TRANSCRIPT
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Session III: Economic Security and Korea’s Trade Agenda
and Closing Remarks

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I hope everybody enjoyed their lunch. And welcome back to those of you who are following us online. We appreciate you staying with us for our – the last panel, which I think is actually the most important panel when we think about the discussion of the alliance and regional relations which has animated sort of the topics for this year’s Strategic Forum because in many ways supply chain security, economic resilience, however you choose to describe it, figures broadly in every country’s outlook – not just regional relations in terms of economics, but also in terms of strategy, security, and politics, because the world has become much more uncertain with things like the war in Europe and China’s increasing weaponization of economic interdependence. So in many ways this is, I think, our most important panel of the day because it really informs outcomes on the previous two panels that we were talking about.

And so I’m very happy that such a distinguished and expert group of scholars and experts and practitioners could join us for this discussion this afternoon on “Economic Security and Korea’s Trade Agenda.” So I’ll briefly introduce them to you. Their bios are in the program and on the website.

To my immediate left is Robert Atkinson, who’s president of Information Technology and Innovation Foundation. I was just joking at our lunch table that Rob is CSIS’s favorite expert on economic resilience and supply chain security. We’ve participated in a number of panels involving Korea, Australia, and others on this topic, and so he’s one of the go-to experts with regard to these issues and a thought leader on them in Washington, D.C.

Sitting next to Rob is Ambassador Seokyoung Choi – (changes pronunciation) – Choi – who is currently senior advisor at Lee & Ko, former South Korean ambassador for economy and trade, former ambassador to the United Nations and the WTO in Geneva. We’re also happy to welcome him back to CSIS – again, one of our experts and most sought-after folks. He’s also had the pleasure, we hope, of being on our “Capital Cable” show as well.

And sitting next to the ambassador is Dr. Hyo-young Lee, who is assistant professor of the Korea National Diplomatic Academy, KNDA, teaching and writing on issues regarding international trade law, policy, and diplomacy. Before joining KNDA in 2017, Dr. Lee worked as a research fellow at the Korea Institute for International Economic Policy, or KIEP. Prior to that, Dr. Lee was assistant secretary for trade, industry, and energy in the president’s office and deputy director at the Ministry of Public Affairs and Security.

And then battling cleanup, to use the baseball analogy, is Clara Gillispie. She is an advisor to the National Bureau of Asian Research and serves as the official U.S. delegate to the Energy Research Institute Network, an East Asia Summit-linked network whose inputs are designed to inform the formal EAS – East Asia Summit, or EAS, process. Prior to that, she served as senior
Robert Atkinson

Sure. Thank you, Victor. It’s a – it’s a pleasure to be here.

And you know, this is one of those issues, I think, where it’s: Is the glass half empty or half full? I tend to live my life being glass half empty, so I’m constantly depressed. (Laughter.)

So the short answer is compared to where we were three or four years ago the U.S. is taking a lot more – putting a lot more attention into supply chain issues. You’ve seen the Biden administration with multiple supply chain reports, a lot of talk about making sure that there’s supply chain resiliency. They’re also supporting the bipartisan and hopefully bicameral competitiveness legislation that now is being in conference committee in the House and the Senate. And among other things, one of the things that bill would do would be to create a CHIPS Act, which is essentially a $50 billion semiconductor fund initiative with probably 40 (billion dollars) of that going to just incentives for allied country companies or U.S. companies to build semiconductor facilities in the U.S. So Samsung, SK hynix would qualify, just to use an example. And then, also, R&D.

But I do think we’re – there’s no – we’re not doing anywhere near enough. First of all, we haven’t passed that legislation. We should have passed it last
year. Secondly, that legislation, even if it’s useful – I’m sorry, even as it’s useful, will not be enough. The U.S., I would argue, suffers serious challenges.

I mean, one of the things you have to have if you want to think about this – and I would argue countries should think about this not just from a defensive perspective, which is sort of the way people are encouraged to think about it now: we have to have supply chain resiliency in case something bad happens. We do. But we also have to have supply chain resiliency to use as a weapon, and I would only use the weapon in self-defense, to be clear. I’m not advocating we use that weapon. But there are cases where we have to use the weapon against a very large country in Asia who will go unnamed, shall we say. (Laughter.) That country uses that weapon constantly.

And I’ll give you one example of where the Trump administration used the weapon and it was just a wonderful thing to see. I think as you all know, the Chinese have put 150 billion, 130 billion into just pure subsidies for their semiconductor companies, total violation of the World Trade Organization agreement. They get away with it. And on top of that, they use stolen or forced intellectual property theft and tech transfer. So they had this company called Fujian Jinhua, which I’ll pronounce it not quite right probably, and they wrote them a check, and they said go out and build DRAMs, which is what the two main Korean companies build, the dynamic random access memory chips. And on top of that, the technology they were using was stolen from a Taiwanese company that was partnering with Micron, which is a U.S. – the third major memory maker in the world. Completely illegitimate company. It shouldn’t exist because it had stolen IP and massive subsidies. We’re not talking little subsides, which everybody does; these are outrageous subsidies.

So what the Trump administration did is they essentially said that U.S. technology that makes semiconductors could not be exported to that company, and they just took it away. And that company went bankrupt. I think that’s a really great thing. Again, I don’t advocate doing that unless there’s a real reason to do it.

But the main thing I think we need to do – and I’ll stop here – is I think we have to – just in terms of defense, for example, we know what our defense capabilities are. Korea and Japan know what your defense capabilities are. We need to work together to understand our supply chain capabilities, and we’re not really doing that. If we wanted to – if we were forced to take some action against China because they’ve taken aggressive action first, what do we do? What’s the best, most effective tool or weapon? And we haven’t done that. Certainly, we haven’t done that in the U.S. to my knowledge, and we certainly haven’t done it as a group. So I would argue we collectively need to work to gain that economic and industrial intelligence, if you will.
So thank you.

Dr. Cha

Great. Thanks.

Ambassador Choi, your views on this?

Choi Seokyoung

Right. Korea has experienced supply chain disruptions in many cases beforehand, starting from the thought retaliation of China when Korea deployed THAAD system in the Korean Peninsula. Actually, the damage was widespread. Actually, we have checked, actually, the actions taken by China and we found that, actually, several different types of sanctions are exercised by China to the Korean companies. For example, delay of the customs clearance and actually the popular boycotts and export control and import control, et cetera, et cetera. Actually, and also the tourist – the mass tourist from China was also controlled by Chinese authorities.

And also, we had experienced the Japanese export control for three critical materials in producing semiconductors.

And on top of that, we also have experienced supply chain disruptions because of aggravating U.S.-China strategic competitions. United States strengthened export-control regimes and the United States also strengthened foreign direct investments reviews, particularly targeting Chinese investors. Because the supply chains are interlinked, because Korean component(s) are exported to China and then reprocessed then re-exported to the United States, therefore U.S. export control against China affecting Korea’s exportations automatically. Actually, the world is interlinked.

And under Moon administration, facing with Chinese THAAD retaliation, the Moon administration’s response was just appeasement policy towards China. They did not take any actions. Although there are – there were apparent discrimination against Korean companies, then even Moon administration did not file the case to the WTO although it was apparent violation of Chinese obligation in WTO system.

And regarding Japanese export control against, actually, Korea at that time, Moon administration did not try to address the root cause of the problem. That is, actually, history shows bilateral disputes, but instead of that Moon administration would like to be technologically independent, actually. I think that is not the right way to address the problems.

And the U.S.-China strategic competition is not actually a temporary issue. It will be continued for several decades in the future.
Therefore, I think this – Yoon administration had a great lessons learned from previous administration, and also they clearly recognized the changing environment. Therefore, they actually – economic security issues has become one of the priority policy agenda in Yoon administration. They just institutionalized how to respond, actually, this economic security challenges. Therefore, as we heard this morning from presidential advisor Wang Yunjong just mentioned, actually, they had a position in the presidential office and also they had a position in the prime minister’s office. They established a public-private partnership committee in prime minister’s office to address the emerging security issues – that is, pandemic issues, climate change issues, et cetera, et cetera. I think that is a good move.

And also, Yoon administration committed to work with United States and other partners in the formation of IPEF, Indo-Pacific Economic Framework, although the IPEF is in the making process. It is an evolving process. Actually, we still don’t know the final product of this exercise. The form and contents are still in the air, but I think that is a good direction for Korea as a founding member to work together with the United States. Actually, that is quite clear, Korean – the new administration is very clear on that, their policy objectives.

And actually, the other issues, the private sector’s response. Private sector has kind of a mixed feeling in the changing environment because they had a great deal of investment in certain country, like in China, and they just would like to know how this strategic confrontation between U.S. and China will be unfolding in the future and how economic security policy would affect their business activities. They have a great deal of concerns on uncertainties and unpredictabilities in the future. And also, they – actually, individual business also working together with associations that actually, first, they just would like to map out the vulnerabilities, kind of bottlenecks of supply chains, and then the best way for businesspeople would be the diversifications. They just – they are just, actually, hedging their risks, risk hedging or risk prevention. But they are still concerned what kind of governmental policy directions would affect their future business activities.

I have to stop here.

Dr. Cha

All right. Thank you. Thank you, Ambassador.

Yes, Dr. Lee.

Lee Hyoyoung

Yes.

Let me first point out that there seems to be two dimensions in the economic security issue, internal and external. Internal dimension of economic security, I think, is industrial policy because securing competitiveness in
terms of industry sectors is critical to the economic security and national security of a country. And the external dimension, I think is supply chain resiliency because the stable supply of critical inputs for manufacturing is, ultimately, also important to maintaining and securing economic security as well.

But coming back to your question –

Dr. Cha

Dr. Lee, can you – could you move the mic a little closer to you so that we can –

Amb. Lee

Oh, OK. It’s – sorry.

Dr. Cha

– hear a little better?

Amb. Lee

So coming back to your question on whether Korean government is committed to economic security, I think that the government's official announcement of becoming a member of the IPEF as an initial member is actually a strong commitment of the Yoon administration to secure this external dimension of supply chain together with the IPEF member countries, and the extent to which Korea has been able to internalize support chain resilience into its policy, I think, it remains to be seen as the details of the IPEF will come along.

But Korea actually has been very sensitive to supply chain issues, as Ambassador Choi has mentioned, and I think that it began in 2019 when Japan imposed export controls on critical inputs for semiconductor manufacturing, and the latest supply chain shock was actually last year when there was a shortage of urea, which is a critical import for manufacturing cars in Korea.

And actually these two types of incidents have different factors involved. The first – actually, the latter incident involving urea is more of a supply chain problem caused by natural factors or structural factors, meaning they were pandemic-induced supply chain disruptions. On the other hand, the former incidents involving the semiconductor inputs is more of a geopolitical factor and caused by the strategic relations between Korea and Japan.

And so in the aftermath of these supply chain shocks, the Korean government has actually involved – has been engaged in diverse ways to strengthen its supply chain. Many countries – as did many countries involving stockpiling and diversification and friendsourcing, and also trying to strengthen its domestic capacity to replace the imported inputs.

But, unfortunately, I don't think these policies were sufficient for future – for dealing with future supply chain shocks that are more strategic in nature,
like the case of the semiconductor inputs and, therefore, I think that it is very important for IPEF because it can serve as a mechanism to induce members to coordinate their supply chain policies and export restriction policies so that our supply chains can be made more resilient in a collective manner.

And with regard to the private sector, I think the Korean government’s quick move to join the IPEF and the president’s emphasis over numerous times on the importance of economic security sends a very strong signal to the business sector and to the public as well that the government is committed to economic security and that for the businesses in making their investment decisions, which were previously based on commercial considerations, they should be actually in coordination with the government’s initiative to put emphasis on national and economic security.

And so I think that for Korea, the success of IPEF is actually very important because it has now become a part of the Korean government’s economic security strategy.

Dr. Cha

Great. Thank you very much.

Clara?

Clara Gillispie

Great. So has the U.S. fully integrated this thinking about economic security or supply chain resilience into our policymaking? I think I’d share Rob’s sense that this is something that the United States is continuing to get better at, particularly over the last couple years, but sometimes not as quickly as we’d hope and, certainly, not enough as we need.

I focus on energy markets in particular and one of the bright spots that you can see in the last 10 years has been the U.S.’ emergence as an energy superpower, which has had implications for not just how we think about our energy security at home, but the ways that we’ve tried to engage with partners in the region in creating sustainable, reliable, secure supply chains, and our relationship with South Korea in particular has absolutely been a motivating factor behind that, whether you think about natural gas markets and trade, whether you’re thinking about how to address market liberalizations, other reform needs that can allow greater investment in cleaner energy supplies, and then just, you know, R&D and kind of government cooperation on a lot of advanced technologies as well, including advanced nuclear, and there’s a lot of positive momentum that we continue to see in those trend lines and the way that we’re working together in the energy space.

But, you know, something that was raised in, I think, one of the keynotes this morning that really resonated with me is the idea of the pandemic serving as a wakeup call to how we think about our supply chain security, because I
think that’s both absolutely true when we think about energy markets in particular, but also for that timeline I outlined. You know, this is not the first time we’ve had an alarm flashing red that should give us concern and pause about how we’re thinking about our supply resilience in particular.

Ambassador Choi, for example, mentioned the Chinese restrictions of rare earth element exports to Japan. That was about 10 years ago now. We’ve seen some positive progress towards diversifying and kind of reducing dependence on China in particular, but, arguably, more so from Japan, South Korea, and others than the United States leadership in this space.

You see other kind of potential bottlenecks or concerns, questions about China’s positive and sometimes not so positive disruption of the solar market and strong dominance there. Similar threads in new energy vehicles. And then, you know, stepping aside from some of the geopolitical tensions, you do also have a lot of volatility in energy markets.

But for, you know, the outline we were given of energy’s economic security this morning have sometimes led to really painful high energy prices both for natural gas and oil, but also have, kind of, flips at times, had supply crunches, other challenges on firms when prices have crashed to kind of build up production or think about their diversification strategy. And already, as you kind of look at this list, you see going into the pandemic, a number of potential bottlenecks or pain points that means that when we did see a number of the supply chain disruptions during the pandemic, they both were painful but also, in some cases, not surprising. We had indicators for a while that we could be reaching this point.

I think, to their credit, the Biden/Harris administration has taken very seriously the idea that supply chain insecurity is a concern, and also the idea that our existing policies in this space have not been serving our interest effectively or well always.

Rob mentioned as well several reports that they’ve put out in the last year, and the last few months in particular, including a very meaty one looking at the Department of Energy and some of the things that we might think about in terms of increasing our supply chain resilience there. I think there’s a number of things that outlines that we could do, but we’re still at the question of which of those tools we’ll actually follow through and will do.

Dr. Cha

Great. Thanks.

If I could just go back to Clara and Dr. Lee.

So, Clara, on your point about energy security and South Korea, the summit, clearly, pointed to one area, nuclear –
– as being an area for the Yoon-Biden alliance, going forward. But in the past, there’s always been a lot of talk about gas, right, and what are – what’s the potential? Are there – what are the impediments and the potential for greater U.S.-Korea cooperation on gas exports to South Korea? They’re a big consumer of LNG, but shale gas, other sorts of sorts of things.

Are there legislative impediments? I know this was something that was talked about quite a bit in the U.S.-Japan alliance in the past.

That’s a great question, and in terms of legal barriers, I’d argue that we’ve done a good amount to address them already. There were concerns kind of back 2014, 2015 of, you know, do you have to be a free trade agreement partner to be able to get U.S. LNG exports. We’ve kind of addressed that issue on multiple fronts.

The barriers I see now are a fewfold. One of them just has to do with some of what we’re seeing in this supply crunch that we have at the moment, the question of how we’re replacing Russian supplies, how quickly things can spool up.

So there are some things that we can do in terms of private sector dialogues on that question, some things that are going to genuinely just take time as well. I think another thing that we can do, and was hinted at this morning, and kind of key question for the market is where does natural gas fit into this net-zero future that we’re talking about, the idea that if by 2050 we want to get to zero greenhouse gas emissions, net on an economy level, methane emissions from natural gas are an important part of that story.

There are ways that you can address that through efficiency, there are ways that you can address that by new technology, and there are ways that we’re not fully there yet. So the idea that the U.S. and Korea could cooperate on kind of moving forward some of these technology and policy questions, I think, could play a really positive role in natural gas.

And, Dr. Lee and Ambassador – I mean, Dr. Lee – both of you raised the two particular examples with regard to Korea and that was urea last year – the urea supply shortage – and then also the precursor materials for semiconductors, the so-called Japan whitelist. And I think Dr. Lee mentioned one of these was pandemic induced and the other was based on geopolitical
tensions that, as Ambassador Choi said, work their way eventually back to history issues, but then led to intelligence sharing issues, and then to chip production.

But I want to ask you, in both of these cases, both urea and the precursor chip materials, there are – there have been solutions, right. I mean, so let’s start with the precursor chip materials. How did Korea respond to that?

Korea responded to Japanese export control measures by kind of tit for tat actions. Korea introduced the same, actually, export control regimes against Japan. Actually, Korea was excluded from whitelist in Japan’s export control list. Exactly, Korea excluded Japan from Korea’s whitelist. And thereafter, Korean government invested a lot of money, actually, to develop our own technology, so introducing new technologies from other countries.

But at the end of the day, the solution was made that a Japanese producer established a new investment in Korea to produce in Korea directly in order to avoid, actually, the trade frictions. Anyway, actually, we could not develop our own technologies within two or three years’ time.

But my problem in this incident was that, actually, export control regimes are different from export restriction under a WTO system. Export controls are justified in case of national security concerns are existing. Therefore, exporting country can restrict their export on the basis of their own suspicion without any clear evidence here.

Therefore, actually, we are talking about the trust among trusted partners, but between Korea and Japan there is zero trust at all. No trust at all in having trade each other. That was the kind of biggest damage for Korea, actually, in building confidence between the two friendly countries.

Therefore, if we improve bilateral relations between Korea and Japan, I think that both countries should see what would be the best way to remove, actually, the existing distrust, which are still, clearly, existing at the moment. I think that is the first way they have to move.

Dr. Cha

Mmm hmm.

And Dr. Lee?

Dr. Lee

Yeah. I think I agree with Ambassador Choi what he said about the difference between export controls and export restrictions. The semiconductor inputs export control by Japan is more of a national security issue and a little bit different from the other supply chain disruptions that were caused by the
pandemic and the supply chain disruptions based on the structural problems of supply chains. So, it could be a different issue.

But there are possibilities that China might react with their own export restrictions based on their competitiveness in rare earths and other critical minerals, and I think that we need some kind of collective method to deal with these types of economic coercion tools, and I think that one of the main tools of economic coercion that countries are using are export restrictions, actually.

And it’s only an idea, but I have heard that the original pillars of IPEF were not four but six and it included something about export controls or export restrictions, and I think that we need to think about having these types of restrictions on export restrictions again in the IPEF because in order to react against these traditional tools of economic statecraft, like economic coercion using export restrictions, we actually need rules in place.

And so especially using export restrictions against trade partners, which are highly reliant on these types of critical inputs, I think we need rules to restrict ourselves from using those type of tools because, in the end, if things goes bad, even though we’re allies, you might be tempted to use these export restrictions based on economic security reasons.

And I think these individual country-based economic security policy goals and collective economic security goals may not coincide and we may need these types of rules to coordinate our export control policies or export restriction policies if necessary for the collective economic security of the region.

Dr. Cha Right. OK.

So following from that, Rob, if – so let’s say these countries in IPEF they do this and they accept Dr. Lee’s recommendation and they create restrictions on export restrictions, but there’s one country that’s not in IPEF – a big country in Asia that seems to be the reason we’re talking about export restrictions – so what if we do all this and China continues to do what they do? Like, how do we deal with that?

Dr. Atkinson Well, there’s two issues. There’s the issue of China helping another country, which we see now with – potentially, with Russia, and that’s sort of one set of issues, how do we deal with that, and the way we deal with that, I think, is not a lot we can do about that. You know, I suppose we could put secondary restrictions – export controls on China and have them not do Russia.

But when it comes, I think, to what you were talking about, which is when China is the economic aggressor, and they’ve shown a clear history of picking
off one country at a time and then they go to that country and they have this giant stick and they start hitting them with the stick and the country says, wow, I don’t want to get hit with a stick anymore and maybe they make a deal – maybe they don’t – I think at that point IPEF members get together and say an attack against one is an attack against all and let’s figure out what would be the most painful response we can give to this big country in Asia and just say, OK, you keep doing that and we’re going to cut off this.

Because I think unless we do that – there’s no evidence that China is backing away from this aggressive – you know, it’s like military aggression only it’s economic aggression. There’s no evidence that they’re not doing – that they’re going to do that.

I wrote a three-part series last year in a journal called the International Economy Journal and it was, basically – it was a fascinating – one of the great things I – as bad as the COVID pandemic was, it did let me read a lot, and one of the books I read was a book by – oh, shoot – a really good economist in 1944. Why am I blanking on his name?

But it was called “Economic Trade and Power Trade” or something like that. Hirschman. Albert Hirschman, the famous economist. It was the very first book that he wrote that hardly anybody has ever read. And what he said is there’s three kinds of trade. There’s free trade, which we’re all familiar with. There’s protectionism, which we’re all familiar with.

But he postulated a third kind, what he called power trade and he, basically, said the Germans were practicing that from 1900 to 1944 or ’45 when he wrote it. It wasn’t Nazis, per se. It was – that was the German approach, to use trade as a weapon to gain advantages in geopolitical areas.

And the argument I made in this three-part series of articles was that’s exactly what China is doing. They weaponize trade to gain these advantages and the only way to stop that, to me, is to do exactly what you’re doing – what you’re talking about, which is we’ve got to say, collectively, no, if you attack one of us it’s an attack on all of us.

Dr. Cha

So we were talking over lunch, as you’ll remember, that, normally, the conversation about China and weaponization of interdependence is what China can do to all of us. But, you know, trade is two-way, right, and so there are things that other countries trade with China that China values.

So I was – if I could go to our two friends from Korea, could you talk a little bit about sort of bilateral trade between Korea and China and things that are of value to China, that Korea trades with China on a regular basis?
Right. Actually, Korea’s dependency on China is huge. Thirty percent of – actually, Korea’s exportation to China account for more than 30 percent of Korea’s total exportation to outside world, including Korea’s export through Hong Kong to China. Actually, the figure will go up nearly 35 (percent) – 34 (percent), 35 percent. It’s a heavy dependency.

Actually, there is a real problem for Korea because our businesspeople – in Korea there is a saying, actually, we can work with the United States on security areas while we’ll promote economic relations with China because we are so much dependent on China.

That is easy but very wrong, actually, policy directions because, as we experienced in time of the THAAD retaliations, actually, China can exercise economic coercive measures, actually, whenever they feel unsatisfied. We had more than – many experience not only for Korea but also Chinese economic coercive measures for last 10 years. The cases are more than 10, 15 time – 15 cases in the world.

Therefore, actually, we have to be careful in discussing supply chain resilience issues. We consider that, actually, China has clear leverage in exercising economic coercive measures. Number-one leverage is China is capitalizing on their market size and the second leverage is, actually, the data size, that China is producing a lot of big datas and then actually reprocessing the data, and then, actually, the stronger influence to outside world. And, lastly, the centrality of the governance. That is different from Western world, actually, China is very much centralized and state capitalism monitors and controls everything.

But the outside world, businesspeople, private sectors are divided. They are not that much centralized. Therefore, China can exercise their centralized power. Then, actually, is very difficult to handle the case from our private sectors. Yeah.

Yeah.

Dr. Lee?

If I may go back to your question on – China is not part of the IPEF and what’s the point of having restrictions and export restrictions when it’s not going to apply to China?

Well, I think, actually, that the IPEF is an exercise to make a rules template that is applied in the Indo-Pacific region – the Asia-Pacific region – and I think starting somewhere is very important where right now we have a multilateral system that’s not working properly and the rules that we have are not working properly.
They're not able to discipline China as it was intended when we first made the multilateral trading system. And so we need to make new rules that are more relevant to the current – to reflect the current changing demands in the world international economic order, and so we have to start somewhere, and I think that the IPEF, if we can get the right tools in place, can be a good starting point for providing this rules template which provides disciplines that can apply to China.

And going – well, regarding your question on China, I think that the fundamental question is how we can effectively deal with this China problem, and we’ve seen that tariffs don’t work. I’ve read Dr. Atkinson’s article on that. Tariffs are not effective tools to deal with China, as we’ve seen under the Trump administration’s tariff escalation policy against China.

So now we’re trying to deal with China with rules and standards under the IPEF as a starting point. More specifically, we are trying to introduce these higher-level standards for labor and environment, and I think the aim is to secure this higher-level playing field where China can no longer take advantage of based on their price competitiveness, and so we’re trying to have this new rules and standards that can apply to China.

But there are many challenging issues, as we all know. First of all, because we have so many ASEAN members as IPEF members, we have to deal with two contradictory issues, I think. First of all, we need to make sure that these rules are inclusive enough so that ASEAN members can also be part of this initiative.

But at the same time, we have to make it binding enough so that the rules are effective, and so we have to deal with these contradictory issues, but both are very important to make the IPEF possible.

So I think that the issue here is how we can make these new rules and standards apply in a way that is effective enough and broad enough so that we can effectively use these new rules to act against China if the time comes for us to act collectively.

Dr. Cha Great.

Amb. Choi May I add a point?

Dr. Cha Yes. Please.

Amb. Choi Yeah. Yeah. Actually, since Madam Lee is talking about IPEF more in details, actually, as I mentioned earlier, China is exercising unilaterally their leverages, what they have, but the IPEF is just evolving. It’s at just the
beginning stage, and there are some, actually, ambiguities still unanswered by IPEF for participating members and the future of IPEF.

Therefore, I would like to see stronger leadership of the United States in the formation of IPEF in order to counter the centralized governance, actually, from Chinese side.

Dr. Cha

Mmm hmm. OK. Let me go to Clara.

I mean, if you could – if anything that's been said you can address but also on the question of rules and standards that IPEF is, hopefully, designed to create.

So at the end of Dr. Lee’s comment she said we should have these in case we need to use them with China. So the question to me there is, like, what's the enforcement mechanism, right. I mean, how do we enforce that? And so if – so, Clara, you can just – anything that's been said, that question and also, Rob, if you can address the whole question of enforcement mechanisms that would be great. So yeah.

Ms. Gillispie

Yeah, absolutely, and I found myself nodding along with everything that Dr. Lee said on kind of both the potential of IPEF and also the ways that we might think about fleshing it out and executing it, and I'd encourage – to your point on enforcement, one of the things that we should be doing alongside this, is thinking about the institutions that are working well, too. So, obviously, WTO and others do have some very specific challenges that need to be addressed, but they're not the only institutions that I think about where some of these economic security dialogues are occurring on.

One, of course, you know, given my work with the East Asia Summit, that's a natural group. It also offers an opportunity for us to engage with China in roundabout ways to bringing them into the standards discussion. Sometimes that’s a little easier on the energy side but there are pluses and minuses both.

Another one – I think we heard it come up a couple times this morning – was talking about APEC. APEC is a really powerful body that works on infrastructure, digital, and energy issues and has a quite strong track record. It also has the added benefit of bringing in another potential partner that we haven’t really talked about yet, which is Taiwan, which is often otherwise difficult to bring into even the IPEF framework.

It does have the limitation, though, that it doesn’t have major economies such as India in it. So it is going to be something where, yes, there are different forums we can do but we’re going to have to have a blended approach trying to bring in these multiple groupings.
Dr. Atkinson: I guess a couple of things. One is I think the administration has been too ambitious, maybe, is the wrong term – on IPEF. I think there’s – I think they’ve succumbed to too many domestic policy interests, particularly from the left, to turn this into a sort of different kind of trade agreement that works on building up labor and environment standards and solving global climate change.

I don't think any of that should be in IPEF. For me, IPEF is only about one thing and that’s how can these countries work together to expand and strengthen their own capabilities, collectively, of technology and advanced production, while at the same time building up tools to limit the damage that Chinese predation does. That’s it. And I think IPEF – I’m not critical of IPEF because it doesn’t have – some people say, oh, it should have, you know, tariff reduction and all that.

Look, our tariffs are already pretty low, and I don’t think that’s the issue. I think the issue is can we really build it around that.

And then, Victor, to your point, what happens if when push comes to shove and we’re, like, OK, now we got to do something and nobody does it, or I shouldn’t say – and one country doesn’t do it, you kick them out. I mean, I just think it’s got to be pretty clear. We’re at that level of conflict, that level of battle, that we have to make a commitment that we’re going to stick together. And if it turns out that the Chinese are doing something predatory or economically aggressive, we need to be able to, as a group, work together pretty quickly and, in a consensus manner, come up with something we all can agree with.

But if some country is just, you know, recalcitrant and doesn’t really want – they want all the benefits of IPEF but they don’t want to take any of the hard steps, then I don’t think they should be part of the agreement.

Dr. Cha: So it seems to me like this – whatever framework that comes together will be tested at least once, right. I mean, it’s got to be tested once for it to really have a deterrent effect on China, right. I mean, it sounds like part of what we’re saying – and it came up in the sessions this morning – is that the whole notion – this whole conversation about decoupling from China, it sounds good, but in practice it’s very difficult to completely decouple from China. So the real conversation is about how do you deter China from acting in a predatory fashion that is, you know, picking everybody off one by one, whether it’s Philippines, you know, and bananas or, you know, Norway and – what was it? – Norway and salmon or whatever it was, you know – picking off one country at a time that this sort of coming together in a sort of
collective resilience format. But it seems to me like that’s – China’s going to
test that at least once to see if it really works, and then if it does, they may be
more – they may think twice about using it against one of these countries
again.

So I guess one question would be who in – particularly in some of these
critical materials and technology areas, do you see this as something that is –
you know, IPEF is largely Asia, but do you see the scope of this group getting
larger? I mean, who are the other partners for countries like the U.S. and
Korea in some of the supply chain resilience in the sort of areas that you
think are important?

And we could just go down the line. Who are some of the other countries that
are important to think about in terms of this – that we haven’t talked about
already?

Dr. Atkinson

Well, I think the Brits – the U.K. is clearly important. They’ve shown a
willingness to stand their ground, and to stand up and be counted. So I would
clearly count on them.

I would love to have Europe part of this; I just don’t see it happening. I think
the Europeans are not there yet in terms of growing a backbone to stand up
to China. They’re sort of moving in that direction, but I just don’t see them
there.

I don’t know. After that, you go down the list pretty quickly. I don’t see Latin
America being willing to do much here.

But I do think if you have the IPEF nations, including India, and you have the
U.K. and Canada, that’s a pretty sizeable group from a GDP and output
perspective that I think has a lot of clout, and so that would be fine with me.

Amb. Choi

In my view, actually in Asia-Pacific, actually the IPEF led by United States is
now in the making process. At the same time, there is also ongoing dialogue
between United States and European Union on TTC, the Trade and
Technology Council issues.

Actually, broadly speaking, there are two emerging economic blocks actually,
first in Asia-Pacific and then transatlantic settings. Actually, responding to a
question actually of who would be the potential candidate for future IPEF
system, I think – just as you mentioned, the U.K. already showed interest in
participation of Indo-Pacific – actually, dialogue, and possibly, the USMCA
members like Canada and Mexico could also join.

I think this – the further extension, a more extension of this IPEF members
would not be possible because the members – membership of IPEF should
have the same – should enjoy same value and same principles. Therefore, the expansion would be fairly limited. Rather than expansion, actually, they need to concentrate on how to integrate, actually, more efficiently among themselves.

Dr. Lee

I actually agree with what Ambassador Choi has just said. I think we first need to test whether the core countries of IPEF can work together to build supply chain resilience, and I think that the U.S., Korea, perhaps Australia and Japan could first work together to develop a more science-based approach to deal with supply chain vulnerabilities. For example, Australia – I’ve heard they have an office called the Office of Supply Chain Resiliency, and they have developed this database approach to identify the supply chain disruption risks. And so they have identified the vulnerabilities, and the criticalities, and ultimately devising targeted approaches or targeted responses to deal with the – to the respective criticalities and vulnerabilities in their supply chains. And I think that this method could be shared among the four core countries as a pilot test, for example, and that we – I believe that all countries actually have their own databases for analyzing supply chain vulnerabilities and that these data actually can be shared.

But again, because these may involve very sensitive information about the vulnerabilities of each country’s supply chains, I think there should also be a guarantee, perhaps, to ensure that these information are not used against themselves. So again I’m going back to this issue about restrictions on export restrictions so that countries don’t use export restrictions against each other when they share this information, which is very sensitive. But I think that testing whether this kind of method will work would be a starting point before we go on to expand IPEF to other countries.

Perhaps as a second phase we could expand this data-sharing experience with the ASEAN countries as a second phase for example.

Dr. Cha

Well, it goes back to something earlier we talked about which is also trust, right, that it’s hard to disentangle this concept of organizing around supply chain resiliency without a degree of trust.

Yes, Clara, anything you wanted to add on the –

Ms. Gillispie

Yeah, I think one of the areas where this gets really hard in practice is talking about critical minerals in particular, where China has such a dominant role in kind of lithium production, cobalt, other rare earth elements, and if you kind of look at the projections for the next – I think it’s two – decades, the IEA says that demand for these critical minerals is going to increase something like six-fold. And so it’s not just that we need to bring new supply and production online; it may also be that we need to do something
structurally different if we are really going to change that dependency relationship and think about a more diversified market.

So in terms of the partners that can be helpful in that, I’d echo the sentiments of, you know, pretty much everyone. We are going to need a lot of help in this question. ASEAN has an important role to play, India, I mentioned Taiwan, kind of looking outside the Asia-Pacific. I think when you talk about critical mineral demand as being driven by clean energy, that suggests at minimum there is a role for the European Union, and thinking about efficiency, other recycling kind of ways to do this in a more sustainable – use more or less effectively.

And then also – just to throw another kind of big block out, Africa. Africa is very – different countries in Africa are very prominent in the mining space for a number of critical minerals, and so helping to create practices that both support the emergence of new mines, but also to make the case on why the U.S., South Korea, others are a good partner in that process; what’s holding back investment into some of those projects relative to the way that China is investing – I think these are important conversations that we should be having.

Dr. Cha
So on that last – on that last point, I wanted to ask you – and we do have some questions from the online audience, but I wanted to ask you about industrial policy and the role that that plays, particularly in this critical minerals area.

Dr. Atkinson
So, look, the reason we don’t have critical minerals is because of price predation; it’s as simple as that. Nobody in their right mind is going to open up a critical mineral mine when they know they are going to be undercut systemically by the Chinese. This is what OPEC – why don’t we have oil now in the U.S? Because OPEC intentionally underpriced, put them out of the market. Nobody wants to get back in the market again because they know that they are going to get underpriced again.

So I think any kind of regime has to recognize that you just have to have some system in place against predatory pricing. And what I mean by predatory pricing is not like discounts and, you know, hey, I want to compete. That’s fine; everybody does it. I’m talking about systemically lowering prices for a long period of time to drive out and keep out new entrants, and that’s what China does.

We don't have a critical mineral problem. There's lots of critical minerals all around the world. What we have is it's not economic to mine them. So I think we have to come up – we have to grasp that reality, and that to me would be the – that's a hard question to do, but I think we could.
In terms of industrial policy, we have a report coming out this Wednesday where what we’ve done is – and I don’t think anybody has done it before – we’ve looked at seven key advanced industries – computers and semiconductors, electrical equipment, automobiles – or motor vehicles, et cetera – so seven major industries. And we’ve looked at output in ten countries including Korea, Japan, China, India, Europe, U.S., Canada, Mexico, and Taiwan over a 25-year period, and what we find is really, really interesting. Number one is Korea is second highest in the world in terms of concentration of advanced industries as a share of your economy. So these advanced industries make up a bigger share of the Korean economy than only one other country, and that’s Taiwan. So on one level you are doing very, very well.

The U.S., when you take out in the information sectors, so soft – think about taking – take out Google, Microsoft, Facebook, then, and just look at more atom-based industries, we are 80 percent of the global average in terms of the share of that as our economy. Korea is two times – 200 percent. So in Korea those industries are twice as much as they are in the average global; in the U.S. they are 80 percent, and that’s gone down, you can see that, and my argument is you can’t – we simply won’t be able to have a conversation about U.S. economic power in 25 years if these trends keep going the way they are going. Economic power to do what? Cut off – you can’t come to Disney World anymore? That will be a threat.

Economic power actually comes from making things, and so, Victor, to your point, that’s where we have to think about industrial policy, and industrial policy, as you all know if you are in Korea or Japan, is not – we’re not going to pick Intel over IBM or anything like that, but we do say semiconductors are important., storage and batteries are important, AI is important, quantum computing is important, and so there was a set of policies we could have around technology and R&D support, around incentives, around better tax policy.

We have the 32nd worst – or least generous research and development tax credit now among the OECD and the BRICS – 32nd out of 34 nations. No wonder we’re not increasing our R&D.

So, anyway, we should do this. And, you know, the good news is we appear to be on that path, and there’s more and more attention to that we have to do this, and the sort of, you know, Adam Smith ideologues who say that, you know, the government should just completely stay out of the way, those people are being pushed to the side intellectually now, and there’s much more of a kind of center-left, center-right discussion about why we need to do sensible things now.

Dr. Cha  
Ambassador Choi?
Amb. Choi: Yeah, actually, hey, I totally agree with you.

I think this mapping exercise to find out the vulnerabilities, and also the monitoring exercise, actually public-private partnership, that’s very important in this process. And also the cooperation with like-minded countries with trust and principles, just as the IPEF we just mentioned.

And then lastly, one of the thorny questions is whether country alone or collectively can take kind of anti-coercive actions. That is another question we have to discuss actually. We may not discuss actually details of that. For example, if we are really challenged by a certain country or a certain group of countries and supply chain disruptions actually, what exactly we can respond to that situation is actually – is kind of a test ground of collective cooperations.

Dr. Cha: Dr. Lee?

Dr. Lee: The industrial policy is a policy that Korea has been pursuing since the beginning of the ’70s and ’60s, I think, and so it’s not a new issue for Korea, as Dr. Atkinson mentioned. But what I think is interesting is that only a few years ago, the U.S., Japan and Europe have made a joint statement that they wanted to restrict industrial subsidies. They wanted regulations in place so that countries will not engage in introducing industrial subsidies, but only a few years later, everything has changed. And I think it’s quite an irony here – (laughs) – but I think the world has changed, and we now live in a world where there has been a huge paradigm shift. And so I think we need a new kind of rules that do allow industrial subsidies, but in a way that does not allow a race to the bottom.

So though we need industrial subsidies – it is a legitimate public policy objective – we also need rules that contain the level of providing industrial subsidies at a level that promotes a race to the bottom. And I think that maintaining that balance, finding that right balance is the most important challenge here, and I hope that the countries – the major countries which are leading this initiative also come up with good ways to find that right balance.

Dr. Cha: Clara, anything you’d want to add on industrial policy?

Ms. Gillispie: Yeah, I think with critical minerals in particular, there’s a lot that we need to do on industrial policy. I also think the predatory pricing aspect of it is a really important and concerning feature.

I think it also doesn’t necessarily explain all the challenges we’re seeing in the market right now because, with this kind of exponential demand, there’s still the question of why isn’t supply picking up as much as it could. And
pricing is part of that story, but there are also questions about local regulations, difficulty in latent use, kind of Byzantine bureaucracies – both in Asia and the United States – that are difficult for firms to navigate, especially smaller and new firms. So some of the things that we can be doing in that space involved improving regulatory environments, kind of streamlining these processes.

I’d actually encourage – and I’d love to get into this – bringing back in some of the sustainability focus because sometimes the barrier is not just that regulatory question, it’s local approval, it’s concerns about the sustainability and negative environmental impact of the industry.

The U.S., South Korea, as well, actually have a really good case story on best practices and how to address that. Bringing that to our other partners in Asia can help them as well with strengthening their own respective mining and production sectors.

And then probably about three more, but maybe I’ll just stop with that for the moment.

Dr. Cha

OK, we have a few minutes left. I have a question – I have some online questions, but I want to see if anybody in the room had a question before I went to the online question. (Pause.)

OK. So the question – one of the – this is not an easy question to answer in three minutes, but one of the questions we got is how should countries pivot in regards to critical industry – technology, agriculture, energy, defense – and how – well, so this – we didn’t really address this – how can public-private partnerships play a role in this?

I guess we didn’t really address the public-private partnerships angle of it. Does anybody want to take a whack at that?

Dr. Atkinson

Well, I mean, a couple of thing there – one is how you define critical industries is really important, and certainly in the U.S. agriculture is not a critical industry. We’re never going to – we’re never going to run out of food in the U.S. because we’re so dominant, because we’re so good, we’ve got so much, and we’ve advanced technology, we’ve got great land, and sophisticated farmers, so I frankly just don’t care about it.

I think the risk to the U.S. is actually becoming a commodity trader. We don’t want to be a commodity trader; we want to be a high-end trader. So that gets to this notion of public-private partnerships.
If you look at what most leading countries are doing, besides the U.S., they don’t just sort of have the government run these programs, or they don’t just have industry do it. It’s usually some form of working together, like the Germans, for example, have these Fraunhofer Institutes – 60 public-private research and development institutes. The government funds about 35, 40 percent; industry funds the rest. To me that’s the model we should have. The advantage of that model is that you don’t get – if it’s not valuable to the private sector, they don’t participate and you don’t – you reduce the risk of sort of political boondoggles. But at the same time, you have the government putting some skin in the game that gets strategic direction into the direction that’s most important to the country.

So I think lots of those things – there are lots of different kinds of policies to encourage these PPPs, but I think that’s the direction – I couldn’t agree more that’s the direction we should go in

Amb. Choi

Now, actually, international trade is not actually governed by international rule agreed rather than actually kind of managing trade is already popular in the world. Therefore, public-private partnership is very important because private sectors should also work closely together with the government. Otherwise, they have to be confronted with unexpected circumstances.

I think this joint R&D actually working private-public partnership is already traditional, actually, collaborations, but in the field of policy making, as in trade policy or economic policy, and also business policy making process, public-private partnership is very important.

Dr. Lee

My answer to the first question, I think, how do you define critical industries, it depends on the natural endowments of that country, I think, so all countries must have different – must have different critical industries depending on their national competitiveness and where their national competitiveness comes from.

And I think for Korea I think it’s technology because we have a very skillful manufacturing base, and technology is the area where we think we have our national competitiveness. So, depending on that, our industrial mix, and our manufacturing capacities are all different. And so, I think that, for the U.S., you have your own national competitiveness area, and for other countries like for Africa or other regions, they have their own areas where they can maximize their national competitiveness. So, it all depends, I think, on the different positions and the endowments that countries have.

Ms. Gillispie

I really agree with all of these comments. I’d say, in addition to joint R&D, you know, there are also at times rules that we specifically want to reserve for the private sector and rules that we might reserve for government stakeholders.
But having a space for public-private dialogue, in particular, can be really helpful to make sure that these groups aren’t talking past each other, that we better understand if something is not happening on investment in this technology or in this geography, what’s actually the barrier? Why have certain reforms worked or not worked? And how can we strengthen them?

Dr. Cha

Thanks. And thanks for always being able to – even though I – you end up as the last person in the last two rounds, you’ve come up with really good things to say in addition to what everybody else here has said, which is terrific. So, thanks, Clara, Dr. Lee, Ambassador Choi, Rob.

So, this will conclude the panel on supply chains, and I just want to say that, again, I think of our three panels today, this is actually by far the most important because, as I think Ambassador Choi and Dr. Lee said, the world has changed. I mean, it has really changed, and economic resilience informs and influences every country’s foreign policy today, and particularly in the case of Korea when it comes to maintaining supply chain resilience, this dramatically affects its overall strategy towards China, towards the United States, and also towards Japan. So it’s an extremely important and critical piece of the puzzle, as the Yoon and Biden administrations go forward.

So with that, I want to thank our panelists for joining us today – really an excellent, excellent discussion.

So we’ve gone through three panels on the alliance, on trilateralism, and on supply chain resilience. I’m not going to even try to sum up all of this because I know that President Lee of the Korea Foundation will do an excellent job – (laughter) – of summing this all up in his closing remarks.

So I invite the panelists to remain on stage, and invite President Lee to the podium to make any closing comments that he would like, so –

Lee Geun

Well, thank you very much, Dr. Cha. How can I sum up all those excellent discussions if you cannot sum up? (Laughter.) But I’ll try my best.

But I do think that we have had very productive discussions and sessions. Being productive means there are a lot of takeaways, and among those takeaways I would like to emphasize just three takeaways.

We have discussed a lot about values, we’ve discussed a lot about trust, and we’ve discussed a lot about economic coercion, but I would like to start with the values – the importance of values.

There are, I think – we can imagine that there are two types of countries: one type is calculating country – calculating Korea, calculating Germany,
calculating America, and the other type is believing country – believing Korea, believing America, believing Germany – not that Korea is religious, or the USA is religious, but those countries that believe in universal human values.

So when we have those two kinds of – two types of countries, which country would, for example, China, be more afraid? Or which country would China be more – feel uncomfortable. I would definitely say the countries that believe in universal human values.

For those countries that calculate material interest, it is quite easy to manipulate them. It is quite easy to coerce them in a specific direction that a specific country wants them to move in. So, I do think that the belief in universal values are extremely important, and those values are the backbones of liberal international order and the rules-based international order where modern nation-states get connected with each other and thrive together.

The values are important, but the firm belief in those values and resolution to defend those values is as important as the values per se. Out of belief emerge trust, and we tend to trust others if they believe in the same values. For example, Christians tend to believe and trust Christians. Buddhists tend to trust Buddhists. Conservatives trust other conservatives more. So, in order to have more trust, we need to share the same values.

But, we cannot solely rely upon beliefs like religious people. We cannot all be martyrs. We have to be realistic, and in order to be realistic, as we discussed amply, we need to come up with compensation mechanisms, and we need to come up with compensation mechanisms both within and without, so internationally as well as internally.

And secondly, there are two different kinds of economic coercions. One is economic coercion toward countries that violate universal values. I think this is what the professors have mentioned when we discuss different types of alliances. When we apply economic coercions to those countries that violate universal human values, then you are talking about an alliance for certain values.

But there is another kind of economic coercion, and that is an economic coercion imposed upon the countries that are not loyal to a certain country, that do not – that are not obedient to a certain country, and that is the kind of economic coercion we should avoid and we should defend against together as an alliance.

So the economic coalitions, or IPEF, those things that we discussed today, I think those – the alliances or coalitions that we discussed is for the universal
human values. It’s not really against China or any other countries. We are not against a certain country, but we are against a country that violates universal human values. So that’s the second takeaway.

And finally, the third takeaway is, again, the importance of trust. We talked about collective resilience. It is coined by Bonnie Glaser, and as we all know, collective resilience is not possible without trust, and likeminded countries are the countries that believe in the same universal human values; therefore, in order to avoid collective action problem, we need to be likeminded countries believing in the same universal values.

So, I think I said this last year in this same strategic forum, if you just follow material interests, you never know where you are heading. Perhaps you might find yourself one day suddenly a slave of certain country. But if you believe in universal values such as freedom, democracy, free trade, you know where you are going and where you are heading.

So, I think the universal values in – universal values of human rights, freedom, democracy – those are the backbones that we should abide by, and I think Korea and the USA, we are likeminded countries because we believe in those – the same values.

Again, I would like to extend my gratitude to Victor Cha and the CSIS, and the staff of CSIS, and also the staff of the Korea Foundation, for organizing this very successful and meaningful forum. And, as always, I reaffirm the importance of this platform, which is called ROK-U.S. Strategic Forum, sponsored by CSIS and the Korea Foundation.

Thank you very much. (Applause.)