

China's Trade Strategies and Korea-China Cooperation Plans

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I. Introduction

Korea and China celebrated their 30th anniversary of diplomatic relations in 2022, commemorating the remarkable economic achievements through economic exchanges based on complementary industrial structures. However, in recent years, economic exchanges have entered a phase of contraction due to various factors such as geopolitical challenges, the influence of U.S.-China competition, and the shrinking industrial competitiveness gap between Korea and China. Now, Korea needs to make efforts to secure stable engines for economic cooperation while readjusting its existing economic cooperation structure with China. In particular, it is necessary to create a foundation for cooperation between the two countries on the new trade issues such as supply chain reorganization, digital trade, climate change response. When an-

alyzing China's mid- to long-term trade strategy on new trade issues, it is divided into areas where China and Korea are expected to form a competitive structure and areas that require cooperation.

II. Supply Chain Reorganization

China is pursuing a policy of strengthening its supply chain in line with the reorganization of the global supply chain and the United States' technological checks. Although no national supply chain strategy or master plan has yet been announced in China to date, it can be seen that existing policies are being readjusted with the goal of stabilizing and upgrading the supply chain. In other words, policies aimed at upgrading the economic and industrial structure, such as industrial advancement and import substitution, are shifting to supply chain

security as national and economic security are emphasized.

If the purpose and direction of China's current industrial and technology policies are to increase added value in the global value chain (GVC), it is expected to focus on strengthening weak links in the global supply chain (GSC) regardless of the value-added position while emphasizing supply chain stability in major industries in the country. China's supply chain strategy is expected to internalize the supply chain and expand external cooperation to stabilize the supply chain at the same time. China's supply chain internalization strategy is shifting toward integration and linkage as existing industrial policies, science and technology policies, and small and medium-sized enterprise policies are further systematized to stabilize supply chains under the 'Dual Circulation Strategy' framework proposed in the 14th five-year plan. It is expected to expand investment in strategic science and technology and source technology development, while focusing national capabilities on supply chain advancement policies such as supply chain innovation and ecosystem construction through technology industrialization.

The Chinese government's industrial policy is expected to be more precise and targeted in the field of U.S. technology controls against China. In particular, in the high-tech semiconductor industry, a key area of the U.S.-China technology competition, as supply chain decoupling between the U.S. and China is inevi-

table, China's semiconductor supply chain internalization policy is expected to mobilize all national capabilities in the long run.

External cooperation to stabilize the Chinese government's supply chain is also expected to expand. After the 20th Party Congress of the Communist Party of China, in November 2022, Chinese President Xi Jinping attended the G20 and APEC and held 20 summits, suggesting global supply chain safety and stability as the top cooperation agenda. To this end, the Chinese government is expected to expand supply chain stability cooperation by utilizing platforms such as RCEP and the Belt and Road Initiative (BRI), and emphasize supply chain stability cooperation in other platforms such as BRICS, Shanghai Cooperation Organization (SCO), and Global Development Initiative (GDI). In addition, although still at an early stage, the Chinese government is expected to take active steps to establish global supply chain governance, including technological innovation cooperation, green and low-carbon supply chains, industrial digital transformation, and logistics infrastructure cooperation.

III. Digital Trade

China has already begun to establish a legal system for the development of digital trade in the 1990s. First of all, China promulgated a series of laws and regulations promoting the development of digital trade to provide legal guarantees favorable to the development of Internet technology. Preparing for the digital

era led under the leadership of the government, China has been gradually preparing for digital trade measures to protect China's rights and interests with intensifying competition in the face of the U.S.-China digital trade norms since 2019, after the U.S.-China trade intensified.

China's digital norms remain in measures to digitize trade in goods, such as the development of cross-border e-commerce to revitalize e-commerce and protection of consumer rights. This can be attributed to China's trade competitiveness being concentrated in the trade of goods. Meanwhile, the United States, which has a comparative advantage in digital service trade, wants to include liberalization of cross-border data transfer and location of computing facilities, but China will not be able to meet these U.S. demands in the short term due to the ban on data transfer and data localization contained in China's Cybersecurity Law. Other characteristics of China's digital trade norms include ambiguity in the notation of regional trade agreement provisions and differences in the contents of digital trade provisions in negotiations depending on various interests between countries subject to trade agreements. Reflecting this characteristic, the Digital Service Trade Restriction Index (DSTRI) released by international organizations such as UNCTAD ranks China as the country with the highest trade barriers among the countries surveyed.

China believes that countries such as the United States and Europe intend to curb China's digital trade development by incorporating

global digital trade norms based on the principle of competitive neutrality into the WTO regulatory framework, and at the same time, it seems willing to accept this as a new challenge in the process of creating global digital trade norms.

China's application to join the CPTPP and DEPA, which have a higher level of norms than RCEP, can be seen as China taking an active position on the concept of international digital trade norms. Considering China's actions in the international trade arena and the contents of the trade agreements that China has participated in so far, it is expected that China will participate in the establishment of global digital trade norms at the pace of gradual reform and opening up that it has been implementing since the reform and opening up.

China is implementing a protectionist digital trade policy through major trade negotiations while implementing a trade strategy to strengthen the expansion of foreign cooperation. China's representative digital trade policy for foreign cooperation is the digital silk road strategy. China is expanding its technology and standards to markets along the route through the Digital Belt and Road Initiative, which can be beneficial not only for simple market expansion but also for strengthening China's voice as a representative of developing countries in establishing global digital trade standards. China is willing to build a Chinese-style digital trade norm model to respond to American and European digital norms, and is expected to play a role in representing countries similar to China. The Digital Belt and

Road Initiative is likely to become a natural channel for implementing China's intentions.

IV. Climate Change Response

Following President Xi Jinping's declaration of carbon neutrality, China is pursuing a full-fledged climate change response policy. It submitted National Greenhouse Gas Reduction Goals (NDCs) reflecting "the peak of carbon emissions before 2030 and achieving carbon neutrality before 2060" and presented upgraded goals such as reducing carbon intensity and increasing the share of non-fossil fuel consumption.

China is integrating these climate goals into mid- to long-term economic and social development plans by setting them as key tasks for the 14th Five-Year Plan. China's various climate change policies are implemented through the "1+N Policy Framework". The key is to come up with detailed action plans for each sector under the key guidance principles for responding to climate change. In addition, to strengthen the governance of climate change policy, a leadership group was established in which almost all of the central ministries participated. Based on this, the Chinese government is putting forward a full-scale economic and social green transition as a top national task under the goal of establishing a green and low-carbon economic system. As such, China has recognized climate change as an important national policy and is preparing an ambitious plan to promote it throughout the economy and society, but the external evaluation of this

is still considered to be critical. According to the Climate Change Performance Index (2023 CCPI, released in November 2022), which evaluates climate change response performance by country, China received very low scores overall in each of the evaluation categories, down 13 places from the previous year to rank 51st. The main point of the evaluation is that the Chinese government's climate strategy focuses on the medium-term goal of carbon peak, and the concreteness of long-term policies is insufficient. It also pointed out that significant progress has been made in the renewable energy sector, but it is still highly dependent on fossil fuels, including coal, which does not meet the 1.5°C target of the Paris Agreement. As an improvement, it called for a focus on decarbonizing the power sector. Climate Action Tracker also assessed that China's climate change policy is very insufficient and that more ambitious mid-term climate goals should be adopted to achieve long-term carbon neutrality goals. In order for China to meet the 1.5°C goal of the Paris Agreement, it recommended that emissions be cut before 2030 as soon as possible, that fossil fuel consumption be reduced faster than the current plan, and that a clear timeline be set for phased reductions.

The climate change response policy that the Chinese government is currently pursuing is expected to result in the advancement of industrial structure as it focuses on strictly regulating energy-intensive and high-emission industries and promoting green and low-carbon industries.

V. Policy Implications

1. Supply chain restructuring

Regarding the reorganization of the supply chain, the possibility that China will expand its own supply capacity for basic resources and intermediate goods, while limiting exports to promote its domestic circulation strategy and economic security, is a major challenge factor in Korea-China economic relations. In particular, the demand for supply chain strategies to reduce dependence on China and diversify sources is increasing due to uncertainties in China's supply chain. Measures are being taken to fortify supply chains of major resources such as semiconductors, batteries, and rare earths, while restrictions are being made placed on Korean companies' access to the Chinese market in the form of subsidies for electric vehicle battery. In response to this reorganization of supply chains, we propose establishing a comprehensive national supply chain strategy to prepare Korea's economy for intensifying competition in tech sectors between the U.S. and China, and the internalization of China's supply chain. In the short term, it is necessary to prepare countermeasures focusing on supply chain stability and resilience through supply chain risk checks for Korea's major industries. In the mid- to long-term, it is necessary to prepare countermeasures for a long-term vision that focuses on digitalization and "greenization" supply chains, along with diversification of production bases (China+1 or China+N). The second direction of response is to build a multi-layered cooperation

platform for supply chain stability. To this end, efforts are needed to actively participate in East Asian cooperation platforms such as the RCEP, CPTPP, IPEF, DEPA, and the U.S.-East Asia Semiconductor Supply Chain Resilience Working Group to stabilize Korean companies' supply chains and reflect Korean companies' policy demands. While promoting cooperation focused on technology and talent training cooperation with the U.S., such as the U.S.-East Asia Semiconductor Resilience Working Group, it is necessary to establish a cooperative channel to stabilize the supply chain when considering how closely it remains tied to China. As for the direction of cooperation with China on supply chain restructuring, the first suggestion of this study is to establish a stable supply chain channel between Korea and China. It is necessary to establish a channel related to supply chain recovery and stabilization, in which the Korean and Chinese governments and private sectors jointly participate, focusing on unexpected supply chain disruption and post-resilience, so that the channel can be activated in time to solve supply chain problems in case of supply chain disruption. The second direction of cooperation is to promote cooperation related to global supply chain governance. The Industrial Network Recovery and Security International Cooperation Initiative proposed by the Chinese government to establish governance related to global supply chain stability has yet to gain much influence in global supply chains, but the Chinese government seems willing to cooperate internationally in digitalization and

greening efforts. After all, since digitalization and greening of supply chains are linked to digital norms such as data movement, localization of computing facilities, and prohibition of source code demands, it is necessary to promote cooperation with the Chinese government on new and common norms. As the last direction of cooperation, it is necessary to explore the possibility of supply chain cooperation such as technology and overseas mining development projects with China.

2. Digital Trade

As a response to digital trade, we propose establishing a trade strategy that reflects the characteristics of China's trade agreements. The characteristics of China's digital trade norms include the composition of the provisions of the agreement, which are different for each target country, and the ambiguity of the terms of the agreement. The fact that the terms of the agreement are structured differently, depending on the various interests of the countries involved in the trade agreement, means that there may be ample room for negotiation depending on the circumstances of the two countries when concluding or revising a trade agreement with China in the future. Ambiguity due to unclear stipulations on the terms of the trade agreement is an issue to keep in mind when concluding follow-up negotiations with China, so careful coordination and confirmation of the text will be necessary at the negotiating stage. On the other hand, Korea still lacks response to the introduction of the concept of digital trade regulation under the U.S.-

led competitive neutrality principle, which China recognizes as a new challenge, so it is necessary to improve domestic regulations and clarify its position in the international community with countries under similar economic and related industrial development conditions. In addition, the establishment of a Chinese-style digital trade norm model should be addressed in line with the development of global trade norms.

As a digital trade cooperation plan between Korea and China, another direction to explore is the promotion of cross-border cooperation in e-commerce. The revitalization of commodity trading through a digital platform that can lower trade transaction costs is expected to be a promising alternative route to the Korea-China commodity trade, which has been shrinking in recent years. Korea and China need to move away from the industrial cooperation model promoted in the form of the traditional division of labor in manufacturing and seek new opportunities for economic cooperation in the field of digital trade. Now, exports to China should move away from commodity-based trade and broaden the target and scope of cooperation by expanding trade through digital products and online platforms. Under the current circumstances, exports to China should move away from commodity-oriented trade and expand the objects and scope of cooperation by expanding trade through digital products trade and online platforms. To this end, it is necessary to take advantage of China's digital market, which is a major export destination for Korean digital content, and to

prepare countermeasures to minimize the institutional impact of China's tightening digital regulations in China. China is a market that accounts for about 81% of Korea's total e-commerce exports, and considering the future market potential, it is necessary to come up with countermeasures to minimize the institutional impact of strengthening digital regulations in China. Korea and China are in the process of follow-up negotiations on the Korea-China FTA, which includes the first e-commerce chapter among China's trade agreements, and are very active in cooperating with global digital trade norms such as the RCEP entry into force and the DEPA entry procedures. These efforts by the two countries can be seen as inevitable efforts to adapt to the era of digital transformation and achieve stable economic development. In applying for DEPA membership, South Korea and China need to establish channels and cooperation platforms to communicate changes in digital-related policies and laws of the two countries. Through dialogue channels with China, Korea should enhance transparency on each other's domestic laws and policies, including regulations on data and e-commerce, and work to improve regulations that hinder digital cooperation.

3. Climate Change Response

In response to climate change, both Korea and China have declared carbon neutrality and are promoting a step-by-step policy. The de-carbonization strategy can be an opportunity for cooperation discussions as an issue that both Korea and China need to jointly respond to at

the same time as a risk factor affecting the supply chain. Both countries are using the realization of carbon neutrality as an opportunity to transform industrial structure and upgrade industrial value chains, not just from an environmental protection perspective. As a result, there may be further competition in new energy vehicles, such as hydrogen vehicles and electric vehicles related to carbon neutrality and alternative energy sources such as solar and wind power, and there is good potential to strengthen technology cooperation and mutual investment cooperation in new areas. To enable an agile response to climate change, we present the following three response directions. First, Korea should prepare for China's transition to a green and low-carbon industrial structure. Efforts to find new business opportunities in green production facilities, renewable energy, carbon capture technology, and energy management systems are needed to prepare a public trade strategy centered on eco-friendly green consumer goods in response to China's green industrial restructuring. The second direction of response is to respond to the discussions on trade norms related to climate change led by the United States and the EU. The discussion of international trade norms related to climate change may act as a trade pressure factor for Korea in conjunction with the U.S.-China trade conflict. In preparation for this, Korea needs to establish a strategic position on the development of related discussions, and should consider joint response measures with China as a cooperative agenda. There is also a need to respond to trade risks related to renewable energy supply chains. To this end, it is

necessary to conduct due diligence on corporate supply chains and diversify supply chains to reduce dependence on China such as solar and electric vehicle batteries. As a direction of cooperation in responding to climate change, it is necessary to maintain the existing dialogue on climate and environment issues. Discussions on cooperation in the environmental

sector between Korea and China have continued even during the COVID-19 pandemic and U.S.-China strategic competition, such as continuing joint research to reduce fine dust between Korea and China, launching a carbon-neutral consultative body, and initiating policy and technology exchanges. In response, we propose to resume the Korea-China Joint Committee on Climate Change Cooperation. **KIEP**

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