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Trade Wars and Economic Policy: U.S.-China Trade Conflict and its Impact on South Korea's Economy

A Dissertation Submitted to the Department of Letters and English Language in Partial Fulfillment of the Requirements for the Degree of Master in Language and Culture

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Allah said in the Quran:

"Say, 'Are those who know equal to those who do not know?' Only those with understanding will remember." (Az-Zumar: 9)

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Dedication

"Praise be to Allah until praise reaches its utmost, and thanks be to Allah for the success in this endeavor.

I would love to dedicate this work, first and foremost, to my parents. You are truly the reason I am here today. Thank you for your unwavering prayers, endless patience, and steadfast support. I sincerely hope I have made you proud.

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Abstract

This thesis examines the impacts of the U.S.-China competition on South Korea's economic growth, development, and performance. Through an analysis of trade patterns, industrial operations, and policy response, the study determines how high U.S. tariffs, particularly under recent administrations, have adversely affected South Korea's export industry. In addition to tariff pressures, South Korea has also been affected overall by supply chain interruptions and shifts in global trade patterns. Industries such as semiconductors and electronics have also been affected significantly. The findings underscore the urgent need for South Korea to diversify its trade partnerships and enhance its strategic trade policies in response to the evolving global economic landscape.

ملخص

تبحث هذه الأطروحة في تاثير التنافس الأمريكي-الصيني على النمو الاقتصادي والتنمية والأداء التجاري لكوريا الجنوبية. ومن خلال تحليل أنماط التبادل التجاري والعمليات الصناعية والاستجابات السياسية، تبيّن الدراسة كيف أثرت التعريفات الجمركية الأمريكية المرتفعة، خاصة خلال الإدارات الرئاسية الأخيرة، سلباً على قطاع التصدير الكوري الجنوبي. كما تأثر الاقتصاد الكوري بشكل عام باضطرابات سلاسل التوريد وتحوّلات الأنماط التجارية العالمية، حيث شهدت قطاعات حيوية مثل أشباه الموصلات والإلكترونيات تأثيرات بالغة. وتؤكد النتائج على ضرورة أن تعمل كوريا الجنوبية على تنويع شراكاتها التجارية وترسيخ سياسات تجارية استراتيجية أكثر مرونة لمواكبة المتغيرات في المشهد الاقتصادي الدولي.

List of Abbreviations

Abbreviation	Full Form
AI	Artificial Intelligence
BEA	Bureau of Economic Analysis
CPTPP	Comprehensive and Progressive Agreement for Trans-Pacific Partnership
DRAM	Dynamic Random Access Memory
EV	Electric Vehicle
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GDP	Gross Domestic Product
IMF	International Monetary Fund
K-Semiconductor Strategy	Korean Semiconductor Strategy
MFN	Most Favored Nation
NAND	Not AND (a type of flash memory)
PIIE	Peterson Institute for International Economics
PRC	People's Republic of China
RCEP	Regional Comprehensive Economic Partnership

ROK	Republic of Korea
USA	The United States
USTR	United States Trade Representative
WITA	Washington International Trade Association
WTO	World Trade Organization

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Introduction

Global trade dynamics have undergone significant transformations over the past few decades, resulting in a profound reshaping of economic relationships between countries. Among the most critical and impactful events in recent international trade history is the trade conflict between the United States and China. This competition, commonly referred to as the U.S.-China trade war, has disrupted global supply chains and investment flows, leading to widespread market confusion. While the primary focus of this conflict has been on the two major powers, its effects have also reached the other economies closely involved in global trade networks. One of these economies was South Korea, whose economic development and trade policies have been affected by the fluctuations and disruptions caused by this conflict. This dissertation examines the scope and consequences of the U.S.-China trade conflict on South Korea's economic growth and trade policies, as well as the strategic responses made by the South Korean government to mitigate these effects;

The scope of research revolves around analyzing the U.S.-China trade conflict and its impact on the South Korean economy, particularly in terms of GDP growth, industrial output, trade flows, and policy decisions. The research covers the period before the escalation of the trade conflict in 2018 to recent developments. The study focuses more on the manufacturing and high-tech sectors, such as steel and semiconductors, which are pivotal to South Korea's export-driven economy. Moreover, the research delves into South Korea's diplomatic and economic strategies, including its engagement with multilateral trade agreements such as the RCEP and CPTPP, industrial policy reforms, such as the K-Semiconductor Strategy, and its attempts to diversify its export markets away from overdependence on the two powers.

The significance of this study lies in the spotlight on a pivotal geopolitical development that has not only shaped trade relations between the two economic giants but also influenced the strategic decisions of third-party economies, particularly South Korea. This country has a

strategic position as a major player within the global supply chain, which relies heavily on both the US and Chinese markets for its exports of semiconductors, automobiles, and steel. Any fluctuation in U.S.-China relations can have immediate and profound consequences on South Korea's economic stability.

This topic is chosen due to the contemporary trade conflict between the US and China, which represents a turning point in global trade governance and highlights the vulnerabilities of economies integrated into the global supply networks. Moreover, South Korea's case is a prime example of economic adaptation and resilience, as the country has implemented significant policy shifts to maintain competitiveness and mitigate the impact of geopolitical risks. Ultimately, this topic remains contemporary, as the implications of the trade conflict continue to shape East Asia's economic landscape and impact global trade patterns.

This dissertation aims to address the research questions regarding how the U.S.-China conflict impacts South Korea's economic growth and trade policies. Moreover, what strategies did South Korea employ to respond to this conflict? These questions guide the research on the direct financial consequences of the trade conflict and South Korea's strategic economic policies in response to external pressure resulting from the conflict.

A qualitative method was used in this study, supported by quantitative data analysis from different sources, including reports from the World Bank, the International Monetary Fund (IMF), the Bureau of Economic Analysis (BEA), and the Korean Ministry of Trade, Industry, and Energy. The data have been used to evaluate trade flows, GDP growth rates, and sector-specific performance during the period of the conflict. Scholarly articles, policy papers, and books are also used to understand the theoretical context and policy implications of the trade war. Moreover, the analysis focused on several economic theories, including dependency theory, comparative advantage, and protectionism, to frame South Korea's position in the

global economy. Graphs, tables, and statistical data were added to show the extent of trade disruptions and shifts in economic indicators.

The complexity of the U.S.-China trade conflict attracted much scholarly attention, particularly its global economic implications. Bown, Chad P., provides a comprehensive analysis of the structural dimensions and evolution of the trade war in his article "The US–China Trade War and Phase One Agreement" in the Journal of Policy Modeling. The article focuses on the strategic use of tariffs by both nations as a form of protectionism. His work examines the economic reasons behind the imposition of tariffs and their impact on reshaping global trade flows. It also highlights how these measures led to disruptions between the two superpowers and across interconnected economies reliant on the US and Chinese markets. This perspective is crucial for understanding the broader context in which South Korea's economic challenges emerged during the period of conflict.

To examine the direct impact of the conflict on South Korea, Jeong Seonui, in his article "The Impact of US-China Trade War on South Korea's Economy," published in *The International Journal of Humanities & Social Studies,* assesses the impact of the U.S.-China trade war on the Korean economy, identifying its vulnerabilities. The study highlights South Korea's overdependence on both the American and Chinese markets in export-driven sectors, such as steel and semiconductors. Jeong's findings reveal significant declines in South Korean exports, leading to fluctuations in economic trade due to the trade conflict. This analysis ensures that South Korea's financial performance is susceptible to the trade war between its two largest trading partners.

The studies of Bown and Jeong contribute valuable insights into the theoretical and practical implications of trade conflicts on South Korea. Bown covers the conflict within the framework of global trade policy and geopolitical competition. Moreover, Jeong discussed it

on a national level, showing South Korea's exposure to these macroeconomic shifts. Together, these works form a foundation for analyzing South Korea's strategic policy responses.

This dissertation is divided into three chapters, starting with the introduction and ending with a conclusion. Chapter One outlines the theoretical framework, including dependency theory, comparative advantage, and protectionism, and contextualizes South Korea's trade and investment ties with both the US and China. The second chapter discusses the evolution of the U.S.-China trade conflict, its impact on global trade patterns, and its direct influence on South Korea's GDP, sectoral performance, and trade flows. Finally, yet importantly, the third chapter focuses on South Korea's strategic responses, detailing economic diplomacy, industrial policies, and efforts to strengthen self-reliance and mitigate the risks. The conclusion summarizes the key findings and answers the research questions.

Chapter one

Understanding the Relationship Between China, South Korea, and the United States

International trade is the cornerstone of the global economy, directly affecting its stability and growth, and highlighting the necessity of effectively managing this trade and economic policies. As countries and major powers continuously compete and strategically implement financial policies and theories to gain advantages. However, the complex global trade landscape, particularly the trade dynamics between the US and China, as well as those involving South Korea, necessitates a theoretical framework to understand South Korea's economic position within the ongoing trade conflict between the US and China. This framework can be developed by analyzing and examining relevant economic theories.

South Korea has a complex and dynamic relationship with both the United States and China, its largest trading partners. It maintains strong economic ties with both countries, as they have a significant influence on the South Korean economy through trade and investment. Additionally, South Korea is a key player in global supply chains, particularly in its advanced manufacturing sectors, including semiconductors, electronics, and automobiles.

This chapter is divided into two sections. The first part will analyze and examine relevant economic theories, such as trade dependency theory, comparative advantage, and protectionism, and explore their applications in the US-China-South Korea trade dynamics. In the second section, we will discuss South Korea's economic relationships with both the United States and China, its trade and investment ties, and its role in global supply chains.

1.1 Historical Background

The relationship between the US, China, and South Korea is a complex puzzle due to the three countries' historical, economic, and political ties. South Korea stands in the middle, between these two giants, trying to balance its trade and politics with them. As a nation, it

benefits from its relations with China and the United States. Its relationship with them helps maintain the country's trade growth and security.

1.1.1 U.S.-South Korea Relations

Over the years, the description of the relationship between the US and South Korea has evolved on both sides, in terms of politics and economics. Firstly, the US provided significant support to South Korea during the Korean War, after which the two countries established a strong relationship through companies such as Samsung and Hyundai, among others. This led to an increase in their economic power. From a political perspective, America's assistance to South Korea through the deployment of American forces in Korea ensures peace and security in the region. Ultimately, we can conclude that their relationship is characterized by trust and cooperation, and it has become globally significant (Manyin, Wong, and Longo).

Then, as detailed by the Congressional Research Service, in 2022, South Korea is ranked seventh as an ally of the United States, and in terms of trade, it is the world's second-largest trading partner. Most of their cooperation is in the field of advanced technology and energy. Despite the differences, they were able to overcome them and transform their relationship into a positive one, fostering stability in their countries and facilitating the exchange of experiences in addressing global challenges.

1.1.2 China-South Korea Relations

South Korea has sought to maintain its trade relationship with China, aiming to establish a mutually beneficial partnership, as China is the largest trading partner of South Korea. However, South Korea has fears because China supports North Korea, or in other words, China is its ally from a military perspective. South Korea relies on the United States for protection due to the strength of North Korea, which puts South Korea in a difficult position between China and the US (Hun).

Additionally, the South Korean government is managing its foreign policy intelligently and wisely; in other words, China and the United States are key cards in South Korea's diplomatic strategy. They need China to support their economy and the US to protect its security against North Korea (Hun). Moreover, Choi discusses in his article titled "South Korea–China Economic Relations: A Comprehensive Approach to Markets, Factories and Supply Chains. East Asia Foundation. He notes that South Korea should consider its economic relationship with China in light of the new global transformations. Therefore, Seoul must develop new strategies and treat China as a partner, rather than separating, because this would harm the South Korean economy. By doing so, this may ensure a bright future for South Korea and China.

1.2. Economic Profiles: The US, China, and South Korea

The economic profiles provide some vital information about each country. The information provided includes the country’s GDP, a measure of its economic performance over a specific period, such as one year or four years, as well as imports and exports, which are key indicators of trade performance in each country. The data helps in the analysis and application of economic theories, including dependency theory, protectionism, and comparative cost advantage theory, to China-South Korea-U.S. trade dynamics. The data provided in the following table is all from 2023.

Table 1: Economic Indicators of the US, China, and South Korea.

	United States	**China**	**South Korea**
GDP	27.72 trillion USD	17.79 trillion USD	1.713 trillion USD
Exports	3.1 trillions	3.38 T	632,225,824 USD
Imports	3.8 trillions	2.56T	642,572,126 USD
Trade Partners	Canada, Mexico China, Japan, s. Korea, Germany	ASEAN, EU, US, Japan, South Korea	China, US, ASEAN, Japan, EU
Key Sectors	Technology, finance, pharmaceuticals, Aerospace, Agriculture.	Manufacturing, exports, technology.	Semiconductors, automotives, and shipbuilding.

Sources: Adapted from"World Bank Open Data." *World Bank Open Data*, 2015, data.worldbank.org/indicator/NY.GDP.MKTP.CD?end=2023&start=1960.

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Korea costums service : “관세청 수출입무역통계.” *Tradedata.go.kr*, tradedata.go.kr/cts/index_eng.do.

The data from 2023 provides a comparative economic overview of the United States, China, and South Korea. The United States reported the largest GDP at USD 27.72 trillion, with exports of $3.1 trillion and imports of $3.8 trillion, driven by technology, finance, and aerospace. China followed with a GDP of $17.79 trillion, leading in exports ($3.38 trillion) and imports ($2.56 trillion), predominantly in manufacturing and technology. South Korea, with a GDP of $1.713 trillion, exhibited exports of approximately $632.23 billion and imports of $642.57 billion, with a focus on semiconductors and automobiles. All three nations maintain robust trade relations with key global partners, demonstrating their integrated roles in the world economy.

1.3 An Overview of Relevant Economic Theories

It is essential to comprehend the economic theories that underpin international trade relationships and inform policy decisions. These theories provide valuable insights into the dynamics of trade dependency, competitive advantage among nations, and the use of protectionist measures in shaping global economic interactions. The following section presents a discussion of three key economic theories.

1.3.1 Dependence theory

To understand the issues of economic and social development in poor countries, the modernization theory emerged in the 1950s and 1960s, aiming to help poor countries transition from traditional societies to modern ones. Here, many theorists disagreed with this theory and developed what is known as dependency theory, which offered an explicit critique of modernization theory. So, what is the dependence theory? Moreover, how does it work?

Many scholars in Latin America, such as Theotonio Dos Santos, Andre Gunder Frank, and Fernando Henrique Cardoso, have observed how developed countries continue to grow and

become increasingly wealthy. In contrast, developing countries remain at the same stage for reasons that will be discussed later. By examining these countries, we can observe that rich nations are predominantly located in the north, while poorer countries are mainly found in the south. This structure was discussed by Elisabeth Farny, “providing categorizations such as 'Core-Periphery' or 'North-South' “(Farny 2). This structure divides countries into two sections, which are “core countries” and “periphery countries”. In this system, core countries benefit from cheap labor and raw materials from the periphery, while the periphery remains economically weak due to its reliance on exporting low-value goods and importing expensive products. Additionally, Andre Gunder Frank discussed a similar idea when he stated, “development of the metropolis and the underdevelopment of the satellite” (Frank).

However, Immanuel Wallerstein discussed this structure in his book “*The Modern World System*.” He said countries fall into three groups within these boundaries: core, periphery, and semi-periphery. This idea leads to the theory of trade dependency. This theory suggests that wealthy countries stay developed by relying on poorer nations. They take advantage of raw materials and cheap labor in these countries. Then, they sell their products at high prices. This process helps wealthier nations maintain control over international trade. The following paragraph will further explain the theory by applying it to the three countries.

According to the statistics and data provided, the United States is the “CORE” since it has the biggest GDP. Additionally, the US is the world's largest importer and holds significant political and economic dominance in high-value sectors, such as finance and technology. The second country, China the data shows the hidden power of China and how this country is taking over the world markets with it exported products and achieving a commercial dominance because it has 3.38 trillion UDS, so China is a “SEMI-PERIPHERY” country that it may shift to a “CORE” country since its GDP is almost 18 trillion USD the second globally

after the US, also China is known as the world's factory and the largest exporter with 3.38 trillion USD it has the standards to compete with the United States.

The third country, South Korea, is a "SEMI-PERIPHERY" country because it is a major exporter of electronics. It has a global brand such as Samsung, LG, Hyundai and also has a GDP of 1.713 trillion USD that it is not high as core countries but still far beyond periphery nations however South Korea is dependent on major powers like US in military alliance (Korean Armistice Agreement) and on China's market its largest trading partner. So, after applying dependence theory to the US-China-South Korea trade dynamics. The results indicate that the United States is a core country. At the same time, China is a semi-periphery country undergoing continuous development, which can potentially compete with the US and become a core country itself. South Korea is also a semi-periphery country, with its industrial base still heavily dependent on the US and China.

1.3.2 Comparative Advantage Theory

The original idea of comparative advantage theory was initially introduced by Adam Smith in his book *The Wealth of Nations* in 1776. Smith developed the concept of absolute advantage**.** The theory of comparative advantage was developed later by David Ricardo. Smith claimed that "It is the maxim of every prudent master of a family never to attempt to make at home what it will cost him more to make than to buy" (Smith Ch 2), by applying this quote on countries this means that a country should import the goods that are more costly to produce domestically. The Ricardian theory of Comparative cost advantage is an economic theory developed by David Ricardo in the 19th century. He discussed this theory in his book *On the Principles of Political Economy and Taxation*. Ricardo explained the theory by using England and Portugal as case studies for international trade, with cloth and wine serving as examples.

The core concept of comparative advantage theory is that two countries can mutually benefit from trading with each other, where each country focuses on producing a specific product that it can produce most efficiently and then exchanges goods with the other to increase overall economic welfare. This core idea was mentioned by Ricardo when he said, “Under a system of perfectly free commerce, each country naturally devotes its capital and labour to such employments as are most beneficial to each” (Ricardo 139).

To explain this theory further, discussing the example Ricardo provided in his book will help, which concerns England and Portugal's production of wine and cloth. Let us assume that Portugal had no commercial links with other nations; then it should produce everything by itself, and all of its capital and industry would be divided among producing many commodities. However, if Portugal had commercial connections with other countries. It employs a significant part of its capital in producing wine, then uses it to purchase cloth and other items for its use. Ricardo gave a numerical example about the amount of labour (men) needed to produce both cloth and wine in a certain period in England and Portugal, where he assumes that England needs 120 men to produce wine and 100 men to produce cloth While Portugal needs 80 men to produce wine and 90 to produce cloth.

Therefore, Portugal’s costs were lower than those of England. However, the comparative cost advantage theory suggests that Portugal would take a greater advantage if it only produced wine, even if it could produce both goods at lower costs than England. On the other hand, England benefits more from producing cloth than from producing wine. Therefore, the theory holds when two countries produce a product that costs less than exchanging or purchasing other commodities using the goods they are producing (Ricardo 141).

The comparative cost advantage theory refers to the products that a country can produce more efficiently, allowing it to exchange or use them to purchase other goods. Therefore, knowing what each country can produce is important to understand.

Table 1 illustrates each country's key export-oriented production sectors, highlighting their areas of comparative advantage. China exports consumer electronics, machinery, and textiles to the US, and intermediate goods in electronics and chemicals to South Korea, while importing high-end semiconductors from South Korea and agricultural products and aircraft from the US. On the other hand, South Korea exports chips and cars to the US and China, and imports US agricultural goods and machinery. This creates a triangle trade between the three nations.

1.3.3 Protectionism

Protectionism is an economic theory and a concept that involves government policies restricting international trade to shield domestic industries from foreign competition. According to Abboushi Suhail in his article in the international business journal (Competitiveness Review) he defined trade protectionism saying that "Protectionism is the sum of government trade policies intended to assist domestic producers against foreign producers in a particular industry, using raising the price of foreign products, lowering cost for domestic producers, and limiting foreign producers' access to domestic market" (Abboushi). Protectionism encompasses various measures, including tariffs, import quotas, product standards, and government subsidies. Tariffs are taxes imposed on imported products to increase their cost, which encourages people to buy local products over imported ones. Import quotas are a limit on the quantity of a specific imported product, allowing us to import only a limited amount of this product. Product standards or standardization are guidelines or measures established by the government for imported products that must follow these requirements to be approved. Government subsidies are tax breaks or direct payments to domestic producers.

Despite the positive effect of the protectionism theory on the economy such as supporting employment, shielding infant industries, national defense …but it has a negative impact over

the long run, many writers had a clear critic on the protectionism and advocate for the free trade such as Adam Smith in his book *Wealth of Nations* also Paul Krugman in *Pop internationalism* who saw that protectionism is used for political things more than economic need. That is because protectionism, over time, will create economic isolation and limit choices for consumers. Additionally, this will increase prices due to a lack of competition.

The protectionist theory can be used by countries to protect domestic industries from foreign competition and to support local goods and products. Here, we will examine the application of this theory by various countries.

Starting with the United States. In 2018, US President Donald Trump urged his trade representatives to consider an additional tariff against China due to China's unfair trade practices, stating that China was stealing US intellectual property, which includes products used in information and communication technology. According to section 301 investigation fact sheet that claimed "25 Percent Ad Valorem Duties: By the President's direction, USTR has determined to impose an additional 25 percent tariff on approximately $50 billion of products from China that are strategically important to, and benefit from, the "Made in China 2025" program and other Chinese industrial policies." (USTR). This act by the United States President Donald Trump is a direct application of the protectionism theory to protect the US intellectual property

Going to China, After the releasing of the revised list of section 301 on tariff on 46.3 billion on Chinese product by the US Trade Representative office on June 15, China's retaliation was swift against Tramp's administration, the Chinese government issued its own revised list of tariffs on US exports to China in which it imposed an additional 25 percent tariffs. Some economic experts and analysts analyzed and posted the founded results on PIIE they claimed that "China's June 15 list targets $44.9 billion of US exports to China in 2017. American farmers and ranchers are going to be struck: Nearly $17 billion of exports are in

agricultural and food products" (Bown, "China's Retaliation to Trump's Tariffs."). The given example between the US and China illustrates the dark side of the protectionism theory, showing that it is often used for political purposes rather than economic needs. This is why we find many writers supporting free trade and criticizing protectionism.

1.4 South Korea's Economic Ties with the United States and China

South Korea's relations with the two largest economies in the world are primarily based on trade. The trade created a strong link with the two giants, with which the country had Trade agreements and investments, helping to drive the growth of its economy. These agreements and investments help strengthen and maintain South Korea's relations and balance with its largest trade partners.

1.4.1 The United States

"KORUSFTA" stands for United States-Korea Free Trade Agreement. The two nations, the US and South Korea, signed the KORUSFTA on June 30, 2007, and it entered into force on March 15, 2012. South Korea is the sixth-largest trade partner of the US, with a total trade value of $134.0 billion, according to the United States Trade Representative (USTR). The two nations have agreed to reduce and, in some cases, eliminate non-tariff and tariff barriers on exports, including services, manufactured goods, and agricultural products. However, this agreement, which has been in effect since then, has undergone two changes: one during Obama's era and another during Trump's era. The former minister Henry Haggard, he is also a counselor for political affairs U.S. Embassy Seoul discussed the investments ties of South Korea in the US in the last three years, an amount of 114 billion dollars was invested in the United States by the Korean companies, in which it helped in expanding workforce opportunities and rebuilding manufacturing base in the US (Haggard).

The key sectors included in the trade investment agreement are agriculture, motor vehicles, and services. In agricultural trade, the US holds a comparative advantage, with a

trade surplus of $6.2 billion with South Korea in 2023. However, the agricultural sector of South Korea was highly protected from foreign competition, with tariffs of 57 percent. Nevertheless, due to the KORUS agreement, South Korea has reduced these barriers. The trade of motor vehicles between the US and South Korea took place during the negotiation of the free trade agreement. 35 percent of US imports from South Korea were removed due to auto trade for both sides, and South Korean car companies have invested in the US and also established a battery factory in Georgia, which is expected to start production by the end of 2024 (Wong and Manin).

The other key sector, services trade, was also a big part of the KORUS trade agreement. The deal aimed to improve South Korean productivity in weak sectors, and the US sought to facilitate easier access for its service companies. The agreement worked very well and yielded promising results, to the point that South Korean exports increased from $ 17.9 billion in 2011 to almost $ 25 billion in 2023, and its imports rose from $ 9.9 billion to $ 14.6 billion. The KORUSFTA has strengthened the economic ties between South Korea and the United States since its implementation in 2012. The agreement has boosted the bilateral trade relationship and economic growth for both nations (Wong and Manyin).

1.4.2 China

Despite their geographical proximity, the two nations had no trade relations due to the absence of official diplomatic relations, which stemmed from their complex history. The trade relations and investments started to show up in the 1970s and kept growing up particularly after the normalization that happened in the 1992, the KOR-PRC grew faster than it was expected comparing to the other countries like US and Japan … until China became the largest trade partner of South Korea in 2003, in 2012 the total trade between the two nations was 215.1 billion dollars. After these results, both sides initiated negotiations to establish the

free trade agreement; however, they were hesitant due to their unfamiliarity with the process and the need to protect their domestic industries (Heo and Roehrig 78-80).

On June 1, 2015, the two nations finally signed the China-South Korea Free Trade Agreement (CKFTA) in Seoul. The agreement entered into force on December 20, 2015 both sides eliminated their barriers “tariffs and tax” on the imported products, where 50 percent of was reduced on the goods exported to Korea and 20 percent on the goods exported to China, the agreement included more than 90 percent of the product for 20 years This free trade agreement included 17 area of trade such as trade in goods and services, e-commerce, investments and government procurement. Additionally, several sectors require complementary cooperation, including elderly healthcare, film and television production, and advanced manufacturing, which are among the areas where the two nations sought complementary cooperation (Ye).

1.5 South Korea’s Role in Global Supply Chains

The role of South Korea in global supply chains depends on its major exports to the world and the key industries in which the country excels. According to South Korea’s economic profile, its dominant sectors are semiconductors, automobiles, consumer electronics, and displays. According to the International Trade Administration, semiconductors accounted for 18.9 percent of South Korea's total exports in 2022, making them the largest export sector. Additionally, South Korea has two major companies in this field, Samsung and SK Hynix, which collectively cover 73 percent of the global market in DRAM and 51 percent in NAND flash. As a result, South Korea is a powerhouse in memory chips.

Additionally, new technologies such as artificial intelligence (AI) and cloud computing, among others, are expected to increase global demand for these Korean memory chips in the coming years, as many analysts anticipate. For automobiles, South Korea is renowned for its two major companies, Hyundai and Kia, which have established a global presence through

their worldwide sales. The official Hyundai Motor website announced its global sales for 2024, totaling 4.14 million units, where 3.436,781 units were sold outside Korea and the rest inside Korea. Hyundai Motor aims to boost its sales to more than 4.17 million units in 2025. Additionally, Kia announced on its official website that its sales reached 3.1 million units in 2024, of which 2.543 million units were destined for international sales. The two companies are leading the Korean economy in terms of production and future growth. According to the given information, we can say that South Korea plays a vital role in global supply chains, as it contributes significantly to the two key fields of semiconductors and automobiles worldwide.

This chapter explores how South Korea is caught between two global powers—the United States and China. It has strong economic ties with both countries, relying on China for trade and the U.S. for security. Moreover, its Historical events and modern trade agreements with both sides have shaped these relationships. Additionally, the chapter introduced economic profiles using economic indicators. Theories such as dependency theory, comparative advantage, and protectionism were applied to understand better how South Korea fits into the global economy. After understanding the complex relationships and economic dynamics between the U.S., China, and South Korea, the next chapter will shed light on the U.S.-China trade war and how it disrupted global markets and affected South Korea.

Chapter Two

Global Disruptions and South Korea's Dilemma

The 21st century witnessed a significant event that brought about a radical change in international trade: the U.S.-China trade war. The tension between the two powers stemmed from years of economic disagreements, competition over technology, and political rivalry. The situation worsened in 2018, when U.S. President Donald Trump imposed high tariffs on Chinese imported products. This was a turning point and marked the beginning of a major trade war that disrupted global supply chains and reshaped international trade policies. Here, we will analyze the US-China trade relations across two key phases: the pre-conflict period and the conflict period (Council on Foreign Relations).

2.1 The Pre-Conflict Dynamics of Sino-US Relations

A complicated mix of cooperation and strategic competition best describes the relationship between the US and China previously. Before joining the World Trade Organization (WTO) in 2001, China's trade status with the US. was uncertain; it faced average tariffs of 30% and the risk of losing its most-favoured-nation (MFN) status. Handley and Limão claimed, "During the 1990s, China was at risk of losing its most-favoured-nation (MFN) status" (qtd. in Crowley 98). However, China made a turning point in 2001with its accession to the WTO, "President Clinton signed the U.S.-China Relations Act of 2000 in October, granting Beijing permanent normal trade relations with the United States and paving the way for China to join the World Trade Organization in 2001" (Council on Foreign Relations). This decision brought an end to years of trade instability, as the U.S. granted China permanent MFN status upon its WTO accession. Handley and Limão highlight that this shift removed "this source of policy uncertainty" (qtd. in Crowley 98), which led to a sharp increase in U.S. imports from China. At the same time, the change brought "substantial

welfare gains for the average American consumer by lowering prices" (Amiti et al., qtd. in Crowley 2). It also led to job losses in some sectors, as Pierce and Schott noted, "those Americans who lost their jobs from import competition have never fully recovered" (qtd. in Crowley 2). Thus, China's WTO membership was a transformative moment, reshaping trade dynamics with lasting economic effects.

In 2010, China surpassed Japan to become the world's second-largest economy after the United States; its economic performance was strong enough to put it ahead of Japan. According to Goldman Sachs chief economist Jim O'Neill, China is on its way to overtake the U.S. as the world's number one economy by 2027 (Council on Foreign Relations).The GDP of Japan in 2010 was $5.759 trillion, while China's GDP was $6.087 trillion (The World Bank). This represented a significant improvement for China's economy. We were able to see the result in 2011, when the U.S. faced an increasing trade deficit with China, rising from $273.1 billion to $ 295.5 billion (U.S. Census Bureau, "U.S. International Trade Deficit Decreases"). By the beginning of 2012, the trade deficit had prompted the U.S., the EU, and Japan to request a consultation with China over its restrictions on exporting rare earth metals, arguing that China was violating international trade norms (Council on Foreign Relations). In 2013, at Sunnyland's Summit, it was the first meeting between President Xi Jinping and President Barack Obama, where they focused on important topics such as climate change, cybersecurity, and North Korea. Despite China's suggestion of a "new-type great power relationship," major disagreements remain, particularly in the East and South China Seas, where U.S. commitments to Japan could strain ties with China. Moreover, Taiwan's situation and China were accused of violating human rights, which raises the tensions even more. Perspectives on U.S.-China relations differ. China's expanding global influence adds to this complexity, highlighting the significance of these relations for both countries (Monroe).

In 2014, a disagreement between the U.S. and China over maritime disputes in East Asia was noticed, and a Secretary of Defense visited China to discuss (Gupta). Also, in the same year, both the presidents of the U.S. and China issued a joint statement on climate change, pledging to reduce carbon emissions during their meeting at the Asia-Pacific Economic Cooperation (APEC) forum (Council on Foreign Relations). In July, both countries held an annual dialogue over the oil rig in the South China Sea, which raised tensions until the end of the year (Gupta). Moreover, by 2015, China became the largest trade partner of the United States (U.S. Census Bureau, *Top Trading Partners*).

In early 2016, there was a tension between the two nations about the North China Sea, and there was an issue because of the South Korean nuclear tests; however, the two nations worked together, creating a string of sanctions. There was also slow progress on the trade agreements; however, relations were generally good (Gupta). 2017 began with tension over Taiwan; however, the president of the U.S. said he would respect the One-China Policy. Later, the two leaders met in Florida to discuss trade and the North Korea case. The two presidents had a favorable view of the relationship that was growing. Later in May, they reached an agreement regarding the conversion of products and electronic payments. However, the real issue was left behind, which is the contentious trade issues, including aluminum, car parts, and steel (Council on Foreign Relations).

2.2 The Conflict Phase

The conflict phase is a transformative point that began in 2018. This period was marked by a wave of imposed tariffs by President Donald Trump on the United States and retaliatory tariffs by China. This trade war is an ongoing conflict that continues to this day. The reason behind the conflict was when the office of U.S. trade representative (USTR) found out that the republic of China (PRC) involved in “forced technology transfer, cyber-enabled theft of U.S.

intellectual property and trade secrets, discriminatory and nonmarket licensing practices, and state-funded strategic acquisitions of U.S. assets" (Sutter).

2.2.1 Most Affected Sectors

The trade war between the two largest economies in the world will not pass without a trace. Both countries employed the protectionist theory to target the other's weaknesses, which are important sectors for both nations. The most affected sectors were the key sectors for each country, namely agriculture, manufacturing, and technology.

Manufacturing is a vital sector that has been negatively affected on both sides. For China, the US-China conflict disrupted the Country's manufacturing plans, particularly the "Made in China 2025" initiative, and also had a profoundly negative impact on Chinese industry policy, as stipulated by Trump's tariffs (Zhao 44). For certain, foreign investors in China will take a break to analyze the situation, which will lead to a slowdown and a decrease in foreign direct investment (Chen et al., 436). While the United States thought that the tariffs made by the president would protect its economy and help it fight the trade deficit, this prediction went wrong; moreover, the us became less attractive to foreign direct investments FDI and also reduced the confidence in US investments and currency(Chen et al, 437). From another angle, examples of tariffs could have a positive impact on the overall manufacturing in the US; however, taking a look at the analysis compared to previous years shows difficulties in managing employment since the trade war. Additionally, the retaliations made by China hurt giant companies like Apple and General Motors (Zhao 46).

Technology and high-tech industries are also among the most affected sectors by the conflict. The trade war had a muted impact on both countries, especially on high-tech industries, which required urgent solutions to mitigate severe damage (Chen 3146). Additionally, the semiconductors, an important part of the US-China trade, were damaged for

both nations in the short and long term. For example, the tariffs imposed on our products led companies that rely heavily on the Chinese market to a direct setback. Additionally, China faced a serious issue, and despite other international cooperations, the cost of equipment and materials for semiconductors increased, resulting in extreme damage to the Chinese semiconductor sector (Xiao 669-670).

According to the Washington International Trade Association (WITA), the US-China conflict also affected the agriculture sector. After Trump's tariffs, China retaliated, directly targeting US agriculture, which led to a loss of $27.2 billion in agricultural exports. The US government was also obliged to provide Farmers with financial support to cover the damage caused by China's retaliatory actions on agriculture (WITA). However, China was also affected by its retaliatory tariffs on soybeans, as it is the largest importer of soybeans and the US was its most significant exporter. Consequently, China faces the problem of increased soybean costs, which will directly impact its economy (Xie 4). The mentioned sectors are the most affected and targeted by the waves of tariffs that have occurred between the two sides.

2.2.2 Policy Decisions and Retaliatory Measures

The trade conflict between the two powers was shaped by the tariffs that were imposed by both sides. These tariffs were a form of protection for the US and China's economies. Due to the trade deficit and political reasons, as well as unfair trade practices perceived by the US, Donald Trump imposed a $ 60 billion tariff on Chinese exports on March 22. The United States Trade Representative then issued a report on its Section 301 investigation. The report highlighted the unfair practices employed by the Chinese government since its accession to the World Trade Organization, aimed at overtaking US technology in its firms. On April 3, the US President issued 25% tariffs on $ 50 billion of Chinese imports; by the end of the day, China had already announced retaliatory tariffs of 25% on $ 50 billion of US exports. The tension

escalated when Trump asked the USTR to impose tariffs of $100 billion on other imports from China, while asking the Secretary of Agriculture to apply protection to U.S. farm interests in the event of retaliations from China (Bown, The US–China Trade War 812).

On June 15, the USTR released the list of products that would face tariffs on July 6. After imposing these tariffs on July 6th, China imposed 25% tariffs on $ 34 billion worth of goods, including soybeans, lobster, and pork. On August 23, both countries imposed tariffs on $ 16 billion of imports on each other. The US imposed another 10% tariff on $ 200 billion of China's exported products to the US, announcing that it would increase to 25% on January 1, and China retaliated again. After the dungeon happened, the wave of 2018, and that. China's exports to the US experienced a real decline from $504 billion in 2017 to $155 billion in 2018, prompting China to retaliate with lower tariffs that cover less trade than before (Bown, The US–China Trade War 813).

In December 2018, Trump and Xi held a meeting and announced a 90-day truce, starting negotiations on the issues that had led to Trump putting tariffs on hold. He scheduled to lift tariffs on January 1, 2019. While Xi agreed to lower his tariffs on US cars by 215% after a period, the negotiation failed, and you won the visit of the USTR Robert to Beijing in May. On May 5, Trump announced an increase in list three tariffs from 10% to 25% and added that he would impose a 25% tariff on the rest of China's products, stating that China would retaliate immediately (Bown, The US–China Trade War 815).

In August, China announced that retaliation was forthcoming in response to Trump's tariffs, effective September 1. On September 1, Trump imposed his tariffs, and as usual, China retaliated with its own tariffs. After that, tempers started to cool, and they both announced it about the phase one agreement on December 13. On January 15, China and the US signed the Phase One agreement, which focused on protecting intellectual property and technology transfer, as well as agricultural products and food trade. The agreement was

implemented on February 14, and both nations halved the tariffs from the last round (Bown, The US–China Trade War 829). Moreover, as mentioned in Bown's article "China's retaliations to Trump's Tariffs," under the Trump administration, US-China tariffs remained fairly stable, with the only exceptions being the US tariffs on Chinese imports at the end of the administration and in September 2020 and January 2021.

2.3 Global Spillover Effects of the Trade War

The trade war between the United States and China had a profound impact on the countries. The United States and the People's Republic of China are the giants of the global economy and trade; both have established links and relations with all countries worldwide. The recent events and disagreements between the two economies have led to significant changes on the global level of trade and economy. These effects may be beneficial for some countries and detrimental for others.

2.3.1 Shifts in Global Trade Patterns

Due to the Sino-US trade conflict, as the two largest economies in the world, the United States and China have a direct impact on global trade patterns. China was the number one trade partner of the US for so long; however, recent disagreements have pushed the United States to shift its trade to other partners away from China. The period from 2017 to 2024 has witnessed an ongoing shift in trade patterns, driven by the US-China trade war and the conflict between Russia and Ukraine. These two events impacted something called a geopolitical spectrum, which is a scale that measures the degree of agreement and disagreement on global issues, such as democracy and alliances. This automatically led countries with disagreements to trade less with each other, such as the US, China, and German (Seong et al. 2-3).

The US is diversifying its trade away from China, driving it more to ASEAN and Mexico. Mexico became the largest trade partner of the US, surpassing China in 2020, while China lost its imports to the US in almost all sectors, especially electronics, machinery, and textiles, with an average decline of 14 to 16% during the conflict period. However, this change only affected US trade patterns. China increased its exports during this period by over $500 billion, particularly in the mentioned sectors. The trade shift made by the US to other partners, specifically ASEAN, is the one that benefits the most. Moreover, within ASEAN, Vietnam is replacing China's lost sectors in trade with the US; however, Vietnam is more like a mediator or a third-party country between the US and China, and this raises questions about how and why. That is because a significant share of the value exported by ASEAN economies embodies value added in China (Seong et al. 10).

On the other hand, China shifted its focus to developing economies, with the most significant part being its trade relations with ASEAN. As China evolved into an upstream supplier of intermediate inputs to ASEAN, it produced final products for the global market, particularly for the US. Other economies that China shifted to and experienced apparent changes were Indonesia, which saw 12% trade growth with China. Moreover, trade relations with Latin America have witnessed stable growth, which has been supported by China's agricultural imports from the region, in addition to electronic products. Additionally, Brazil's trade with China has increased by 13% since 2017, and Colombia has also seen a similar growth. (Seong et al. 13-14).

For energy sources, the people of the Republic of China have strengthened their trade ties with Russia and also made it a destination for their automobiles and transportation exports, by more than 10%. So, China shifted; it is essential to recharge your energy. Brazil focuses on agriculture, and Taiwan on electronics and machinery. Other countries also play a significant role in this shift in global trade, including Germany, India, and Brazil. Germany, due to

Russia's invasion of Ukraine, made a shift in its energy sources and imports from Russia, which decreased from 30% to 1%. At the same time, the US surpasses China as Germany's largest trade partner, as Germany's share of trade with China has been declining in recent years. This was also a result of a reduction in Germany's exports to China from 2020 to 2024. (Seong et al. 18-19).

For India, the country is engaged in trade with other countries worldwide. Its energy imports value has increased from 1% to 30% from Russia since 2017. Moreover, India has become an exporter of electronics to the US and Europe; 14% of its total electronic exports were directed to these regions, and now it is almost 65%. During the period of conflict, Brazil's trade with Asia shifted significantly to China, particularly in the agricultural and metals sectors. Brazil has been meeting China's soybean needs after tariffs were imposed on US soybean imports (Seong et al, 21-22).

2.2.2Re-routing of Supply Chains and FDI

Political disagreements, trade wars, economic policies, and the shift in the global trade patterns are all reasons that cause a change and re-routing in the global supply chains and foreign direct investment. During this period, from 2018 to the present, the China plus one strategy was frequently employed, which involves supply chain management. Companies utilize this strategy for various reasons, such as rising Labor Costs, geopolitical tensions, and the closure of factories during the COVID-19 period. The strategy helps countries diversify their supply chains and not only depend on China, but also source from other countries such as Vietnam and Mexico (Enderwick 3). The strategy is used to mitigate risks and protect companies in the event of trade wars, thereby avoiding reliance on a single country.

Lately Vietnam and Indonesia are attracting the foreign direct investments by leading the manufacturing and trade flows shift. Vietnam received in 2023 about 16 billion while

Indonesia got 33 billion in Greenfield manufacturing FDI, which resulted in 440 billion and 290 billion exports respectively. Even China moved the production to South Asia that became a major manufacturing hub. South Asia l is going to be the next factory hub; however, China still is number one. Other countries are using China plus one strategy and diversify their resources, which you create big opportunities in manufacturing logistics and infrastructure. Moreover, The FDI decreased by 17% since 2019 in China and shifted to South Asia that is blooming with 20% in countries like Vietnam that is specialized more in electronics and Bangladesh in textiles and also India Indonesia etc (Chu et al. 2).

2.3 South Korea as a Case Study: Exposure to US-China Conflict

The Republic of Korea is a pivotal player in the trade war between the USA and PRC. The economic and political relations of this country that link it with the two powers, put the nation in a serious threat that will affect it. This section will analyze South Korea exposure to the conflict through its economic indicators; to see to what extent this conflict did affect the country.

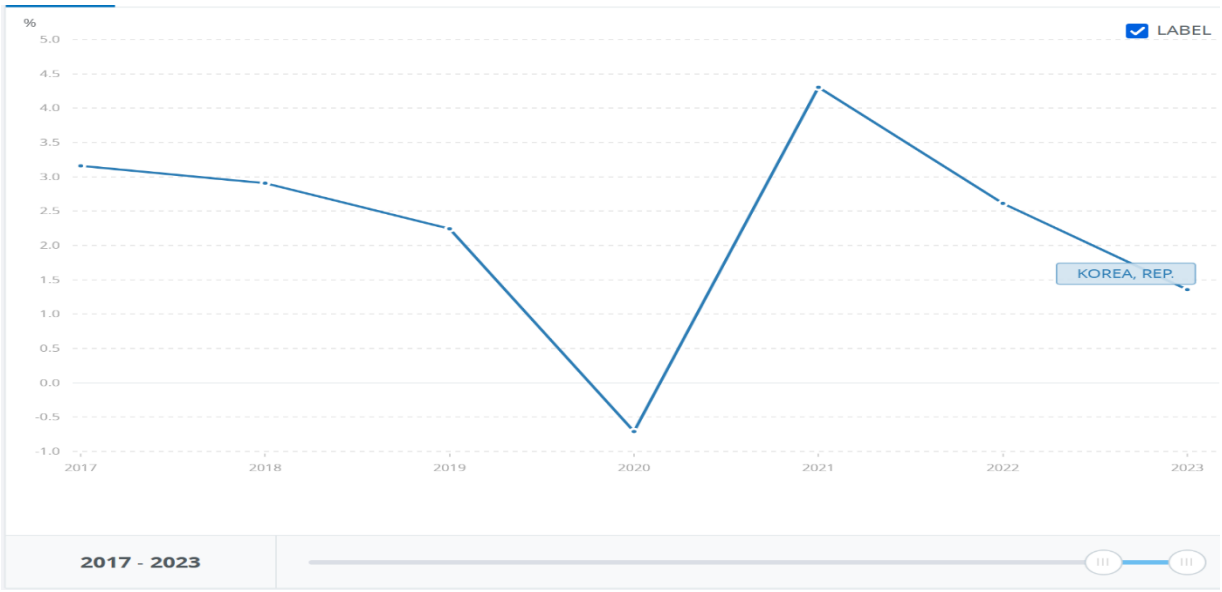
2.3.1 Analysis of Economic Indicators During the Conflict

Analyzing economic indicators is necessary to understand how the U.S.-China trade conflict impacted South Korea's economy. This part focuses on key measures which are GDP growth, imports, and exports. This analysis will show the extent of the conflict's effect on South Korea's economic performance.

2.3.1.1 GDP Growth During the Conflict Period

The following graph is the gross domestic production of South Korea in the last few years during the trade conflict between the US and China. The analysis of this graph will show the impact on the south Korea trade.

Fig.1: South Korea GDP growth annually



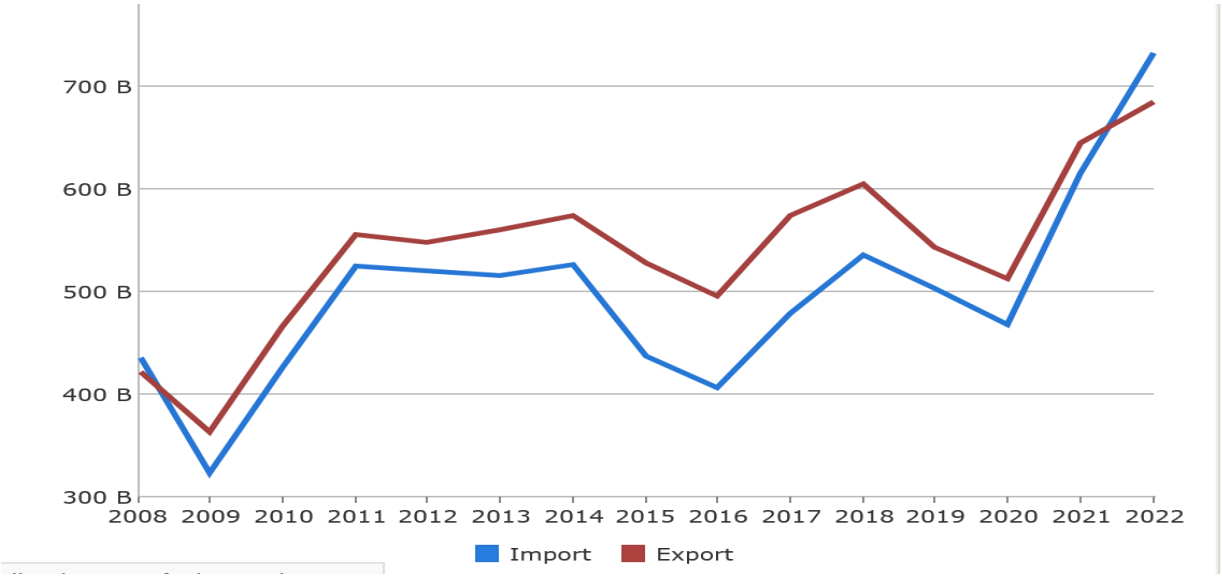
Source: "World Bank Open Data." *World Bank Open Data*, 2018, data.worldbank.org/indicator/NE.EXP.GNFS.CD?end=2023&locations=CN&start=2018. Accessed 15 June 2025.

The given figure shows the south Korean GDP growth during the conflict period, in which the growth experienced some fluctuations that shows a sharp decline, sudden recovery and slow decrease and growth. In 2017 the GPD growth rate was 3.2 % which indicate a good economic performance, later on in 2018 the statistics shows a slight decline in the GDP growth comparing to the last year that was rated 2.9 %. 2019 the decrease in the growth continued approximately to 2.2 % which means that the economic performance is not doing good, and this was confirmed with the sharp decline that happened in 2020 when the GDP growth went down to -0.6 % that was a significant turndown. In 2021 and after the sharp decline, south Korea's GDP growth experienced a strong rebound that was rated with 4.2 % and the economic performance improved even better than before. The next two years 2022-2023 showed another slowdown and decrease in the growth of GDP that was rated with 2.5 % and 1.5 % respectively.

2.3.1.2 Imports and Exports

The trends in South Korea's overall imports and exports from 2008 to 2022 are illustrated in the following figure. This data illustrates how the COVID-19 pandemic and trade tensions, among other global economic shifts, have impacted the nation's trading performance.

Fig.2: South Korea imports and exports



Source: "Korea, Rep. Product Imports from World US$000 2008 - 2022 | WITSData."*Worldbank.org*,2022,wits.worldbank.org/CountryProfile/en/Country/KOR/StartYear/2008/EndYear/2022/TradeFlow/Import/Indicator/MPRT-TRD-VL/Partner/WLD/Product/Total. Accessed 15 June 2025.

Since 2017 until 2022, South Korea's imports and exports was strongly affected by global changes. At the beginning, its economy grew so fast, but then it faced major challenges due to trade conflicts and COVID-19. Despite this, the economy stayed strong and flexible, bouncing back quickly after the issues that disrupted its imports and exports and impacted its economy growth. The figure shows that starting from 2018, south Korea's imports and exports were decreasing rapidly till 2020 its exports reached 512,419,288 billion while its imports rated

467,590,776 billion. And then it started to grow back until it reached more than 700 billion for imports and almost 700 billion for exports.

2.3.2. Sectoral analysis

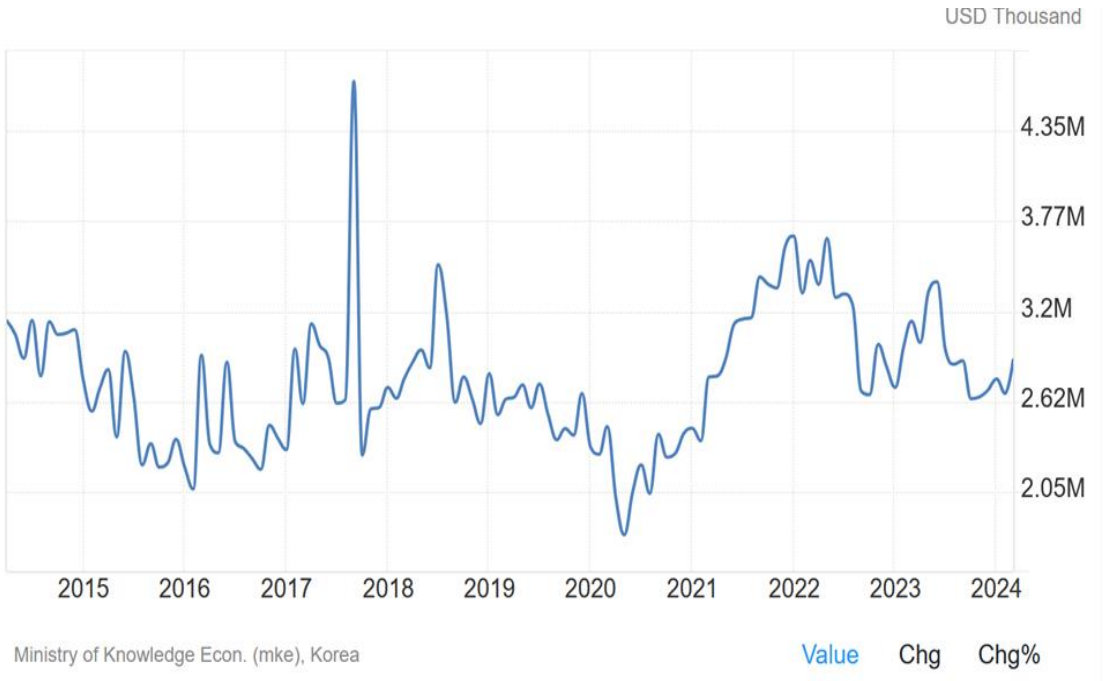
The tariffs that it was made by Tramp's administration to China also affected some of South Korea's sectors. And unfortunately, these sectors were the most important ones, which are semiconductor industry and steel. The sectoral analysis to these two sectors will show the to what extent they were impacted through the conflict period. The analysis will include the exports of these two important parts of Korea's trade during the last few years based on real statistics and figures like graphs.

2.3.2.1. Steel and Semiconductors

The association of steel and iron claimed that "The steel industry is the nation's key industry with high impact on the inter-industries and has played a crucial role in the economic growth of Korea by steadily providing materials to demand industries such as automobile, shipbuilding, and construction." (Korea Iron and Steel Association). The steel industry is crucial in producing other goods, which increases demand for it and makes it more sensitive to global changes that may harm this sector in South Korea. According to statistics provided by the Korea Iron and Steel Association, data from the Korean iron and steel association showed fluctuations in steel quantity year over year from 2019 to 2024. The data provided shows a decline starting from 2019, rated at 1.5 percent. The following year, 2020, also saw a decline of 6.1%. Later, in 2021, the quantity increased by 5% to 70.418, returning to its previous level. Then, another decline occurred, with a 6.5% reduction, bringing the quantity to 65.846 m/t in 2022. Following that, a 1.3% increase occurred in 2023. The period from 2019 to 2023 resulted in a decline in the quantity of crude steel in South Korea.

In addition to the crude steel quantity, the exports of steel production are a crucial measure for analyzing the impact on this sector during the trade war period. The following figure illustrates the export of steel production in South Korea over the past few years.

Fig.3: South Korea's exports of steel production



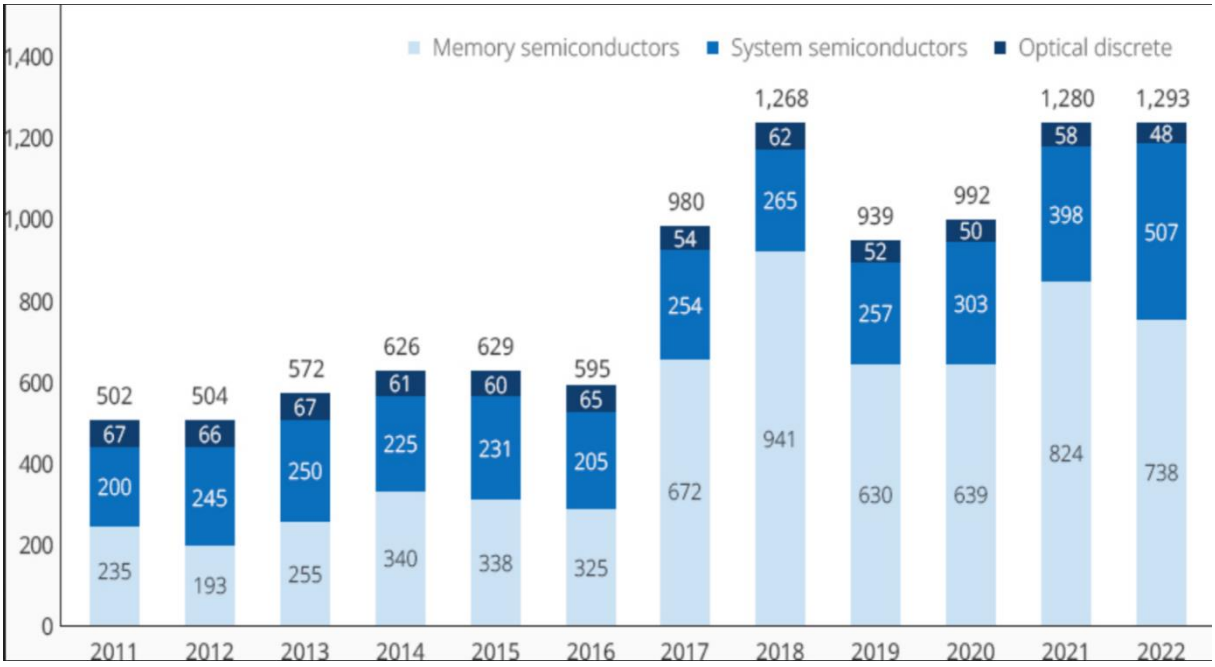
Source: "South Korea Exports of Iron and Steel Products." *Tradingeconomics.com*, 2024, tradingeconomics.com/south-korea/exports-of-kcs-iron-and-steel-products. Accessed 15 June 2025.

The figure presents the exports of steel production in South Korea. The data shows fluctuations in exports starting from the end of 2017, when exports reached a high score of more than $ 4.35 million. Then, a pandemic decline occurred just before 2018 started, and it fell to $ 2.05 million. Between 2018 and 2019, there was an increase of $3.2 million, after which it began to decline slowly, reaching less than $2 million by 2020. This means that the exports of sales production also declined during this period.

The second sector affected is the semiconductor sector, which had the most significant exports in South Korea in 2022, accounting for 18.9% of the total exports (U.S. Trade Administration). The semiconductor industry was impacted when demand from China for these items decreased due to the trade war. So, this will automatically affect this sector in an indirect way.

The figure below illustrates the total exports of semiconductors in South Korea from 2011 to 2022, as per data from investKorea.org. The chart shows that the export development of semiconductors underwent some changes during this period. Exports progressed slowly from 2011 to 2018, reaching a high level of 126.8 billion dollars. Following this, there was a decline over the next two years, reaching 93.9 billion and 99.2 billion in 2019 and 2020, respectively. However, in the next two years, the semiconductor sector experienced a substantial increase in total exports, reaching a high level of USD 129.2 billion.

Fig.4: Total exports of South Korean semiconductors



Source: "Semiconductor | Invest KOREA(ENG)." *Www.investkorea.org*, www.investkorea.org/ik-en/cntnts/i-312/web.do.

2.3.3 Interdependence Vulnerabilities

South Korea is facing real pressure due to the US-China trade conflict. The US is the leading and trusted partner, especially in the case of nuclear attacks from North Korea. As China is its largest trade partner, this relationship helps grow the US economy, and both countries have signed many trade deals together. In light of current security and economic realities, South Korea can close any of these two major powers (Kim).

South Korea is dependent on both China and the United States. It faces the real problem, which is that the more it depends on the US for its security, the more complicated its relations with China become. The president of South Korea, Moon Jae-in, has been trying to keep the US as a military alien and its economic partnership with China (Kim). The real vulnerability lies in the fact that South Korean sports rely on both nations' markets, with a 38.9% share. Additionally, the Korean economy is concerned about being drawn into the trade war, which could have a negative impact on its economy and lead to a decline. Additionally, in the long term, South Korea may lose its role in global value chains, so it should manage and make the right decisions to sustain its economy (Nam and Kim 120).

This chapter focused on the U.S.-China trade war that began in 2018 under President Trump. The conflict led to tariffs, supply chain disruptions, and shifts in global trade patterns. Some Key sectors were strongly impacted. South Korea, which was linked to both nations politically and economically, faced challenges such as fluctuations in its trade. The conflict also pushed companies to reroute their investments. After understanding how the trade war affected South Korea, the next chapter will examine how the country responded to these challenges through diplomacy, policy adjustments, and efforts to reduce its dependence on both countries.

Chapter Three

South Korea’s Policy Evolution amid US-China Trade Tensions

South Korea occupies a strategically important location in East Asia, where it has emerged as a major player in global politics. In the world of superpowers, numerous political conflicts exist, with the most significant being the US-China trade conflict, which affects not only the world as a whole but also Korea. South Korea has emerged as an essential economic power in the world and is a key ally of the United States, as well as a vital trade partner of China. In this situation, South Korea needs to find ways to mitigate risks and avoid being drawn into the conflict between these two countries. South Korea must carefully balance its relationship to keep peace and stability. This chapter will examine the impact of the trade war on the Korean economy and trade, and explore the procedures and solutions implemented by South Korea to mitigate the threat. Moreover, how can it manage these challenges and work diligently to save the country's future?

3.1 Economic Impact Assessment

South Korea's exposure to China and the United States created trade and economic links with both countries. This makes it vulnerable to the effects of the trade dispute between the world's largest economies. In this title, an analysis of its trade, including imports and exports during the conflict period, will be conducted to assess the extent of the conflict's impact on it. Moreover, examine the effect on the country's domestic industries to understand the extent to which the economy has been affected by this trade war.

3.1.1 Trade Flow Disruption

The economic war between China and the United States began in 2018 with the imposition of tariffs on goods from both countries. The problems expanded until they reached

the point of questioning the Hawaiian company. What made matters more complicated was America's recognition of the state of Taiwan. After a period, a temporary truce was agreed upon; however, other methods were also employed, such as increasing tariffs. Simultaneously, South Korea was in a state of anxiety because its entire economy is based on exports to China and America. Any decision or movement could affect its economy and its relationship with the state.

As researcher Jung Seon-Wi notes in his article, "The Impact of the US-China Trade War on the South Korean Economy," a recent study by the Korea Institute for Economic Research (KIEP) showed that Korean imports to the entire world could lose approximately $5.2 billion if tariffs were imposed. In 2019, the United States imposed 15% tariffs on Chinese products totaling $112 billion and 20% tariffs on companies totaling $75 billion. This is closely related to the direct trade and production between the two countries, which reduces demand for Korean products. The institute estimates that US exports totaled $910 million, while Chinese exports reached $4.31 billion. This indicates the weakness of the South Korean economy in light of the cooperation between all parties (49-50).

The following table is a key figure that illustrates the impact of the trade war on South Korea's trade. The table presents the direct, indirect, and total effects of the actions on Korea's exports to China and the United States.

Table 2: The direct and indirect effects of the trade war on the exports of South Korea to the US and China.

	1st ~ 3rd Action Effect			4th ~ 6th Action Effect		
	Direct Effect	Indirect Effect	Total Effect	Direct Effect	Indirect Effect	Total Effect
Korea's Decreased Export to the U.S (rate).	1.0 (0.1%)	4.3 (0.6%)	5.3 (0.8%)	1.4 (0.2%)	7.7 (1.1%)	9.1 (1.3%)
Korea's Decreased Export to China (rate)	13.4 (0.9%)	11.4 (0.8%)	24.8 (1.6%)	26.2 (1.6%)	16.9 (1.1%)	43.1 (2.8%)

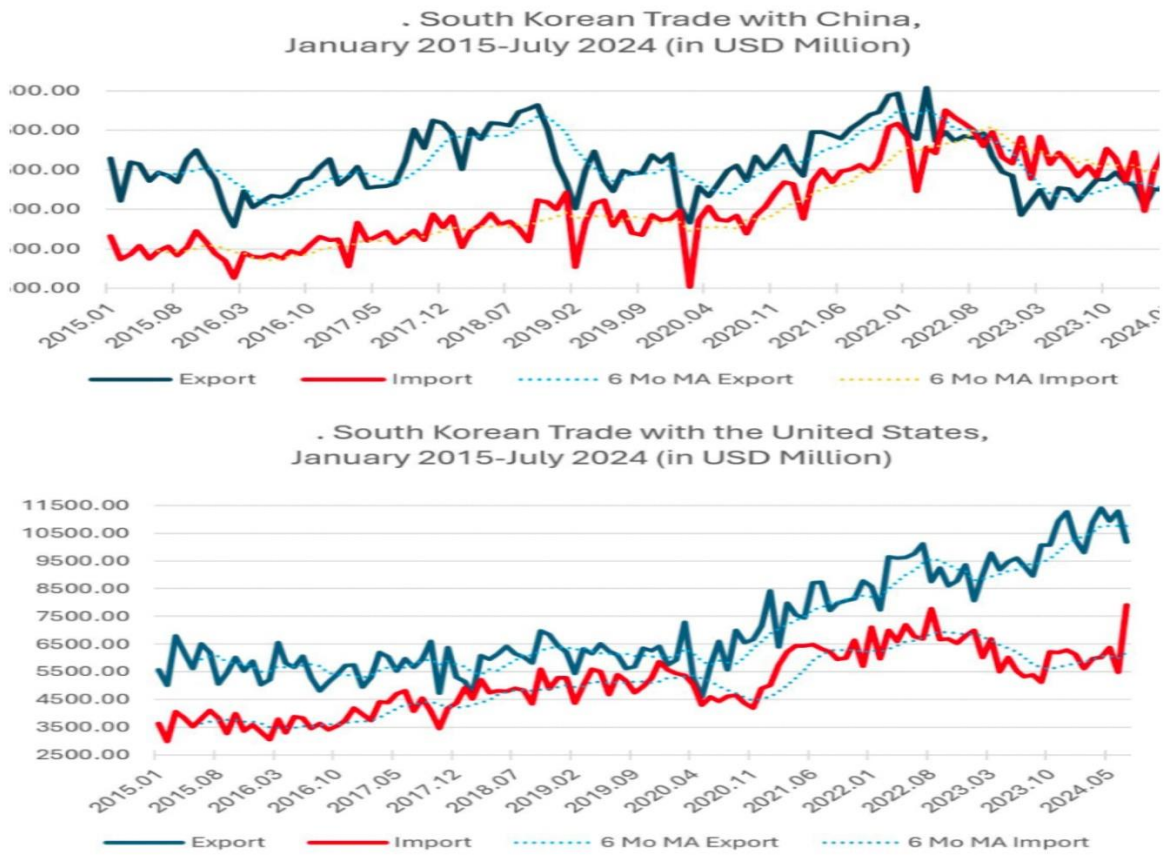
Source: Jeong, Seonui. "The Impact of US-China Trade War on South Korea's Economy." *The International Journal of Humanities & Social Studies*, vol. 7, no. 9, Sept. 2019, https://doi.org/10.24940/theijhss/2019/v7/i9/hs1909-015. Accessed 3 Apr. 2020.

According to the data in Table 1.1, China was the nation most affected by the conflict, both directly and indirectly, with a percentage of 43.1 (2.8), while the US was concerned with a rate of 9.1 (1.3). In contrast to the US, as shown in the table above (Table 1), it is evident that China was more directly and indirectly affected by the trade war than the US. According to the data, the US experienced a 9.1% impact, whereas China saw a significantly higher impact of 43.1%. This demonstrates the serious repercussions China experienced in comparison to the US, highlighting the unequal distribution of the trade war's effects between the two nations.

Next, the analysis of the trade between the two major powers and South Korea during the trade war. By using a chart that shows the performance of South Korean trade with both the US and China. The graphs below will provide the necessary information to determine if there

was a disruption in South Korean exports and imports with both nations that may harm South Korea's economy during the trade war.

Fig 5: The South Korean Trade with China and The US



Source: Hong, Andy. "Unpacking the Underlying Trends of South Korean Trade from July - Korea Economic Institute of America." *Korea Economic Institute of America*, 22 Aug. 2024, keia.org/the-peninsula/unpacking-the-underlying-trends-of-south-korean-trade-from-july/.

The first figure shows the trade development between China and South Korea from 2015 to 2024. During this period, exports and imports fluctuated, but overall, they increased in volume. The chart then shows a decline in trade during the pandemic in 2019 and 2020. Things were getting better with the increase in imports and exports over the next two years,

2021 and 2022. However, the figures show a decrease in trade again in 2023 and 2024. Generally, there was a fluctuation in trade, particularly during the period of trade conflict and the COVID-19 pandemic.

The second chart illustrates the evolution of trade between South Korea and the USA, in terms of revenues and imports, from January 2015 to 2024. Then, Imports saw a significant increase, with Korean exports rising from $5.5 billion to $11 billion in 2024. However, imports saw a significant improvement, from $3.5 billion to $7 billion in 2024, due to the China-US dispute and the COVID-19 pandemic.

3.1.2 Impact on Domestic Industries

The impact of external changes on local industries can determine how well businesses in a country can compete and grow. Additionally, these domestic industries had a significant impact on the economies of countries such as China and the US. According to Dong -woo. Chang, in his website titled “S. Korean industries on high alert ahead of looming U.S. tariffs,” claims that the top car manufacturer in South Korea, known as Hyundai Motor Group, is making post-Trump preparations through a $21 billion investment to expand American production facilities. The group plans to increase its U.S. production capacity. However, it will maintain a significant dependence on South Korean shipments, as 60 percent of vehicles sold in the U.S. are currently imported from South Korea. The substantial dependence on South Korean imports highlights the crucial role of the U.S. market for South Korean automobile exports, as nearly half of the country’s total exports are directed to the U.S. market. U.S. dealers received a warning from Hyundai Motor America (HMA) about potential price increases resulting from tariffs, which pose challenges to maintaining stable pricing.

Kim Seung-Jun, Kia’s chief financial officer (CFO), stated that the company has started exploring new pricing alternatives to mitigate the threat of impending punitive tariffs, which

are expected to put a strain on financial resource allocation in the near term. During Kia's latest earnings call, Kim highlighted the need for effective pricing strategies and potentially informed production decisions to respond to the financial pressures related to punitive tariffs. This proactive example by Kia illustrates the leadership's ability to make timely, proactive decisions while demonstrating financial adaptability in a changing market environment (Chang).

Moreover, with GM Korea Company, the South Korean subsidiary of General Motors Company, heavily reliant on the U.S. market—which accounted for 84 percent of its production—facing tension, pressure is mounting on the company to take action. Industry analysts argue that GM may consider shifting production from its Korean facilities to its U.S. plants to avoid tariffs, which could pose a risk to the employment of more than 8,000 employees in its Korean business. This action raises an important issue of how multinational firms can navigate trade issues while maintaining efficiency and profitability in a rapidly transforming global economy (Chang).

Furthermore, Samsung Electronics Company and SK Hynix Inc., Korea's semiconductor behemoths, face rising uncertainty related to potential U.S. tariffs on chips that threaten global supply chains. Semiconductors, which were South Korea's third-largest export to the U.S. in 2024 ($10.6 billion), also added their pressures with an additional layer of uncertainty brought by steel and aluminum products, already subject to 25 percent tariffs. To respond to the pressures, Hyundai Steel Company plans a substantial investment in a new steel mill in Louisiana, where it will produce steel for local automakers. POSCO Holdings Company, a South Korean multinational steel-making company, may consider U.S. investment in steelmaking assets. A survey of domestic manufacturing firms by the Korea Chamber of Commerce and Industry revealed that 60.3 percent of respondents anticipate being exposed to

tariff risks during the Trump administration, with 46.3 percent expecting to be impacted indirectly and 14 percent directly impacted (Chang).

3.2. South Korea's Strategic Responses

Standing at the center of the war and being affected by it was the situation of the Republic of Korea. South Korea's relations with both sides of the trade war make it difficult to address this problem. The country should maintain the balance between the two powers and protect its trade from the trade war disputes. However, this is not easy to do because South Korea is overdependent on both China and the United States. So, what will the Korean government survive from this war?

3.2.1Economic Diplomacy and Trade Agreements

According to the International Monetary Fund's report, South Korea's economy has been and remains in a sensitive position between the two giants, amid geo-economic fragmentation and global tensions. This prompted ROK to seek a way to mitigate the risks and manage its trade away from the threat of tension by utilizing its economic diplomacy and negotiating trade agreements. The Republic of Korea has achieved significant cooperation on the regional and global spectrum in 2024 by signing 21 free trade agreements with 59 countries, covering 85% of the worldwide GDP. Additionally, South Korea's FDI has experienced steady growth in recent years in ASEAN countries, which facilitates the relocation of product facilities from China to South Asia (Chai).

ROK has worked on reducing risks from geo-economic fragmentation by diversifying its trading partners and spreading its exports across a wide range of countries. South Korea is already a member of RCEP and ASEAN, and it has tried to access the CPTPP as an opportunity to diversify its trade. The members of the CPTPP are Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United Kingdom, and

Vietnam. These members comprise 16 trillion in economic output, which is 15% of the global trade. ROK was about to take its first step toward formal accession in 2023, but it had other interests at the time due to its diplomatic disagreements with Japan, one of the CPTPP members. However, South Korea has the total ability to access all the members' markets, as it has trade agreements with everyone except Mexico. Moreover, in June, when the new South Korean President is elected, the nation will have a chance to prove that "Korea is back" after the fragmentation that has occurred over the last few months. The president of the European Commission claimed that the accession of the ROK would be an excellent occasion for the new Korean leadership; moreover, if the CPTPP members and European Union members join South Korea, they will account for over 30% of global GDP (Han-Koo and Malmstrom).

In addition to that a research assistant at the observer research foundation, Abhishek Sharma claims that South Korea made new trade agreements with salute countries within some area focuses like Ecuador for slide chain stabilization, Indonesia for EVs and batteries, Vietnam for critical minerals supply chain joint research, also Chile, Tanzania and Uzbekistan for essential minerals and some African nations and other countries (Sharma).

3.2.2 National Economic Policies (Industrial Policy)

K-semiconductor strategy: South Korea wanted to enhance its semiconductor sector due to the imbalanced competitiveness in memory and system chips. The Korean government implemented several tax incentives that contributed to the growth of the semiconductor ecosystem. Additionally, it allocated $0.9 billion to develop next-generation technologies and AI semiconductors (Chun et al 3).

The Korean semiconductor strategy (2021) was developed as a strengthening strategy to enhance chip capabilities and position the Korean chip maker as a global leader in both memory and system-on-chip (SoC) technologies. The Korean Chip Act 2023 aims to

strengthen the semiconductor industry in Korea by providing incentives to chip makers to establish new factories. Moreover, the government gave a 15% tax credit to large companies that invest in manufacturing facilities; why will smaller ones benefit from a 25% tax break? These procedures aim to propel the nation into becoming a semiconductor powerhouse, while also supporting research in robotics and AI (Chun et al., 5-6).

Based on the United Nations' development programs, the Republic of Korea has initiated the New Korean Deal, investing $144 billion to spotlight the digital new deal and the green new deal. This initiative aims to provide and strengthen social safety nets and employment by creating 1.9 million jobs in 2025. The investment transitioned through green mobility to competent healthcare, where the government identified 10 key projects for this purpose. Moreover, these projects will involve the central and local governments, and half of the money will be invested outside of Seoul. Returning to the Green New Deal, this initiative focuses on renewable energy, green infrastructure, and the industrial sector. It also provides $ 17 billion in subsidies for purchasing electric cars in 2021 (Chowdhuray).

The competition between the US and China has had a significant impact on all countries around the world, with the semiconductor industry emerging as the centerpiece of global economic security. This has prompted the previous president, Joseph Biden, to propose the establishment of the "Chip 4 alliance" in March 2022. The Chip 4 Alliance comprises the United States, Japan, South Korea, and Taiwan, and its goal is to establish a secure global semiconductor supply chain.

The two Nations, Japan and Taiwan, initially supported the idea; however, Korea's reaction was hesitant and unclear about this alliance. However, the Korean president and minister of trade and energy have agreed to involve the alliance at the end (Jung7). The Chip 4 Alliance, also known as Fab 4, was primarily established to isolate China and counter its

growing influence in the semiconductor industry, thereby securing U.S. interests. These four countries control 82% of the global semiconductor Market, trying to beat China (Naik).

3.2.3 Strengthening Self-reliance and Reducing Overdependence

When it comes to strengthening and reducing overdependence, two important terms are frequently used lately. The two terms are De-Coupling and De-risking, but what do they mean, and how does South Korea fit into this? Discussing decoupling will lead us to the trade war between the USA and the PRC. The tension between the two sides was not limited to the reasons mentioned earlier. Moreover, China and the U.S are reducing their economic dependency on each other. This decoupling strategy has significantly altered global supply chains, leading to a substantial shift in trade patterns. Some results of this strategy included considering Vietnam as the next China, as well as relocating production away from China to other countries, such as Mexico, India, and Vietnam (Chung).

De-risking, according to the U.S Department of State, which defined this term as “De-risking refers to the phenomenon of financial institutions terminating or restricting business relationships with clients or categories of clients to avoid, rather than manage, risk.” By applying this term to our situation, it means that a country would stop or reduce the trade, investments, or financial connections with another country to avoid the risks. This was the strategy adopted by South Korea. Based on the analysis presented at the beginning of this chapter, a decrease in trade with China facilitated South Korea's implementation of its de-risking strategy (Chung). As an example of this, de-risking and strengthening self-reliance. South Korea is seeking to localize production and reduce imports of rare-earth (RE)-based magnets from China. South Korea has a company that produces rare-earth magnets in partnership with an Australian company. This company is working to become an independent, fully integrated “mine to manufacturer” (Nicolas).

3.3 Long-Term Implications

Tariff waves initially characterized the US-China trade war; however, this led to a transformation in the global economic policy. Major economic powers, such as the United States, the European Union, Japan, and China, have adopted industrial policies with long-term implications. Table 3 details these policies. The given data will affect the South Korean economy for its industrial landscape (semiconductors and EVs) in the long run. This table summarizes the central industrial policies related to semiconductors and electric vehicles (EVs) from various countries that are trading partners with Korea. It lists the initiatives each country has launched and the key measures they are taking.

Table 3: Korea Major Industrial Policies Related to Semiconductors and EVs by Trading Partners

Table 1. Korea: Major Industrial Policies Related to Semiconductors and EVs by Trading Partners

	Initiatives	Key measures
U.S.	CHIPS and Science Act (2022)	To direct some $278 billion toward scientific R&D and semiconductor production over 10 years. Specifically for semiconductor production in the United States, To provide $52.7 billion for American semiconductor research, development, manufacturing, and workforce development. To provide a 25 percent investment tax credit for capital expenses for manufacturing of semiconductors and related equipment. To come with strong guardrails, ensuring that recipients do not build certain facilities in China and other countries of concern, and preventing companies from using taxpayer funds for stock buybacks and shareholder dividends.
	Inflation Reduction Act (2022)	From $739 billion tax revenue raised by tax reform, to invest $369 billion in Energy Security and Climate Change programs, $64 billion in Affordable Care Act subsidy extension, $300+ billion in Deficit Reduction over 10 years. Specifically for qualified clean energy vehicle purchases, To provide the maximum $7,500 of tax credit for clean energy vehicle with final assembly in North America To receive the $3,750 critical minerals portion of the credit, the vehicle's battery must contain a threshold percentage (in value) of critical minerals that were extracted or processed in a country with which the U.S. has a free trade agreement or recycled in North America. The

Table 1. Korea: Major Industrial Policies Related to Semiconductors and EVs by Trading Partners (concluded)

	Initiatives	Key Measures
		threshold percentage is 40% up to 2023, 50% in 2024, 60% in 2025, 70% in 2026, and 80% after 2026. To receive the $3,750 battery components portion of the credit, the percentage of the battery's components manufactured or assembled in North America would have to meet threshold amounts. The threshold percentage is 50% in 2023, 60% in 2024 and 2025, 70% in 2026, 80% in 2027, 90% in 2028, and 100% after 2029.
EU	European Chips Act (2023)	To invest more than €43 billion in existing programs and actions in research & innovation in semiconductors to increase Europe's global market share of cutting-edge semiconductors from 10 percent to 20 percent.
Japan	The Strategy for Semiconductors and the Digital Industry (2021)	To invest $25.7 billion between 2022 to 2025 in the semiconductor industry To establish a government funded chip venture manufacturing next-generation semiconductors, Rapidus, with the support of eight major Japanese private companies
China	Made in China 2025 (2015)	To increase the Chinese-domestic content of core materials to 40 percent by 2020 and 70 percent by 2025
China	National integrated Circuit Industry Fund	To raise fund to invest in domestic semiconductor industry; $21.8 billion in Phase 1 (2014-2019); $29.1 billion in Phase 2 (2019-2024): $47.5 billion in Phase 3 (2024-2039).

Source: Chai, Hua. "Korea in a Changing Global Trade Landscape." IMF *Selected Issues Papers*, vol.. 2025, no. 014, Mar. 2025, p. 1, https://doi.org/10.5089/9798229003384.018. Accessed 17 Mar. 2025

The table's data show key semiconductor and EV-related industrial policies of South Korea's major trading partners: the U.S., EU, Japan, and China. In which they are boosting and increasing domestic production and reshaping global supply chains. These initiatives, such as the U.S. CHIPS Act, EU Chips Act, Japan's semiconductor strategy, and China's Made in China 2025, aim to boost local manufacturing, reduce reliance on foreign suppliers, and secure strategic technologies. South Korea, as a global leader in semiconductors, faces this shift as a threat that introduces competitive pressures and market access challenges, primarily due to countries imposing local content requirements or restricting technology flows, which will negatively impact South Korea's semiconductor sector.

Over the long term, China and the US are rivals, as Korea needs to maintain its competitiveness against American and Chinese companies. One method to address a limited domestic market size is to develop a more adaptable global supply chain network. On the demand side, Korea may grow into a developing market. On the supply side of the supply chain matrix, Korea must maintain strong relationships with more developed nations, such as the US and Japan. In the aftermath of the trade dispute between Korea and Japan, it has become clear that the importance of managing risks in the global supply chain cannot be overstated. To mitigate the risks associated with the US-China trade war, Korean companies must strengthen their value chain by internalizing essential components and technology, as observed in the Korea-Japan trade conflict, which highlights Korea's fragile global value chain network.

Multiple instances of global value chain mismanagement put associated companies at significant risk. Samsung Electronics, Hynix, and LG have faced Japan's retaliatory measures, which are believed to be driven by political motives, following Japan's decision to remove Korea from its white list of countries. In China, Huawei exemplifies a company whose essential global value chains are disrupted when the US succeeded in halting the supply of the Google operating system for Huawei. Furthermore, the shortage of supply from England's ARM and the Netherlands' ASLM creates challenges for Huawei in producing 5G technology and smartphones. Amid the US-China trade conflict, Korea needs to strengthen its global value chain through developed nations while also internalizing essential components to reduce excessive reliance on a single source. Therefore, enhancing the risk management of the global value chain system is necessary in the long term (Nam and Kim 125).

With the US-China trade war causing a decline in global trade, direct investments in host nations are seen as a way to reduce the risks associated with the trade conflict. The US offers incentives for international firms to invest directly in the country. Vietnam, seen as an

alternative to China and other Asian nations, can also serve as an FDI target to mitigate the risks of the ongoing trade war, given its neutral stance in the US-China trade conflict. Hyundai Motors' recent announcement of its investment in Indonesia to manufacture 250,000 cars annually exemplifies its entry into a market primarily dominated by Japanese carmakers.

Korean companies can also choose to establish additional factories in the United States, Mexico, or Canada, taking into account the United States-Mexico-Canada Agreement (USMCA). In this manner, Korea can assert that its products are advantageous to the United States by generating increased investment and employment, aligning with Trump's messaging. This is a protective policy reflecting past incidents where the Trump administration implemented tariffs on imports from Korea, such as cars and washing machines, by starting a Section 232 inquiry under the Trade Expansion Act, despite the current Korea-US Free Trade Agreement excluding these goods from taxes. Even with the recent signing of an updated Free Trade Agreement with the United States, Korea lacks adequate protection under the new terms from facing additional tariffs if President Trump believes these products could hinder the development of U.S. domestic industries (Nam and Kim 126).

Moreover, the Trump administration is expected to counter China's influence in Asia by promoting regional integration, and a way to demonstrate that South Korea will support the United States is by investing in and constructing additional factories in the United States or any USMCA region, indicating that Korea is a committed ally to President Trump. In this manner, Korea can avoid backlash for appearing to align with both parties. It will not favor customary allies over China, which has established itself as an economic competitor to the United States in this trade conflict. Korea can also leverage China's updated economic strategy to ensure an open-door policy concerning foreign investments, capitalization, and market access. Since other nations, such as the US, have delayed the Bilateral Investment

Treaty with China since 2018, Korea has the opportunity to be among the first to invest in the newly accessible Chinese market (Nam and Kim 126).

The US-China trade conflict presents the Korean economy with an opportunity to assess the true nature of the risks it faces. The Korean economy is at a critical juncture, poised to elevate to a higher level through the integration of the new economy or risk being overtaken by emerging competitors in the traditional economy. Korea has excelled in traditional manufacturing industries like automobiles, steel, shipbuilding, petrochemicals, LCDs, smartphones, and semiconductors. Nevertheless, the majority of sectors have been overtaken or closely pursued by the rising competitors, particularly from China. During the US-China trade conflict, the true objective of 'Made in China 2025' becomes more apparent, as China aims to accelerate its efforts to localize high-tech industries by optimizing its internal supply chain, rather than relying on imported intermediate goods from existing suppliers such as Japan, Taiwan, and Korea. Should that objective be achieved, the value chain in East Asia will contract, with Korea and Taiwan being the most impacted (Nam and Kim 127).

Conversely, in the new economies characterized by digital technologies such as the sharing economy, fintech, artificial intelligence, cloud services, electric vehicles, and 5G, South Korean firms are significantly lagging behind global leaders like Google, Alibaba, Amazon, Baidu, BYD, and Huawei. Despite the growth of the sharing economy, Korea is facing difficulties while companies like Airbnb, Uber, and Grab thrive alongside traditional economies. The Korean economy, already strong in traditional sectors, needs to emphasize well-coordinated collaboration among digital technologies, supported by both industry and government, along with vibrant involvement from academic fields (Nam and Kim 127).

According to Richard Javad Heydarian, a Professorial Chairholder in Geopolitics, the Russian invasion of Ukraine had a significant impact on South Korea. How and why? Russia's invitation of Ukraine has sparked disagreements within the Quad, which comprises the USA,

India, Australia, and Japan as its members. The disagreements were between India and the USA. The tension arose because India refused to change its stance toward Russia and terminate its economic and defense relations with Russia. This thing that pushed the previous president Biden to criticize the human rights situation in India, and India questioned the West's moral ascendancy on human rights, mentioning the anti-Asian-racism in America. India stands as an obstacle in America's way to isolate Moscow.

The tensions that emerged highlighted the precarious position of South Korea, which was trying to remain neutral during Moon Jae-in's era. However, the new president, Yoon Suk Yeol, aims to change this, seeking to give South Korea a pivotal role in the region. He expressed his interest in joining the expanded Quad (Quad Plus) and, at the same time, balancing relations with China and the USA. South Korea as a nation is not known only for its electronics, but it has developed itself to become a source of defense exports (acquired modern Korean-made jet planes), and Southeast Asia countries are expected to be the first customers. Moreover, ROK became a regular member of the expanded G7 multilateral fora. So, the main point here is that the tension between the US and India over Russia's case opens the door for South Korea to play a pivotal role in the region. Moral, President Yoon pushed his nation's policy to be an influential member of regional alliances. The Republic of Korea is poised to shift its position from a marginal power to a major player in Indo-Pacific affairs (Heydarian).

This chapter explains how South Korea mitigated the risks and carefully managed its trade during the U.S.-China trade conflict, given its deep economic ties with both countries. To survive, South Korea employed economic diplomacy by entering into new trade agreements, investing in domestic industries such as semiconductors, and diversifying its global partnerships. Policies like the "K-Semiconductor Strategy" and efforts to strengthen self-

reliance helped reduce overdependence on any one nation. Looking ahead, South Korea must continue to adapt to remain competitive and avoid being drawn into such a threat.

Conclusion

This dissertation examines the differences in trade refusals or avoidance between the United States and South Korea. It focuses on economic growth, trade flows, and changes within the famous companies. The purpose is to understand how a conflict between two major powers, such as China and the U.S., can impact an important third country in the region, like South Korea.

It also examines the key economic theories that help explain the issue better. One theory suggests that South Korea heavily depends on these two powers for various reasons, some of which are weak. The second theory highlights that South Korea specializes in industries such as semiconductors and automobiles, which have little connection to trade with either country. It also analyzes how the trade conflict between the United States and China began and got worse. Initially, trade was performing well, but in 2018, tariffs and countermeasures were introduced and subsequently expanded. This one affected the whole world by changing how products are supplied and where investments are directed. As a result, South Korea's economic growth slowed down.

Moreover, it also examines how South Korea addressed these issues, demonstrating that the country employed various strategies, for instance, by strengthening economic cooperation with new partners, such as the CPTPP and RCEP. The government also supported its industries, particularly the semiconductor sector, through the K-Semiconductor Strategy.

Furthermore, the findings of this dissertation, or in other words, the answer to the questions at the very beginning, show that the U.S.-China trade conflict significantly affected South Korea's economic growth by disrupting its export performance and weakening its trade exports in key sectors. Additionally, the conflict compelled South Korea to reassess its trade policies, prompting the government to prioritize diversification and industrial innovation to secure its economic future.

Additionally, the research contributes to the broader understanding of how middle-power economies navigate the unknowns of great-power conflicts. South Korea's experience highlights the importance of economic flexibility, innovation, and diplomatic engagement in safeguarding national interests amid global trade tensions. Additionally, the findings of this dissertation suggest that countries are integrated into the worldwide distribution. The chain must develop adaptable economic strategies to mitigate external challenges.

To conclude, this study highlights the significant and lasting impact of the U.S.-China trade conflict on the economies of countries such as South Korea. The research highlights that during periods of political instability and economic crises, middle powers, in this case, South Korea, cannot remain passive; they must take action and adjust their monetary policies to safeguard their interests. Moreover, this study provides the strategies and policy measures that South Korea employed intelligently to manage its trade with both sides and survive the trade war.

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