists to South Korea Drop 40 Percent in March Amid THAAD Row." *Korean Economic Institute of America*. April 14, 2017. <https://keia.org/the-peninsula/chinese-tourists-to-south-korea-drop-40-percent-in-march-amid-thaad-row/>

<sup>58</sup> Yonhap News, "THAAD row with China costs S. Korea dear: report." *Yonhap News*. September 15, 2017. <https://en.yna.co.kr/view/AEN20170915008300320#:~:text=Korea%20dear%3A%20report,-15%3A17%20September&text=SEOUL%2C%20Sept.,tumbling%2C%20a%20report%20said%20Friday>

<sup>59</sup> Lindsay Maizland, "The Surprising Reason Why China is Blocking South Korean Music and TV." *Vox News*. March 7, 2017. <https://www.vox.com/latest-news/2017/3/3/14795636/china-south-korea-pop-culture-kpop-attacks-thaad>

<sup>60</sup> Darren Lim, "Chinese Economic Coercion during THAAD Dispute." *The Asan Forum*, December 28, 2019. <http://www.theasanforum.org/chinese-economic-coercion-during-the-thaad-dispute/>

<sup>61</sup> Byung-yul Baek, "Korean game firms fix eyes on Taiwan." *The Korea Times*. September 4, 2018. [https://www.koreatimes.co.kr/www/tech/2018/09/134\\_254924.html](https://www.koreatimes.co.kr/www/tech/2018/09/134_254924.html)

China's Ministry of Industry and Information Technology, the government body responsible for the designating companies able to receive subsidies, mandated that no electric vehicles (EV) containing Korean made batteries were approved for subsidy. Functionally, this increased the cost of vehicles with Korean made batteries between 40 and 50%.<sup>62</sup> The obvious result of this was Chinese manufacturers canceling their battery contracts with LG and Samsung, who then saw the operations at their factories come to a halt and their market share sliced in half.<sup>63</sup> The central divergence in Chinese punitive actions taken against the EV market and those analyzed from the first category primarily stems from the opaque linkages between the THAAD controversy and Chinese denial of subsidies. It was indeed the case that some Korean batteries failed to receive approval prior to 2016 yet the stated reason for their status was that LG and Samsung were required to have maintained manufacturing facilities in China for 12 months. This milestone was passed in October 2016, yet companies continued to meet with abnegation. It seems likely that such treatment stemmed from the THAAD controversy.

Some industries encountered barriers to importing goods which had not existed before. Export documentation was subject to intense scrutiny and returned for corrections over inconsequential details. The number of foodstuffs shipments rejected by Chinese customs increased from 49 in 2016 to 102 in 2017, with items supposedly rejected over packaging or labeling violations.<sup>64</sup> Korean cosmetics, another industry which had experienced increasing popularity within Chinese markets, also met with import frustrations.<sup>65</sup>

## More Harm Than Good

Following the analysis of China's economic retribution against South Korea, it is imperative to decipher what, if anything, Beijing accomplished. The most conspicuous concessions were found in a joint statement from Oct. 31, 2017 in the form of the "Three Noes"; no additional THAADs, no participation in US missile defense networks, and no trilateral alliance with the US and Japan.<sup>66</sup> At a superficial level, such compromises appear to be a win for Beijing, however this warrants scrutiny.

The first of the three, no additional THAADs, is difficult to view as any sort of strategic victory for China given that there were simply no more existing THAADs available for deployment, irrespective of Korean desire.<sup>67</sup> Even if there had been, it would have been highly unlikely for Moon to press on with their installation given his opposition to their

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<sup>62</sup> Min-hee Jung, "South Korean EV Battery Manufacturers Excluded from Chinese Subsidies Yet Again." *Korean Business Insider*. May 9, 2019. <http://www.businesskorea.co.kr/news/articleView.html?idxno=31652>

<sup>63</sup> Byung-yul Baek, "Korean Battery Makers Losing Momentum in China." *The Korea Times*. June 10, 2018. [https://www.koreatimes.co.kr/www/tech/2018/07/133\\_250410.html](https://www.koreatimes.co.kr/www/tech/2018/07/133_250410.html)

<sup>64</sup> The Korea Herald, "Korean Food Rejected by Chinese Customs Surge 280% Amid THAAD Row." *The Korea Herald*. June 25, 2017. <http://nwww.koreaherald.com/common/newsprint.php?ud=20170625000092>

<sup>65</sup> KBS World News. "China Rejects Approval of Imports of S. Korean Cosmetics." *KBS World News*. January 10, 2017. [http://world.kbs.co.kr/service/news\\_view.htm?lang=e&Seq\\_Code=124541](http://world.kbs.co.kr/service/news_view.htm?lang=e&Seq_Code=124541)

<sup>66</sup> Kristian McGuire. "China-South Korea Relations: A Delicate Détente." *The Diplomat*. February 27, 2018. <https://thediplomat.com/2018/02/china-south-korea-relations-a-delicate-detente/>

<sup>67</sup> Tony Stangore, "Did South Korea's Three Noes Matter? Not So Much." *The Diplomat*. October 30, 2019. <https://thediplomat.com/2019/10/did-south-koreas-three-noes-matter-not-so-much/>

deployment originally planned by his predecessor.<sup>68</sup> Such resistance continued into his term as president, until repeated North Korean ballistic tests forced a change of attitude.

The second “no” was also far from a Chinese victory. It had been stated repeatedly that Seoul had no plans to join America’s BMD networks. This was an attitude expressed as far back as the Park administration, which, when compared to the following administration, held a much more bullish attitude towards THAAD.<sup>69</sup> The stance of the Moon administration had, since before the Three Noes negotiations were concluded, repeatedly stated its intention to remain outside of Washington’s BMD network.<sup>70</sup>

In terms of the third “no,” an unwillingness to engage in a trilateral alliance was a forgone conclusion given the specter of historical issues that continue to loom over Japan-South Korea relations. Moon had campaigned on a promised to renegotiate a 2015 deal made between the Park and Abe administration that had sought to resolve historical issues, such as the issue of comfort women, calling the agreement “final and irreversible.”<sup>71</sup> Such a move on Moon’s part ensured that Japan–South Korea relations would remain soiled even when the two nation’s strategic priorities converged, as discord over historical issues precluded any cooperation due to domestic political concerns.<sup>72</sup> Given this dynamic, its abundantly clear that no sort of trilateral cooperation would have been forthcoming, regardless of Chinese demands.

In sum, the Three Noes do not represent a significant shift from the Moon administration’s policies and should not be regarded as a serious concession.<sup>73</sup> In many ways, the Three Noes were a face-saving maneuver. Beijing was able to secure manifest proof of Seoul’s acquiescence to their demands while manufacturing the image of having a strong regional influence. Seoul’s concessions also painted the picture of a cooperative partner willing to mollify a Chinese government that had shown strong indignation. For Seoul’s part, a cost-benefit analysis would have clearly shown the convenience in agreeing to the Three Noes. Without needing any significant adjustments to policy, Seoul was able to offer Beijing diplomatic concessions.

However, Beijing’s efforts to expand its regional influence have backfired. The concessions it extracted from Seoul do not outweigh the damage caused to Sino-South Korea relations. A 2019 survey by the Pew Research Center noted a deterioration in the opinions of South Koreans towards China. South Koreans were less likely to see a benefit in China’s growing economy with nine out of ten expressing doubt over the positive effects of a growing Chinese

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<sup>68</sup> Associated Press, “South Korean Leadership Contender Moon Jae-in Suggests THAAD Deployment Should be Decided by the Next Government.” *South China Morning Post*. December 15, 2016.

<https://www.scmp.com/news/asia/east-asia/article/2054913/south-korean-leadership-contender-moon-jae-suggests-thaad>

<sup>69</sup> Yonhap News. “Local THAAD will not be incorporated into wider U.S.-led MD system: Defense Chief.” *Yonhap News*. July 20 2016. <https://en.yna.co.kr/view/AEN20160720006451315>

<sup>70</sup> Min-kyoung Jung, “Seoul not Considering Joining US Missile Defense System: FM Kang.” *The Korea Herald*. October 30, 2017. <http://www.koreaherald.com/view.php?ud=20171030000817>

<sup>71</sup> Mina Pollmann, “What Next for Japan-South Korea Relations?” *The Diplomat*. May 9, 2017 <https://thediplomat.com/2017/05/what-next-for-japan-south-korea-relations/>

<sup>72</sup> Sachio Nakato. “Security Cooperation Between Japan and South Korea on North Korean Nuclear Threat: Strategic Priorities and Historical Issues.” *Pacific Focus* 35, No 2 (2020): 127-140

<sup>73</sup> Jong-seok Lee, “Three Noes Reinforces South Korea’s Sovereignty.” *Hankyoreh*. November 6, 2017. [http://english.hani.co.kr/arti/english\\_edition/english\\_editorials/817693.html](http://english.hani.co.kr/arti/english_edition/english_editorials/817693.html)

military. The decline in South Koreans holding a positive view of Xi Jinping was particularly striking; between 2014 to 2019 the percent of Koreans who held confidence in Xi dropped from 57% to 25%.<sup>74</sup> Korea's political landscape has begun to reflect this sentiment, exemplified by the anti-Chinese rhetoric employed by Lee Jun-seok, leader of the People Power Party.<sup>75</sup>

Bilateral ties have also been subject to trust decay and since the THAAD controversy, relations have since become characterized by their languor. China and South Korea had experienced 25 years of remarkably friendly relations, arguably reaching a high point during the era of Park Geun-hye's leadership with both Park and Xi exhibiting a fervor for security cooperation unseen in previous administrations. The foundation of this cooperation was an inter-state understanding that acted as a launching point for cooperation in areas beyond those economic. The compatibility between Park and Xi revealed itself through the consensus reached over security issues on the Korean peninsula.<sup>76</sup> Between 2013 and 2016 Park and Xi held eight meetings in total and made four joint visits for bilateral summit meetings. An obvious reflection of affable relations between the two nations, the addition of Xi's stated determination that a nuclear North Korea was intolerable was viewed as a triumph of diplomacy.<sup>77</sup>

Park appeared to have earned an additional diplomatic victory when she became the first South Korean head of state to receive a Chinese delegation that had not traveled to North Korea beforehand. This marked a significant departure from established Chinese diplomatic norms and appeared to be an obvious sign of Xi's declining view of Pyongyang and a growing interest in strengthening ties with South Korea.

For her part, Park's decision to attend the 70<sup>th</sup> anniversary of the end of World War II in China was clear evidence of her attitude on Sino-Korea relations. Park's attendance at the September 2015 event appeared to secure an even deeper commitment of Chinese cooperation concerning North Korea.<sup>78</sup> Park's self-assuredness was stated in an interview with journalists while on the plane returning to Seoul following the event where she emphasized that things were heading in a good direction and close communication over North Korea would continue.<sup>79</sup>

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<sup>74</sup> Laura Silver, Kat Devlin and Christine Huang, "Attitudes Toward China." *Pew Research Center*. December 05, 2019. <https://www.pewresearch.org/global/2019/12/05/attitudes-toward-china-2019/>

<sup>75</sup> Bloomberg, "Lee Jun-seok, South Korea's Youngest Ever Party Leader, Vows to Confront China's 'cruelty', including Policies in Hong Kong." *South China Morning Post*, July 12, 2021. <https://www.scmp.com/news/asia/east-asia/article/3140718/lee-jun-seok-south-koreas-youngest-ever-party-leader-vows?module=inline&pgtype=article>

<sup>76</sup> Bree Feng, "China and South Korea Reaffirm Efforts Aimed at North." *The New York Times*. June 27, 2013. <https://www.nytimes.com/2013/06/28/world/asia/china-and-south-korea-reaffirm-efforts-to-end-north-koreas-nuclear-threat.html>

<sup>77</sup> Hong-nak Kim, "China's Policy Toward North Korea Under the Xi Jinping Leadership." *North Korean Review* 9, No 2 (2013): 83-98.

<sup>78</sup> Scott Snyder, "Park's Decision to Join Xi Jinping's World War II Commemoration." *Council on Foreign Relations*. September 2, 2015. <https://www.cfr.org/blog/parks-decision-join-xi-jinpings-world-war-ii-commemoration>

<sup>79</sup> Shi-haeng Jung, "A fruitful visit to China' said President Park" "차대통령 "이번 중국 방문 성과 많았다" 자평." *Chosun Daily*. September 5, 2015. [https://www.chosun.com/site/data/html\\_dir/2015/09/05/2015090500278.html?Dep0=](https://www.chosun.com/site/data/html_dir/2015/09/05/2015090500278.html?Dep0=)



Such mutual understanding did not linger long. Following North Korean testing of a hydrogen bomb in January 2016, Xi refused to receive phone calls from Park for over a month, something she viewed as an acute betrayal of trust.<sup>80</sup> This combination of events was what ultimately prompted Park to break strategic ambiguity over THAAD and green light its deployment. China rejected any causal linkages between Pyongyang's nuclear tests, Xi's incommunicado, and the deployment of THAAD, instead shifting the blame entirely onto Seoul.<sup>81</sup> Beijing would initiate punitive economic measures soon after in July 2016.

Trust between the two parties continued to decay after Moon stepped into office and displayed intent to repair relations. Moon dispatched special envoy Lee Hae-chan to Beijing, during which time both sides agreed to hold working-level talks to address the damage done to bilateral ties.<sup>82</sup> The South Korea–China agreement, another attempt to soothe relations, made on Oct. 31, 2017, would be bolstered by the Three Noes. Moon's first visit to Beijing on Dec. 14, 2017 emphasized his desire to break the deadlock and restore trust. Yet the visit, which would receive uncivil coverage by Chinese news, was viewed as insulting by Korean media. The welcoming of Moon by a low-level diplomat and lack of customary lunch with the Chinese prime minister were viewed as obvious snubs.<sup>83</sup> The violent assault of Korean journalists on two separate occasions a day later would further tarnish the occasion, inflaming Korean public opinion.<sup>84</sup>

Neither the Three Noes nor Moon's attempts to mend bilateral ties had their intended effects. China's K-pop ban has remained virtually unchanged, with experts viewing recent deals made between two Korean superstars to promote products in China with pessimism.<sup>85</sup> The meteoric rise of groups like Blackpink in markets not previously experienced by the K-pop machine would not come as a surprise to anyone familiar with the inner workings of the K-pop industry. Given the government's direct role combined with the elements of capitalistic control in the promotion and management of the genre, the evolution of K-pop away from the Chinese market was likely a top down measure.<sup>86</sup> Groups such as EXO that had tailored an image specific to Chinese audiences keenly felt the impact of sanctions and contrasted sharply with the unprecedented international success of BTS, a group that has yet to play a

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<sup>80</sup> Bruce Klingner, "Growing Threats and Shifting Policies on the Korean Peninsula." *The Asan Forum*. November 1, 2016.

<http://www.theasanforum.org/growing-threats-and-shifting-policies-on-the-korean-peninsula/> (accessed on 9/9/21)

<sup>81</sup> Suk-hee Han, "Resetting the South Korea–China Relationship: The THAAD Controversies and Their Aftermath" *The Korean Journal of Defense Analysis* 31, No 4 (2019): 539-557.

<sup>82</sup> Seong-Hyon Lee, "Envoy, THAAD and Korea–China Relations under Moon Jae-in," *PacNet* 43, June 5, 2017.

<https://www.pacforum.org/analysis/pacnet-43-envoy-thaad-and-korea-chinarelations-under-moon-jae>

<sup>83</sup> Andrew Salmon, "President Moon's China State Visit Spirals into PR Disaster," *Asia Times*. December 15, 2017,

<https://asiatimes.com/2017/12/president-moons-china-state-visit-spirals-pr-disaster/>

<sup>84</sup> Tom Phillips, "South Korea Demands Apology from Beijing over Attack on Journalist." *The Guardian*. December 14, 2017.

<https://www.theguardian.com/world/2017/dec/14/south-korea-demands-beijing-apology-attack-on-journalist-china>

<sup>85</sup> Hyun-su Yim, "Don't be too optimistic about lifting of K-pop ban in China: experts." *The Korea Herald*. May 21, 2020. <http://www.koreaherald.com/view.php?ud=20200521000711>

<sup>86</sup> Geoffrey Cain, "How Korean Bureaucrats Turned K-pop into a National Symbol." *Global Post*. November 30, 2013.

<https://www.pri.org/stories/2013-11-30/how-korean-bureaucrats-turned-k-pop-national-symbol>

single show in mainland China.<sup>87</sup> This new generation of K-pop was engineered to hold a broader appeal and reach new markets thus resulting in a reduced reliance on China.

K-pop is hardly alone in such an exodus. Beginning with Lotte's retreat in the face of economic retaliation, more than half of the Korean companies located in China are actively working to reduce their reliance as both a trade partner and manufacturing base. In 2019 Samsung cut its last remaining smartphone factory in China after having already shuttered sites in Tianjin and Shenzhen in 2018.<sup>88</sup> A plethora of other conglomerates, including Amore Pacific, Hyundai Motors, and SK Innovations, have either ceased reinvesting into the Chinese market or have redirected funds into Southeast Asian and European markets.<sup>89</sup> Previously, conglomerates had cited rising labor costs, price competition, and excessive government regulation as becoming major impairments to their businesses in the Chinese market.<sup>90</sup> Thus, while the THAAD controversy was not the sole cause of Korea's corporate migration, it most certainly contributed to an intensification of effort.

While Korea has been actively working to reduce its reliance on China, the economic and security nexus which motivated such actions must also be fully explored to understand the damage China has done to its own aspirations of regional influence. This can be understood by examining the levels of trade between China and South Korea and the subsequent direct impact on US-South Korean relations. Prior to South Korea's normalization of relations with China, the US was its largest trade partner. Yet following rapprochement, and with an annual trade growth of approximately 35 percent, China became South Korea's largest trade partner by 2003.<sup>91</sup>

A trade agreement like the one signed between South Korea and China in 2014 reduced the value of the US as a trade partner to South Korea.<sup>92</sup> Increased economic exchange between China and South Korea has been noted as having a statistically significant casual effect on Sino influence over Korea and a weakening US influence.<sup>93</sup> As the US becomes less important in an economic capacity, Seoul heightens its ability to assume a more forward position when negotiating with Washington over trade issues. This, in turn, reduces the domestic influence of the US.

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<sup>87</sup> Layne Vandenberg, "The Development of K-Pop Without China." *The Diplomat*. August 30, 2019.

[https://thediplomat.com/2019/08/the-development-of-k-pop-without-china/#:~:text=EXO%2C%20one%20of%20the%20first,EXO%2DM%20\(Mandarin\)](https://thediplomat.com/2019/08/the-development-of-k-pop-without-china/#:~:text=EXO%2C%20one%20of%20the%20first,EXO%2DM%20(Mandarin))

<sup>88</sup> Ju-min Park, "Samsung Ends Mobile Phone Production in China." *Reuters*. October 2, 2019.

<https://www.reuters.com/article/us-samsung-elec-china-idUSKBN1WH0LR>

<sup>89</sup> Suk-hee Han, "Resetting the South Korea–China Relationship: The THAAD Controversies and Their Aftermath" *The Korean Journal of Defense Analysis* 31, No 4 (2019): 539-557.

<sup>90</sup> Edward White, Jung-a Song, and Bu-seong Kang, "Lotte's China Woes a Harbinger of South Korean Exodus." *Financial Times*. June 20, 2019.

<https://www.ft.com/content/3a2eae2-9330-11e9-aea1-2b1d33ac3271>

<sup>91</sup> Sarah Chan and Chun-Chien Kuo, "Trilateral Trade Relations Among China, Japan, and South Korea: Challenges and

Prospects of Regional Economic Entegration." *East Asia* 22, No. 1 (2005) 33–50.

<sup>92</sup> Mark Manyin, "South Korea–U.S. Economic Relations: Cooperation, Friction, and Future Prospects." *CRS Report for Congress* (Washington, DC, US Congress, 2004).

<sup>93</sup> Dohee Kim and Uk Heo, "Factors Affecting ROK–US Relations, 1990–2011: An Empirical Analysis." *Journal of Asian and African Studies* 53, No. 1 (2018): 115-131

This relationship is particularly germane to the discussion of the THAAD controversy, not merely in economic terms, but also in an examination of regional influence as a unit. The inverse effect that South Korean trade with China has on the strength of the US–South Korea relationship signals that the Seoul’s efforts to reduce economic reliance on China will lead to a waning of Chinese influence and a likely increase of Washington’s. Given that the primary purpose of China’s punitive measures over THAAD was to assert its authority as regional hegemon, the results were clearly counterproductive to Beijing’s aspirations.

## A Dry Run

The nature of economic measures leveled against South Korea in the wake of THAAD may be part of an evolution in the tactics deployed by Beijing within a wider framework of coercive diplomacy. Pre-THAAD sanctions operated along a shared framework; they were subtle, unilateral, not officially declared, brought into effect without being passed as law, and were limited in scope and duration.<sup>94</sup> This meant that disputes were not able to be taken up with organizations, such as the WTO, while also providing plausible deniability if faced with Chinese accusations. Previously, China was careful not to extend sanctions over a prolonged period or cover an overly broad range of industry to avoid self-inflicted economic damage. These were the guiding principles in sanctions against Norway and the Philippines. In the case of the former, Beijing deemed Norway’s awarding of the Nobel Peace Prize in 2010 to Liu Xiaobo, Chinese dissident and human rights activist, as unacceptable. Concerned with its domestic economic growth, Beijing chose an iconic product to sanction, salmon, which sent a clear political signal without impeding broader economic progress.<sup>95</sup> Politically, this incident seemed to have had an impact as in May 2014 the Norwegian government declined to meet with the Dalai Lama.

A similar blueprint was employed against Philippine banana imports. With nearly half of all Filipino banana exports heading to China, the industry was hit hard following retaliation on maritime disputes over the Scarborough Shoal.<sup>96</sup> Yet Beijing’s sanctions ended there. It could have limited electronic imports, which account for 61% of Filipino exports to China, but chose instead to only target bananas. China’s economic growth was far more dependent on the import of electronics than bananas and as such, Beijing sought to send a signal to Manila. This was done by applying pressure through special interest groups, banana growers, without corroding its broader economic relations.<sup>97</sup>

Recent Chinese economic retaliation has shifted away from such paradigms. Starting in 2018, Australia found itself marked by a new breed of sanctions that some viewed as a response to

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<sup>94</sup> James Reilly, “China’s Unilateral Sanctions.” *The Washington Quarterly* 35, No. 4 (2012): 121–33.

<sup>95</sup> Xianwen Chen and Roberto Javier Garcia, “Economic Sanctions and Trade Diplomacy: Sanction-busting Strategies, Market Distortion and Efficacy of China’s Restrictions on Norwegian Salmon Imports.” *China Information* 30, No. 1 (2016): 15-33

<sup>96</sup> Andrew Higgins, “In Philippines, Banana Growers Feel Effect of South China Sea Dispute.” *The Washington Post*. June 10, 2012.

[https://www.washingtonpost.com/world/asia\\_pacific/in-philippines-banana-growers-feel-effect-of-south-china-sea-dispute/2012/06/10/gJQA47WVTV\\_story.html](https://www.washingtonpost.com/world/asia_pacific/in-philippines-banana-growers-feel-effect-of-south-china-sea-dispute/2012/06/10/gJQA47WVTV_story.html)

<sup>97</sup> Andrew Higgins, “In Philippines, Banana Growers Feel Effect of South China Sea Dispute.” *The Washington Post*. June 10, 2012.

[https://www.washingtonpost.com/world/asia\\_pacific/in-philippines-banana-growers-feel-effect-of-south-china-sea-dispute/2012/06/10/gJQA47WVTV\\_story.html](https://www.washingtonpost.com/world/asia_pacific/in-philippines-banana-growers-feel-effect-of-south-china-sea-dispute/2012/06/10/gJQA47WVTV_story.html)



Canberra passing national security measures in June that same year. These laws expanded the definition of foreign political interference offenses, broadening the definition of national security to include Australia's political, military, or economic relations with another countries. This, in turn, was in reaction to a series of political donation scandals connected to China in 2016 and 2017.<sup>98</sup>

Beijing was less than happy with the political developments in Canberra and proved more than willing to leverage the trade asymmetry that had developed between them. In the 2018–2019 fiscal year China accounted for a total of 32.6% of Australia's exports, roughly \$116.79 billion USD. Nearly half of all Australian exports to China were iron ore.<sup>99</sup>

In some ways, the makeup of such economic coercion by Beijing bares similar traits to those previously employed. The methods are all unofficial; the barley and wine industry has found itself subject to extreme tariffs, meat and lobster imports have been suspended over alleged safety violations, coal shipments deferred, and Chinese citizens have been discouraged from studying or traveling to Australia.

Yet the tactics employed against South Korea and Australia bear some striking differences from those leveled at the Philippines or Norway. For starters, this new generation of sanctions is significantly more comprehensive and covers a wide range of industries. While in the cases of Norway and the Philippines, one specific industry was singled out, both Australia and South Korea have had to grapple with sanctions covering a spectrum of industries.

A second key difference is that, in case of both South Korea and Australia, Beijing has targeted specific industries that could provide long term strategic benefits to China as a whole. At first blush, Beijing's assault on Korean cultural exports, a seemingly innocuous enough industry, may appear odd. Yet the offensive against Korea's cultural exports should not be viewed as an idiosyncrasy; the THAAD controversy merely provided Beijing a convenient alibi for banning an import it had treated with animosity.<sup>100</sup> Prior to THAAD, Beijing had consistently reacted with hostility towards the domestic popularity of Korean culture. Whenever Korean TV series achieved nationwide popularity, Beijing would respond by impeding the penetration of such products. The banning of Korean culture in the wake of THAAD neutralized a competitive and successful rival to China's own entertainment industry. This war on culture has continued long past THAAD's installation, with Beijing recently launching assaults against traditional Korean heritage items such as *kimchi* and *hanboks*, claiming that such items are actually of Chinese origin.<sup>101</sup>

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<sup>98</sup> Oxford Analytica, "Australia demonstrates the limits of Chinese coercion." *Oxford Analytica*. December 15, 2020. <https://dailybrief.oxan.com/Analysis/DB258220/Australia-demonstrates-the-limits-of-Chinese-coercion>

<sup>99</sup> Saheli Chodhury, "Here's a List of the Australian Exports Hit by Restrictions in China." *CNBC*. December 17, 2020.

<https://www.cnbc.com/2020/12/18/australia-china-trade-disputes-in-2020.html>

<sup>100</sup> Ji-hoon Park, Yong-suk Lee, and Ho-geun Seo, "The Rise and Fall of Korean Drama Export to China: The History of State Regulation of Korean Dramas in China." *The International Communication Gazette* 8, No. 2 (2019): 139-157

<sup>101</sup> Shweta Sharma, "Cabbage wars: South Korean anger after China claims kimchi as its own." *Independent*. December 1, 2020.

<https://www.independent.co.uk/news/world/asia/south-korea-china-standard-kimchi-world-domination-b1764405.html>

Concerns of domestic growth were likely mirrored in China's strike against South Korean battery production for electric vehicles (EV). This should come as no surprise when considering the intensifying competition in East Asia for EV battery production and development.<sup>102</sup>

If the aim of Chinese sanctions against Australia and South Korea was to simply maximize costs and increase leverage, it could have selected from a host of different industries. This is embodied by China's decision not to sanction Australia's wool industry. With 80% of Australian wool exports destined for China, any sort of imposed restrictions would completely cripple the industry. Yet China has no alternative suppliers, domestic or otherwise, which could fill a vacuum left by a reduction of Australian wool. A similar dynamic is seen in Beijing's relationship with the Australian iron ore industry.

Conversely, the rapid increase of Australian barley into the Chinese market caused a decline in domestic production, affecting the incomes of small-holders in low income areas and leaving producers uncompetitive.<sup>103</sup> Such matters extend to the wine industry in which China has launched an industrial policy to increase its domestic production through large-scale wineries. With its wine production being halved despite government initiatives, organizations like The China Alcohol and Drinks Association claimed that domestic industry was being robbed by surging imports, specifically by the elimination of tariffs from Australia due to the China–Australia Free Trade Agreement.<sup>104</sup>

How to insulate oneself from China-generated economic shock should be a primary strategic concern for middle powers. However, given the entwined nature of the contemporary international economic system, complete extrication from China's economy would be nearly impossible. Thus, there are three primary means, none mutually exclusive, which states can use to safeguard themselves in the future: the de-sinicization of supply chains, middle power coalition building, and track 1.5 dialogue.

Developing a trade asymmetry with China, as previously noted, creates vulnerabilities of which China can avail itself. Thus, the core goal for any vulnerable nation finding itself in such a predicament should be the de-sinicization of supply chains. While easier said than done, South Korea has already begun steps towards such an end and the nation could serve as a model for action. This would include the processes of moving production facilities out of China while also seeking new markets in other countries. Some companies may naturally seek this in an effort to reduce vulnerability but the process can also be promoted from the top-down, with governments offering economic assistance for corporations choosing to migrate to alternative markets.

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<sup>102</sup> KBS World, "Fierce Competition to Take Leadership in Global EV Battery Market." *KBS World*. September 28, 2020.

[https://world.kbs.co.kr/service/contents\\_view.htm?lang=e&menu\\_cate=business&board\\_seq=391602](https://world.kbs.co.kr/service/contents_view.htm?lang=e&menu_cate=business&board_seq=391602)

<sup>103</sup> Scott Waldron, "The exposure of Australian Agriculture to Risks from China: the Cases of Barley and Beef." *Asian Cattle and Beef Trade Working Papers No. 4* (2020).

<sup>104</sup> Scott Waldron, "The Logic of China's Economic Coercion on Australian Agriculture." *Future Directions International*. December 3, 2020. <https://www.futuredirections.org.au/publication/the-logic-of-chinas-economic-coercion-on-australian-agriculture/>

A 2020 study conducted by BBVA concluded that labor-intensive industries involving materials, such as textiles, wood, and footwear, as well as high-tech labor-intensive industries, like the production of optical devices, medical equipment, musical instrument, and precision equipment, would be the easiest to decouple from China.<sup>105</sup>

In the wake of COVID-19, many nations and corporations have realized that the resiliency and diversity of supply chains must take precedent over efficiency and profit. Even countries that have not been on the receiving end of Chinese coercion are seeking to expand into alternative markets to insulate against economic shocks. This global trend significantly lessens the difficulty for countries seeking willing partners in decoupling operations.

As a second step, middle powers of the Asia Pacific should seek to build solidarity among themselves and the US through the formation of a coalition with two primary ends. First, the coalition should identify and frame economic vulnerability and coercion. What Chinese economic coercion looks like, how vulnerabilities can be alleviated, and what collective actions should be taken are all questions worthy of examination. Through this, the coalition can develop a playbook guiding future responses to the exploitation of trade asymmetry. Ultimately, such a coalition has the potential beyond disagreements with China, eventually serving middle powers as a more general method of immunization against economic warfare. Such a collective must work to overcome the prisoner's dilemma of handling Chinese sanctions. The damage caused to China by its economic sanctions is drastically diminished by its ability to easily replace trade partners they have pushed out. Thus, when a vacuum is created in the Chinese market due to coercion, actors within such a coalition must work to ensure that none of the other members move to fill it. Through such methods, vulnerable powers can insulate themselves from economic shocks.

Finally, the shift in public perception may signal opportunity for track 1.5 dialogue. A recent joint survey by Hankook Research and the Korean news magazine SisaIN has shown that public opinion of China among Koreans has declined to the point where it is viewed less favorably than Japan, Korea's former colonial ruler and contemporary antagonist.<sup>106</sup> Track 1.5 dialogue between nations such as South Korea and Australia provides the ability to directly influence power structures, yet it does not need to be driven by government agendas or mandates.<sup>107</sup> With many political officials wary of provoking Chinese anger, this level of interaction provides political figures with plausible deniability in the event of economic threats from Beijing. Actors within track 1.5 are also able to coordinate between grassroots, nonpartisan, and government organizations to connect institutions that may otherwise not enjoy clear lines of communication or access.

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<sup>105</sup> Jinyue Dong and Le Xia, "De-sinicization of the global value chain after COVID-19." *BBVA Research*, June 3 2020.

<https://www.bbva.com/en/publicaciones/china-de-sinicization-of-global-value-chain-after-covid-19/>

<sup>106</sup> Sang-hun Choe, "South Koreans Now Dislike China More Than They Dislike Japan." *The New York Times*. August 20, 2021.

<https://www.nytimes.com/2021/08/20/world/asia/korea-china-election-young-voters.html>

<sup>107</sup> Jefferey Mapendere, "Track One and a Half Diplomacy and the Complementarity of Tracks." *Culture of Peace Online Journal* 2, No. 1 (2006): 66-81

## CONCLUSION

Signaling its growing confidence, China has shown an increased willingness to use its economic power as a tool of coercive diplomacy. Nations from Norway to the Philippines have seen first-hand what such a reality might entail. Such sanctions were unofficial and highly targeted against specific industries. However, Beijing's previous method of targeting specific sectors within a limited scope have given way to a new generation of sanctions that have become significantly more comprehensive and calibrated to cover a range of industries while minimizing the economic costs to China. Additionally, the new range of sanctions are used to provide domestic Chinese businesses with decreased competition. South Korea, which had maintained a significant trade asymmetry with China, was the first to experience such punitive measures over Chinese disagreement with its deployment of THAAD in 2016. The Lotte Group, K-pop, tourism, and other industries were drastically affected by punitive Chinese measures.

Beijing's intent behind sanctions, to assert its role as rising regional hegemon and reinforce its geopolitical influence, have ultimately failed. Rather than acceding to demands, Seoul has reevaluated its relationship with Beijing and decided to reduce reliance on the Chinese market. This has resulted in an increased US capacity to maintain regional influence.

Public opinion has turned against Beijing, political trust has decayed, and as shown in this research, Korean companies have begun reducing their economic dependence on China. The reduction in the importance of China as a trading partner to South Korea has a statistically measurable effect on US influence. Such results must be viewed as counterproductive to Beijing's goals as they ultimately undermined its desire to enhance its regional dominance. Countries such as South Korea and Australia are faced with the dilemma of how to navigate Chinese economic coercion within this new paradigm of unofficial sanctions. Such events are unlikely to be the last of their kind. Thus, the de-sinicization of supply chains should be the first step taken to reduce vulnerability. Additionally, middle powers should seek to develop a coalition with the primary goal of building resistance among its members to Chinese economic coercion. Another opportunity lies in the form of Track 1.5 dialogue which pose a viable avenue towards greater communication and teamwork for the formulation of policies. Beijing has shown itself to be more than willing to leverage trade asymmetry which sit at the economic-security nexus. Korea, in spite of its efforts to avoid upsetting Beijing, eventually found itself on the receiving end of economic coercion and is unlikely to be the last victim of such. Thus, it will become increasingly critical for middle powers to find solidarity and explore pathways to insulate themselves from this kind of economic shock.

## ABOUT THE AUTHOR

**Daniel Mitchum** ([daniel@pacforum.org](mailto:daniel@pacforum.org)) has spent the last 12 years living and working in South Korea. He holds a dual BA in Global Politics and East Asian Studies from State University of New York, Albany and an MA in International Cooperation from Yonsei University's Graduate School of International Studies, Seoul. The majority of Daniel's master's research was focused on North Korea, culminating in his thesis which explored the embeddedness of nuclear weapons within the DPRK regime. Daniel has previously worked with organizations such as Liberty in North Korea to aid North Korean refugees in acculturation, the North Korea Review academic journal as a blog writer and copy editor, as well as World Vision Korea as an assistant in HIV/AIDS awareness outreach. Beyond the Korean peninsula, Daniel's research interests include East Asian geopolitics, the rise of China, and America's East Asian alliance system.