
THAAD and China's Trade Policy with South Korea

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Introduction

Over the past year, China has launched a series of trade measures against South Korea, including the anti-dumping investigations to POM plastic and polycrystalline silicon, the extending of anti-dumping duties upon single-mode fiber, among others. Recently, 19 batches of cosmetics made in Korea were not allowed to enter the Chinese market. Even more, the plans for two Korean classical musicians' performances in China were suspended. The media interpreted those incidents as China's retaliation against South Korea's decision to deploy the Terminal High Altitude Area Defense ("THAAD") anti-missile system.

THAAD is likely to harm trade between China and South Korea in the long run, as political stability is the basic condition for smooth economic cooperation. However, we have to point out that the Korean cosmetics were banned because the submitted proof of import materials was not sufficient. As for the cancellation of musicians' visit to China, there are no open Chinese documents and policies which purport to curtail culture exchange between China and South Korea. On February 1, 2017, the PRC Ministry of Trade, Industry and Energy announced that South Korea's exports to China jumped 13.5 percent, the first double-digit growth in 41 months.¹ In fact, South Korea also imposed many trade measures, *e.g.*, anti-dumping duties on Chinese offset. When 2200 tons of garlic from Shandong China was rejected by South Korean customs in 2015, the media also mistakenly interpreted the matter as malicious prohibition from Korea.²

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China's Dilemma and its Rational Response to THAAD

The disagreement between China and South Korea on the nuclear issue has always been a major obstacle to bilateral relations. South Korea hopes that China will be able to show more substantial policy adjustment to North Korea's nuclear program, but China preferred to regional stability. The whole international community must recognize that China is not able to fully control another sovereign State's nuclear weapons development program. Moreover, Chinese officials would generally regard the presence of North Korea as a strategic pawn of China in Northeast Asia. China has often been put in a strategic dilemma by North Korea which has become a *de facto* nuclear country. It is too late for China to take any unilateral action to make Kim Jong-un give up the nuclear program. China opposes THAAD mainly because it will not be very effective in averting the North Korean nuclear and missile threat for the geographical proximity, but will instead assist the US to deploy its missile defense system in Asia-Pacific region, which is detrimental to peace and security of Northeast Asia as a whole.³ South Korea already acknowledged in May 2013 that it "has its own missile defense system for uses against missiles in the terminal stage, which is best suited for countering growing North Korean missile threats."⁴

When South Korea began to consider deploying THAAD in 2014, China attempted to prohibit trade and economic exchanges with South Korea. China's policy was basically to take economic interests based on strategic trust. On December 20, 2015, the China-South Korea Free Trade Agreement came into effect. This bilateral FTA, which covers e-commerce, government procurement and a raft of other new trade issues, is expected to form a common market with a total GDP of up to USD 12 trillion.⁵ It is an objective fact that South Korea's economic dependence on China goes far beyond China's need for Korea.⁶ If China imposes extreme economic sanctions such as banning all Korean products from selling in China, Korea's economy could face a risk of collapse. For the time being, South Korea has not succumbed to the Chinese government's protest, which has prolonged China's fierce reaction. Obviously, China decides not to threaten, but only to warn South Korea. Most the trade measures against South Korea are basically in line with international law. The good sign is that the 11th round of China-Japan-South Korea Free Trade Agreement ("CJK FTA") negotiations was