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**FROM NON-COMPLIANCE TO RETALIATION: SOUTH KOREA'S
ECONOMIC CONFLICTS WITH CHINA AND JAPAN**

MASTER'S THESIS

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Summary: This work analyses South Korea's response to economic sanctions employed against it by China in 2016-17 and Japan in 2019 and onwards. The thesis builds on the three hypotheses drawn from the literature on economic sanctions. South Korea's foreign policy towards the two countries before the conflict, economic position vis-a-vis each counterparty and the sanctions period as well as the actions taken by the South Korean government during the sanctions are analysed in order to draw conclusions as to the reasons why the responses to these two sanctions instances were different.

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INTRODUCTION

In the last few years the world was closely following the trade wars between the US and China, however at the same time, China was putting economic pressure on South Korea (afterwards referred to as ROK or Korea). In fact, between 2016 and 2019, in the span of only three years, ROK was involved in two disputes with its neighbours and close trading partners – firstly with China and then with Japan. On the one hand, economic conflicts, that is, conflicts where countries use economic tools for leverage or otherwise target the opponent's economy, are nothing new for Koreans themselves since ROK was involved in several such conflicts over the last century. On the other hand, the two conflicts are very different from any of the previous economic conflicts. Their significance is twofold. Firstly, neither of these conflicts have their roots in the actual economic policy of the conflicting parties. Secondly, it is notable that despite ROK being (arguably in the case of the conflict with Japan) a weaker party in the conflict, it still chose to stand its ground and refused to yield to the economic pressure. Considering the fact that both China and Japan are important to ROK both as trading partners and as regional partners, especially when it comes to matters pertaining to North Korea, it is important to understand the logic behind ROK's response to these two conflicts. The reasoning behind ROK's choice to oppose economic pressure despite the obvious negative consequences, first and foremost to its economy, is also important on a bigger scale since it could help better understand how middle powers respond to and deal with economic pressure from (regional) great powers.

The dispute with China started due to China's opposition to the anti-ballistic missile defence system (afterwards referred to as THAAD) installation in Korea. China expressed their dissatisfaction with the idea already in 2016 when the first announcements that the US would be building it in Korea emerged. At the time, China's President Xi Jinping was not convinced by ROK's President Park Geun-hye's assurances that the system was purely defensive and aimed at North Korea and not at China. However, the heaviest economic sanctions, only targeting the specific sectors of the Korean economy, were employed in March 2017 after the deployment began.

Lotte, one of the biggest Korean conglomerates, was hit the hardest because it agreed to swap the golf course it owned for a piece of land near Seoul, knowing that the former would be used for the THAAD construction. Due to this emerging conflict, the construction

of the new complex in Shenyang, China, where the company was planning to build a theme park with accompanying buildings, was halted in February 2017¹. Lotte stores around China started closing down after allegedly failing various inspections, sales of Korean cars and other Korean-made products dropped significantly². Tourist flows from China to Korea were heavily affected and only partly restored at the end of November 2017. Korea's Diplomatic White Paper reported that the number of tourists between Korea and China in 2017 was halved in comparison to the tourist numbers in the previous year³.

Despite significant damage to its economy, ROK stood its ground and refused to cancel the THAAD project completely. Nevertheless, in June 2017 the new President of South Korea Moon Jae-in halted any further deployments before the impact of the system to the environment could be assessed. In July the deployment was resumed and the system was fully completed in September. Not long after that, the Korean government released a very surprising “three no’s” resolution stating that: 1) no additional THAAD batteries would be deployed, 2) no trilateral military alliance between ROK-US-Japan would be created, and 3) ROK would not participate in the US regional missile defence system. After this announcement, the agreement was reached to restore bilateral ROK-China relations back to normal and the conflict was officially concluded. It is worth noting that despite the fact that the economic relations between the two were seriously damaged and in need of them being ‘restored’, the Chinese government never acknowledged employing any official economic sanctions against ROK. Lotte shops closed and construction halted due to failing authorities’ safety inspections⁴, while the Chinese officials never admitted knowing about a travel ban to South Korea both in the beginning of it⁵ when it was still unofficial information from industry sources and half a year later when its impact was already felt practically and when it was supposed to have been lifted due to warming of relation after the “three no’s” declaration⁶.

¹ Joyce Lee, “China halts construction at major Lotte project amid THAAD tension”, 8 February 2017, <<https://www.reuters.com/article/lotte-group-china-idUSL4N1FS5RH>>, [21 February 2022].

² Charlotte Gao, “Amid THAAD Issues South Korean Brands Suffer in China”, 31 August 2017, <<https://thediplomat.com/2017/09/amid-thaad-dispute-south-korean-brands-suffer-in-china/>>, [20 December 2020].

³ South Korea's Ministry of Foreign Affairs, “2018 Diplomatic White Paper”, 2019, 64, <https://www.mofa.go.kr/eng/brd/m_5684/list.do?page=1&srchFr=&srchTo=&srchWord=&srchTp=&multi_itm_seq=0&itm_seq_1=0&itm_seq_2=0&company_cd=&company_nm=&titleNm=>>, [16 December 2020].

⁴ Joyce Lee and Adam Jourdan, “S.Korea's Lotte says more than 10 stores in China closed amid political tension”, 6 March 2017, <<https://www.reuters.com/article/southkorea-china-lotte/s-koreas-lotte-says-more-than-10-stores-in-china-close-d-amid-political-tension-idINKBN16D0BW>>, [11 March 2022].

⁵ Hee-jin Kim, “China Roils South Korean Stocks With News of Travel Curbs”, 3 March 2017, <<https://www.bloomberg.com/news/articles/2017-03-03/china-roils-south-korean-stocks-with-news-of-travel-restrictions>>, [11 March 2022].

⁶ Daniela Wei, “China Bans South Korean Tour Groups, Say Travel Agencies”, 22 December 2017,

While the stance taken by the Korean government with the adoption of the “three no’s” policy could be seen as a (partial) concession to China’s demands, the fact remains that despite economic pressure and China’s opposition, the construction was completed as intended, and as such the initial demands of China were not met.

Meanwhile, the conflict with Japan started on 1 July 2019 when Japan introduced trade restrictions on several chemicals that are necessary for the semiconductor production in South Korea. The official reason for such a measure was a lack of proper screening procedures in Korea when exporting the dual-use goods to the other countries. It was feared that the chemicals could have entered North Korea. However, the more likely reason is the still yet-to-be solved historical disagreement, which stems from the 1910-1945 Japanese occupation period and the decision made by the Korean Supreme Court in October, 2018. The Court approved the lawsuit by the Koreans who were forced to work in Japanese factories during the Japanese occupation and ordered the Japanese companies, such as *Mitsubishi Heavy Industries* and *Nippon Steel*, to provide compensation for the forced labour in their factories. The Japanese, however, see the matter of compensation for the occupation as already solved by several agreements signed between the two countries in the past and do not agree that any Japanese companies or the government itself should be forced to pay more.

ROK tried containing the damage to the minimum and to solve the issue using diplomatic channels, however, on August 2 the conflict deepened when ROK was removed altogether from Japan’s “whitelist”, which is a list of countries receiving preferential treatment for the exports from Japan. This time Korea chose to retaliate and removed Japan from their own “whitelist” a few weeks later. The Korean society became extremely involved in the conflict as well and started an active boycott campaign of all Japanese goods. The sales of Japanese cars in July fell by more than 30%⁷, clothes retailer Uniqlo’s sales fell by 40%⁸, while Japanese beer sales fell by a staggering 99.9%⁹. The tourism sector in both countries was heavily affected as well. In September, ROK initiated a complaint against Japan in the WTO, but at the end of November decided to suspend the complaint.

<<https://www.bloomberg.com/news/articles/2017-12-22/china-tour-agencies-say-government-is-banning-south-korea-trips>>, [11 March 2022].

⁷ France24, “Japanese car sales plunge in S. Korea as trade row rages”, 5 November 2019, <<https://www.france24.com/en/20190805-japanese-car-sales-plunge-korea-trade-row-rages>>, [24 November 2019].

⁸ Kim Da-sol, “Uniqlo records 40 percent drop in sales, closes its Jongno 3-ga store, 2 August 2019, <<http://www.koreaherald.com/view.php?ud=20190802000462>>, [24 November 2019].

⁹ Alexandra Ma, “Beer exports from Japan to South Korea have fallen 99.9% as their bitter, personal trade war rages on”, 30 October 2019, <<https://www.businessinsider.com/japan-south-korea-trade-war-beer-exports-fall-2019-10>>, [24 November 2019].

The conflict, being escalated by both sides simultaneously, reached its peak when, at the end of August, ROK threatened to withdraw from the General Security of Military Information Agreement (GSOMIA), which was signed so that the two countries could share intelligence on North Korea. Just as the agreement was about to expire on November 23, Korea announced that it would not leave it on the condition that the talks about the lifting of restrictions would be continued, thus alleviating some of the tensions in the region.

The conflict, however, continued well into 2020. Even though, due to the on-going pandemic it was slightly forgotten, the tensions rose again in the second half of the year when ROK decided to renew its complaint against Japan in the WTO. Unexpected Yoshihide Suga's inauguration as Japan's Prime Minister in September gave impetus for another attempt to resolve the conflict through diplomatic means as Prime Minister Suga told President Moon that "[they] cannot allow [their] relations to remain as they are"¹⁰. However, no solution has been reached thus far, as in September 2021, ROK's Foreign Minister Chung Eui-yong before his meeting with Japan's Foreign Minister Toshimitsu Motegi stated that hopefully "these [trade restrictions] could be resolved soon, otherwise Seoul would have to bring them before a World Trade Organisation panel"¹¹.

Another important issue at hand is the assets that have been seized from the Japanese companies after the decision of the Supreme Court. Their liquidation could increase the tensions again. At the moment, however, the conflict is still ongoing. ROK is not planning on reversing the Supreme Court's decision, while Japan has not issued any plans of reinstating Korea on its "whitelist", though some restrictions have been lifted.

These economic conflicts that ROK was involved in stand out from the rest of recent instances of economic sanctions and trade wars in several ways. Firstly, it is unusual to find an instance of trade wars where a democratic country is the one being targeted rather than being a sender state. Additionally, the conflict between Japan and ROK is a very rare case of two democratic countries facing each other in an economic conflict, which started for political reasons. As A. Cooper Drury, Patrick James and Dursun Peksen prove in their article, democratic states rarely issue sanctions threats against other democratic states¹².

¹⁰ Yasuyo Sakata, "Japan-South Korea Relations and the Biden Factor", 21 December 2020, <<https://www.cfr.org/blog/japan-south-korea-relations-and-biden-factor>>, [21 February 2022].

¹¹ Reuters, "South Korea foreign minister says to meet Japan counterpart on Thursday", 22 September 2021, <<https://www.reuters.com/world/asia-pacific/south-korea-foreign-minister-says-meet-japan-counterpart-thursday-2021-09-22/>>, [21 February 2022].

¹² A. Cooper Drury, Patrick James & Dursun Peksen "Neo-Kantianism and Coercive Diplomacy: The Complex Case of Economic Sanctions." *International Interactions* 40, 2014, p. 25-51.

Secondly, it shows that not only a weaker state can refuse to change its policies at the expense of its own economy but that it can also use the same methods of economic statecraft that were used against it in retaliation (as in the case of the Japan-ROK conflict). The most outstanding thing is that while these conflicts share many similarities, they have one key difference and that is that the ROK's reaction to the economic pressure was different. Even though in both cases it refused to yield, only against Japan did it take active measures of retaliation. Therefore, the **research question** that follows is why ROK reacted differently to economic pressure employed by China than to the one employed by Japan.

The main aim of this study is to find out the key factors that influenced different responses by the ROK government to economic pressure imposed by China in 2016 and Japan in 2019. In order to answer the research question and achieve the main aim of the study, the research will be carried out as a **qualitative comparative case study**. This method was chosen as it is the most appropriate in cases where one needs to observe small yet significant details and draw conclusions as to how the cases at hand differ.

The cases for this study were selected because in both when faced with a choice of whether to comply with the demands of the sender state or to face the negative economic impact, ROK chose non-compliance. However, what is interesting is that while in the case of the ROK-China dispute, ROK merely did not comply with the sanctions, in the case of the dispute with Japan, not only did it refuse to comply but it also counter-attacked with its own sanctions. Understanding the reasons behind the different reactions would not only broaden the understanding of ROK's foreign policy but would also add to the understanding of economic sanctions in general.

This research does not aim to make generalisations of how all states react to economic sanctions but rather to understand in detail what makes the two cases of economic statecraft different from each other and what it says about the way ROK in particular reacts to economic pressure employed against it. Therefore, to achieve this, the following **objectives** are set to:

1. Set out the theoretical framework which would explain why states choose the non-compliance in case of economic sanctions;
2. Define South Korea's foreign policy towards its neighbours before the trade disputes;
3. Evaluate South Korea's economic power compared to that of China and Japan;
4. Analyse the two instances of economic sanctions ROK was subjected to, their primary and secondary aims and the results that were achieved;

5. Compare the response of ROK to the sanctions of China and those of Japan and the reasoning behind it.

Theoretical framework guiding this research is based on economic statecraft and economic sanctions study field, specifically the research in regards to success and failure of the sanctions, as well as research focusing on the conditions affecting the target's reaction to the sanctions imposed.

Hypotheses to be tested out in this study are drawn from the chosen theoretical framework and are as follows:

H1: A stronger reaction to the Japanese sanctions was due to the lessons ROK learned from previous instances of economic sanctions.

H2: The salience of the issues in question in the two cases of economic disputes was different for the ROK's government.

H3: The power (a)symmetry with the sender state dictated the measures ROK could employ which would bring the least amount of damage to its economy.

The sources that will be examined are official government documents and announcements as they help to understand the aims of the sanctions and results achieved. The same documents are also important in order to understand the attitudes that Korea holds towards each country and the core values it follows in its foreign policy. Another large part of the sources will be official statistical data which would help paint a better picture of the power asymmetries and economic relations of the countries in question. Specifically, trade volumes between the countries and the people-to-people exchanges will be compared. Inward and outward FDI will not be assessed in this work for several reasons: 1) neither of the sanctioning countries targeted FDI or put restrictions on them 2) the timing of the conflict with Japan, which overlaps with the global pandemic and therefore makes it difficult to separate which event had what effects on FDI in particular 3) limitations due to the scope of this thesis. Finally, the secondary sources such as academic works analysing the regional situation in East Asia will be used as well. Where possible, Korean and Chinese language sources will be used.

The thesis is divided into three parts. In the first one the most prominent and relevant sanctions literature is discussed in relation to the empirical cases and subsequently main hypotheses are then established. The second part is an in-depth analysis of the China-ROK conflict, while the third one discusses the Japan-ROK conflict. The last part will present the results of the research and general conclusions.

1. Literature review: Economic statecraft

Economic statecraft according to David Baldwin is “influence attempts relying primarily on resources which have a reasonable semblance of a market price in terms of money”¹³. This definition will be used from here onwards in order to separate economic statecraft from economic foreign policy, which is a state’s policy meant to regulate its own economy as well as the relations between its own economy and that of a foreign country. While the two could become interrelated at some point, the biggest difference is that economic statecraft is used specifically against another state in order to influence a state’s actions, while economic foreign policy does not aim to specifically influence other states’ behaviour.

Economic statecraft can be pursued by states because of economic or political reasons. Such economic statecraft, pursued in order to influence a foreign state’s non-economic policy matters, has been employed more frequently in recent years than the one which aims to change a state’s economic policy. This is because the cost of war has increased considerably in the last decades, therefore the states are more willing to employ economic measures to achieve their goals rather than start a military intervention.

There are two types of economic statecraft: positive and negative. The former is when economic incentives are used and the target state receives additional financial resources, tax or tariff exemptions in exchange of a different direction in some of their policies, while the latter is when the target state is being punished by embargos, economic sanctions or reduction of the privileges they had before, i.e. removing from the preferred partners lists, decreasing previous economic incentives, etc. Negative economic statecraft is defined as “the threat or act by a sender government or governments to disrupt economic exchange with the target state, unless the target acquiesces to an articulated demand”¹⁴. However, Baldwin does not entirely agree with such a definition. Because economic statecraft is not always used for purely economic reasons, the sender state can be completely indifferent whether or not its measures actually damage the economy of the target state and “disrupt economic exchange”, if only it achieved the primary goal of its economic statecraft¹⁵. Moreover, economic

¹³ David A. Baldwin, *Economic Statecraft*, Princeton, NJ: Princeton University Press, 1985, 14.

¹⁴ Daniel W. Drezner, “The Hidden Hand of Economic Coercion.” *International Organization*, 57(3), 2003, 643.

¹⁵ Baldwin, 63.

sanctions can be effective not necessarily because of their impact on the target state's economy but because of what such measures signalise to the target state¹⁶.

Economic sanctions receive much more attention in academic literature than economic incentives. Such literature can be categorised into three different groups that analyse:

1. Whether or not sanctions are an effective tool at all;
2. Factors determining whether or not the sanctions will be effective;
3. How sanctions affect the sender state;
4. How sanctions affect the target state.

Drezner's article on the effectiveness of sanctions, argues contrary to other scholars in the field that sanctions actually are effective but in the "situations when sanctions are most likely to work, they are least likely to be imposed"¹⁷. Effectiveness is visible not when sanctions are imposed but when the threat of such action forces the target state to change its stance on the issue. On the other hand, Pape argues that sanctions are not an effective measure because "[p]ervasive nationalism often makes states and societies willing to endure considerable punishment rather than abandon what are seen as the interests of the nation"¹⁸.

The conditions that are needed for economic statecraft to be successful are also discussed by Blanchard and Ripsman. Their model is especially interesting because it can be applied to both sanctions and incentives¹⁹. The basis of their model is the relationship between the state and the society in the target state. They analyse both external and internal factors, however, in this particular article they focus on the role of "stateness". The higher the level of "stateness" is, the easier it will be for the target state to either refuse to be pressured, or convince the society that it is necessary to accept the pressure and change their policy (which was the main goal of the sender state). This model shows that when a state is being targeted by economic measures, the response to and the effect of such measures will depend greatly on the target state itself and its bureaucratic apparatus and the state-society relations.

Generally, in sanctions literature it is rarely talked about how sanctions change the policy of the target state and what actions are taken in order to decrease their vulnerability to sanctions that are imposed on them in the present or would be potentially imposed in the

¹⁶ Baldwin, p. 24.

¹⁷ Drezner, "The Hidden Hand of Economic Coercion", p. 647.

¹⁸ Robert A. Pape, "Why Economic Sanctions Do Not Work", *International Security* 22, 1997, 93.

¹⁹ Jean-Marc F. Blanchard and Norrin M. Ripsman "A Political Theory of Economic Statecraft", *Foreign Policy Analysis*, 4(4), 2008, 371–398.

future. One of the scholars analysing the response to economic statecraft is Richard Connolly in his work about Russia's response to sanctions imposed by the Western states during 2014-15²⁰. However, he analyses the changes in domestic politics, not in foreign policy. Response to sanctions and their impact on private property are also analysed by Peksen, though he focuses on domestic politics of the autocratic target states²¹.

There is even less literature focusing specifically on South Korea and its reaction to the economic sanctions, despite the fact that South Korea is one of the few democratic countries that were subjected to sanctions for various reasons: because of economic reasons and because of both "high" and "low" politics. The majority of the works analysing sanctions imposed on South Korea or trade conflicts where it was a participant, focus on the sender state; however, several works do stand out.

Firstly, it is Park Joonui's dissertation on different responses by the three North East Asian countries - China, Japan, and South Korea - to trade and currency disputes with the USA. In his dissertation, Park analyses institutional differences between these countries and what effect these differences had on their reaction to the sanctions imposed by the USA²². It is worth noting that the sanctions were imposed because of the countries' trade and currency policies, which are considered to be "low" politics. While many scholars evaluate the success of such sanctions differently from those that are meant to influence the target state's "high" politics, Drezner does not agree that sanctions work differently depending on which area of the politics they are meant to be influencing²³. Whether or not such a division is fair, the main arguments of Park's dissertation could be applied to the analysis of "high" politics sanctions as well.

Park argues that one of the main differences between South Korea and other North East Asian countries is that South Korea's President's institution is "omnipotent" but it also has to monitor the public's reaction to its decisions very closely. Because Korea's society itself is very sensitive to any changes in the economic policy of the state, all the questions related to trade or currency are of the utmost importance to the decision makers²⁴. The importance of society to the Korean politicians is also emphasized in Balbina Hwang. She states that the economic pressure from China due to its opposition to THAAD was not

²⁰ Richard Connolly, "The Empire Strikes Back: Economic Statecraft and the Securitisation of Political Economy in Russia", *Europe-Asia Studies*, 68(4), 2016, 750-773.

²¹ Dursun Peksen, "How Do Target Leaders Survive Economic Sanctions? The Adverse Effect of Sanctions on Private Property and Wealth", *Foreign Policy Analysis*, 13(1), 2017, 215-232.

²² Joonui Park, "Trade Wars & Currency Conflict: China, Japan, and South Korea's Responses to US Protectionism, 1971-2013", PhD. Dissertation, 2015, <<https://open.bu.edu/handle/2144/15692>>, [30 May 2020].

²³ Drezner, "The Hidden Hand of Economic Coercion", 650-651.

²⁴ Park, "Trade Wars & Currency Conflict", 6.

successful specifically because of a strong reaction by the Korean public and a sudden increase in the society's support for THAAD deployment²⁵.

Florence Yang wrote another important article on the sanctions that targeted South Korea²⁶. She analysed what makes China's economic statecraft successful and argued that the sanctions imposed because of the THAAD construction were successful because of asymmetrical interdependence between China and South Korea. Furthermore, China imposed sanctions in a very precise manner and only in the sectors where the damage would be concentrated mostly on the South Korean economy. Here we encounter a dilemma of how to evaluate the success of the sanctions since the primary goal of China, that is for the THAAD system not to be built at all, was not achieved. Nevertheless, Yang emphasizes that while the primary reaction of Koreans was to continue pursuing the unwanted (from Chinese point of view) policy, the secondary goal of the sanctions was achieved when ROK announced its "three no's" resolution.

The analysis of South Korea's reaction to the economic sanctions, which target its domestic and defence policy decisions, can help to better understand how economic sanctions work and how the consequences, which the sender state neither wanted nor expected, arise. It would also add to the existing literature on economic statecraft because the literature, which analyses the reaction of the target state, is quite scarce. Finally, it would deepen our understanding of how democratic states react to economic sanctions as in the majority of cases the democratic states are rarely the target states (unless it is retaliation and they imposed the sanctions first).

2. Theoretical framework

2.1 Definition of economic sanctions

The sanctions literature provides ample reasons for sanctions being effective or failing, however, before looking at them there are two things that need to be defined: the sanctions themselves and what is considered to be *successful* sanctions.

There is no clear-cut definition of economic sanctions. James M. Lindsay distinguishes sanctions from other foreign policy tools because of their public nature as opposed to that of economic pressure, which happens behind closed doors in private meetings

²⁵ Balbina Y. Hwang, "The US Pivot to Asia and South Korea's Rise." *Asian Perspective*, 41(1), 2017, 71-97.

²⁶ Florence Yang "Asymmetrical Interdependence and Sanction: China's Economic Retaliation over South Korea's THAAD Deployment". *Issues & Studies*, 55(4), 2019, 17.

between the rivals' diplomats and because their end goal is political and not economic²⁷. Maarten Smeets is of similar opinion, that sanctions employed to achieve political goals and those aiming for economic goals are different and should not be compared²⁸. Daniel W. Drezner defines economic coercion "as the threat or act by a sender government or governments to disrupt economic exchange with the target state, unless the target acquiesces to an articulated demand"²⁹. Jaleh Dashti-Gibson *et al* differentiates between sanctions, which are employed in order to force the target to change its specific policy and those that are employed as a punitive device³⁰.

For the purpose of this research, all definitions fall short. Drezner's definition talks about "an articulated demand", while Lindsay's mentions "public nature", however in the cases of Japan and China's disputes with Korea either of the former mentioned features are not clearly expressed. While both Lindsay and Smeets emphasise the difference between economic and political goals, the line separating the two might be blurry for various reasons, one of the most important being the fact that what is essentially an economic matter for the sender, can be interpreted as a political matter by the target state. And yet in this thesis both cases are considered to be instances of economic sanctions that sought to change ROK's policy.

In his canonical work, David Baldwin suggests that in order to analyse sanctions one must first answer three fundamental questions: who is taking measures (sender), who is on the receiving end (target), and the purpose of the sanctions (sender's demands)³¹. This relatively simple framework encompasses a wide variety of elements and based on it, measures taken in both cases can be treated as sanctions. In the Japanese case, the measures against the ROK were formally initiated by the government of Japan. The official reason for removing ROK from the whitelist was that Japan was worried about the dual-use goods being processed incorrectly³² and ending up in North Korea. The official sources have never connected the expulsion from the whitelist and ROK's decision to impose fines for forced

²⁷ James M. Lindsay, "Trade Sanctions as Policy Instruments: A Re-Examination." *International Studies Quarterly*, 30(2), 1986, 154.

²⁸ Maarten Smeets, "Can economic sanctions be effective?", WTO Staff Working Paper, World Trade Organization (WTO), Geneva, 1-19, <<http://dx.doi.org/10.30875/0b967ac6-en>>, [15 February 2021].

²⁹ Drezner, "The Hidden Hand of Economic Coercion.", 643.

³⁰ Jaleh Dashti-Gibson et al. "On the Determinants of the Success of Economic Sanctions: An Empirical Analysis." *American Journal of Political Science*, 41(2), 1997, 610.

³¹ David A. Baldwin, *Economic Statecraft*, Princeton, NJ: Princeton University Press, 1985, cited from Kenneth W. Abbott "Coercion and Communication: Framework for Evaluation of Economic Sanctions." *New York University Journal of International Law and Politics*, 19(4), 1987, 788.

³² Japan's Ministry of Economy Trade and Industry, "Update of METI's licensing policies and procedures on exports of controlled items to the Republic of Korea", 1 July 2019, <https://www.meti.go.jp/english/press/2019/0701_001.html>, [1 April 2021].

labour during the occupation period on the Japanese firms. Despite questionable reasons provided by the Japanese government and there possibly being a hidden purpose with a different agenda than what was officially stated, there is nevertheless, a clear sender, a target and a purpose of the measures taken.

Meanwhile China took it one step further. While it did make its dissatisfaction with the deployment of THAAD clear³³ back in 2016 when deployment was still in the discussions stage with the US and time and again throughout 2017, China never publicly announced any formal sanctions against ROK. Not only did it not say that the measures taken were meant to achieve indefinite pause of THAAD deployment, the government claimed to have not imposed any sanctions against ROK in the first place, claiming that it was simply a reaction of the Chinese society to ROK's foreign policy in regards to THAAD³⁴. At the time they claimed that they were not banning Korean products and putting up restrictions on purpose and that it just was a reaction of the Chinese people's dissatisfaction but the tensions over THAAD were there and it was clear where dissatisfaction (whether from people or from the government) was stemming from and what was being demanded of Korea. Additionally, throughout the period of the dispute, there were threats from the Chinese side regarding the consequences of THAAD deployment³⁵. The threats did not have any specifics regarding the said consequences but they did imply that some kind of action would be taken by the Chinese government whether to change the situation or simply project their dissatisfaction with it.

Also, while some boycotts of the Korean products were carried out by the people, most of the actions taken were clearly initiated by the government, i.e. cancellation of group tours to South Korea³⁶, tighter visa restrictions³⁷ for South Korean businesspersons³⁷ and loss of government-issued incentives³⁸. Finally, in October 2017, the restrictions were slowly removed and the relations between the two countries have slowly begun to normalise, which shows that it was in the power of the Chinese government and not of the Chinese society, to return the China-Korea relations back to normal. Whilst the primary goal was not achieved, it

³³ Lesley Wroughton, "US hopes China will agree to talk about South Korea missile defense", 29 March 2016, <<https://www.reuters.com/article/idUSKCN0WV2E0>>, [1 April 2021].

³⁴ Darren J. Lim, "Chinese Economic Coercion during the THAAD Dispute", 28 December 2019, <<http://www.theasanforum.org/chinese-economic-coercion-during-the-thaad-dispute/#6>>, [15 May 2020].

³⁵ Emily Rauhala, "China's anger over US antimissile system poses challenge to Trump", 7 March 2017, <https://www.washingtonpost.com/world/asia_pacific/china-warns-of-consequences-over-deployment-of-us-anti-missile-system/2017/03/07/dd5ca494-0319-11e7-a391-651727e77fc0_story.html?utm_term=.c700f4caf44f&iti_d=lk_inline_manual_18>, [1 April 2021].

³⁶ Financial Times, "China bans tour groups to South Korea as defence spat worsens", 3 March 2017, <<https://www.ft.com/content/9fc4b1b4-ffb1-11e6-96f8-3700c5664d30>>, [20 April 2020].

³⁷ Korea Herald, "China tightens tourist visa rules for S. Koreans amid THAAD row", 12 August 2012, <<http://www.koreaherald.com/view.php?ud=20160812000959&mod=skb>>, [20 April 2020].

³⁸ Yang, 17.

was the statement related to it that appeased the sender and allowed the measures to be lifted, hence retroactively in this case all three elements from Baldwin's framework can be found as well. It is also worth mentioning that in both cases the Korean government and the society felt that they were being sanctioned by the other state and reacted accordingly.

2.2. Successful sanctions

In order to evaluate and understand ROK's response to the sanctions by China and Japan, it is essential to first establish what is considered to be successful sanctions because without it, whether or not sanctions against ROK were successful is a matter of debate. However, the lack of clearcut sanctions definition, or rather the fact that the two sanctions episodes in question were not formal sanctions employed in order to achieve a clearly stated goal, also makes it difficult to define the successful sanctions.

There are quite a few definitions of successful and effective sanctions. According to Peksen, "effective sanctions are those that result in either full target compliance or at least partial policy change in line with the stated policy objectives of senders"³⁹. Jon Hovi, Robert Huseby and Detlef F. Sprinz provide a similar definition⁴⁰ but in addition to that, they state that sanctions are also successful when noncompliance is impossible⁴¹. The same definition is used by Susan H. Allen but she adds a different perspective by looking at the issue from a different point of view, that is by defining unsuccessful sanctions. According to her, it is not the target and its refusal to comply with the sanctions that make the sanctions unsuccessful, but rather it is the abandonment of sanctions by the sender, which signals that sanctions have failed⁴². Meanwhile, Lacy and Niou state that even those sanctions that do not bring any changes in the target's behaviour can be considered "successful by enhancing the coercer's reputation as a resolute player or by producing an outcome that the coercer prefers to the status quo"⁴³. For the purpose of this research, Peksen's definition of successful sanctions is used. Firstly, it is the most straightforward definition at hand. Secondly, unlike other definitions, it gives some agency over the success of sanctions to the target state rather than assuming that it is only the sender state that decides the success of the sanctions. Finally, as

³⁹ Peksen, Dursun, "When Do Imposed Economic Sanctions Work? A Critical Review of the Sanctions Effectiveness Literature", *Defence and Peace Economics*, 30(6), 2019, 637.

⁴⁰ Jon Hovi, Huseby, R., & Sprinz, D. F., "When do (imposed) economic sanctions work", *World Politics*, 57(4), 2005, 483.

⁴¹ The same, 484.

⁴² Susan Hannah Allen, "The Determinants of Economic Sanctions Success and Failure", *International Interactions*, 31(2), 117-118.

⁴³ Dean Lacy, and Emerson M. S. Niou, "A theory of economic sanctions and issue linkage: The roles of preferences, information, and threats", *Journal of Politics* 66 (1), 2004, 27.

sanctions are only a means to a specific end, be it to punish the target state (therefore not having a tangible end point but still with a specific aim in mind) or to force the target to change its policy (hence providing a tangible criteria as to whether or not the sanctions were successful), the criteria for sanctions success or failure must be linked to the achievement of the sender's goals and not merely a technical point of official cancellation. Additionally, considering the majority of the definitions presented, both instances of sanctions were unsuccessful so far. The Chinese sanctions did not achieve its primary and rather publicly declared goal of stopping the THAAD construction. The declaration of "three no's" appeased China and allowed it to receive some gains from the overall situation but it was not the gains that China initially wanted to receive, as it went from demanding no THAAD in South Korea at all to receiving a promise of no additional THAAD deployments.

As this research concentrates on ROK's actions and its reaction to the sanctions it faced, a more significant question is why ROK refused to comply in the first place despite the serious economic pressure and disruption of trade that it was facing during these disputes.

2.3. Reasons for (non-)compliance with sanctions

Finally, there is a question of what it is that makes the target country concede. There are many possible reasons researched upon when sanctions can be the most successful. Peksen⁴⁴ and Elliot⁴⁵ agree that trade dependence influences the success rate of sanctions. According to Elliot⁴⁶ trade dependency makes the target state more vulnerable than it otherwise would be. Peksen also states that the less ambitious goals the sender has, the more successful the sanctions will be⁴⁷. Both Peksen⁴⁸ and Drezner⁴⁹ believe that the sanctions' success depends on the damage, which is inflicted upon the target state's economy. Peksen claims that sanctions targeting allies will have more success than those, which target the adversary, even though sanctions targeting adversaries are more common⁵⁰. Allen in 2005⁵¹ and Drezner⁵² claim that political regime type also holds significance over the success of

⁴⁴ Peksen, 637-638.

⁴⁵ Kimberly Ann Elliott, "The Sanctions Glass: Half Full or Completely Empty?" *International Security*, 23(1), 1998, 60.

⁴⁶ The same, 60.

⁴⁷ Peksen, 643.

⁴⁸ Peksen, 639.

⁴⁹ Daniel W. Drezner, "Sanctions Sometimes Smart: Targeted Sanctions in Theory and Practice", *International Studies Review*, 13, 2011, 99.

⁵⁰ Peksen, 643.

⁵¹ Allen, "The Determinants of Economic Sanctions Success and Failure", 118.

⁵² Drezner, "Sanctions Sometimes Smart", 99.

sanctions. High political costs are cited as the reason for success by Blanchard and Ripsman⁵³ and by Allen, who adds that compliance is also more likely if the target values the benefits gained by compliance⁵⁴.

Dashti-Gibson et al⁵⁵ and Lindsay⁵⁶ attribute the success to the goals of the sender. Dashti-Gibson also elaborates that depending on the type of the goal, different factors may bring the success⁵⁷. For one goal, the only thing that matters is the initial stability of the target, another goal will be more successful if the sender will employ financial sanctions⁵⁸. Therefore, in order to evaluate the reaction to each sanctions' case, it is important to understand the nature of the sanctions and what the sender was trying to achieve by them. In a similar vein, Ang and Peksen also come to the conclusion that it is the sender's position in regards to the issue and not any of the target's actions on which the outcome of sanctions depends⁵⁹. According to them, the salience of the issue matters only from the sender's side but the issue salience for the target does not have any statistically significant effect on the potential outcome of the sanctions. While Eaton and Engers believe that lower costs on the sender state and target's impatience can bring about the success of sanctions⁶⁰.

Authors writing about sanctions failure present a different perspective. Allen states that sanctions seem to fail more often when the sender state has leadership changes during the sanctions period⁶¹. Blanchard and Ripsman suggest that if the target's leader has more structural autonomy, then sanctions will be less successful⁶².

Connolly thinks that if the target state has faced sanctions before, it would be less likely to concede as it would have built some kind of immunity against the future sanctions⁶³. He also mentions that sanctions might have the opposite effect and make the society of the target state 'rally around the flag' as it would be putting blame for its misfortunes on the external threat rather than their own government⁶⁴. The China-Korea conflict over THAAD happened two years earlier than the one with Japan. This could be an indication that Korea

⁵³ Jean-Marc F. Blanchard and Ripsman, Norrin M. "Asking the right question: When Do economic sanctions work best?", *Security Studies*, 9(1-2), 1999, 222.

⁵⁴ Susan H. Allen, "The Domestic Political Cost of Economic Sanctions". *Journal of Conflict Resolution*, 52, 2008, 919.

⁵⁵ Dashti-Gibson et al , 643.

⁵⁶ Lindsay, 154.

⁵⁷ Dashti-Gibson et al, 610-611.

⁵⁸ The same, 615.

⁵⁹ Adrian U. Jin Ang and Dursun Peksen, "When Do Economic Sanctions Work?: Asymmetric Perceptions, Issue Salience, and Outcomes." *Political Research Quarterly*, 60 (1), 2007, 141.

⁶⁰ Jonathan Eaton and Maxim Engers, "Sanctions", *Journal of Political Economy*, 100(5), 1992, 899-928.

⁶¹ Allen, "The Determinants of Economic Sanctions Success and Failure", 133.

⁶² Blanchard and Ripsman, "Asking the right question", 231.

⁶³ Connolly, 766.

⁶⁴ The same, 768.

assessed its position and reliance on other countries and the possibility of such or similar sanctions repeating and thus was better prepared to deal with Japan and could therefore have a stronger stance than two years ago. Granted, the Chinese sanctions were not the first sanctions ever targeting South Korea, but they were the first ones to demand a political concession. While the sectors impacted were completely different, the first sanctions could have allowed South Korea to develop a basic framework of dealing with such sanctions. Hence, the first hypothesis is:

H1: A stronger reaction to the Japanese sanctions was due to the lessons ROK learned from previous instances of economic sanctions.

Cox and Drury claim that sanctions are less likely to be successful in instances where a democracy employs them against another democracy⁶⁵. While Drezner states that if the target state anticipates future conflicts with the sender state, the former will be less likely to concede to the sender's demands⁶⁶. He also emphasises that sanctions work less if the disputing parties are adversaries stating that "when a country makes a political concession to a potential aggressor, the decision to acquiesce has a greater probability of coming back to haunt the country in the future"⁶⁷. According to Drezner's definition of allies and adversaries, Japan and ROK are indeed allies, as their disputes revolve mostly around a single issue and in most other cases (excluding the territorial dispute over the Dokdo/Takeshima islets) they closely cooperate with each other. However, this 'single issue' has been ongoing for decades already and can be hardly considered a simple disagreement, considering the fact that it concerns the fundamentals of their renewed relations. Disputes regarding the still unresolved (in ROK's view) historical issues emerge frequently and taint what would otherwise be a very strong partnership in all areas. So if ROK was to make concessions on this particular issue that would make them less likely to put forward any future claims about the payments or responsibility of the Japanese government that they would like to reassess. It would potentially make all the future claims not strong enough as this one would have been retracted by the Korean government itself if they were indeed to concede and possibly even influence the court to change the ruling.

⁶⁵ Dan G. Cox and A. Cooper Drury, "Democratic sanctions: Connecting the democratic peace and economic sanctions". *Journal of Peace Research*, 43(6), 2006, 711.

⁶⁶ Daniel W. Drezner "Conflict Expectations and the Paradox of Economic Coercion." *International Studies Quarterly*, 42(4), 1998, 711-712.

⁶⁷ The same, 712.

Blanchard and Ripsman present an argument that economic sanctions are the most effective when the target state is likely to suffer high political costs if it refuses to comply⁶⁸. They present six factors that would increase the target's political costs: compound sanctions, the target state's international threat situation, third party support, domestic political instability, the opposition and redirection opportunities, as well as two confounding variables: costs of changing behaviour and decision-making autonomy⁶⁹. However, according to them, the leaders may still choose non-compliance "if the domestic political costs of compliance are also extremely high"⁷⁰. When the target state's society feels strongly about a particular issue, they might be the ones demanding non-compliance, despite the damage that the sanctions are causing. This in turn would create a 'rally round the flag' effect, and virtually prohibit the leaders to comply with the demands of the sender if they want to stay in power.

According to them, "the more structural autonomy a leader or an executive possesses, the less effective sanctions should be"⁷¹, but this could work the other way around in cases where the public strongly supports non-compliance and the government is also very sensitive to public opinion. Even if the government wanted to comply, it would have no choice but to resist the sanctions or risk losing their power due to the pressure from the public. The government of the target country would always choose a path of least resistance, whether that resistance would come from external or domestic sources. In the case of sanctions against ROK, the Korean society was particularly unanimously outraged against Japan removing ROK from its whitelist, while during the THAAD dispute with China, the public's reaction was not nearly as strong.

In regards to costs of changing behaviour Blanchard and Ripsman claim that sanctions are more likely to be successful if the target's "decision-makers do not feel that compliance <...> will damage their reelection chances, weaken their position <...>, decrease the depth of their support <...>, or increase the political power of opposition groups"⁷². The government's chances for reelection as well as support they can gather stem directly from the public. Therefore, the public's opinion regarding the issues at hand needs to be taken into consideration as well. Some issues due to which the countries can be sanctioned affect the public significantly even before any sanctions are placed upon the target. Other issues can generate widespread support or disapproval only after the sanctions are in place due to the

⁶⁸ Blanchard and Ripsman, "Asking the right question".

⁶⁹ The same, 225.

⁷⁰ The same, 229.

⁷¹ The same, 231.

⁷² The same, 229-230.

impact sanctions themselves would have on the public. The public's opinion and evaluation of each situation would differ significantly in these instances and would generate a different approach to sanctions by the target country's government. For this reason, it is important to analyse the public's stance on each issue as it would directly affect the choices decision-makers had available in each case of sanctions.

One particular difference between the two conflicts stands out. In the case of the THAAD conflict, the South Korean government was directly responsible for the project's start, development and finish, therefore the decision whether to comply was solely in the hands of the government. While it is true that there could still have been dissatisfaction expressed by the public, the authority to make decisions still lies within the mandate of the government. Hence, it was up to the government to decide what was the most beneficial course of action. Meanwhile, during the dispute with Japan, if we accept that the goal of removal from the whitelist was actually to change Korea's high court decision, then the South Korean government has no such authority to unilaterally change that decision and any intervention by the government would go against the separation of power concept in democracies. Even if the government wanted to change it in order to de-escalate the situation, it has no power to overrule such a decision. Since the public was obviously on the side of the court, there was no reason for the Korean government to discredit itself in the eyes of the public. The countermeasures were the most optimal response if the government wanted to stay in power.

According to Blanchard and Ripsman "when states face an unfavourable international balance of power (or balance of threat), then, they should be more willing to settle their disputes with states who can enhance their security, <...> since the failure to ally with a potential supporter can have disastrous consequences for national security"⁷³. On one hand this is applicable in both cases as both China and Japan are South Korea's partners when it comes to dealing with North Korea. However, China is much more important to South Korea in this particular aspect than Japan could ever be. Firstly, China can influence North Korea directly and is one of the very few allies that North Korea still has. Japan, on the other hand, is important in as much as it supports the US. Poor relations with Japan would not compromise the security aspect too much because North Korea is almost as big of a threat to Japan, as it is to South Korea. Additionally, there is no formal security alliance between South Korea and Japan, so even if they had discontinued the GSOMNIA treaty, there would

⁷³ Blanchard and Ripsman, "Asking the right question", 226.

still be two separate intelligence sharing treaties between US-Japan and US-ROK that would facilitate the intelligence sharing when it comes to North Korea. On the other hand, not building THAAD and having a dispute with China, would directly impact ROK's national security, therefore any decision (whether to oppose sanctions or not) would have significantly affected their national security. In the dispute with Japan, conceding to sanctions and non-complying with them, had different implications, and neither choice would have impacted national security to the same degree that both choices had in the China-Korea dispute, since at the core of it the dispute was about historical issues and not national security questions.

Ang and Peksen state that the issue over which a target is being sanctioned might be evaluated differently by each party⁷⁴. While as mentioned above they come to the conclusion that the target's perspective does not have a significant effect on the outcome of the sanctions, that is whether or not they will be successful, the salience of the issue in itself could potentially influence the way the target will decide to respond to sanctions. The target's reaction to sanctions could be influenced by domestic politics and the value assigned to the issue by the public at home. The response to sanctions could have been directly influenced by different values assigned to each issue. Hence the second hypothesis:

H2: the salience of the issues in question in the two cases of economic disputes was different for the ROK's government.

Even though it might not be the one deciding factor of whether or not the sanctions will be successful, the importance of the impact that sanctions can have on the target's economy should not be underestimated⁷⁵. Hence, to understand ROK's reaction to sanctions of China and Japan, it is necessary to analyse both what impact each instance of sanctions had on the Korean economy and to what extent was ROK dependent on the trade relations with the sanctioning country. The third hypothesis is that:

H3: The power (a)symmetry with the sender state affected tools ROK could employ against each state.

In order to determine how much was ROK dependent on the trade with China and Japan at the time of sanctions and vice versa, the interdependence variable constructed by Drury, Jame and Peksen in their work⁷⁶ will be used. The variable is calculated by dividing

⁷⁴ Ang and Peksen, 138.

⁷⁵ Connolly, 751.

⁷⁶A. Cooper Drury, Patrick James & Dursun Peksen, 34.

the total trade between the two countries, that is both imports and exports, by the state's whose dependency is being measured total GDP that year, the larger the percentage the more reliant on the trade the country is. Such a measure clearly shows which state depends more on their economic relations and as such, which one would be more affected by economic sanctions.

3. ROK-China Conflict Over THAAD

3.1 South Korea's foreign policy towards China before the conflict

Despite a strong security alliance with the US and Korea's aversion to communism, since the establishment of diplomatic relations in 1992, the relations with China have been gradually gaining more importance due to 1) security reasons in regards to the North Korean issue and denuclearisation of the Korean peninsula and 2) China's economic power. Another important factor influencing Korea's foreign policy towards China has been the shared historical experience of the two countries as victims of imperial Japan and its colonial politics during the 20th century. Hence, while the official relations between the two countries are relatively new, the ROK-China relations have been second only to that of the ROK-US security alliance.

Despite their importance, the relations underwent several phases throughout the 2000s. While in 2008 they were elevated from "full-scale cooperative partnership" to "strategic cooperative partnership"⁷⁷ in the official terminology, the leaders of the two countries did not always cooperate effectively when it came to North Korea related issues and did not have a strong personal relationship until the presidencies of Park Geun-hye and Xi Jinping in 2013.

Korea's foreign policy before that was first and foremost centred around the US⁷⁸, however as the economic power of China was growing and the ROK itself became a successful middle power in the region, President Park saw an opportunity to try and balance the two competing great powers in the region and re-oriented ROK's foreign policy eastward towards China, without any damage to the ROK-US alliance, which was still at the core of ROK's foreign and security policy.

During President Park's years in office ROK-China relations reached their highest point ever. During President Park's state visit to China in the summer of 2013, the presidents

⁷⁷ Scott Snyder, "Sino-South Korean Strategic Partnership", 28 May 2008, <http://www.koreatimes.co.kr/www/news/nation/2008/05/116_24904.html>, [22 March 2022].

⁷⁸ Hwang, 71.

released Korea-China Joint Statement on Future Vision, which encompassed the strengthening of bilateral cooperation in various fields⁷⁹, showing ROK's desire to forge deeper ties with China both in the security and in the economic field. In the light of North Korea developing further nuclear capabilities and seemingly not being affected by the imposed sanctions, there was a strong need to have a direct contact line and a close personal relationship with the Chinese officials in order to be able to actively manage the issue. In 2014 the presidents of the two countries met 3 times, which was a significant increase from previous years that helped to further develop relations. Moreover, in December 2015 ROK and China finalised the discussions and signed the Free Trade Agreement (FTA). The highlight of the year was Park Geun-hye's participation in the military parade in Beijing, where she was one of the few high-ranking officials of democratic countries in attendance. Up to 2017 the overall approach to the bilateral ROK-China relations was extremely positive, highlighting increasing cooperation in security and economic fields as well as ever-increasing trade and investment volumes, with the only issue mentioned briefly being the illegal fishing of Chinese in the Yellow Sea⁸⁰. The efforts of President Park did not seem to go unnoticed by the Chinese government. In 2014 President Xi visited ROK without previously traveling to North Korea and so became the first president of China to do so⁸¹. Hence, it was very unexpected when after another nuclear trial launched by North Korea in 2016, President Park's attempts to discuss the increasingly serious situation with President Xi were ignored⁸².

3.2 South Korea's economic power vis-a-vis China

From the data collected, it is evident that ROK was heavily dependent on China economically. Ever since 2012, the share of Chinese imports to ROK increased every year until 2016, when it reached 21.4% compared to total imports from all countries to ROK (see Table 1)⁸³. However, the volume of Chinese imports was fluctuating. It dropped from 96.4

⁷⁹ South Korea's Ministry of Foreign Affairs, "2014 Diplomatic White Paper", 85, <https://www.mofa.go.kr/eng/brd/m_5684/list.do?page=2&srchFr=&srchTo=&srchWord=&srchTp=&multi_itm_seq=0&itm_seq_1=0&itm_seq_2=0&company_cd=&company_nm=>>, [22 March 2022].

⁸⁰ South Korea's Ministry of Foreign Affairs, "2016 Diplomatic White Paper", 90, <https://www.mofa.go.kr/eng/brd/m_5684/list.do?page=2&srchFr=&srchTo=&srchWord=&srchTp=&multi_itm_seq=0&itm_seq_1=0&itm_seq_2=0&company_cd=&company_nm=>>, [22 March 2022].

⁸¹ Suk-hee Han, "Resetting the South Korea-China Relationship: The THAAD Controversies and Their Aftermath", *The Korean Journal of Defense Analysis*, 31(4), 2019, 545 <<https://www.kci.go.kr/kciportal/ci/sereArticleSearch/ciSereArtiView.kci?sereArticleSearchBean.artiId=ART002525199>>, [9 April 2022].

⁸² The same, 546.

⁸³ Korea International Trade Association (KITA), statistics data from <http://www.kita.org/kStat/byCount_SpeCount.do> and <http://www.kita.org/kStat/byCount_AllCount.do>, [23 March 2022].

billion USD in 2014 to 93.7 billion USD in 2015 and then decreased by another 3 billion USD in 2016 (see Table 3)⁸⁴, while the total share slightly increased from 2015 indicating that it was not only China’s exports to Korea but more importantly China’s exports worldwide that decreased so significantly that Korea’s share managed to increase. The numbers indicate that prior to the THAAD conflict, the trade between the countries was more influenced by global trends than any bilateral disputes.

Difference between data from OEC (China’s exports and imports) and data from KITA (Korea’s exports and imports) is not significant - numbers in OEC follow the same increase/decrease trend as those in KITA and the numerical difference between them is also small between 2% to 7% depending on the year.

Table 1. Korea’s imports from China and the World (million USD)

	2012	2013	2014	2015	2016	2017	2018	2019
World	519,584	515,586	525,515	436,499	406,193	478,478	535,202	503,343
China	80,875	83,053	90,082	90,250	86,980	97,860	106,489	107,229
China’s share	15.6%	16.1%	17.1%	20.7%	21.4%	20.5%	19.9%	21.3%

Compiled by the author, according to statistical data from Korea International Trade Association (KITA)

While the imports signified the strong dependence of domestic consumers on the Chinese goods, ROK’s economic liability was mostly due to the large volume of exports to China. From 2012 to 2016 ROK was exporting around a quarter of its total exports to China, hence being heavily dependent on the Chinese market for trade (see Table 2)⁸⁵. Some of the exports, i.e. cultural and media content, could not be easily and quickly redirected elsewhere, for other sectors the Chinese market was important due to its sheer size. From 2012 to 2015 China remained Korea’s number one trading partner both in imports and exports. In 2014 and 2015 Korea was China’s largest trading partner in exports and the third largest in imports⁸⁶.

⁸⁴ The Observatory of Economic Complexity (OEC), import and export statistical data, <<https://oec.world/en/profile/country/chn>>, [13 April 2022].

⁸⁵ Korea International Trade Association (KITA), <http://www.kita.org/kStat/byCount_SpeCount.do> and <http://www.kita.org/kStat/byCount_AllCount.do>, [23 March 2022].

⁸⁶ South Korea’s Ministry of Foreign Affairs, “2015 Diplomatic White Paper” p. 88 and “2016 Diplomatic White Paper”, p. 88, <d/m_5684/list.do?page=2&srchFr=&srchTo=&srchWord=&srchTp=&multi_itm_seq=0&itm_seq_1=0&itm_seq_2=0&company_cd=&company_nm=>, [22 March 2022].

Table 2. Korea's exports to China (million USD)

	2012	2013	2014	2015	2016	2017	2018	2019
World	547,870	559,632	572,665	526,757	495,426	573,694	604,860	542,233
China	134,323	145,869	145,288	137,124	124,433	142,120	162,125	136,203
China's share	24.5%	26.1%	25.4%	26.0%	25.1%	24.8%	26.8%	25.1%

Compiled by the author, according to statistical data from Korea International Trade Association (KITA)

Before the conflict, China's exports to Korea accounted for approximately 4% of China's total exports, while China's imports from Korea accounted for approximately 10%. Based on the data collected ROK is one of the top trade partners of China, especially in terms of imports from ROK, however, the total share is much smaller making China much less dependent on trade with ROK, as in the case of disrupted trade flow it could cover the losses by increasing imports from other countries. However, some imports from Korea, such as those related to manufacturing, i.e. integrated circuits and LCDs, were difficult to replace due to China's reliance on Korea for these products (approximately 20% of integrated circuits were imported from Korea⁸⁷) and because Korea was one of the top exporters of these products on a global scale. Furthermore, China's manufacturing sector would have been significantly damaged if the imports of these products were disrupted.

Table 3. China's exports to the World and to Korea (billion USD)

	2013	2014	2015	2016	2017	2018	2019
World	2,260	2,420	2,350	2,220	2,430	2,640	2,610
Korea	88.5	96.4	93.7	90	100	108	111
Korea's share	3.92%	3.98%	3.98%	4.06%	4.12%	4.08%	4.23%

Compiled by the author, according to statistical data from OEC

⁸⁷ The Observatory of Economic Complexity (OEC), import and export statistical data, <<https://oec.world/en/profile/country/chn>>, [13 April 2022].

Table 4. China’s imports from Korea and from the World (billion USD)

	2013	2014	2015	2016	2017	2018	2019
World	1,460	1,460	1,210	1,180	1,410	1,590	1,570
Korea	138	138	132	120	139	160	135
Korea’s share	9.47%	9.45%	10.9%	10.2%	9.85%	10.1%	8.61%

Compiled by the author, according to statistical data from OEC

However, ROK’s economy was heavily reliant on China not just because of trade flows, but also due to the people-to-people exchanges. From 2012 to 2016 the numbers of Chinese tourists in Korea were increasing on a year-by-year basis, except for a slight drop in 2015 (see Table 5)⁸⁸. Despite the fact that the sheer number of Chinese tourists dropped that year, the share of the Chinese tourists still increased by 2%. The share of Chinese tourists increased every year from 25.5% of all tourists coming to Korea in 2012 to 46.7% in 2016. The tourism sector in general is very sensitive to various external factors and fluctuations, however being dependent on one particular group makes it even more so. For one, losses suffered during one season cannot be recovered by serving more tourists the next one, especially in the accommodation sector. Secondly, re-orienting the market and replacing half of its customers is a task that cannot be done quickly and as such, the profitability of the tourism sector and supporting industries was completely in the hands of the Chinese tourists prior to the THAAD conflict.

Table 5. Number of tourists in Korea throughout the years 2012-2019

	2012	2013	2014	2015	2016	2017	2018	2019
Chinese tourists	2,836,982	4,326,869	6,126,865	5,984,170	8,067,722	4,169,353	4,789,512	6,023,021
All tourists	11,140,028	12,175,550	14,201,516	13,231,651	17,241,823	13,335,758	15,346,879	17,502,756
Chinese tourists’ share	25.47%	35.53%	43.14%	45.23%	46.79%	31.26%	31.21%	34.41%

Compiled by the author, according to statistical data from KTO

⁸⁸ Korea Tourism Organisation (KTO), “숫자로 보는 한국관광 2016” (eng: Numerical Report of Korea’s Tourism 2016), <<https://kto.visitkorea.or.kr/viewer/view.kto?id=50052&type=bd>> and “숫자로 보는 한국관광 2019” (eng: Numerical Report of Korea’s Tourism 2019), <<https://kto.visitkorea.or.kr/file/download/bd/903b5f85-f653-11ea-8847-e3a3d34471d5.pdf.kto>>, [22 March 2022].

Table 6. China and Korea GDP comparison (billion USD)

	2012	2013	2014	2015	2016	2017	2018	2019
Korea	1,280	1,370	1,480	1,470	1,500	1,620	1,720	1,650
China	8,530	9,570	10,480	11,060	11,230	12,310	13,890	14,280

Compiled by the author, according to World Bank data⁸⁹

Finally, having GDP and trade volume data, it is possible to calculate the countries' interdependence variable (total trade between the two countries divided by the state's in question GDP). In order to do so, data from the year 2015 for both GDP and total trade volume is used as this is the year before any of the sanctions were in place and thus better reflects the normal flow of the economic relations in and between the two countries. In 2015, China's interdependence on ROK amounted to 0.02%, while ROK's interdependence on China was valued at 0.15% - almost ten times higher, which supports the argument that ROK at the time was much more dependent on the trade with China than China was dependent on the trade with ROK.

3.3 Overview of the conflict

After a series of attempts to launch nuclear missiles by North Korea, ROK started to seriously consider deployment of THAAD and on February 7, 2016 announced the beginning of such discussions with the US. Soon afterwards the Chinese officials expressed their dissatisfaction with the deployment of THAAD at the Munich Security conference. A few days later China's Foreign Ministry announced that they were "resolutely opposed" to the deployment itself⁹⁰. At the end of February, Chinese Ambassador to Korea Qiu Guohong made a bold claim that "the deployment of THAAD could destroy South Korea-China relations in an instant"⁹¹. However, he noted that the most troubling was the degree of US

⁸⁹ World Bank data, China and Korea GDP, <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?end=2020&locations=CN-KR&name_desc=true&start=2012&view=chart>, [10 April 2022].

⁹⁰ Il-jung Kim, "갈등부터 관계개선 합의까지... 한-중 사드갈등 일지" (eng: From conflict to Relations Improvement Agreement... Korean-Chinese THAAD Conflict Timeline), 31 October 2017, <<https://m.edaily.co.kr/news/Read?newsId=02751926616098496&mediaCodeNo=257&OutLnkChk=Y>>, [10 April 2022].

⁹¹ Shannon Tiezzi, "China Warns THAAD Deployment Could Destroy South Korea Ties 'in an Instant'", 25 February 2016,

control of the systems. In his view while ROK could be trusted to limit the functions of THAAD, the same could not be said about the U.S.⁹². It is worth noting that these concerns were not addressed in the “three no’s” announcement made by Foreign Minister Kang in September 2017. In June, the presidents of China and Russia released a joint statement where yet again China expressed their opposition to THAAD deployment⁹³. The same was reiterated by President Xi in September during the summit meeting with President Park already after some sectors started getting hit by the unofficial sanctions. China’s Minister of National Defence has expressed their opposition to deployment in February 2017.

Despite clear demands from China’s side and cautioning that the deployment would significantly damage bilateral relations, ROK went ahead and on July 8, 2016 official statement about the decision to deploy THAAD was announced. Sanctions followed soon afterwards, though the harshest measures were employed in 2017.

Chinese pressure and further statements about opposition to THAAD deployment did not stop even after ROK deployed the remaining four launchers on 7 September. A day before, China summoned South Korean ambassador to China Kim Jang-soo to once again express their opposition to THAAD deployment. The constant criticism throughout the period from China in regards to Korea’s security policy was specifically connected to the deployment and not their strong security alliance with the US. There was also no mention of the fact that the Chinese could be persuaded to accept THAAD if there were less or different batteries and radars deployed. The whole time the Chinese government was pushing for a complete abandonment of the THAAD deployment. Finally, even after the two countries agreed to reconcile, China's Ministry of Foreign Affairs made a statement saying that “The THAAD agreement <...> is just the first step to resolve the problem... The final step will be the complete withdrawal of the THAAD system.”⁹⁴, hence clearly showing that they were not completely happy with the result achieved, even though they conceded and slowly lifted the sanctions. While the sanctions were unofficial and hence no formal reason was given to ROK, these statements before and throughout the sanction period clearly indicate that the goal of China’s sanctions has always been the complete stop of THAAD deployment.

On 20th September 2017, during the meeting at the UN of China’s Foreign Minister Wang and ROK’s Foreign Minister Kang, the latter announced the “three no’s” policy that

<<https://thediplomat.com/2016/02/china-warns-thaad-deployment-could-destroy-south-korea-ties-in-an-instant/>>, [10 April 2022].

⁹² The same.

⁹³ The same.

⁹⁴ Clint Work, “South Korea and China Make Amends. What Now?”, 18 November 2017

<<https://thediplomat.com/2017/11/south-korea-and-china-make-amends-what-now/>>, [10 April 2022].

was 1) no additional deployment of THAAD batteries, 2) no formal US-ROK-Japan alliance, and 3) no joining the US missile defence network. Up until the announcement of the “three no’s” policy, there was no indication whatsoever that there were any other goals to be achieved by the imposed sanctions than the complete refusal of THAAD deployment. There was also no mention of any of the topics regarding what has been agreed to during the “three no’s” speech. The very first time that China publicly announced their dissatisfaction with anything other than the deployment of THAAD was already after Kang’s announcement of the “three no’s” policy, when China expressed their concern regarding increased US-ROK security cooperation during the consultations between ROK and China for the later released Memorandum of Understanding (MOU)⁹⁵.

The sanctions followed immediately after the announcement of deployment in July 2016 and lasted until a joint statement about improvement of relations was released in October 2017. The sanctions targeted industries, which would be very costly and not as easy to replace in the short-term for ROK but would result in the least damage to the Chinese market. As such, the most affected by the sanctions were the tourism sector, cultural exports, EV battery manufacturers and car makers, as well as Lotte conglomerate.

As can be seen from Table 5, the numbers of Chinese tourists in Korea dropped from approximately 8 million tourists in 2016 to 4.1 million tourists in 2017. Already in October 2016, the Chinese government started implementing a plan to decrease tourist numbers by 20%⁹⁶, but the biggest hit to the sector was when the travel agencies in China were prohibited from selling group tours to Korea. The loss of Chinese tourists was a significant damage to ROK tourism considering that the Chinese tourists accounted for almost 47% in 2016 and could not have been replaced easily and hence the overall number of foreign tourists has also dropped in line with the decrease of Chinese tourists. Meanwhile the sanctions in this sector did not damage China or the Chinese population as those tourists, who needed to travel to Korea, were still able to arrange their trips individually.

Sanctions on cultural content from Korea were also a significant hit considering the size of the Chinese market. During the sanctions period, TV shows produced in Korea

⁹⁵ Maximilian Ernst, “Limits of Public Diplomacy and Soft Power: Lessons from the THAAD Dispute for South Korea’s Foreign Policy”, 2021, <<https://keia.org/publication/limits-of-public-diplomacy-and-soft-power-lessons-from-the-thaad-dispute-for-south-koreas-foreign-policy/>>, [9 April 2022].

⁹⁶ Young-June Yeh and Hwa-Sun Sung, “Beijing tells travel agencies to cut travel to Korea by 20%”, 25 October 2016, <<https://koreajoongangdaily.joins.com/news/article/article.aspx?aid=3025354>>, [20 April 2022].

stopped airing on the Chinese TV, K-pop artists were virtually banned from performing in China and the faces of Korean actors were blurred in cases they were shown on TV⁹⁷.

The Korean car manufacturers Hyundai and Kia suffered a combined 45% decrease in their sales during the first eight months in 2017⁹⁸, while EV battery manufacturers lost a possibility to receive subsidies from the Chinese government, which not only completely denied their participation in the Chinese market but also significantly increased the presence of the local Chinese producers, and in turn made it harder for the Korean manufacturers to return to the market⁹⁹.

Finally, the Lotte conglomerate was targeted disproportionately by both Chinese consumers and authorities due to their participation in the land swap deal, which was needed for the THAAD deployment. Most of the Lotte Mart stores were closed down after fire inspections, and other Lotte projects in China have been halted. In May 2017 predicted combined losses for Lotte conglomerate were about US\$429.95 million¹⁰⁰. The repercussions of the sanctions were still felt even in 2021 as Lotte was planning to sell their theme park project in their bid to leave China's market¹⁰¹.

While the sectors mentioned above were damaged significantly and some are yet to fully recover to this day, the majority of ROK's economy was completely unaffected and some actors even managed to increase their engagement with China, proving that China carefully selected its targets that essential trade coming from and going to ROK would not be disrupted.

3.4 South Korea's response to sanctions

After the announcement of deployment in July 2016 there were still ongoing discussions between the Korean and the Chinese officials in regards to THAAD. The two presidents met on September 5 at the summit meeting to discuss the issues pertaining bilateral relations, however, President Park was not successful in advocating for THAAD and the

⁹⁷ Sonia Kil, "China's Blockade of Cultural Korea Marks Troublesome Anniversary", 24 August 2017, <<https://variety.com/2017/film/asia/china-ban-on-korea-culture-anniversary-1202537823/>>, [22 March 2022].

⁹⁸ Korea Herald, "Hyundai, Kia to debut new cars in China to tackle sliding sales", 26 September 2017, <<http://m.koreaherald.com/view.php?ud=20170926000255>>, [10 April 2022].

⁹⁹ Darren J. Lim & Victor A. Ferguson, "Informal economic sanctions: the political economy of Chinese coercion during the THAAD dispute", *Review of International Political Economy*, 2021, <<https://www.tandfonline.com/doi/full/10.1080/09692290.2021.1918746>>, [11 April 2022].

¹⁰⁰ Min-Hee Jung, "Lotte Faces 500 Billion Won Losses in China over THAAD Retaliation", 8 May 2017, <<http://www.businesskorea.co.kr/news/articleView.html?idxno=18007>>, [22 April 2022].

¹⁰¹ Bloomberg, "Lotte Group Weighs \$1.6 Billion Sale of China Theme Park", 23 December 2021, <<https://www.bloomberg.com/news/articles/2021-12-23/lotte-group-said-to-seek-1-6-billion-sale-of-china-theme-park>>, [22 April 2022].

relations, both economic and diplomatic, further deteriorated. Additionally, the spokesperson of President Park stated that whether or not ROK deploys THAAD “is a matter we will decide upon according to our own security and national interest”¹⁰², showing a clear determination to disregard China’s concerns and also showing that the government was putting its security interests above its economic interests. Whichever way the government intended to act, there was a clear need to show that it would be a decision made by the government and not influenced by any actors outside Korea.

Considering the fact that all of the sanctions employed were unofficial and/or presented as the people’s will rather than a direct order from the government, ROK did not have many choices as to how to respond to the sanctions themselves. In March ROK’s Minister of Finance Yoo Il-ho stated that the government had not taken any actions yet as the country did not have strong evidence that the problems faced by Korea in their trade and people-to-people interactions were a result of China’s retaliation against ROK¹⁰³. However, already on March 20 there were reports that ROK filed a complaint to the World Trade Organisation due to the measures China employed in regards to THAAD deployment¹⁰⁴. The same article cites an anonymous trade ministry official stating that “the complaint could not be categorised as a legal action but was rather a request for the WTO to look into whether China was upholding trade agreements fairly”¹⁰⁵, further proving that by the spring of 2017 the bilateral diplomatic measures to deal with this conflict were completely exhausted and that due to the nature of sanctions there was very little that Korea could do officially except for supporting the industries bearing the brunt of the sanctions.

Another solution aimed at the long-term was to redirect their tourism policy towards other countries in order to compensate for the lack of tourists from China¹⁰⁶ and to some degree the officials were able to achieve it.

However, diplomatic efforts to solve the crisis seemed to have picked up after President Moon was elected. On May 10 President Xi congratulated President Moon on his

¹⁰² Shannon Tiezzi, “China Warns THAAD Deployment Could Destroy South Korea Ties ‘in an Instant’”, 25 February 2016, <<https://thediplomat.com/2016/02/china-warns-thaad-deployment-could-destroy-south-korea-ties-in-an-instant/>>, [10 April 2022].

¹⁰³ Shin-huyng Lee and Christine Kim, “South Korea finmin: No firm evidence of China retaliation in missile spat”, 13 March 2017, <<https://www.reuters.com/article/us-southkorea-economy-china-idUSKBN16K0D3>>, [10 April 2022].

¹⁰⁴ Christine Kim and Jane Chung, “South Korea complains to WTO over China response to missile system”, 20 March 2017, <<https://www.reuters.com/article/us-southkorea-china-thaad-idUSKBN16R03D>>, [10 April 2022].

¹⁰⁵ The same.

¹⁰⁶ Choong-ryung Kim, “Southeast Asian Tourists to Take up Slack from Chinese Tour Ban”, 21 March 2017, <http://english.chosun.com/site/data/html_dir/2017/03/21/2017032101462.html?utm_source=dlvr.it&utm_medium=twitter>, [10 April 2022].

election and on May 11 they had their first phone conversation. The gesture was received as an invitation to improve bilateral relations and on May 18, Special envoy Lee Hae Chan, a former Prime Minister of ROK, met with China's Foreign Minister Wang Yi to discuss various issues related to bilateral relations. On the same day following the promises made during his election campaign, President Moon agreed to review and discuss procedural problems related to the THAAD deployment¹⁰⁷, while emphasising the need for “procedural legitimacy” of the THAAD deployment¹⁰⁸. On June 7, President Moon announced that deployment of additional four launchers will be halted until the authorities finalise the environmental assessment. Due to the impeachment of President Park and distrust in politicians as a result of it, the public was extremely sensitive to all and any decisions made by the new government hence both statements are more attributed to the domestic public's dissatisfaction with hastened and questionable decisions made regarding the deployment by the Park administration rather than as a reaction to the Chinese sanctions. Nevertheless, the actions taken by the new administration and its refreshing attitude signalling a desire to cooperate were appreciated by the Chinese government and the sanctions have started to ease. The two leaders also met at the G20 Summit in July to further discuss the impending issues on the Korean Peninsula.

Despite the clear signals to mend bilateral relations, after a favourable result of the environmental impact assessment on August 12, the remaining four launchers were finally deployed on September 7. However, at the same time the Moon administration continued its diplomatic efforts to communicate with the Chinese officials. On September 20, ROK and China's Foreign Ministers met at the UN where Kang announced the “three no's” statement. That same month, during the interview with CNN, President Moon stated:

“I believe that we need to not only just resolve the issue with the THAAD retaliatory measures <...> but also we need to recover the relationship with China itself and also further develop our bilateral relations with China. Moreover we need to work very closely with China in order to resolve the nuclear and missile issue and to this end South Korea will exert all its efforts. <...> my government will keep on working towards developing its relationship with China in the long term.”¹⁰⁹

¹⁰⁷ Sung-eun Lee, Byung-gun Chae and Jin Heo, “Moon will mull Thaad decision”, 18 May 2017, <<https://koreajoongangdaily.joins.com/news/article/Article.aspx?aid=3033543>>, [10 April 2022].

¹⁰⁸ Gyu-hee Jo, “[일지] 사드배치 결정부터 잔여발사대 임시배치까지” (eng: Timeline From THAAD deployment decision to temporary deployment of the remaining launchers), 6 September 2017, <<https://m.news1.kr/articles/?3094296>>, [11 April 2022].

¹⁰⁹ CNN, “20170928 CNN 방송된 문재인대통령 인터뷰 녹화” (eng: CNN Broadcast President Moon Jae-In Interview Recording), <<https://youtu.be/LGYHUFwi5P0>>, from 13:00 to 13:56 minutes, [10 March 2022]

After these statements, the relations continued to improve slowly as meetings between the officials picked up: on October 24 the Ministers of Defence met after a two year pause and on October 31 further consultations between the two countries led to a full conclusion of the conflict and the signing of the MOU.

Public's reaction to the sanctions from China was not as strong compared to that of sanctions from Japan. There were no widespread boycotts of Chinese products or large protests in front of the Chinese embassy. This could be attributed to the fact that due to lost trust in the Park administration, the public was also questioning the THAAD decision, not to mention the fact that large protests against deployment were taking place in the Seongju area where the radars were to be deployed. However, it is notable that based on the surveys done by the Asan Institute, the sanctions have significantly damaged the public's perception of China to the point that for the first time ever the Korean society was more favourable towards Japan than towards China¹¹⁰. Additionally, the survey showed that the THAAD approval rate had increased from 46.3% in November 2016 (at the peak of the Park scandal) to 50.6% in March 2017 (at the peak of China's sanctions)¹¹¹. Hence, the sanctions had an opposite effect than intended and made the public more supportive of the THAAD. The public however was still struggling with the aftermath of the impeachment and it might have affected its relatively weak reaction to the sanctions from China.

Despite the serious issues over THAAD deployment, the White Paper overviewing ROK's foreign policy in 2017 was generally positive towards China and the future of the bilateral relations, even though THAAD and related issues were the main topic discussed in regards to ROK-China relations.¹¹²

The results of the sanctions, however, are still felt years later and it is hard to say that the relations are back to where they were pre-sanctions. The losses for the ROK's economy were quite significant. Hyundai Research Institute has calculated that up to November 2017 the Chinese sanctions were likely to have cost ROK US\$7.5 billion, which equaled to approximately 0.5% of the total ROK GDP¹¹³. The flow of Chinese tourists to Korea has yet

¹¹⁰ Jiyeon Kim, John J. Lee and Chungku Kang, "Changing Tides: THAAD and Shifting Korean Public Opinion toward the United States and China", *The Asan Institute of Policy Studies*, 20 March 2017, <<http://en.asaninst.org/contents/changing-tides-thaad-and-shifting-korean-public-opinion-toward-the-united-states-and-china/>>, [11 April 2022].

¹¹¹ The same, 8.

¹¹² South Korea's Ministry of Foreign Affairs, "2018 Diplomatic White Paper", <https://www.mofa.go.kr/eng/brd/m_5684/list.do?page=2&srchFr=&srchTo=&srchWord=&srchTp=&multi_itm_seq=0&itm_seq_1=0&itm_seq_2=0&company_cd=&company_nm=>, [22 March 2022].

¹¹³ Clint Work, "South Korea and China Make Amends. What Now?", 18 November 2017 <<https://thediplomat.com/2017/11/south-korea-and-china-make-amends-what-now/>>, [10 April 2022].

to reach the 2016 levels (see Table 5). However, it is notable that even without the flow of tourists from China, in 2019 the total number of tourists surpassed the record of 2016, meaning that the efforts to diversify tourist flows were successful even if the process itself was lengthy. As such, the dependency on the Chinese tourists has now decreased significantly.

On the other hand, the effect sanctions had on trade volume is debatable. China's sanctions were sectorial, and while some sectors as car or EV battery manufacturers were affected gravely, both Korea's imports and exports to China grew significantly in 2017 and the following years, with the exception of decreased exports to China in 2019, however that year total exports from Korea also decreased. China remained Korea's number one trading partner even during the peak of sanctions in 2017, while Korea was still China's largest trading partner in exports and the third largest in imports¹¹⁴. The share of imports and exports to China has not changed significantly and stayed at around the same level as that of 2016, meaning that the country did not take measures to diversify its exports and imports markets and is to this day heavily dependent on trade with China.

3.5 Assessment

There was a clear power asymmetry in the ROK-China relation prior to the conflict in almost every economic sector. This did not stop ROK from refusing to comply but affected the possible options available for retaliation. Korea had the upper hand in that China was reliant on it for the imports related to manufacturing; however, they were just as important to Korea and would have damaged its own economy significantly were Korea to disrupt their supply to China.

At the same time, domestic problems due to the impeachment of President Park were also hindering THAAD deployment, even more so than the sanctions themselves. The new government had to carefully balance both the domestic public and the Chinese demands. While the surveys show that the public indeed became more apprehensive of China and more supportive of THAAD due to sanctions, there was no overwhelming support for THAAD and the public's opinion was divided. As there was no clearly expressed dissatisfaction from the public's side, the Korean government had no reason to change its behaviour and aggravate China even more, diplomatic efforts to mend the relations with China combined with simple non-compliance instead of direct confrontation were enough to reach their goals. In the end,

¹¹⁴ South Korea's Ministry of Foreign Affairs, "2018 Diplomatic White Paper", 64.

the sanctions did not change ROK's foreign policy significantly, as the actions were more reactive than proactive. While the Chinese tourist share has decreased, the number of Chinese tourists has yet to reach the levels of 2016. The trade volume has only increased over the years and the importance of trade with China did as well. The THAAD deployment was pushed by the Korean government, the Korean public was apprehensive of it and its reaction to the sanctions showed it - it was not so much about China's opposition to THAAD itself considering that the public was divided on the issue too, but the fact that China was forcefully trying to change ROK's policy and disrupted Korea's economy along the way.

4. ROK-Japan Trade Conflict

4.1 South Korea's foreign policy towards Japan before the conflict

The relations between ROK and Japan before the conflict in 2019 were complicated but stable as they were based on the principle of 'cold politics, hot economics', which allowed a degree of separation between the complicated historical and political problems souring their relations, and intensive economic ties, on which both countries relied heavily on. As such, even during the lowest points in the bilateral relations, the economic relations were never targeted¹¹⁵. It is notable that not only the leaders, but also the general public adhered to this principle and found ways to express their anti-Japanese sentiments during the critical moments that were not disrupting trade flows, i.e. organising demonstrations criticising Japan's stance on the historical issues or by placing "comfort women" sculptures in front of the Japanese embassies. Such a strict adherence to the 'cold politics, hot economics' principle allowed economic relations between them to thrive in the years prior to the conflict and still have long-standing issues waiting to be resolved.

However, it was not just the reliable economic relations that made Japan an important neighbour and partner to ROK. Unlike other countries in the region, Japan and ROK are two examples of modern, democratic countries, adhering to and even promoting rules-based order in the region. They also "share similar values and interests"¹¹⁶ according to ROK's Ministry of Foreign Affairs and have the same concerns in regards to North Korea, and while the US was the most important ally when it came to the issues pertaining to North Korea,

¹¹⁵ Kristin Vekasi and Jiwon Nam, "Boycotting Japan: Explaining Divergence in Chinese and South Korean Economic Backlash." *Journal of Asian Security and International Affairs*, 6(3), 2019, 30.

¹¹⁶ South Korea's Ministry of Foreign Affairs, "2015 Diplomatic White Paper", 79.

cooperation between Japan and ROK was also key in maintaining stability and peace in and around the Korean Peninsula.

The principle of ‘cold politics, hot economics’ can be clearly seen from the official documents released by the ROK prior to the conflict. Japan was called an “important neighbouring country”¹¹⁷, and the importance of people-to-people and economic relations was always emphasised. At the same time, there was a strong emphasis on the problems permeating the bilateral relations and the need to build their relations “on the correct perception of history”¹¹⁸. The three biggest issues, attracting the most attention in the official documents were 1) historical issues stemming from the Japan’s colonial period in the 20th century in regards to the victims of sexual slavery (‘comfort women’), named as “the core pending issue”¹¹⁹, and also forced labour and Japan’s overall “retrogressive remarks” regarding those issues, 2) territorial disputes over Dokdo/Takeshima islets and 3) trade deficit and plans for balancing trade¹²⁰. As early as 2012, even prior to the THAAD conflict with China, the foreign policy decision makers in Korea already saw an issue with how much ROK depended on Japan, especially in components and materials sectors, which they deemed to be the main cause of the trade deficit¹²¹. And while the problem was already recognised and the government put efforts into solving it, there was no urgency to address it, due to the fact that Japan was an economically stable and trustworthy partner in the industry and the risk of such dependence was considered to be low and limited¹²². Hence no tangible measures were taken until the conflict started.

When President Park came to power, one of the goals of her administration was to “foster more stable ROK-Japan relation”¹²³ and solve those problems, however, not only was she unsuccessful in it as the same issues were repeatedly mentioned in the documents even after President Moon was elected, but some issues, namely, the issue of the ‘comfort women’, were made significantly worse after the failed attempts at “historical agreements”¹²⁴, that were accepted neither by the few surviving victims themselves, nor by the general public and

¹¹⁷ South Korea’s Ministry of Foreign Affairs, “2014 Diplomatic White Paper”, 77.

¹¹⁸ South Korea’s Ministry of Foreign Affairs, “2013 Diplomatic White Paper”, 23, <https://www.mofa.go.kr/eng/brd/m_5684/list.do?page=2&srchFr=&srchTo=&srchWord=&srchTp=&multi_itm_seq=0&itm_seq_1=0&itm_seq_2=0&company_cd=&company_nm=>, [22 March 2022].

¹¹⁹ South Korea’s Ministry of Foreign Affairs, “2015 Diplomatic White Paper”, 81.

¹²⁰ South Korea’s Ministry of Foreign Affairs, “2013 Diplomatic White Paper”, 212.

¹²¹ The same, 212.

¹²² Samuel Goodman, John Verwey and Dan Kim, “The South Korea-Japan Trade Dispute in Context: Semiconductor Manufacturing, Chemicals, and Concentrated Supply Chains”, 2019, 2-3 <<http://dx.doi.org/10.2139/ssrn.3470271>>, [1 May 2022].

¹²³ South Korea’s Ministry of Foreign Affairs, “2014 Diplomatic White Paper”, 26.

¹²⁴ South Korea’s Ministry of Foreign Affairs, “2016 Diplomatic White Paper”, 28.

in the end were cancelled by the new President Moon administration in order to keep the campaign's promise to engage in "politics driven by the people, not a government for vested interests and elites"¹²⁵.

In October 2018 the situation in regards to the historical issues significantly worsened due to the Korean Supreme Court's decision, which supported the forced labour victims' claims for compensations for their work in Japanese companies during colonial rule. The worsening situation was also reflected in the official rhetoric, calling the situation a 'continued feud'¹²⁶ and stating that the bilateral relations "were aggravated dramatically"¹²⁷, however, emphasising that "political issues should be addressed separately from economic and people-to-people exchanges issues"¹²⁸, hence showing no intent of changing the main principle of their bilateral relations, despite the deepening crisis.

4.2 South Korea's economic power vis-a-vis Japan

Japan was the third largest export market for Korea in 2012-2014, and fifth in 2015-2021¹²⁹, while it was the second largest importer to Korea during 2012-2017, and third in 2018-2021¹³⁰. Despite being one of the top exporting markets to ROK, the share of total exports is relatively small at around 5% pre-conflict period, however, the volume of exports to Japan was growing on a yearly basis from 2016 to 2018 (see Table 7). Meanwhile, the Japanese imports data shows that prior to the conflict imports to ROK were decreasing on a yearly basis, however still amounting to a significant share of overall imports to ROK at around 10% of total imports (see Table 8). It is clear from the data that imports from Japan were ROK's weak spot and that dependency was felt even stronger due to the fact that it was Korea's most important and one of the most profitable economic sectors that was dependent on very particular imports. However, measures to decrease the dependency as well as Japan's own economic stagnation were able to slowly and rather insignificantly decrease the overall trade deficit without any effects on the imports of semiconductor materials.

¹²⁵ Alexandra Sakaki, "Japan-South Korea relations - a downward spiral: more than "just" historical issues", . *Berlin: Stiftung Wissenschaft und Politik -SWP- Deutsches Institut für Internationale Politik und Sicherheit*, 2019, 4, <<https://doi.org/10.18449/2019C35>>, [15 May 2022].

¹²⁶ South Korea's Ministry of Foreign Affairs, "2019 Diplomatic White Paper", 25, http://m_5684/list.do?page=2&srchFr=&srchTo=&srchWord=&srchTp=&multi_itm_seq=0&itm_seq_1=0&itm_seq_2=0&company_cd=&company_nm=, [22 March 2022].

¹²⁷ The same, 212.

¹²⁸ The same, 212.

¹²⁹ Korea International Trade Association (KITA), <http://www.kita.org/kStat/byCount_SpeCount.do> and <http://www.kita.org/kStat/byCount_AllCount.do>, [23 March 2022].

¹³⁰ The same.

Table 7. Korea's exports to Japan and the World (million USD)

	2014	2015	2016	2017	2018	2019	2020	2021
World	572,665	526,757	495,426	573,694	604,860	542,233	512,498	644,400
Japan	32,184	25,577	24,355	26,816	30,529	28,420	25,098	30,062
Japan's share	5.6%	4.9%	4.9%	4.7%	5.0%	5.2%	4.9%	4.7%

Compiled by the author, according to statistical data from Korea International Trade Association (KITA)

Table 8. Korea's imports from Japan and the World (million USD)

	2014	2015	2016	2017	2018	2019	2020	2021
World	525,515	436,499	406,193	478,478	535,202	503,343	467,633	615,093
Japan	53,768	45,854	47,467	55,125	54,604	47,581	46,023	54,642
Japan's share	10.2%	10.5%	11.7%	11.5%	10.2%	9.5%	9.8%	8.9%

Compiled by the author, according to statistical data from Korea International Trade Association (KITA)

Meanwhile data retrieved from the Japanese customs, shows the degree to which imports to and exports from ROK mattered in relation to overall imports to and exports from Japan. Until the conflict, exports to Korea accounted for just over 7% of total exports, while imports accounted for slightly over 4% (see Tables 9¹³¹ and 10¹³²). It is clear that Japan's trade was more dispersed and that ROK's share in the overall trade was smaller compared to Japan's share in ROK's imports and exports.

However, it is worth noting that the trade conflict was rather limited in its scope, especially considering the official measures and that in the mostly affected semiconductor sector, the situation was much more different. The main three chemicals affected were hydrogen fluoride, fluorinated polyimide and photoresist. According to data from KITA from January to May 2019 (a few months before the conflict emerged), Korea imported

¹³¹ Japan's Ministry of Finance data retrieved Japan's Customs database at <<https://www.customs.go.jp/toukei/srch/indexe.htm>>, [4 May 2022].

¹³² The same

approximately 44% of hydrogen fluoride, 90% of fluorinated polyimide and about 93% of photoresists from Japan¹³³, making it almost fully dependent on Japan for imports of these materials, on which the most important economic sector in ROK was built.

Table 9. Japan’s exports to the World and to Korea (billion YEN)

	2014	2015	2016	2017	2018	2019	2020
World	73,093	75,614	70,035	78,286	81,478	76,931	68,399
Korea	5,455	5,327	5,020	5,975	5,792	5,044	4,767
Korea’s share	7.46%	7.04%	7.17%	7.63%	7.1%	6.55%	6.96%

Compiled by the author, according to statistical data from Japan’s Ministry of Finance

Table 10. Japan’s imports from Korea and from the world (billion YEN)

	2014	2015	2016	2017	2018	2019	2020
World	85,909	78,406	66,042	75,379	82,703	78,600	68,011
Korea	3,531	3,234	2,722	3,153	3,550	3,227	2,842
Korea’s share	4.11%	4.12%	4.12%	4.18%	4.29%	4.1%	4.17%

Compiled by the author, according to statistical data from Japan’s Ministry of Finance

When it comes to tourism, the situation is slightly different. For a number of years, tourists from Japan have continued to be the second most populous group of tourists by nationality. Their share of all tourists has only increased since the ROK-China conflict in 2016/2017 and in 2018 amounted to 19.2% of all tourists (see Table 11¹³⁴). Hence, while not as overwhelming as tourists from China, tourist flows from Japan accounted for a significant part of the revenue from the overall tourism sector.

¹³³ Data from KITA cited from Goodman, VerWey and Kim, 4.

¹³⁴ Korea Tourism Organisation (KTO), 숫자로 보는 한국관광 2019 (eng: Numerical Report of Korea’s Tourism 2019)

Table 11. Japanese tourists in ROK

	2015	2016	2017	2018	2019
Japanese tourists	1,837,782	2,297,893	2,311,447	2,948,527	3,271,706
Share of Japanese tourists	13.9%	13.3%	17.3%	19.2%	18.7%

Compiled by the author, according to statistical data from Korea Tourism Organisation (KTO)

On the other hand, tourists from ROK accounted for the largest share of tourists by nationality in Japan, far ahead of other countries¹³⁵, and as such Japan was much more dependent on the tourists from ROK than the other way around, which was not the case in the conflict between ROK-China, where China had an advantage in every single area and was much more immune to any hypothetical economic response to Chinese sanctions.

Table 12. Korean tourists in Japan

	2014	2015	2016	2017	2018	2019
Korean tourists	2,755,313	4,002,095	5,090,302	7,140,438	7,538,952	5,584,597
Share of all tourists	20.5%	20.3%	21.2%	24.0%	24.2%	17.5%

Compiled by the author, data from Japan National Tourism Organisation (JNTO)

¹³⁵ Japan National Tourism Organisation, statistics data accessed from <https://statistics.jnto.go.jp/en/graph/#graph--breakdown--by--country>, [1 May 2022].

Table 13. ROK and Japan’s GDP over the years

	2014	2015	2016	2017	2018	2019	2020
Korea	1,480	1,470	1,500	1,620	1,720	1,650	1,640
Japan	4,900	4,440	5,000	4,930	5,040	5,150	5,060

Compiled by the author, data from World Bank¹³⁶

Finally, the countries’ interdependence variable was calculated based on the total trade volume data from KITA rather than the Japanese Ministry of Finance in order to keep the same value units as GDP (million USD). For ROK, the interdependence variable in 2018, a year before the conflict, was 0.049%, while Japan’s was 0.016%, making the latter 4 times less reliant on the trade with ROK than the former on the trade with Japan. Even though, based on this variable ROK is more dependent on Japan than vice versa, in certain economic sectors as shown above ROK had an advantage, giving leeway for possible responses to economic sanctions. However, while ROK and Japan were more evenly matched in terms of their economic power than ROK and China were, ROK’s absolute dependence on the import of chemicals from Japan was an acute problem. Finally, despite having different interdependence variables and despite the fact that Japan in general had a stronger economy, it is clear that unlike in the ROK-China conflict, Japan did not have a way to significantly affect ROK’s economy without damaging its own, which meant Japan could not employ sanctions to the same degree that China did.

4.3 Overview of the conflict

The trade conflict began in July 2019 due to Japan introducing export restrictions for several chemicals, which South Korea used for semiconductor production. Introduced restrictions meant that suppliers had to receive approval from the government to export their production to Korea, thus delaying shipments and damaging the global supply chain of the semiconductor materials¹³⁷. Despite the efforts to stop the spread of conflict any further and offers of diplomatic dialogue by the ROK officials, the conflict further escalated when Japan

¹³⁶ World Bank data, Korea and Japan GDP, https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?end=2020&locations=CN-KR-JP&name_desc=true&start=2012&view=chart [1 May, 2022]

¹³⁷ Reuters, “Japan to tighten export rules for high-tech materials to South Korea: media”, 30 June 2019, <<https://www.reuters.com/article/us-southkorea-japan-laborers-idUSKCN1TV089>>, [1 May 2022].

removed ROK from their whitelist, which meant that ROK was not eligible for preferential treatment when importing goods from Japan, which slowed down supply chains even further and was a broader restriction than the one put specifically on the semiconductor exports from Japan.

The official reason for the removal of ROK from the whitelist was the issues relating to screening of dual-use goods on the Korean side and worries that the materials (originally coming from Japan) could reach North Korea¹³⁸. Japan has never stated that the decision had to do anything with the historical issues in general or the Korean Supreme Court's decision in particular, however, it was generally accepted as the underlying reason by the Korean public and the government and in the later bilateral meetings the historical issues were discussed side-by-side with the solutions for the trade dispute.

The measures taken by the Japanese government targeted the main economic sector, which coincidentally was the most vulnerable to such actions due to being heavily dependent on imports from Japan as seen from the previous section. However, despite the unprecedented merging of political and economic problems, the Japanese government did not take any other measures specifically targeting the Korean economy or Korean companies and hence up until now the conflict has stayed in a stable position - not worsening but officially yet to be solved.

Tourist flows from Japan to Korea were not affected significantly. During the first three months of the conflict (July-September) compared to the same period in 2018, there were even more Japanese tourists visiting Korea (see Figure 1)¹³⁹. The flow of tourists slightly decreased in the October-November period compared to the same period in 2018, but the numbers recovered in December and were almost identical to the previous year. Overall, comparing the second half of each year, the tourist flows from Japan decreased by less than 1%. The analysis of tourist flows after December 2019 is not done due to the start of COVID-19 soon afterwards, which had a major impact on tourism worldwide.

The COVID-19 pandemic affected not only the tourist flows but also the conflict overall. The governments of the two countries put the differences aside and co-operated in various areas to alleviate the problems in health and public sectors. On the other hand, the pandemic is also the reason why the conflict has not been solved to this day. While during the

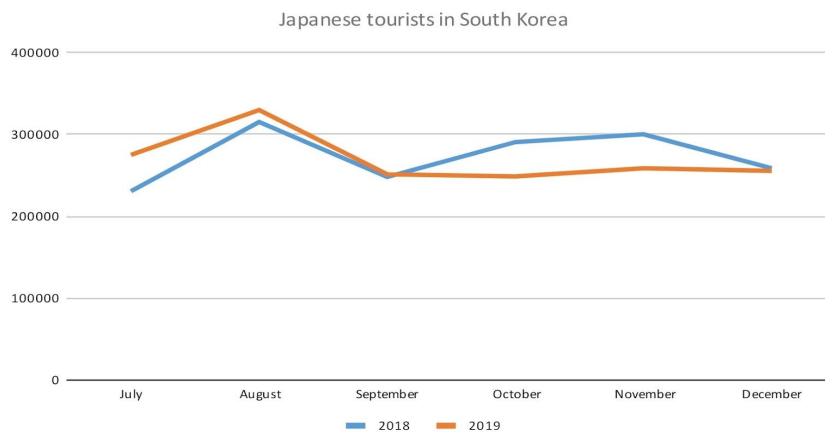
¹³⁸ CNBC, "Japan to remove South Korea from 'white list' of favored trade partners", 1 August 2019, <https://www.cnbc.com/2019/08/02/japan-south-korea-trade-fight-tokyo-to-remove-seoul-from-whitelist.html>, [1 May 2022].

¹³⁹ Korea Tourism Organisation (KTO), inbound tourism statistics, https://kto.visitkorea.or.kr/eng/tourismStatics/keyFacts/KoreaMonthlyStatistics/eng/inout/inout.kto?func_name=3, [30 May 2020].

peak of pandemic the conflict was not being escalated further, it was also not being tended to, hence prolonging the conflict and deepening the issue.

The conflict saw some improvements after Yoshihide Suga became the Prime Minister of Japan and showed willingness to improve the bilateral relations through diplomatic efforts. In October 2020 there were talks held between the Foreign Ministries in order to address forced labour and other historical issues. The amount of bilateral meetings between various government officials increased significantly signalling improvement of diplomatic relations yet no significant results were achieved. The Japanese government promised to further increase its restrictive measures if ROK does not stop liquidation of Japanese assets¹⁴⁰.

Figure 1. Japanese tourists in South Korea in the second half of 2018 and 2019



Compiled by the author, according to data from KTO

4.4 South Korea's response to sanctions

After the diplomatic efforts to contain the conflict failed and Japan removed ROK from its whitelist, ROK employed its countermeasures. Firstly, ROK filed a complaint to the WTO due to the fact that Japan's trade restrictions were retaliatory and hence went against the WTO rules. Secondly, ROK removed Japan from its own whitelist citing improvements to ROK's export control system as the reason for removal¹⁴¹. The speed with which the countermeasures were announced was unprecedented and a signal that the ROK government

¹⁴⁰ Yasuyo Sakata, "Japan-South Korea Relations and the Biden Factor", 21 December 2020, <<https://www.cfr.org/blog/japan-south-korea-relations-and-biden-factor>>, [21 February 2022].

¹⁴¹ Reuters, "South Korea removes Japan from fast-track trade 'white list' ", 17 September 2019, <<https://www.reuters.com/article/us-southkorea-japan-whitelist-idUSKBN1W21T2>>, [2 May 2022].

was keen on standing its ground and not making any concessions in regards to historical issues.

In his speech, President Moon promised both to solve the dependency on the Japanese exports and in the semiconductor industry and also ‘to improve the serious trade deficit by developing Korea-Japan trade relations in a more mutually beneficial and balanced manner’¹⁴².

A big role in this conflict was played by the Korean civil society, which realised that the period of ‘cold politics, hot economics’ was over and quickly rallied together to boycott the Japanese products on a scale never seen before. The Japanese car sales plummeted by 30% in July just after Japan introduced trade restrictions¹⁴³, clothes retailer Uniqlo reported that sales decreased by 40%¹⁴⁴, and the Japanese beer sales fell by 99.9% in October¹⁴⁵.

Furthermore, the conflict significantly impacted tourist flows to Japan. Korean tourist numbers decreased more than by half compared to the same period in the previous year (see Figure 2¹⁴⁶). While the scope of the public’s reaction is surprising, the reaction itself is less so, since the protests and demonstrations against Japan were usual tools employed by the public every time the two countries had rows in regards to the ‘comfort women’ issue and other related historical disputes. The fact that for some years Japan’s remarks and actions that disregarded ROK’s concerns have been increasing and the failed agreement to conclude the ‘comfort women’ issue by the Park government only exacerbated the anti-Japanese sentiments in the society. When the Japanese government involved economics into a political dispute, thus breaking a decades long unwritten understanding between both society and politicians, boycotts of Japanese products were a logical and easy step to make for Korean society.

¹⁴² Opening remarks by President Moon at the meeting with his secretaries accessed from <http://www.korea.net/Government/Briefing-Room/Presidential-Speeches/view?articleId=172716&pageIndex=12>, [28 April 2020].

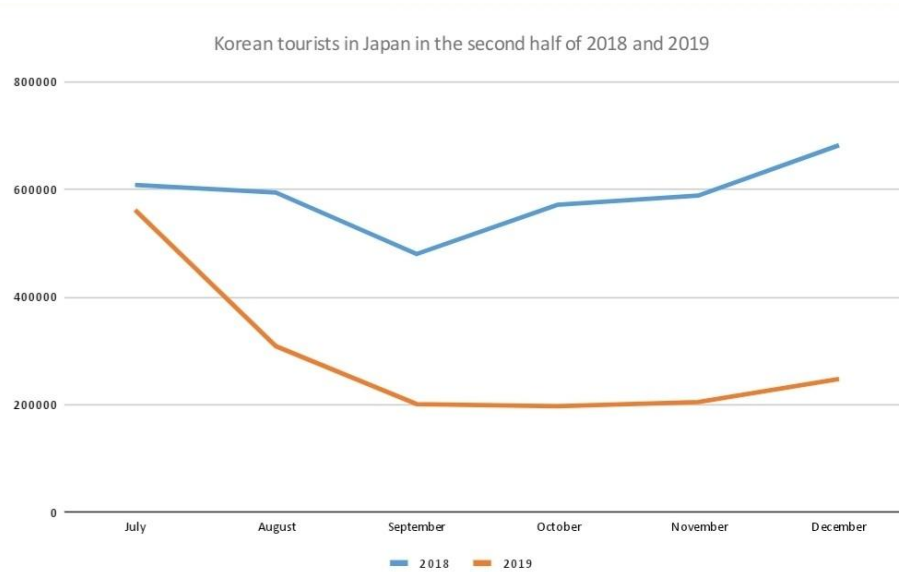
¹⁴³ France24, “Japanese car sales plunge in S. Korea as trade row rages”, 5 August 2019, <https://www.france24.com/en/20190805-japanese-car-sales-plunge-korea-trade-row-rages>, [24 November 2019].

¹⁴⁴ Da-Sol Kim, “Uniqlo records 40 percent drop in sales, closes its Jongno 3-ga store”, 2 August 2019, <http://www.koreaherald.com/view.php?ud=20190802000462>, [24 November 2019].

¹⁴⁵ Alexandra Ma, “Beer exports from Japan to South Korea have fallen 99.9% as their bitter, personal trade war rages on”, 30 October 2019, <https://www.businessinsider.com/japan-south-korea-trade-war-beer-exports-fall-2019-10>, [24 November, 2019].

¹⁴⁶ Japan National Tourism Organisation, Time Series dataset.xlsx (excel sheet), <https://www.tourism.jp/en/tourism-database/stats/inbound/>, [15 May 2022].

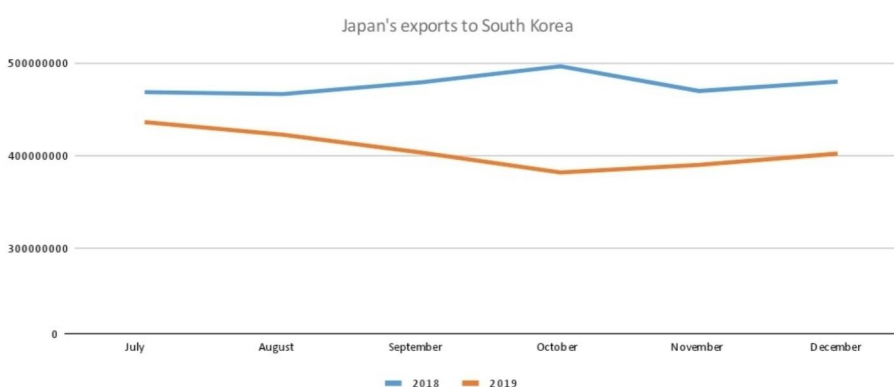
Figure 2. Korean tourists in Japan in the second half of 2018 and 2019



Compiled by the author, data from Japan National Tourism Organisation

However, looking at the long term, boycotts did not have a very significant impact - during the first few months of the conflict there was a 15% decrease in exports from Japan compared to the same period in 2018 (see Figure 3¹⁴⁷). Considering that the restricted chemicals attributed for approximately 13% of Korea’s global imports¹⁴⁸, most of that decrease is possibly related to the unsold chemicals.

Figure 3. Japan’s exports to South Korea (1,000 YEN)



Compiled by the author Source: Japan’s Ministry of Finance data

¹⁴⁷ Japan’s Ministry of Finance data retrieved from Japan Customs database at <<https://www.customs.go.jp/toukei/srch/indexe.htm>>, [4 May 2022].

¹⁴⁸ Goodman, VerWey and Kim, 5.

However, the strong reaction from the society is in itself an important signal for the Korean government, which showed that the society would support a strict response to Japanese actions. Considering the aftereffects of the still recent presidential scandal and the public's role in ousting president Park, the public's support for any decision on such sensitive matters was essential in the government's action plan. It is indeed notable that it was Korean society rather than the government, which first employed countermeasures against the trade restrictions, as ROK removed Japan from its own whitelist only in September, when boycotts were already fully operational.

After the countries started recovering from the pandemic, the situation was further aggravated by the decision of Seoul Central District Court on 8 January 2021, which ordered the Japanese government to pay compensation to the surviving 'comfort women', however, ROK's Foreign Ministry stated that it will not seek additional compensation from Japan¹⁴⁹. However, there were two court verdicts regarding 'comfort women' and forced labourers, which dismissed their claims for compensation from Japan on the basis of state sovereignty¹⁵⁰. In September 2021, ROK's Foreign Minister Chung Eui-yong announced that while he believed the issue could be solved diplomatically, if the efforts were fruitless, ROK would have to involve WTO¹⁵¹, once again showing that while diplomatic relations were not cut off at all levels and the economic relations were mostly back to normal, the underlying issues were yet to be solved along with the reinstatement of Korea to Japan's whitelist. The issue was once again further complicated by the fact that for the first time in history Seoul court ordered liquidation of Japanese assets in order to compensate the forced labourers who filed a lawsuit back in 2018¹⁵². So far, despite the increased bilateral talks, President Moon's softened stance in regards to the compensation issue and his support expressed for the agreement that President Park signed in 2015¹⁵³, the issue remains unsolved and the trade restrictions are still in place.

¹⁴⁹ Mitch Shin, "Conflict Between South Korea and Japan Surges Again With Court's 'Comfort Women' Decision", 26 January 2021,

<<https://thediplomat.com/2021/01/conflict-between-south-korea-and-japan-surges-again-with-courts-comfort-women-decision/>>, [22 February 2022].

¹⁵⁰ Cheol-hee Park, "RESOLVED: The United States Can Fix the Japan-South Korea Problem", 9 July 2021,

<<https://www.csis.org/analysis/resolved-united-states-can-fix-japan-south-korea-problem>>, [22 February 2022].

¹⁵¹ Reuters, "Japan and South Korea meet, restate positions in dispute", 23 September 2021,

<<https://www.reuters.com/world/asia-pacific/japan-south-korea-meet-restore-positions-dispute-2021-09-23/>>, [21 February 2022].

¹⁵² Korea Herald, "S. Korea ready to promote trade ties with Japan: minister", 29 September 2021,

<http://m.koreaherald.com/view.php?ud=20210929000443>, [22 February 2022].

¹⁵³ Cheol-Hee Park, "RESOLVED: The United States Can Fix the Japan-South Korea Problem", 9 July 2021, <https://www.csis.org/analysis/resolved-united-states-can-fix-japan-south-korea-problem>, [22 February 2022].

Finally, despite the President's promises to make ROK self-sufficient, it is still highly dependent on imports from Japan. ROK managed to significantly lower its imports of hydrogen fluoride, but it is still as reliant on Japanese production of photoresists and fluorinated polyimide as it was before the conflict¹⁵⁴.

4.5 Assessment

While there is no doubt that South Korea tried to lessen the trade deficit and decrease the reliance on Japanese imports for some time before the conflict, their efforts were rather half-hearted and did not result in any material changes, especially their dependence on imports of semiconductor materials. The fact that the trade deficit was considered to be an issue even prior to the conflict with China, and yet no progress was made even after the conflict shows that South Korea did not take into consideration the previous instances of economic sanctions. It is further proved by the fact that the trade volume stayed at approximately the same level even after the dispute.

However, it is clear that the salience of the issue played a big part in the way the ROK government responded to the trade restrictions. In this case, the government was heavily influenced by the public's reaction. It was obvious that the historical issues were the most sensitive issues for the public and when Japan targeted ROK's economy, which was yet another sore spot in the eye of the public, Japan inadvertently opened a Pandora's box. The public's reaction to the restrictions allowed the government to take initiative and retaliate while tackling the decades old issue. The public's reaction clearly showed how much importance they placed on these issues, and due to the government's sensitivity to the opinion of the public, the government had to place as much importance to the issue as did the public or else they risked to face high political costs.

Meanwhile, the nature of the sanctions also played a role in the way ROK decided to react. While the restrictions hit the most vulnerable sector, they were a short-term disruption for several reasons. Firstly, it was not a complete ban on the exports of the three chemicals but rather a (serious) disruption in the supply chain, which in the end was relaxed, and while the restrictions are still in place, they are more lax and it is still possible to import the materials even directly from Japan. Secondly, there were possibilities to decrease the

¹⁵⁴ Kotaro Hosokawa and Taito Kurose, "Despite Moon's claims, South Korea still relies on Japanese chip materials", <https://asia.nikkei.com/Spotlight/Comment/Despite-Moon-s-claims-South-Korea-still-relies-on-Japanese-chip-materials>, [1 May 2022].

dependency, which the Korean government partially succeeded in doing. Finally, the countries were matched relatively evenly in most other economic areas and ROK was more than capable of inflicting as much damage on Japan as could Japan on ROK. Hence, Japan was not willing to let the conflict spill into other areas but yet content to let the conflict stay frozen at its current stage. Due to their similar economic power, ROK had more choices for its reaction to sanctions than it did with China.

CONCLUSIONS

The main aim of this thesis was to analyse the two instances of economic coercion that South Korea was subjected to in the last 6 years and to find out why the reaction was different each time. H1 that a stronger reaction to the Japanese sanctions was due to the lessons ROK learned from previous instances of economic sanctions was not confirmed as after the conflict ROK did not make any efforts to decrease its dependence on China, on the contrary, the trade volume with China only increased. Furthermore, during the years between the two conflicts there were no signs of ROK increasing its efforts to lower the trade deficit with Japan. The problem was already noted in the official statements as far back as 2012, but the efforts taken to reduce it, especially in the components and materials sectors, were half-hearted and did not achieve significant results until after the conflict with Japan emerged and even after the conflict the trade dependency on the imports of semiconductor components was reduced only partially and not as sharply as was expected.

H2 that the salience of the issues in question in the two cases of economic disputes was different for the ROK's government was partially confirmed. Both issues carried great significance for the government. THAAD conflict was related to the security concerns over North Korea's growing nuclear threats and hence it was a matter of national security, the core issue for any country. The conflict with Japan was connected to underlying historical issues and could be said to have been in the making since the end of World War Two. The issues over which the conflict emerged were the core issues in the bilateral relations, and hence yielding to the pressure was not an option, as otherwise Korea's standing in the bilateral relations between it and the other two countries would have been damaged significantly. However, there was a difference between the salience that both issues had in the eyes of the public. The THAAD issue was controversial less so because of the sanctions from China and more because of the way the Park government implemented the deployment process and the

controversies surrounding the impeached President herself. While after the sanctions were employed the public's attitude towards China became more negative and the support for THAAD deployment increased, the public was still divided on the issue even if mostly supportive. Due to the overall sensitive domestic situation and issues surrounding THAAD in particular, there were no boycotts or massive protests in front of the Chinese embassy. Due to the delicate domestic situation and lukewarm public reaction, the government, while still keen on proceeding with deployment, could not afford to aggravate the issue even further and hence had to rely on mere non-compliance. Even in the case of yielding to pressure from China, the government would not have faced significant political costs or public's backlash since a rather large share of the population would have welcomed its decision not to deploy THAAD. On the other hand, the trade restrictions from Japan resonated deeply with the public, and due to the fact that it was the Japanese who first disregarded the 'cold politics, hot economics' principle, the public could employ all the means available to show their dissatisfaction with the situation. By doing so, they allowed the government to be more proactive in the way they dealt with the situation at hand. In short, because the issue of 'comfort women' and forced labourers was more salient to the public than THAAD, it also became more salient to the government.

Finally, H3 that the power (a)symmetry with the sender state dictated the measures ROK could employ was fully confirmed. The power asymmetry with China was substantial. The reliance on both trade with China and its tourists was unprecedented and there was no area where ROK could inflict significant damage to China, except for halting the exports of components and other high tech materials, but by doing so it would have inflicted heavy damage on its own economy. Meanwhile, the situation with Japan was more favourable to ROK. While Japan had a larger economy and was less reliant on trade with ROK than vice versa, Japan could not use the same tactics as China did - there was no area where heavy sanctions would have significantly damaged ROK and yet leave Japan unscathed. Even in the manufacturing and components sector, which Japan eventually targeted, tangible damage was done to the Japanese companies, as Korea was one of their main markets. Furthermore, the lost trust between the two countries meant that in the long-term Japan would be even more affected as it would lose at least parts of an important market, while Koreans would slowly find other suppliers.

The results suggest that the small states and middle powers are not entirely powerless vis-a-vis economic pressure. The findings suggest that mere economic power of the sender state and the damages it can inflict matters significantly when the states are contemplating a

counter-response and retaliation options, but being dependent on the economic relations with the sender state does not prevent the target from non-compliance with the sanctions. Additionally, in both instances, it was not the overall economic power of the sender state that was the deciding factor for the response by the target but rather interdependence in specific areas. The sectors which were deemed of significant importance to the Chinese economy were not affected by the THAAD conflict, in fact the trade in those sectors only increased. A similar situation could be seen in the conflict with Japan, which suggests that it is not necessary to be significantly stronger in all sectors, it is, however, a good strategy to be a niche player in a particular industry.

Such findings are especially important considering the fact that economic sanctions are being employed against various smaller states. The most recent conflict between Lithuania and China bears significant similarities to the THAAD conflict in terms of China's actions and unofficial sanctions being employed against the target. South Korea's example shows that even in the event of lacking tools to tackle the problem via international organisations due to the nature of the sanctions, it is possible to stand firm in the face of such sanctions. It shows that despite the short-term losses, there are options available for the targets when one can refuse to comply and still maintain trade relations with the sender state in the long-term, especially if there is public support for the actions of the government. Considering the fact that an agreement to return the bilateral relations back to 'normal' was reached without ROK yielding to sanctions and without China reaching the primary aim of its sanctions, further research could concentrate on the reasons as to why the new government of ROK was able to come to an understanding regarding THAAD despite having much less time to do so and despite the fact that there was no strong personal relation between the officials as it was during the Park era.

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SUMMARY

The subject of this thesis *From Non-Compliance to Retaliation: South Korea's Response to Economic Conflicts with China and Japan* is the response of the South Korean government to the economic sanctions it was subjected to by China in 2016-17 and by Japan in 2019 and onwards. Considering the fact that both China and Japan are important to ROK both as trading partners and as regional partners, especially when it comes to matters pertaining to North Korea, it is important to understand the logic behind ROK's response to these two conflicts. The reasoning behind ROK's choice to oppose economic pressure despite the obvious negative consequences, first and foremost to its economy, is also important on a bigger scale since it could help better understand how middle powers respond to and deal with economic pressure from (regional) great powers.

The research question guiding this thesis is why ROK reacted differently to economic pressure employed by China than to the one employed by Japan. The main aim of this study is to find out the key factors that influenced different responses by the ROK government to economic pressure imposed by China in 2016 and Japan in 2019. In order to reach the main aim and answer the research question five objectives were set 1) Set out the theoretical framework which would explain why states choose the non-compliance in case of economic sanctions; 2) Define South Korea's foreign policy towards its neighbours before the trade disputes; 3) Evaluate South Korea's economic power compared to that of China and Japan; 4) Analyse the two instances of economic sanctions ROK was subjected to, their primary and secondary aims and the results that were achieved; 5) Compare the response of ROK to the sanctions of China and those of Japan and the reasoning behind it.

The three hypotheses were derived from the theoretical framework based on the various literature on economic sanctions and reasons for (non)-compliance. H1 that a stronger reaction to the Japanese sanctions was due to the lessons ROK learned from previous instances of economic sanctions was not confirmed as after the conflict ROK did not make any efforts to decrease its dependence on China, on the contrary, the trade volume with China only increased.

H2 that the salience of the issues in question in the two cases of economic disputes was different for the ROK's government was partially confirmed. Both issues carried great significance for the government for different reasons, however, the issues affected the public differently and the public's stance on the issues influenced the government and its decisions

significantly. The public's reaction to the conflict with Japan did not allow the government to act passively and has given the decision makers the mandate to retaliate, while the more passive reaction to the THAAD sanctions due to domestic issues at the time made the government to be more careful in its responses. In short, the salience of the issues for the public was different and thus due to the government's sensitivity to the public's opinion, the issues carried different significance for the government as well.

Finally, H3 that the power (a)symmetry with the sender state dictated the measures ROK could employ was fully confirmed. The power asymmetry with China was substantial. The reliance on both trade with China and its tourists was unprecedented and there was no area where ROK could inflict significant damage to China. While Japan had a larger economy and was less reliant on trade with ROK than vice versa, Japan could not use the same tactics as China did - there was no area where heavy sanctions would have significantly damaged ROK and yet leave Japan unscathed.

Considering the fact that an agreement to return the bilateral relations back to 'normal' was reached without ROK yielding to sanctions and without China reaching the primary aim of its sanctions, further research could concentrate on the reasons as to why the new government of ROK was able to come to an understanding regarding THAAD despite having much less time to do so and despite the fact that there was no strong personal relation between the officials as it was during the Park era.

SANTRAUKA

Šio magistrinio darbo „Nuo reikalavimų nevykdymo iki atsakomųjų veiksmų: Pietų Korėjos ekonominiai konfliktai su Kinija ir Japonija“ tema yra Pietų Korėjos atsakas į ekonominį spaudimą, kurį patyrė iš Kinijos 2016-17 metais, o nuo 2019 metų ir iš Japonijos. Svarbu atsižvelgti į tai, kad tiek Kinija, tiek ir Japonija yra labai svarbios prekybos partnerės, o taip pat ir regioninės partnerės, ypač kalbant apie Šiaurės Korėjos grėsmės mažinimą. Būtent todėl yra svarbu suprasti Pietų Korėjos veiksmus šiuose konfliktuose. Suprasti, kas lėmė Pietų Korėjos pasirinkimą nenusileisti spaudimui, nepaisant neigiamų (ekonominių) pasekmių, yra svarbu ne tik iš pragmatinės pusės, bet ir iš teorinės, kadangi tai padėtų praplėsti bendrą suvokimą, kaip vidutinės galios tvarkosi su spaudimu iš didžiųjų (regioninių) galių.

Šio magistrinio darbo pagrindinis klausimas yra kodėl Pietų Korėja skirtingai reagavo į ekonominį spaudimą iš Kinijos nei į tą, kurį po kelerių metų patyrė iš Japonijos. Pagrindinis šio darbo tikslas yra išsiaiškinti esminius faktorius, lėmusius skirtingą atsaką. Tam, kad būtų pasiektas šio darbo tikslas ir atsakyta į pagrindinį darbo klausimą, buvo išskirti penki uždaviniai: 1) suformuluoti teorinį pagrindą, padėsiantį paaiškinti, kodėl valstybės pasirenka nepaklusti sankcijų reikalavimams; 2) Apibrėžti Pietų Korėjos užsienio politiką Kinijos ir Japonijos atžvilgiu prieš ekonominius konfliktus; 3) Įvertinti Pietų Korėjos ekonominę galią lyginant ją su Kinijos ir Japonijos; 4) Išanalizuoti ekonomines sankcijas, taikytas Pietų Korėjai, jų pirminius tikslus bei pasiektą rezultatą; 5) Palyginti Pietų Korėjos atsaką Kinijos ir Japonijos sankcijoms ir to priežastis.

Trys šio darbo hipotezės kyla iš teorinio pagrindo apie ekonomines sankcijas ir priešinosi joms priežastis. H1, kad griežtesnė reakcija į Japonijos sankcijas kilo dėl patirties, kurią Pietų Korėja įgijo po sankcijų iš Kinijos nepasitvirtino, kadangi po konflikto su Kinija, Korėja nedėjo jokių pastangų mažinti ekonominę priklausomybę nuo Kinijos, netgi priešingai - prekybos srautai su Kinija kaip tik išaugo.

H2 - problemų dėl kurių kilo šie ekonominiai konfliktai svarba Pietų Korėjos vyriausybei buvo skirtinga buvo patvirtinta iš dalies. Abi problemos vyriausybei buvo savaip svarbios, tačiau šių konfliktų priežastys skirtingai paveikė Korėjos visuomenę, ko pasekoje visuomenės reakcija į šiuos konfliktus padarė įtaką vyriausybei ir jos sprendimams. Visuomenės reakcija į konfliktą su Japonija neleido vyriausybei elgtis pasyviai ir suteikė paramą, kurios Pietų Korėjos vyriausybei reikėjo tam, kad galėtų ne tik nesutikti su

sankcijomis, bet ir pati atsakyti tuo pačiu. Tuo tarpu visuomenės reakcija į konfliktą su Kinija buvo žymiai ramesnė dėl įtemptos politinės situacijos šalies viduje, todėl ir vyriausybė turėjo į tai atsižvelgti ir elgtis atsargiau sprendžiant santykių su Kinija problemas. Problemų, kurios sukėlė šiuos konfliktus svarba visuomenei buvo skirtinga, visuomenė buvo daug jautresnė istorinėms problemoms su Japonija, ko pasekoje ši problema tapo daug svarbesnė ir Pietų Korėjos vyriausybei, kuri yra ypač jautri visuomenės nuomonei.

Trečioji hipotezė H3 teigianti, kad galių (a)simetrija lyginant su sankcionuojančia valstybe lėmė priemones, kurias Pietų Korėja galėjo panaudoti kaip atsaką į ekonominį spaudimą pilnai pasitvirtino. Galių asimetrija su Kinija buvo labai žymi. Pietų Korėjos prekyba bei turizmo sektorius buvo itin priklausomi nuo gerų santykių su Kinija, be to, jų ekonominiuose santykiuose nebuvo tokios srities, kurią Pietų Korėja galėtų panaudoti norėdama sukelti ekonominę žalą Kinijai. Konflikto su Japonija metu, nors Japonijos ekonomika irgi buvo didesnė nei Pietų Korėjos, o Japonija buvo mažiau priklausoma nuo prekybinių santykių su Korėja atvirkščiai, Japonija negalėjo taikyti tų pačių metodų, kokius taikė Kinija - Japonijos-Korėjos ekonominiuose santykiuose nebuvo tokios srities, kurioje griežtos sankcijos būtų pakenkusios išskirtinai tik Pietų Korėjai.

Atsižvelgiant į tai, kad susitarimas su Kinija normalizuoti dvišalius santykius buvo pasiektas nepaisant to, kad Pietų Korėja nenusileido sankcijoms, o Kinija nepasiekė savo pirminio sankcijų tikslo, tolimesni tyrimai giliau išnagrinėti priežastis, kaip naujoji Pietų Korėjos vyriausybė sugebėjo pasiekti susitarimą dėl THAAD, nepaisant to, kad turėjo daug mažiau laiko tam pasiekti ir to, kad dar nebuvo susiformavę stiprūs asmeniniai ryšiai tarp aukšto rango politikų, kaip tai buvo prezidentės Park valdymo laikotarpiu.