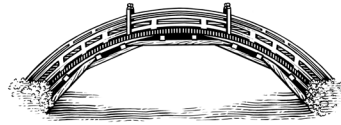


ESSAY SERIES ≈ TRADE AND SUPPLY CHAINS IN ASIA

Navigating Shifting Tides: South Korea and Northeast Asian Trade Integration

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KEYWORDS: SOUTH KOREA; CHINA; JAPAN; NORTHEAST ASIA; TRADE

EXECUTIVE SUMMARY

This essay examines South Korea's response to the volatile geopolitical and economic landscape in Northeast Asia, highlighting its multi-track free trade agreement (FTA) strategy and its economic statecraft amid the rising techno-hegemonic competition between its two largest trading partners: the U.S. and China.

MAIN ARGUMENT

Two major forces have shaped South Korea's trade strategy in recent decades: the rise of preferential trade agreements and the intensifying U.S.-China techno-rivalry. Initially, South Korea adapted to globalization pressures by pursuing bilateral and minilateral FTAs, but it has lagged in capitalizing on mega-FTAs. Although South Korea joined the Regional Comprehensive Economic Partnership (RCEP) as a founding member, the agreement lacks the depth and breadth required for comprehensive trade liberalization compared to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). Therefore, strengthening ties with Japan is essential, as Tokyo holds a critical veto over South Korea's bid for CPTPP membership. Meanwhile, the rise of economic statecraft worldwide has tested South Korea's "U.S. for security, China for economy" strategy, challenged by Beijing's Made in China 2025 and Washington's "America first" high-tech policies. Leading tech companies such as Samsung and SK Hynix are diversifying supply chains away from China to the U.S. To further benefit from the U.S.-led supply chain reorganization, South Korea must also improve relations with Japan, drawing lessons from the recent whitelist dispute over Japan's critical material exports that contribute to South Korea's high-tech products.

POLICY IMPLICATIONS

- South Korea must intensify its efforts to join the CPTPP to navigate the turbulent geopolitical and economic landscape. Achieving this goal requires strengthening strategic and economic relations with Japan, as politically charged trade disputes, like the recent whitelist issue, benefit no one.
- Amid rising uncertainties in the Chinese market, South Korea should further diversify away from China as both an export market and an import source.
- Following the recent U.S. presidential election and the domestic political turmoil resulting from the short-lived martial law and subsequent impeachment processes, South Korea faces both challenges and opportunities in the U.S. market. It must navigate political uncertainties at home while exploring ways to benefit from U.S. reshoring policies and safeguarding its own industrial foundation.

In 2023, South Korea ranked thirteenth globally by GDP, with exports and imports accounting for over 70% of its \$1.8 trillion economy. The country is widely recognized as one of the most successful postwar stories of economic development, often referred to as the “miracle on the Han River.” This success is largely attributed to its strategy of “nation-building through trade” (*moo-yeok-ip-gook*). However, South Korea’s growth has not been without challenges, including the debt crisis of the early 1980s, the 1997–98 Asian financial crisis, and an economic slowdown in the late 2000s. In the 1990s, South Korea faced significant external pressure, especially from the United States, to liberalize trade, prompting a shift away from mercantilist policies that combined export-oriented industrialization with protectionist measures for import substitution. Although the transition was painful due to social adjustments, it integrated the country’s economy more deeply into global value chains, particularly in industries such as semiconductors, shipbuilding, automobiles, and steel—sectors that together account for about 25% of the country’s GDP.¹

Entering the 21st century, two key forces reshaped South Korea’s trade strategy: the rise of preferential trading agreements and the intensifying Sino-U.S. rivalry over technological supremacy. In the first decade, South Korea demonstrated resilience in adapting to the pressures of globalization, strategically managing the pace, scope, and timing of trade liberalization. A key element of this shift was the embrace of free trade agreements (FTAs). Between 2000 and 2015, South Korea signed fifteen FTAs, making deliberate partner choices. Despite being a latecomer to the FTA race, South Korea positioned itself as a major player by entering formal partnerships with major economies such as the Association of Southeast Asian Nations (ASEAN), the United States, the European Union, and China, while notably excluding Japan.²

Over the last decade, South Korea’s economic adaptability has again been tested by the resurgence of neo-mercantilism. Although no major trading nation openly embraces mercantilism today, results-oriented managed trade policies—similar to those seen in U.S. policies of the 1980s and 1990s—have

¹ Min Gyo Koo, “Embracing Free Trade Agreements, Korean Style: From Developmental Mercantilism to Developmental Liberalism,” *Korean Journal of Policy Studies* 25, no. 3 (2010): 101–23; and Min Gyo Koo, “South Korea’s Policy Responses to the Changing Trade Environment in the Post-Uruguay Round Period,” in *The Korean Government and Public Policies in a Development Nexus: Sustaining Development and Tackling Policy Changes*, vol. 2, ed. Jongwon Choi, Huck-ju Kwon, and Min Gyo Koo (New York: Springer, 2017), 99–115.

² Min Gyo Koo and Whasun Jho, “Linking Domestic Decision-Making and International Bargaining Results: Beef and Automobile Negotiations between South Korea and the United States,” *International Relations of the Asia-Pacific* 13, no. 1 (2013): 65–93; and Min Gyo Koo and Seo Young Kim, “East Asian Way of Linking the Environment to Trade in Free Trade Agreements,” *Journal of Environment and Development* 27, no. 4 (2018): 382–414.

surfaced again widely. The temptation for governments to intervene not only in trade rules but also in outcomes has spread across the world, especially in the high-tech and semiconductor industries.³ This shift poses a significant challenge for high-tech-oriented South Korea, given that semiconductors alone account for around 20% of its exports, making the country increasingly vulnerable to the escalating U.S.-China chip war. South Korea's cautious stance on U.S.-led initiatives such as the Indo-Pacific Economic Framework and the Chip-4 alliance reflects its careful balancing act—to engage in these alliances without provoking China, its largest trading partner.

In light of these challenges, this essay explores South Korea's response to the volatile geopolitical and economic landscape in Northeast Asia. Can the country reposition and restructure its economy swiftly enough to sustain its competitiveness? Is its trade strategy evolving with or against the prevailing geopolitical currents? What are the implications of weaponizing economic interdependence for South Korea's economic future, as well as more broadly for the stability and prosperity of the Northeast Asian region?

THE PARADOX OF A MULTI-TRACK FTA STRATEGY

In the aftermath of the Asian financial crisis, South Korea recognized the need for a new trade strategy. Following the stalling of multilateral trade negotiations after the World Trade Organization failed to launch a new round of trade negotiations in Seattle in 1999, South Korea embraced a strategy centered on preferential arrangements, often referred to as a “multi-track FTA strategy.”⁴ Japan's 2002 agreement with Singapore “for a new age economic partnership” sparked a wave of bilateral FTAs, including deals between South Korea and Chile (in 2003) and Japan and Mexico (in 2004). A proliferation of “ASEAN +1” agreements followed, and South Korea signed an FTA with ASEAN in 2006. Within a decade of its first trans-Pacific FTA with Chile, South Korea had signed five Asia-specific FTAs and fifteen FTAs in total (including transregional accords). Although the number and geographic scope of South Korea's FTAs were not particularly remarkable, once fully implemented these agreements came to govern over 85% of the country's total trade. South Korea's FTA partners included all of its top five trading partners—China, ASEAN, the United States, and the EU—except Japan (see **Table 1**).

³ Min Gyo Koo, “Securitizing High-Technology Industries: South Korea–Japan Dispute over Materials-Parts-Equipment Products,” *Business and Politics* (2024): 1–17 ~ <https://doi.org/10.1017/bap.2024.3>.

⁴ Koo, “Embracing Free Trade Agreements, Korean Style.”

TABLE 1

South Korea’s Multi-Track FTA Strategy (as of October 2024)

	Partners	
	Bilateral	Minilateral
Geographically concentrated	Japan (6.0%, negotiation suspended)	Japan-China (25.7%, under negotiation)
	China and Hong Kong (24.0%, 2015, 2015)	–
Geographically dispersed	Chile (0.6%, 2003, 2004)	European Free Trade Association (0.5%, 2005, 2006)
	Singapore (2.2%, 2005, 2006)	Mongolia (0.0%, negotiation since 2023)
	United States (13.6%, 2007, 2012)	ASEAN (14.7%, 2005, 2007 [goods], 2009 [services], 2009 [investment])
	India (2.0%, 2009, 2010)	EU (9.6%, 2010, 2011)
	Peru (0.3%, 2011, 2011)	Costa Rica–El Salvador–Honduras–Nicaragua–Panama (0.2%, 2018, 2022)
	Turkey (0.6%, 2012, 2013)	RCEP (49.6%, 2020, 2022)
	Colombia (0.1%, 2013, 2016)	Gulf Cooperation Council (7.2%, concluded in 2023)
	Canada (1.2%, 2014, 2014)	Mercosur (1.2%, negotiation since 2018)
	Australia (4.5%, 2014, 2014)	–
	New Zealand (0.4%, 2015, 2015)	
	Vietnam (6.2%, 2015, 2015)	
	United Kingdom (0.9%, 2019, 2021)	
	Indonesia (1.8%, 2020, 2023)	
	Israel (0.3%, 2021, 2022)	
	Cambodia (0.1%, 2021, 2022)	
	Philippines (1.2%, signed in 2023)	
	United Arab Emirates (1.4%, concluded in 2023)	
	Ecuador (0.1%, concluded in 2023)	
	Malaysia (1.9%, negotiation since 2019)	
	Russia (1.5%, negotiation since 2019)	
Uzbekistan (0.2%, negotiation since 2021)		

Source: IMF, Direction of Trade Statistics, 2024.

Note: The percentage scores represent each country’s or partner group’s share of South Korea’s total trade as of 2022. The figures following the percentage scores indicate the year the agreement was signed and the year it took effect unless otherwise noted.

For South Korea, as for many other Asian nations, the United States was once a key trading partner. In 1990 the United States accounted for 29.8% of South Korea's total exports. However, in recent years, the United States' significance as an export destination has diminished, with its export share dropping to 10.1% in 2011 before rebounding to 18.3% in 2023. The emergence early in the new millennium of a regional production network centered on China has reduced South Korea's export dependence on the U.S. market, though the United States remains important, primarily as the final destination for goods processed and assembled with intermediate components in China. By contrast, China's share of South Korea's exports surged from 0.9% in 1990 (two years before diplomatic normalization) to 26.8% in 2018, before declining to 19.7% in 2023.⁵ Including Hong Kong, China still accounts for 24% of South Korea's exports (see **Figure 1**).⁶

Despite its success in negotiating bilateral FTAs, Seoul lagged in capitalizing on the wave of mega-FTAs that emerged in the 2010s. Policymakers initially believed that a network of bilateral agreements would suffice for securing stable export markets, and they were reluctant to make further trade concessions, particularly in the sensitive agricultural sector.⁷ By the time Seoul realized the limitations of bilateral FTAs in expanding export markets, it was too late to be at the forefront of the wave. Although South Korea joined the Regional Comprehensive Economic Partnership (RCEP) as a founding member, the agreement lacks the comprehensiveness needed to fully liberalize trade.⁸

⁵ Intermediate goods made up 78.4% of South Korea's exports to China in 2023. However, as China reduces its imports of intermediate goods, South Korea's share is steadily declining. See Suk-yeon Jung, "South Korea's Exports to China Fall by 19.9% Last Year, Leading to Largest Trade Deficit since 1992," *Business Korea*, July 1, 2024 ~ <https://www.businesskorea.co.kr/news/articleView.html?idxno=220316>.

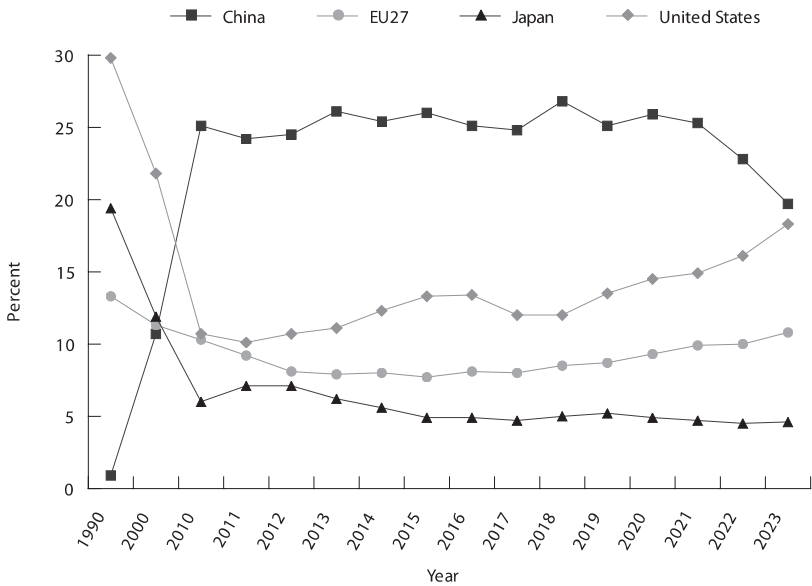
⁶ Statistics Korea Indicator Portal ~ <https://www.index.go.kr/unify/idx-info.do?pop=1&idxCd=5010>. In the first quarter of 2024, South Korea's exports to the United States accounted for 19.3% of its total exports, surpassing those to China, which stood at 18.8%. This marked the first time in two decades that South Korea's quarterly exports to the United States exceeded those to China (excluding Hong Kong and Macau). A key factor behind South Korea's declining exports to China is a drop in semiconductor shipments over the past two years. This decline is driven both by cyclical fluctuations in global demand for chips and by China's increasing progress toward semiconductor self-sufficiency. See Ray Wang, "Reality Check: South Korea and China Face More Complex Economic Dynamics," *Diplomat*, June 15, 2024 ~ <https://thediplomat.com/2024/06/reality-check-south-korea-and-china-face-more-complex-economic-dynamics>.

⁷ Byung-il Choi and Jennifer S. Oh, "Rise of Geopolitics and Changing Korea and Japan Trade Politics," *East Asian Economic Review* 26, no. 1 (2022): 27–48.

⁸ In response to U.S. efforts to establish mega-FTAs, China has also pursued regional and cross-regional trade deals, with RCEP being the most significant. Concluded in November 2020 among fifteen countries, with India opting out from among the original participants, RCEP is seen as a China-backed alternative to CPTPP. However, RCEP remains weak in terms of institutionalization and rule enforcement, adhering to ASEAN's principles of consensual decision-making and noninterference. Despite addressing a broad range of trade issues, RCEP followed East Asia's tradition of "sign first, negotiate later." Vinod K. Aggarwal and Min Gyo Koo, "Trade at Risk: Challenges to East Asia's Export-Oriented Model," *Global Asia* 11, no. 3 (2016): 22–29; and Deborah K. Elms, "Getting RCEP Across the Line," *World Trade Review* 20, no. 3 (2021): 373–80.

FIGURE 1

The Share of South Korea's Total Exports by Trading Partner



Source: IMF, Direction of Trade Statistics, 2024.

The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) presents a stark contrast. Initially developed as the Trans-Pacific Partnership, the CPTPP was formed after the United States withdrew from the original agreement in 2017. As of 2024, the CPTPP has entered into force among its eleven original members, and the United Kingdom became the first nonoriginal signatory in 2023, ratifying the agreement in May 2024. The CPTPP has now emerged as a significant cross-regional trade pact, extending beyond the Asia-Pacific region. Even China has applied for membership, though it is unlikely to soon meet the CPTPP’s stringent requirements on e-commerce, intellectual property, and state-owned enterprises.⁹

⁹ Saori N. Katada, “Gatekeeper’s Dilemma: Japan Facing CPTPP Applications from China and Taiwan,” in *China, Taiwan, the U.K. and the CPTPP: Global Partnership or Regional Stand-Off?* ed. Chun-yi Lee and Michael Reilly (New York: Springer, 2021), 141–64; and Margaret A.T. Kenney, “Middle Powers and Institutional Design: A Case Study of the CPTPP and DEPA,” in *Great Power Competition and Middle Power Strategies: Economic Statecraft in the Asia-Pacific Region*, ed. Vinod K. Aggarwal and Margaret A.T. Kenney (New York: Springer, 2023): 51–72.

In January 2021 the Moon Jae-in administration (2017–22) announced South Korea's intent to join the CPTPP and undertook a review of sanitary and phytosanitary standards, subsidies to fisheries, digital trade rules, and guidelines for state-owned enterprises to comply with CPTPP regulations. South Korea formally declared its application to join in December 2021 and has since been negotiating bilaterally with existing members. However, strained relations with Japan have complicated the process, particularly during the Moon administration. Although Japan has not publicly opposed South Korea's membership, skepticism remains due to ongoing diplomatic tensions, as will be further discussed later in the essay.¹⁰

THE RISE OF ECONOMIC STATECRAFT AND SOUTH KOREA'S DILEMMA

The persistent threat from North Korea continues to cast a shadow over South Korea, perpetuating a Cold War mindset among many South Koreans. North Korea remains the country's most pressing security challenge. Although lagging economically and technologically, the North has developed nuclear weapons and advanced missile systems. Recently it has provided arms and troops to Russia in support of Russia's invasion of Ukraine after the two countries formalized a strategic partnership in June 2024. Beyond its controversial support for Russia, as of mid-November 2024, North Korea further escalated tensions with the South by directing its artillery units near the Military Demarcation Line to prepare for an attack. Additionally, Pyongyang has maintained a low level of hostilities by sending balloons filled with trash across the demilitarized zone, destroying roads and railways near the border, and issuing hostile and derogatory rhetoric toward South Korea, including labeling it a puppet and lapdog of the United States.

This complex security environment places South Korea in a unique trade-security dilemma, where its U.S. alliance remains paramount. In navigating this delicate dynamic, South Korea has cautiously deepened its security ties with the United States while sustaining strong economic relations with China—a strategic balancing act often summarized as “the U.S. for security and China for economy” (*ahn-mi-kyung-joong*).

¹⁰ Shiho Takezawa, “South Korea Says It's Ready to Meet Standards for CPTPP,” Bloomberg, December 26, 2021 ~ <https://www.bloomberg.com/news/articles/2021-12-26/south-korea-says-it-s-ready-to-meet-standards-for-cptpp-nikkei?embedded-checkout=true>; and Choi and Oh, “Rise of Geopolitics.”

However, South Korea's attempt to separate security from trade faces significant challenges as the link between trade and security grows stronger amid the escalating U.S.-China rivalry. The securitization of international trade has fueled the rise of economic statecraft worldwide—the use of economic tools such as sanctions, trade policies, investment strategies, and financial measures to achieve geopolitical goals. The resurgence of neo-mercantilism has intensified the trade-security nexus with the race for techno-hegemony shaping global geopolitics. Industrial policy, in particular, has re-emerged as a tool for national security and economic resilience. Governments now face the question of not just whether to intervene but how to intervene effectively. The strategic use of global supply networks for geopolitical advantage gained momentum after the 2008 financial crisis and then the Covid-19 pandemic, driving policies like reshoring, undermining rules-based trade, and fostering a beggar-thy-neighbor dynamic.¹¹ While economic statecraft can foster cooperation by deepening interdependence, it critically also risks undermining economic relations by weaponizing that interdependence. The Trump administration's "America first" policy exemplified the latter by leveraging U.S. economic dominance to pressure trading partners, including China, Japan, and South Korea, with threats of restricting trade and labeling countries currency manipulators.¹²

The Made in China 2025 initiative, which was launched in 2015 with the goal of securing China's global leadership across ten strategic industries by 2049, has sparked widespread worries about the potential weaponization of economic statecraft by the country's state capitalism system. Semiconductors, in particular, have become the focal point of these concerns. China's ambition to become a semiconductor powerhouse dates back to the mid-1950s, but it made substantial progress in the early 2000s through integrating the country into global value chains, attracting multinational investments, and leveraging

¹¹ Dani Rodrik, "Rescuing Economics from Neoliberalism," *Boston Review*, November 6, 2017 ∞ <https://www.bostonreview.net/articles/dani-rodrik-rescuing-economics-neoliberalism>; Dani Rodrik, "An Industrial Policy for Good Jobs," Brookings Institution, 2022; and Henry Farrell and Abraham L. Newman, "Weaponized Interdependence: How Global Economic Networks Shape State Coercion," *International Security* 44, no. 1 (2019): 42–79.

¹² Min Gyo Koo, "U.S. Approaches to the Trade-Security Nexus in East Asia: From Securitization to Resecuritization," *Asian Perspective* 35, no. 1 (2011): 37–57; Vinod K. Aggarwal and Andrew Reddie, "New Economic Statecraft: Industrial Policy in an Era of Strategic Competition," *Issues and Studies* 56, no. 2 (2020) ∞ <https://doi.org/10.1142/S1013251120400068>; Vinod K. Aggarwal and Andrew W. Reddie, "Economic Statecraft in the 21st Century: Implications for the Future of the Global Trade Regime," in "Economic Statecraft and Global Trade in the 21st Century," ed. Vinod K. Aggarwal, Andrew W. Reddie, special issue, *World Trade Review* 20 (2021): 137–51; and Vinod K. Aggarwal and Andrew W. Reddie, "The New Reality of Economic Statecraft," *Global Asia* 17, no. 4 (2022): 1–7.

technology licensing. By 2005, China had become the world's largest trader of chips, and by 2020 its chip imports even surpassed those of crude oil.¹³

In recent years, however, escalating U.S. trade restrictions have prompted China to shift toward greater self-sufficiency. Over the past decade, it has adopted aggressive policies, including the 14th Five-Year Plan (2021–25), to achieve the Made in China 2025 goal of 70% domestic chip production by 2025. Under President Xi Jinping, the country's drive for self-reliance has intensified, leading to the proliferation of thousands of start-ups and a surge in patents, positioning China as an increasingly important player in the global semiconductor industry. Beijing has committed to substantial investments in its semiconductor industry, with reported plans exceeding \$300 billion.¹⁴

Made in China 2025 also serves as a wake-up call for South Korea, given that it threatens the country's technological advantage in sectors such as semiconductors and consumer electronics. As China pushes for self-sufficiency, South Korean firms like Samsung and SK Hynix face mounting pressure. In response, South Korea has ramped up investments in R&D in areas such as artificial intelligence (AI), 5G, and biotechnology to safeguard its technological leadership. At the same time, its firms are diversifying supply chains and reallocating investment to Southeast Asia (particularly Vietnam, Indonesia, and Thailand) and the United States amid China's growing regulatory constraints and discriminatory trade practices. Economic conditions had already worsened after the THAAD (Terminal High Altitude Area Defense) controversy in 2017–18 when China imposed coercive measures against South Korean exports, companies, and even pop culture after Seoul agreed to let the United States deploy the THAAD anti-missile defense system just south of the capital.¹⁵ This strategic shift toward increased domestic investment and diversified supply chains reflects South Korea's effort to mitigate risks while navigating the complex dynamics of both competition and partnership with China.¹⁶

¹³ Eunji Choung and Min Gyo Koo, "China's Dream for Chip Supremacy: Seeing through the Lens of Panel Display-Related IC Patents," *Business and Politics* 25, no. 2 (2023): 117–32.

¹⁴ Karen M. Sutter, Emily G. Blevins, and Alice B. Grossman, "Semiconductors and the CHIPS Act: The Global Context," Congressional Research Service, CRS Report, no. R47558, September 28, 2023; and Choung and Koo, "China's Dream for Chip Supremacy."

¹⁵ In 2023, South Korean investment in the United States was nearly 15 times as large as its investment in China. Notably, for the first time since the normalization of bilateral relations in 1992, China did not rank among South Korea's top five destinations for outbound investment. See Wang, "Reality Check."

¹⁶ Seong-hyon Lee, "South Korea–China Relations: At 30, Is the Party Over?" *S/N Korean Humanities* 8, no. 2 (2022): 17–50; and Wang, "Reality Check."

Nevertheless, South Korea remains ambivalent in its relationship with China. The Moon administration's pro-China stance—most notably, its controversial “three no's” pledge in 2017, which included no additional THAAD deployment, no participation in a U.S.-led regional missile defense network, and no trilateral alliance with the United States and Japan—complicated Seoul's balancing act between Beijing and Washington. During his visit to China in 2017, Moon stirred further controversy by comparing China to a “big mountain” and South Korea to a “small country,” underscoring his acknowledgment of China's regional influence.¹⁷ While intended to reflect geopolitical realities and foster economic cooperation, his comment prompted a domestic backlash, as many viewed it as national humiliation. In the same visit, he expressed interest in aligning South Korea's economic policies with China's Belt and Road Initiative (BRI) by suggesting that South Korea's New Northern and New Southern policies—which aimed to boost economic and diplomatic engagement with Eurasia and Southeast Asia—could complement BRI.¹⁸

President Yoon Suk Yeol, who took office in 2022, dismissed his predecessor's informal agreement with China, emphasizing a shift toward greater strategic autonomy in the bilateral relationship.¹⁹ However, his efforts to secure a U.S. commitment to extended nuclear security for South Korea have faced significant hurdles amid increasing U.S. pressure on countries to align against China economically, adding further complexity to South Korea's situation.²⁰

The recent political turmoil highlights South Korea's ongoing struggle in navigating its complex relationship with China. On December 3, 2024, Yoon declared emergency martial law, accusing the left-leaning opposition of being sympathetic to North Korea and vowing to “eradicate pro-North

¹⁷ Lee Ha-kyung, “Dismantling Democracy,” *Korea JoongAng Daily*, November 2, 2020 ~ <https://koreajoongangdaily.joins.com/2020/11/02/opinion/columns/Dismantling-democracy/20201102193606240.html>.

¹⁸ “South Korean President Embraces Belt and Road Initiative,” International Schiller Institute, December 16, 2017 ~ <https://schillerinstitute.com/blog/2017/12/21/sudkoreas-president-begrust-die-belt-road-initiative>; and Thomas Chan and Seong Hyeon Choi, “Moon Jae-In: South Korea's Merkel?” *Diplomat*, May 9, 2022 ~ <https://thediplomat.com/2022/05/moon-jae-in-south-koreas-merkel>.

¹⁹ Sarah Kim, “Yoon Tells China's No. 3 Official that THAAD Shouldn't Hinder Relations,” *Korea JoongAng Daily*, September 18, 2022 ~ <https://koreajoongangdaily.joins.com/2022/09/18/national/politics/Korea-Yoon-Sukyeol-KoreaChina/20220918161238760.html>.

²⁰ South Korea is feeling the strain of shifting trade dynamics with China, as U.S. export bans on advanced semiconductors to China have significantly reduced South Korean semiconductor exports to the country. Meanwhile, since the Trump administration's 2019 restrictions on Huawei, China has invested heavily in its legacy semiconductor sector. China's share of global DRAM production capacity, measured by wafer volume, rose from 4% in 2022 to 12% in 2024. Consequently, China's share of South Korea's semiconductor exports—South Korea's largest export category—dropped below 30% in 2024, marking the first time in over thirteen years it has fallen this low. See Sang-young Park, “Korean Semiconductor Exports Look Bleak,” *Kyunghyang shinmun*, November 4, 2024 ~ https://english.khan.co.kr/khan_art_view.html?artid=202411041838367.

Korean forces and protect the constitutional democratic order.”²¹ In an address to the nation delivered on December 12, he specifically referenced acts of espionage by Chinese nationals that could jeopardize South Korea’s security interests and alliance with the United States.²² His surprise move exacerbated the already fragile domestic political situation, providing the opposition parties with ample justification to retaliate. In their first impeachment motion, the opposition parties accused Yoon of “hiding behind the guise of so-called value-based diplomacy,” claiming that he “disregarded geopolitical balance, antagonized North Korea, China, and Russia, and adhered to an unusual Japan-centric foreign policy...isolating South Korea in Northeast Asia, heightening the risk of war, and failing in his duty to safeguard national security and protect the people.”²³ Although this particular statement was later removed due to its contentious nature, it underscores the deep divisions within South Korea’s political landscape.

CAUGHT IN THE CROSSFIRE OF THE UNITED STATES’ WEAPONIZATION OF HIGH-TECH SUPPLY CHAINS

The Biden administration employed a range of economic instruments to influence the behavior of other states, advance U.S. national interests, and counter China’s rising influence. Aimed at securing geopolitical objectives, this strategy has been most consequential for South Korea’s high-tech industries, particularly in the electric vehicle (EV) and semiconductor sectors. South Korea has felt the effects of this competitive economic statecraft through U.S. policies designed to restructure global supply chains, such as by incentivizing production shifts and imposing export controls. Although these measures reflect Washington’s broader efforts to curtail China’s technological ambitions and strengthen alliances in key industries, they often place South Korea and other Asian nations in a challenging position.

The Inflation Reduction Act (IRA) and the CHIPS and Science Act (commonly referred to as the CHIPS Act), both passed in 2022, aim to boost

²¹ Vincent Ni and Se Eun Gong, “South Korea’s President Says He Will Lift His Martial Law Declaration,” NPR, December 3, 2024 ~ <https://www.npr.org/2024/12/03/g-s1-36594/south-korea-martial-law>.

²² “Full Text of South Korean President Yoon Suk Yeol’s Address to the Nation on December 12,” *Straits Times*, December 12, 2024 ~ <https://www.straitstimes.com/asia/east-asia/full-text-of-south-korean-president-yoon-suk-yeols-address-to-the-nation-on-dec-12>.

²³ Takahashi Kosuke, “Yoon’s Martial Law Declaration Puts Japan–South Korea Relations in Jeopardy,” *Diplomat*, December 6, 2024 ~ <https://thediplomat.com/2024/12/yoons-martial-law-declaration-puts-japan-south-korea-relations-in-jeopardy>.

the United States' high-tech industries, strengthen domestic manufacturing, and reduce reliance on foreign supply chains, particularly in critical areas such as semiconductors and clean energy. While intended to strengthen the U.S. economy, these policies have raised concerns for key U.S. trading partners such as South Korea and Japan, which are deeply integrated into global high-tech supply chains.²⁴

The IRA includes provisions aimed at accelerating the transition to renewable energy, promoting the adoption of EVs, and incentivizing the localization of clean energy manufacturing. A key aspect of the IRA is the provision of tax credits for EVs manufactured in North America, which has caused significant concern in South Korea. South Korean automakers, including Hyundai and Kia, which have made substantial investments in EV production, see this policy as discriminatory because their vehicles are produced largely in South Korea and so do not qualify for these incentives. This could undermine their competitiveness in the U.S. market, which is one of the most important markets for EVs.²⁵ In response, South Korea has engaged in diplomatic discussions with the United States, seeking to secure a more favorable treatment. South Korean officials urged the Biden administration to reconsider the criteria for tax credits, arguing that such provisions could harm bilateral trade and investment.²⁶ At the same time, Hyundai has accelerated plans to build EV plants in the United States, committing to a major investment in Georgia to establish local production and align with the IRA's localization requirements.²⁷

Meanwhile, the CHIPS Act aims to bolster the U.S. semiconductor industry by providing \$52.7 billion in subsidies to incentivize domestic chip production and reduce reliance on countries such as South Korea, Taiwan, and China. Indeed, this U.S. strategy has caused rapid changes in the global semiconductor supply chain. In addition to pursuing a reshoring

²⁴ Sutter et al., "Semiconductors and the CHIPS Act."

²⁵ Ibid.

²⁶ Presidents Joe Biden and Yoon Suk Yeol met several times after their initial summit in Seoul in May 2022, including Yoon's state visit to the United States in April 2023 and the Camp David Summit in August 2023. During these meetings, they agreed to consult closely on regulatory decisions rather than take unilateral actions and emphasized a shared commitment to reducing reliance on China in technology and manufacturing sectors, aligning with the objectives of the IRA. See U.S. Embassy and Consulate in the Republic of Korea, "Fact Sheet: Republic of Korea State Visit to the United States," April 27, 2023 ~ <https://kr.usembassy.gov/042723-fact-sheet-republic-of-korea-state-visit-to-the-united-states>; and White House, "Fact Sheet: The Trilateral Leaders' Summit at Camp David," August 18, 2023 ~ <https://www.whitehouse.gov/briefing-room/statements-releases/2023/08/18/fact-sheet-the-trilateral-leaders-summit-at-camp-david>.

²⁷ Seong-hyon Lee, "U.S. Semiconductor Policy and South Korea: A Delicate Balancing Act between National Priorities and International Collaboration," *Asia Policy* 18, no. 3 (2023): 101–27.

strategy, the United States is also adopting a friendshoring approach, sourcing semiconductor development personnel from Canada and handling post-manufacturing processes in Mexico. The EU is likewise part of this alliance-shoring and friendshoring strategy. Intel, for instance, has committed to a 30-billion-euro investment to establish a major microchip plant in Magdeburg, Germany, and has announced additional investment plans in Poland, though these projects were recently delayed.²⁸ All this suggests that the world is shifting from global alliances to more regional and selective partnerships.²⁹

In response, the EU and Japan have introduced similar semiconductor support measures, with the EU allocating approximately \$51 billion and Japan around \$20 billion to boost their domestic chip industries. Japan, which has traditionally held a comparative advantage in the materials, parts, and equipment industries, is pushing to revive its semiconductor manufacturing power. Most notably, the country has attracted a new Taiwan Semiconductor Manufacturing Company (TSMC) fab, a TSMC R&D center, and a Micron memory chip fab as part of its strategy to rebuild and strengthen its domestic semiconductor ecosystem.³⁰

South Korea faces unique and potentially even more severe difficulties in responding to these changes in U.S. policy. The United States controls nearly 90% of the global market for advanced semiconductor equipment, making U.S. technology indispensable for chip production. Since 2022, Washington has restricted the export of this equipment to China, including both Chinese entities, regardless of their location, and non-Chinese firms producing chips in China. This means that sales are not permitted, even through third countries like South Korea, without explicit U.S. authorization—requiring strict compliance and potentially increasing operational costs.³¹

If South Korean firms such as Samsung and SK Hynix that export a significant share of their semiconductors to China cannot access U.S. equipment, they could be forced to halt production lines in China.

²⁸ “Germany’s Scholz Says Intel Committed to German Site Despite Delay,” Reuters, September 17, 2024 ≈ <https://www.reuters.com/technology/germanys-scholz-intel-committed-german-site-despite-delay-2024-09-17>.

²⁹ Katada, “Gatekeeper’s Dilemma”; Sutter et al., “Semiconductors and the CHIPS Act”; and Keisuke Iida, “The Political Economy of Supply Chain Transformation in Asia: From ‘China Plus One’ to De-Sinicization,” *Asia Policy* 19, no. 3 (2024): 71–90.

³⁰ Japan spared no expense, offering around \$15 billion to attract TSMC’s fab to Kumamoto Prefecture. In fact, Japan covered 40% of the \$8 billion fab construction costs upfront, effectively providing massive subsidies to the Taiwanese company. Additionally, major Japanese companies, such as Sony, promised to directly purchase TSMC products, reducing TSMC’s investment risk. See Sutter et al., “Semiconductors and the CHIPS Act.”

³¹ *Ibid.*

The United States has offered some flexibility through the Validated End-User (VEU) program, which allows certain pre-approved, non-Chinese entities to receive specific U.S.-origin items without individual export licenses.³² However, the restrictions have particularly constrained South Korean firms' ability to expand production capabilities in China, affecting their competitiveness in the local market.

South Korean semiconductor companies have begun aggressively establishing factories in the United States. Samsung, for instance, has committed to building a \$17 billion semiconductor plant in Texas, reflecting its strategy to expand its presence in the country and align with the goals of the CHIPS Act. This investment would help Samsung maintain its leadership in the global semiconductor industry while positioning itself to benefit from U.S. subsidies and incentives. SK Hynix has also announced plans to increase its investments in U.S. R&D facilities.³³

Nevertheless, South Korea's overall response strategy remains ambiguous, if not ambivalent. The country has neither fully embraced the U.S.-led supply chain reorganization nor taken decisive steps to improve relations with Japan, which is critical for the U.S.-led alliance network. Furthermore, the South Korean government's own semiconductor support policy, known as the K-CHIPS Act, is still a subject of controversy. While businesses have been advocating for direct subsidies similar to those offered in other countries, the government and National Assembly have been cautious, focusing primarily on providing tax relief and loans with limited concrete incentives. Efforts to expand domestic production facilities have also encountered obstacles, including disputes with local governments and residents over issues such as greenbelt deregulation and access to sufficient water and electricity supplies.³⁴

Finally, with Donald Trump's reelection as U.S. president, South Korea's semiconductor and battery sectors, which have made substantial investments in the United States in response to subsidy policies offered under the Biden administration, are facing new uncertainties. In December

³² "Commerce Issues Rule to Strengthen National Security Partnership to Secure Semiconductor Supply Chains with Republic of Korea," U.S. Bureau of Industry and Security, October 13, 2023, Press Release [~ https://www.bis.gov/press-release/commerce-issues-rule-strengthen-national-security-partnership-secure-semiconductor](https://www.bis.gov/press-release/commerce-issues-rule-strengthen-national-security-partnership-secure-semiconductor).

³³ Alexandra Alper, Stephen Nellis, and Heekyong Yang, "Exclusive: Samsung's New Texas Chip Plant Cost Rises above \$25 Billion," Reuters, March 16, 2023 [~ https://www.reuters.com/technology/samsungs-new-texas-chip-plant-cost-rises-above-25-billion-sources-2023-03-15](https://www.reuters.com/technology/samsungs-new-texas-chip-plant-cost-rises-above-25-billion-sources-2023-03-15); and U.S. Department of Commerce, "U.S. Department of Commerce Announces Preliminary Terms with SK Hynix to Advance U.S. AI Supply Chain Security," Press Release, August 6, 2024 [~ https://www.commerce.gov/news/press-releases/2024/08/us-department-commerce-announces-preliminary-terms-sk-hynix-advance-us](https://www.commerce.gov/news/press-releases/2024/08/us-department-commerce-announces-preliminary-terms-sk-hynix-advance-us).

³⁴ Baek Byung-yeul, "Will K-Chips Act Survive Ruling Bloc's Defeat?" *Korea Times*, April 12, 2024 [~ https://www.koreatimes.co.kr/www/tech/2024/10/129_372574.html](https://www.koreatimes.co.kr/www/tech/2024/10/129_372574.html).

2024, Samsung secured a \$4.7 billion CHIPS Act subsidy, reduced from an initial \$6.4 billion, which reflected scaled-back investment plans for its Texas semiconductor plant from \$44 billion.³⁵ SK Hynix, which is expected to receive \$450 million in federal subsidies for its planned AI semiconductor facility in Indiana, confronts similar apprehensions. South Korea's EV battery industry, led by companies such as LG Energy Solution, has already received over \$2 billion in subsidies under the IRA, but projected annual subsidies of \$4 billion to \$8 billion are now in question. Alongside concerns for its companies, the South Korean government is increasingly worried about the potential hollowing out of its domestic industries as these companies expand their investments in the United States.³⁶

SOUTH KOREA AND JAPAN: CLOSE NEIGHBORS, YET STILL FAR APART?

Further complicating matters, South Korea has faced unexpected challenges in its technological interdependence with Japan. South Korea ranks as Japan's third-largest trading partner, and Japan is South Korea's fifth-largest trade partner overall and third in terms of imports. Despite their otherwise productive economic relationship, diplomatic tensions have simmered since October 2018, when Japan strongly opposed a South Korean Supreme Court ruling on wartime forced labor. The court ordered the seizure and sale of assets held in South Korea by two major Japanese companies, Nippon Steel & Sumitomo Metal Corporation and Mitsubishi Heavy Industries Ltd., to compensate South Koreans who were forced to work during Japan's 1910–45 colonial rule or their descendants. In retaliation, in August 2019, Japan restricted South Korea's access to its export whitelist—a group of countries benefiting from streamlined procedures for high-tech product exports—further straining bilateral ties.³⁷ South Korea was then forced to seek individual approval for shipments of 857 nonsensitive items, in addition to 263 that already required individual approval from a list of 1,120 strategic

³⁵ Song Sang-ho, "U.S. Finalizes \$4.7 Billion in CHIPS Act Subsidy to Samsung Electronics," Yonhap, December 21, 2024 ~ <https://en.yna.co.kr/view/AEN20241221000300315>.

³⁶ Cho Jaehee, "Samseongjeonja-Hainigseu, 9jo5000eog-won gyumo bandoche bojogeum mos badna?" [Will Samsung Electronics and SK Hynix Miss Out on 9.5 Trillion Won in Semiconductor Subsidies?], *Chosun ilbo*, November 7, 2024 ~ <https://www.chosun.com/economy/industry-company/2024/11/07/IMGXNCWAXZBNHK7SYONAIWL4PA>.

³⁷ See Choi and Oh, "Rise of Geopolitics"; and Lindsay Maizland, "The Japan-South Korea Trade Dispute: What to Know," Council on Foreign Relations, In Brief, August 5, 2019 ~ <https://www.cfr.org/in-brief/japan-south-korea-trade-dispute-what-know>.

items that included high-tech materials.³⁸ The month prior, Japan announced tighter export controls on three essential materials—fluorinated polyimides, photoresist, and high-purity hydrogen fluoride—critical for producing liquid crystal displays (LCDs) and semiconductors. Although both moves fell short of a complete ban, South Korea’s removal from Japan’s export whitelist resulted in extended procedures and delays, effectively creating similar barriers. The dispute quickly escalated, sparking controversy in both countries, as it became entangled with broader historical and security tensions.

The situation was exacerbated by growing public backlash in South Korea against Japan, alongside the looming possibility of Japanese corporate assets in South Korea being seized and sold to compensate wartime labor victims. Japan attempted to link the trade dispute to security concerns, alleging that South Korea compromised Japanese national security by re-exporting sensitive materials to hostile third parties, including North Korea and Iran. However, Japan’s actions also reflected a strategic understanding of South Korea’s heavy dependence on Japanese imports, especially in materials, parts, and equipment (MPE) sectors. In 2019, MPE products accounted for 68% of South Korea’s imports from Japan, compared with 53% from China and 40% from the United States, underscoring the leverage Japan held in the economic relationship.³⁹

Since establishing diplomatic relations with Japan in 1965, South Korea has consistently run a trade deficit with it. This deficit expanded significantly in the 2000s, particularly following the global financial crisis. Between 2000 and 2019, Japan was South Korea’s second-largest source of trade deficits, following only oil-rich Saudi Arabia. The 2008 financial crisis deepened this dependency, with the deficit peaking at a record \$36.1 billion in 2010. Although the trade imbalance with Japan has narrowed in recent years, it remains a persistent issue.⁴⁰

From a broader trade perspective, however, such bilateral deficits are not inherently problematic. As long as South Korea maintains a surplus or balance across its trade relationships, a bilateral deficit with Japan remains sustainable. Additionally, trade deficits driven by imports of intermediate

³⁸ Hyunjoo Jin and Hyonhee Shin, “South Korea Braces for Japan Decision on Trade Status, Seen as Soon as Friday,” Reuters, July 30, 2019 ~ <https://www.reuters.com/article/business/south-korea-braces-for-japan-decision-on-trade-status-seen-as-soon-as-friday-idUSKCN1UP0K9>; and Joohee Cho, “Japan Removes South Korea from Trade ‘Whitelist,’” ABC News, August 2, 2019 ~ <https://abcnews.go.com/International/japan-removes-south-korea-trade-white-list/story?id=64728582>.

³⁹ Maizland, “The Japan-South Korea Trade Dispute”; and Koo, “Securitizing High-Technology Industries.”

⁴⁰ Koo, “Securitizing High-Technology Industries.”

capital goods—such as parts and materials—can be offset by exporting intermediate or finished products to third countries within the global production network. This interdependence supports South Korea’s role in the global value chain, where imports from Japan contribute to the production of competitive exports.⁴¹

Japan, with its comparative advantage in MPE sectors, and South Korea, with strengths in producing intermediate and final goods, have both reaped benefits from their bilateral trade. In 2010, for example, South Korea’s significant trade surpluses with China, Hong Kong, and the United States resulted in an overall trade surplus of \$41.2 billion, easily offsetting its deficit with Japan.⁴² A prime example of this cooperation is the memory chip industry—South Korea’s largest surplus sector—which thrived by importing MPE products from Japan, manufacturing finished goods, and exporting them worldwide through a global production network.⁴³

However, this conflation of diplomatic and trade ties also creates vulnerabilities. As seen in Japan’s 2019 treatment of South Korea, the distribution of relative gains can introduce power imbalances, leaving room for economic leverage. When political or diplomatic tensions arise, the less dependent trade partner can exploit the relationship to exert pressure on the more reliant counterpart, highlighting the risks inherent in such tightly interconnected trade relationships.⁴⁴

In June 2023, in a significant diplomatic shift, Japan lifted restrictions on South Korea and restored its status on the whitelist. This long-overdue resolution was credited to a diplomatic thaw between the two nations, driven by proactive leadership under former Japanese prime minister Fumio Kishida and Yoon. Both sides acknowledged that the protracted conflict had yielded few tangible gains and inflicted considerable long-term costs, prompting them to reset relations for mutual benefit.⁴⁵ Thus, another chapter in the intricate

⁴¹ Koo, “Securitizing High-Technology Industries.”

⁴² Ibid.

⁴³ From 2019 to 2023, South Korea’s average trade balance was a surplus of \$11 billion, despite recording trade deficits of \$47.8 billion in 2022 and \$10.2 billion in 2023. During the same period, the semiconductor sector achieved an average surplus of \$41.1 billion, with surpluses of \$41 billion in 2022 and \$25 billion in 2023. See Hyung-gon Jeong, “Analyzing South Korea’s Semiconductor Industry: Trade Dynamics and Global Position,” *World Economy Brief* 14, no. 8 (2024) ~ https://www.kiep.go.kr/gallery.es?mid=a20301000000&bid=0007&act=view&list_no=11219&cg_code=.

⁴⁴ Albert O. Hirschman, *National Power and the Structure of Foreign Trade* (Berkeley and Los Angeles: University of California Press, 1945).

⁴⁵ Jo Yanghyeon, “Turning Point in Korea-Japan Relations and Challenges in Korea’s Diplomacy with Japan,” Institute of Foreign and National Security, IFANS Perspectives, January 23, 2024 ~ <https://www.ifans.go.kr/knda/ifans/eng/pblct/PblctView.do?pblctDtaSn=14302&cclCode=P19&koreanEngSe=ENG>.

relationship between South Korea and Japan ended without causing major damage to their economic ties.

However, deep-seated mutual distrust continues to hinder their ability to collaborate fully in navigating the complexities of the global economy. South Korea's MPE localization policy, which the Moon administration actively promoted, left a lasting impression on the public, underscoring the risks to national prosperity when key industries are overly dependent on external partners. This policy emerged as a safeguard against potential disruptions stemming from close yet fragile economic relationships with neighboring countries.⁴⁶ For Japan, the challenge lies in maintaining economic engagement with South Korea while managing the fallout from historical grievances and trade disputes. Balancing strategic competition with cooperation in high-tech sectors, particularly semiconductors, remains crucial for Japan as both countries adapt to shifting global supply chains. Strengthening bilateral trade frameworks and rebuilding trust could unlock new opportunities, but doing so requires political will and trust from both sides to overcome past tensions.

CONCLUSION

The 21st century has introduced new forces that challenge South Korea's economic resilience. On one the hand, the rise of preferential trade agreements has unlocked significant economic opportunities, enabling South Korea to integrate deeply into regional value chains. Through strategic FTAs with key partners like the United States, China, ASEAN, and the EU, South Korea has secured market access and fostered economic cooperation. At the same time, however, its slower adoption of mega-FTAs, such as the CPTPP, has highlighted the limits of a bilateral strategy, particularly as global trade shifts toward such broader regional and cross-regional frameworks.

On the other hand, the resurgence of neo-mercantilism and economic statecraft has further complicated South Korea's trade strategy. The weaponization of interdependence—the use of economic ties for political leverage—poses significant risks, even to allies and partners. South Korea's semiconductor industry exemplifies the dangers associated with the securitization of international trade. As semiconductors make up around 20% of the nation's exports, South Korea plays a pivotal role in the global high-tech supply chain. However, this dependency leaves it vulnerable to

⁴⁶ Jo, "Turning Point in Korea-Japan Relations"; and Koo, "Securitizing High Technology Industries."

external pressure, especially amid the intensifying U.S.-China rivalry. Both powers demand alignment on high-tech economic policies, challenging South Korea's efforts to maintain a delicate balance between its largest trading partners.

South Korea's experience with Japan also offers a valuable lesson. The 2019 trade dispute over critical materials, fueled by historical tensions, revealed South Korea's vulnerability to supply chain disruptions and underscored the need for greater resilience. Although diplomatic efforts in 2023 restored its whitelist status and eased the restrictions, the episode highlighted how geopolitical and historical issues can disrupt economic relations. Just as crucial, this case underscores the need for like-minded countries, such as South Korea and Japan, to set aside their differences during challenging times.

Given these challenges, South Korea must focus on several strategic priorities to navigate the evolving global landscape. First, supply chain diversification is essential to reduce reliance on key markets like China. South Korean firms have already begun shifting investments to Southeast Asia and the United States to mitigate risks associated with China's regulatory policies and political influence. At the same time, sustained investment in R&D will be crucial for maintaining South Korea's competitiveness, particularly in emerging sectors such as AI, 5G, and biotechnology.

Second, South Korea should strengthen partnerships with like-minded nations by actively engaging in regional and multilateral trade frameworks. While joining RCEP was a positive step, South Korea must prioritize accession to the CPTPP to secure broader market access and reinforce its position in regional trade networks. Additionally, revitalizing economic cooperation with Japan will be crucial, despite lingering historical tensions. As global supply chains fragment, closer collaboration between these two high-tech leaders—particularly in the semiconductor sector—will unlock new opportunities.

Finally, South Korea must refine its trade-security strategy to address the complexities of techno-geopolitics. The increasing weaponization and securitization of economic relationships is an unwelcome shift for middle-power countries like South Korea, which must carefully manage competing geopolitical pressures while navigating beyond its traditional hedging strategy. The concept of “the U.S. for security and China for economy” has guided its approach to date, but the increasing convergence of economic and security interests demands greater flexibility and imagination. South Korea's response to U.S. policies, such as the IRA and the CHIPS Act, reflects the

delicate diplomacy required to protect its economic interests while aligning with its security commitments.

In conclusion, South Korea stands at a pivotal moment, confronting both challenges and opportunities amid national and global uncertainties. Most urgently, it must address the deep divisions highlighted by the recent political turmoil, sparked by the unexpected declaration of martial law and the subsequent scandals involving impeachment and insurrection charges. Its ability to thrive will also depend on a multifaceted global strategy—leveraging trade for economic growth, diversifying partnerships to minimize dependencies, and aligning security interests without alienating key economic partners, especially among its Northeast Asian neighbors. As the global economy evolves, South Korea's experience offers valuable lessons in resilience and adaptation. Future success will hinge on its capacity to navigate these complexities without compromising stability or prosperity. ◆

