

The Taiwan Issue and Korea's Economic Security in the Era of U.S.-China Strategic Competition



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Following the Trump administration taking office in 2017, and in particular the trade war which ensued with China, the issue of economic security began to receive attention again. To counter China's economic rise, the United States is re-tightening economic-security links that were loosened in the post-Cold War era. In this sense, the key to recent discussions on economic security is the U.S.-China strategic competition.

The Taiwan issue is also emerging again due to this U.S.-China strategic competition. During the Cold War, the United States and China began visible efforts to normalize relations in 1972, with the strategic intent of jointly responding to the common threat posed by the Soviet Union, and finally established diplomatic relations in 1979. In this process, the Taiwan issue was one of the biggest obstacles to normalizing bilateral relations. Nevertheless, the two countries succeeded in establishing diplomatic relations by agreeing on the "One China" principle (policy) and recognition of non-governmental exchanges between the U.S. and Taiwan, and have managed the Taiwan issue based on three joint statements made by the two countries. However, the

Taiwan issue has been brought to the forefront again, mainly due to great transformation in the international order and strategic competition between the U.S. and China. Of course, even after the establishment of diplomatic relations between the U.S. and China, friction between the U.S. and China over the Taiwan issue and confrontation between both sides of the Taiwan Straits (i.e. Chinese mainland and Taiwan) have continued. However, the recent U.S.-China strategic competition has further increased the risk and uncertainty of the Taiwan issue. In addition, with the outbreak of the Russia-Ukraine War, the international community's concern about the Taiwan Strait has grown, and the strategic value of Taiwan is rising even more in the era of the Fourth Industrial Revolution, as an important actor in the global semiconductor supply chain.

It is expected that the Taiwan issue will have a significant impact on Korea's economic security. The maritime transportation routes passing through or near the Taiwan Strait account for 33.27% of Korea's maritime transportation, and if an issue arises along this route, it is calculated that an economic loss of KRW 445.2 billion per day would result even when only accounting for major resources and products. According to a wargame scenario of an emergency situation in the Taiwan Strait, fierce battles are expected to take place between seven days and 70 days, which could cause up to 31 trillion won in economic losses during the period of active engagement alone. In addition, the expected amount of economic damage is expected to increase further when including other resources, products, and air transportation routes in the analysis.

Also, military skirmishes between South Korea and China, or between the two Koreas, that may occur as a result of a military clash between the U.S. and China in the Taiwan Strait, can be expected to destabilize the Korean Peninsula and have a major negative impact on the Korean economy. In addition, if South Korea intervenes in the Taiwan issue in any way, China is expected to use its own economic power to deploy economic statecraft toward sanction measures against South Korea. Judging from various circumstances, China may impose more high-strength economic sanctions in relation to the Taiwan issue than those seen during the THAAD issue. Accordingly, as in the case of the THAAD issue, we can expect suspension of various economic cooperation projects, the promotion of boycotts, restrictions on tourism, strengthening of sanctions against Korean companies in China, and restrictions on imports of Korean products, as well as more systematic and sophisticated forms of economic statecraft implemented in accordance with the Export Control Law of the People's Republic of China (中华人民共和国出口管制法) and the Law of the People's Republic of China on Countering Foreign Sanctions (中华人民共和国反外国制裁法), which came into effect in 2021.

Meanwhile, in order to prepare for risks and uncertainties caused by U.S.-China strategic competition and cooling cross-strait relations, Taiwan, which has a high economic dependence on China

like Korea, is pushing for diversification of its supply chain and imports/exports, stronger competitiveness in key industries such as semiconductors, and closer economic cooperation with allies. Such strategic measures by Taiwan, conducted to ensure its survival, present not only opportunities but also challenges for the Korean economy. In fact, Taiwan's New Southbound Policy (新南向政策), the Moon Jae In government's New Southern Policy (NSP), and the Yoon Suk Yeol government's Strategy for a Free, Peaceful, and Prosperous Indo-Pacific Region all aim at competing over the ASEAN market and fierce competition to gain the upper hand in the semiconductor industry.

As such, in a situation where tensions over the Taiwan issue escalate as U.S.-China strategic competition intensifies, Korea must make thorough preparations to cope with the direct and indirect impacts this will have on Korea's economic security. First, more attention and measures are needed at the national level to ensure the safety of major maritime traffic routes, including the Taiwan Strait. This is because strengthening maritime power is essential not only in terms of traditional security, but also in terms of economic security. Also, inter-Korean relations should be managed stably, because even should a military conflict break out in the Taiwan Strait, stable inter-Korean relations could minimize the destabilizing effect the Taiwan issue has on the security of the Korean Peninsula. In addition, just as Taiwan is striving to strengthen its competitiveness in the semiconductor industry while pursuing its New Southbound Policy focused on ASEAN and South Asia as a survival strategy amid the U.S.-China strategic competition, Korea should implement more active policies to strengthen its competitiveness and improve the conditions for corporate investment in the area of system semiconductors, while at the same time establishing a more detailed Strategy for a Free, Peaceful, and Prosperous Indo-Pacific Region.

However, the most important direction for the Korean government is to carry out active measures and increase its policy focus on trust-building efforts with other stakeholders in the region, another key element of economic security. While it is very important to de-escalate potential threats by building trust with other parties for economic security, interest and efforts in this area appear to be relatively lacking. We should reduce the uncertainty of economic sanctions by building trust with China and actively seek a constructive role as a middle power country to restore trust between the U.S. and China. **KIEP**