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World Trade Amidst War, Inflation and Protectionism

The War in Ukraine: Impact on Northeast Asian Economies and Geo-political Relations

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SYNOPSIS

Even as they rebounded from the COVID-19 pandemic, the countries of Northeast Asia have been confronted by major challenges stemming from the Russo-Ukraine war, including its effects on economic growth, trade relations and regional cohesion. Despite these, there are prospects for regional economic cooperation.

COMMENTARY

The countries of Northeast Asia have been affected significantly by the trade war between the United States and China. China and its trade partners have suffered from this trade war, which has led to a slowing of their economies. As an export-oriented economy, South Korea has grappled with decreasing Chinese demand and mounting pressures to choose sides in the field of sensitive technology. Japan has also experienced faltering exports and declining profits.

The subsequent outbreak of the COVID-19 pandemic ignited a new wave of protectionism, which caused additional shock to the major economies and prompted calls to reduce supply chain reliance on China and to relocate companies from the country.

Economic Repercussions on Northeast Asian Economies

Although the global economy and international trade began to recover in 2021, Northeast Asia was negatively impacted when Russia started its war on Ukraine in February 2022. There were inflationary pressures, weakened business sentiments,

economic uncertainty, evolving trade dynamics and geopolitical risks, all of which weakened regional cooperation and cohesion. The economic growth of the Northeast Asian countries is affected by these developments.

Besides these economic pressures, China, Japan and South Korea faced disruptions in the agricultural sector and in energy supplies since Russia and Ukraine are key suppliers of these commodities.

Another Northeast Asian country [Mongolia](#), has been particularly vulnerable. This landlocked country relies heavily on Russia for its energy requirements such as oil products, electricity and fuel, as well as other items like fertilizers and grain. Russia's war with Ukraine raises substantial concerns for Mongolia concerning these supplies, primarily because Russia could readily employ them as leverage, affecting their reliability and sustainability, and because of the ramifications of international economic sanctions on pricing and payment methods. Besides this, the war is hampering Mongolia's trade with the Eurasian and European states, as Russia is the only gateway for Mongolia to trade with them.

Data from the Economic and Social Commission for Asia and the Pacific ([ESCAP](#)) indicated that in April 2022, consumer sentiments weakened across these Northeast Asian economies.

Impact on Japan-South Korea Relations

The Ukraine War has also had a significant impact on Northeast Asian geopolitics. It has heightened distrust among regional countries, leading policymakers to reassess their defence strategies.

Japan and South Korea have become increasingly cautious about Russia because of the war in Ukraine and the risk of crisis escalation that could spill over to the Far East. To make matters worse, China and Russia have shown increasing [solidarity](#), the latest indication of which was the close personal rapport between Chinese President Xi Jinping and Russian President Vladimir Putin as revealed during the former's state visit to Moscow on 20-22 March 2023. And adding to Japan and South Korea's grave concerns, North Korea has been intensifying its missile testing, conducting [nearly 100](#) launches in 2022.

As a result of these developments, a common threat perception has arisen among Japan, South Korea and the United States. This has led to a reduction of [alliance drift](#) between Japan and South Korea and underscored the importance of close bilateral security cooperation between them and with the United States. The rapprochement between Seoul and Tokyo has been remarkable.

Relations between Japan and South Korea deteriorated significantly from 2018 as a result of economic frictions and disagreements. This began when Japan removed South Korea from its "whitelist" for preferential trading and introduced export controls on specific high-tech materials. This led South Korea to boycott Japanese goods, along with restrictions on its exports to Japan, in retaliation.

These trade disputes had remained unresolved despite [mediation efforts](#) by China and the United States in 2019. However, the change of leadership in Japan and South

Korea, coupled with worries about the geopolitical impacts of the Ukraine War, incentivised both countries to improve their economic relations. In March 2023, the two countries resolved their [four-year-old trade dispute](#), with Japan lifting restrictions on semiconductor exports to South Korea, while the latter withdrew the complaint it had lodged against Japan at the World Trade Organisation.

Fragmentation of Northeast Asia

While relations between Japan and South Korea have improved, there has also been regional fragmentation among the Northeast Asian countries arising from the Ukraine war.

Japan and South Korea both condemned Russia's invasion of Ukraine. Japan promptly joined US sanctions on Russia. South Korea initially sought to avoid jeopardizing its economic relations with Russia but eventually joined comprehensive trade sanctions against it under [political pressure](#) from the United States. Concurrently, South Korea's foreign policy orientation has shifted and became more closely aligned with that of the US, as evidenced by [Seoul's decision](#) to join the Indo-Pacific Economic Framework for Prosperity (IPEF) and its interests in participating in the Quad.

In contrast, China and North Korea's reactions diverged significantly from that of Japan and South Korea. China is widely seen to be supportive of Russia although it has declined to say so despite pressure from the US and its European allies to condemn Russia. This divergence has widened regional divisions, with the United States and its allies drawing closer to isolate Russia while China aligns *de facto* with Russia in the conflict.

However, for South Korea, closer alignment with the US increases the [political and trade risks](#) in its relations with China, besides making it more difficult to get China and Russia to play constructive roles on the Korean peninsula. Moreover, the [competing regional visions and agendas](#) proposed by Japan and China, which have endured for several years, may now see greater competition in the future. As for Mongolia, it has found itself caught in the competition between Russia and the West, as well as between the US and China.

Some Hope for Economic Cooperation

The Russia-Ukraine war has shaken the long-standing foundations for economic growth in Northeast Asia. But there are some hopeful prospects for the future.

In 2022, the Regional Comprehensive Economic Partnership ([RCEP](#)), a free trade agreement spearheaded by ASEAN, covering nearly a third of the global economy was implemented. The RCEP does not pursue the same level of economic liberalisation as the Trans-Pacific Partnership (TPP) or the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), and it refrains from imposing restrictions on state-owned enterprises.

Nevertheless, the RCEP has brought about some hopeful prospects in Northeast Asia, since it is the first free trade agreement involving the three largest economies in the

region. This is particularly significant given the sluggish pace of the China-Japan-South Korea Free Trade Agreement ([CJKFTA](#)) negotiations, which have been going on for approximately ten years with no official announcement in recent memory about its status.

Future regional cooperation among the Northeast Asian countries will require increased efforts, extensive consultations, and coordination between the key players. A start could be made between South Korea, China and Japan to jointly pursue supply chain resilience despite political differences for the common purpose of enhancing and protecting economic growth in every territory. This surely can be a case of economic pragmatism trumping politics.

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