

EAF Policy Debates

■ PUBLISHER: East Asia Foundation ■ DATE: February 23rd, 2016

Can Korea Survive U.S.-China Rivalry?

By William H. Overholt
(Senior Fellow at Harvard University)

Fear about the tension between South Korea's security dependence on the U.S. and its strong economic ties to China are exaggerated. South Korea is much better off with diversified ties than with dependence on one big power. The experience of security dependence on the U.S. and predominant economic ties to China is universal along China's maritime periphery. Countries with weak economies and weak polities succumb to Chinese pressures, while strong countries like South Korea thrive.

South Korean commentators and some strategists have become obsessed with the problem of balancing economic dependence on China with security dependence on the United States. Chinese diplomats have done their best to heighten South Koreans' concern about this seeming contradiction. But it may not after all be such a dilemma or contradiction.

History of the dilemma

The best way to think about this apparent dilemma is to ask, what is the alternative? Suppose South Korea were dependent on China for both its economic vitality and its national security. Then China would own South Korea. That would be the worst possible situation. So perhaps the dilemma is not so bad after all. A review of the history and the regional situation can put this in perspective.

There was a long period after 1950 when South Korea was totally dependent on the U.S. for both national security and economic support. That worked reasonably well because the U.S. was not trying to subjugate South Korea. But it was a manifestation of national weakness, a weakness that South Koreans would not want to repeat.

Throughout much of the Cold War South Korea depended on the U.S. for its security against a hostile North Korea, a hostile Soviet Union and a hostile and subversive China, a potentially perilous situation. By the 1980s its trade became relatively balanced among the U.S., Japan and Europe. This made security decisions relatively easy—go with the U.S. The balanced trade links did not impose

severe constraints on Seoul, although the economy was heavily dependent on Japanese technology. Overall, this was a dangerous strategic situation.

After the Cold War, neither Russia nor China was hostile. They often had opinions opposed to South Korea's regarding how to manage North Korea, but over time they both came to have much better relations with Seoul than with Pyongyang, due to strong economic interests and to appreciation that South Korea's policies were more conducive to regional stability than North Korea's while its economy offered attractive opportunities.

The miracle years of China's growth made China a much bigger customer and a much bigger platform for South Korean investment and exports. Seoul is packed with Chinese tourists and every young Chinese woman who can afford it wants to have some plastic surgery done in South Korea. The price of prosperity, of course, is that South Korean trade, no longer balanced among Japan, Europe, the U.S. and China, is strongly skewed to China. That is a huge economic benefit for South Korea, but does it create a security dilemma?

A regional dilemma, not a South Korean dilemma

Throughout Pacific Asia, the dilemma is pervasive: security versus economics in relations with China. China's goal is to extend its power and territory through superior power while using economic levers to induce acquiescence. The Philippines provides a particularly salient case. China is seizing control of disputed reefs and rocks very close to the Philippines, excluding Filipino fishermen from their traditional fishing grounds, building artificial islands, and protecting Chinese fishermen who illegally slaughter endangered giant clams and deliberately use their ships' engines to destroy reefs. When the Philippine government complains or takes action, China initiates low level economic warfare, instructing its state enterprises not to invest in the Philippines, canceling Chinese tour groups, and leaving Philippine bananas to rot on Chinese docks. Similarly, when Japan seized a Chinese fishing boat that had rammed a Japanese coast guard cutter, China cut off exports of badly needed rare earths. In addition to economic sticks, China deploys economic carrots. It has opened its markets to South-east Asian countries, in some cases faster than its trade agreements required. It has made many valuable economic concessions to Taiwan, some of which specifically benefit the farmers in southern Taiwan, hoping to win the support of Taiwan's people in general and the opposition-supporting southern farmers in particular.

How has this worked for China? In the case of relatively helpless countries, it has worked well for China, at least in the short run. In Myanmar, there are areas where citizens of Myanmar cannot go without Chinese permission. Planned dams on Myanmar rivers will provide 90 percent of their power output to China and displace large numbers of local people without proper compensation. And much else. Similarly, when ASEAN was about to make a statement on South China Sea issues, at the time when Cambodia chaired ASEAN, China provided large amounts of aid to Cambodia in return for blocking the ASEAN joint statement. In sum, helpless countries are helpless in the face of Chinese economic and geopolitical leverage. Vulnerable Laos is about to be tested at the coming ASEAN meeting.

But the Chinese strategy has worked poorly with countries that are not helpless. The Philippines is very weak, but it has an alliance with the U.S. and has felt sufficiently confident not to kowtow to Chinese economic pressures. Indonesia, with informal support from the U.S. but mainly on its own, stood up to China regarding sovereignty over the Natuna islands, a claim with negative implications for China's nine-dash line, and China accepted the Indonesian position. Likewise, Malaysia has remained steadfast even without a U.S. alliance.

Taiwan has been the sternest test of the China's strategy of using economic incentives to gain acceptance of its geopolitical assertions. The incentives to Taiwan have been proportionately stronger than to anywhere else, but Taiwan has increasingly rejected China. Popular opinion has swung away from a Chinese, or joint Chinese-Taiwanese, sense of personal identity in favor of an overwhelming Taiwanese identity. And of course Taiwan has elected a DPP government that is hostile to China's claim of sovereignty over it.

The lesson is that China's economic sanctions and incentives exercise effective political power over impoverished, politically weak neighbors but have backfired with all countries that can stand up for themselves. All benefit from strong economic ties with China. Almost all have been evolving toward stronger security relationships with the U.S. That now includes Vietnam, a country with a history of standing up to strong Chinese sovereignty pressures over a millennium. A strong military, a relatively strong economy, and some degree of security cooperation with the U.S. ensure sovereignty and policy autonomy.

Korea's strength

Of the neighbors, aside from Japan, South Korea has the strongest economy and the strongest polity. It is better positioned even than Vietnam and Indonesia to take care of itself, to maintain its security in partnership with the U.S., regardless of any potential economic sanctions or blandishments from China.

Even this characterization understates the strength of South Korea's position. The ROK's geopolitical stature has been steadily rising while Japan's has been steadily declining for a quarter century. Korean technology is vastly better and more innovative than China's; it has beaten Japan in key areas like cell phones and it is catching up in areas like cars. It manages much more effectively in a globalizing world than Japan does.

Moreover, China needs South Korea. It needs a good relationship with South Korea to balance Japan. It needs South Korean technology and investment. It needs South Korean cooperation to make its ambitious One Belt One Road project work; if an important country like South Korea were to reject the Chinese approach, then people like the Mongolians who want to build their railroads to a different gauge than China's will be energized.

In contrast with China's approach to other maritime disputes, it plays down its maritime disputes with South Korea; in conferences, China's experts say the dispute over Ieodo is the easiest in the region to solve. Because it is the swing power in Northeast Asia, and because of the alliance with the U.S., South

Korea has a very strong bargaining position with China. It can use that position in economic bargaining--for instance over the various free trade zone concepts. And it can use that position to negotiate more effectively over Jeodo and over North Korea.

Likewise, due to its economic and other ties with China, Seoul has considerable bargaining power with Washington and Tokyo. In recent years, a Washington fearful about China has tended to defer to Japanese positions, even providing strong backing after Tokyo set off a gratuitous conflict with China by purchasing the Senkaku/Diaoyu islands. Seoul's balancing position gives it the ability to stand up for its interests. When Washington presses Seoul to align with Tokyo, Seoul has a choice. Seoul can use the U.S. bases as a bargaining chip regarding North Korea. If Chinese policy toward North Korea causes difficulties for South Korea, Seoul can always reinforce ties with Washington. If Beijing can help negotiate a unification deal, then Seoul can tell Washington it may have to give up the bases in connection with unification. Neither China nor Washington can impose their will on Seoul's bargaining position. And, very importantly, strong security ties to the U.S. and strong economic ties to China balance substantial technological dependence on Japan and limit Japan's geopolitical influence on Korea. South Korea has diplomatic space in which to maneuver.

Maintaining diplomatic space

It is to South Korea's interest to maintain its balance and to maintain its diplomatic space for maneuver. It needs security support from the U.S., but its security also benefits from China's desire for stability on the Korean peninsula. It wants optimum economic benefits from China, so it may wish to join RCEP, but it also benefits economically from the U.S. and Japan, so it may wish to join TPP. It has plenty of space, and that space is increasing as long as South Korea is a strong economy and a strong polity.

So long as there is no great war, South Korea's vulnerabilities do not come primarily from the tension between security links with the U.S. and economic links with China. The vulnerabilities come from any potential domestic threat to its position as a strong and rising middle power. Its economic vulnerability comes from having the economy dominated by a very small number of firms. Its political vulnerability comes from domestic political polarization. The key to successfully managing the relationships with China and the U.S. (as well as Japan) is in managing these *domestic* issues wisely.

At the margin, the ROK will always face difficult choices. Right now, there is the debate of THAAD, the missile defense system needed as a shield against North Korean attacks on South Korea and Japan (and perhaps eventually the U.S.). China objects. The U.S. pressed South Korea not to join AIIB, pressure that Seoul (rightly) rebuffed. More importantly, Washington wants its troops in Korea to be postured for regional contingencies beyond Korea, including Taiwan, and Seoul has refused to commit publicly to such use. Sometimes the ROK disappoints China, sometimes the U.S. There will be many such issues, but they are issues at the margin so long as the U.S.-China relationship minimizes the risk of actual warfare.

The February 2016 DPRK missile launch has reinforced Washington's determination to install THAAD.

It has intensely annoyed both Washington and Beijing, but has not altered the strategic position of either power. (Some influential Chinese scholars are becoming resigned to North Korea's being a permanent nuclear weapon state. But a Weibo poll in China found two-thirds of the Chinese surveyed willing to support a U.S. military strike against DPRK nuclear installations.)

Unfortunately the difficult issues at the margin will probably get tougher in the immediate future than they have been in the recent past. Washington has always had a debate between those who believed that a rising China was an inherent risk and those who believed that welcoming China's success would ensure its integration into a stable global system. President Xi has adopted very assertive positions on maritime issues (other than the dispute with South Korea), on domestic human rights issues, and on relations with foreign business and this has shifted Washington's balance toward a conflictful posture. Conversely, U.S. provocative surveillance, U.S. support for Japan in the wake of the national government's purchase of the Senkaku/Diaoyu islands, U.S. support for India as a counterbalance to China, U.S. opposition to the AIIB, and U.S. opposition to China's assertiveness in the South China Sea have strengthened those in China who believe that the U.S. is trying to encircle and constrain China.

Notwithstanding the difficult choices Seoul has to make at the margin, Washington is largely content with President Park's policy of maintaining strong ties with both the U.S. and China. When President Park visited Beijing before Washington, this created some anxiety. The greatest concerns have come over Seoul's uneasy relationship with Tokyo. Washington is obsessed with China and sees any problems between its two big Asian allies as an irritating distraction. But President Park has kept the alliance strong and compromised the comfort women issue with Tokyo. Would Washington like every South Korean decision to go its way? Of course. Do national security hardliners fret about Seoul's warmth toward Beijing? Of course. Will Seoul be caught in the middle as Washington tries to insist (unrealistically) that Beijing use its leverage to stop North Korea's missile tests? Of course. But, aside from concern over occasionally tense Japan-South Korea relations, the Washington foreign policy establishment is not having any big disagreements with Seoul's China policy or about the alternatives Seoul's China policy should consider.

As Sino-American tensions increase, Seoul's diplomacy will confront an increasing number of increasingly delicate choices. But as long as South Korea keeps its economy and polity strong, these choices will be tactical and will not force grand strategic realignments. South Korea's position is very strong.

If South Korea could settle its minor maritime dispute with China in a mutually reasonable way, that could set a precedent and improve the tone of geopolitical relations throughout Asia. It could make Seoul a major regional leader.

► The views expressed here are those of the author and do not reflect any official position of the East Asia Foundation.

▶ About the Author

William H. Overholt
(Senior Fellow, Harvard University)

William Overholt is Senior Fellow at Harvard University (2008-present). He recently served concurrently as President of Fung Global Institute in Hong Kong. He is the author of six books, most notably *Renminbi Rising* (2016); *Asia, America and the Transformation of Geopolitics* (2008); and *The Rise of China* (1993), along with books on risk analysis and strategic planning. Previously he was Director, Center for Asia Pacific Policy, at RAND Corp. (2002-2008). For 21 years he headed investment bank research teams, mainly in Hong Kong, for Bankers Trust, BankBoston and Nomura. At Hudson Institute, 1971-1979, he managed national security consulting projects and was Director of a business consulting subsidiary. He received his B.A. from Harvard and his M.Phil. and Ph.D. from Yale.

East Asia Foundation Policy Debates is a venue to facilitate intellectual discourse by encouraging strategic debates and analyzing the core domestic and foreign policies in Korea today from a mid- to long-term perspective. The international linkages of Korean policies will also be addressed, describing key issues in East Asia relevant to Korea's national interests and strategy. Experts in various fields will provide in-depth discussions and philosophical views on current policies based on non-partisan and analytical insight. This effort endeavors to build an intellectual network which explores and understands the inner side of Korea from a unique approach.

Sang-young Rhyu (Professor, Graduate School of International Studies, Yonsei University),
Editor of the East Asia Foundation Policy Debates | syrhyu@yonsei.ac.kr

The East Asia Foundation (Chairman Ro-myung Gong) was established as a non-profit organization officially registered with the Ministry of Foreign Affairs of the Republic of Korea in January 2005. The foundation strives to promote peace and prosperity in East Asia through human and knowledge networks. (www.keaf.org)