

KOREA POLICY



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**Trump 2.0 and the Indo-Pacific
Recalibration**

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Korea Policy

Volume 3 : Issue 1

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Indo-Pacific Recalibration**

Preface

The Korea Economic Institute of America (KEI) is pleased to issue Vol. 3, Issue 1 of its new flagship journal, Korea Policy. Our new online journal carries forward the objective and spirit of KEI's previous publications, the Academic Paper Series' (APS) On Korea publication, and the Joint U.S.-Korea Academic Studies publication. Like our previous publications, Korea Policy identifies and explores the array of security, economic and political issues and policy trends related to Korea and the U.S.-Korea alliance. The journal offers academically rigorous and policy-relevant research.

Korea Policy papers are written by academic scholars and policy experts from the United States, South Korea, and around the globe. The objective is to provide opportunities for recognized specialists and new voices to present fresh research and innovative thinking on Korea, the region, and related international issues. Each issue covers a broad, unifying theme and is arranged into two sections of articles. Before publication, working papers of these articles are presented as part of our Korea Policy series at KEI's office in Washington, DC.

The papers in Vol. 3, Issue 1 exemplify the breadth and depth of policy issues relevant to Korea and the U.S.-Korea alliance. They are original pieces written exclusively for this issue over the last six months. KEI distributes the final publication to individuals in governments, the private sector, policy institutes, and educational communities around the world, and features the digital publication on the KEI website for the broader public.

Contributions in this issue fall under the theme: Trump 2.0 and the Indo-Pacific Recalibration. The first section explores how Indo-Pacific countries are recalibrating their strategies in response to the return of "America First" policy under the second Trump administration. The second section focuses on recalibrations on the Korean Peninsula, examining Korea's enduring policy challenges, particularly in inter-Korean relations, industrial policy, and demographic decline.

For over 40 years, KEI has produced objective and informative analyses and highlighted important policy research on Korea. I hope you find this volume of Korea Policy to be a useful contribution.

A handwritten signature in black ink, appearing to read "Scott Snyder", is positioned above the printed name and title.

Scott Snyder
President and CEO
Korea Economic Institute of America
July 2025

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About KEI

The Korea Economic Institute of America (KEI) is a U.S. policy institute and public outreach organization dedicated to helping Americans understand the breadth and importance of the relationship with the Republic of Korea. Through publications, media, events, and outreach programs, KEI advances scholarship and understanding of Korea that informs policymakers and the American public about the security, economic, and political implications of U.S. ties to the Korean Peninsula.

For over 40 years, KEI has promoted dialogue and understanding between the United States and South Korea through in-depth analysis and conversation. KEI draws on the expertise of resident staff, provides a platform for leading voices from the United States, South Korea, and beyond, commissions original research and analysis, and hosts discussions among policymakers and opinion leaders.

KEI maintains strong ties with U.S. think tanks and academic institutions, generating cutting-edge research on the Korean Peninsula that reaches experts, students, and the broader public.

In today's digital age, KEI reaches a global audience by livestreaming events and providing online commentary, data, and scholastic research through its "Inside the Investment" video series, "Eye on Korea" podcast, and livestreamed and recorded programming.

The U.S.-Korea partnership is built on shared values, but it requires continued effort to sustain. KEI is proud to help uphold this relationship and ensure a safer and more prosperous world.

Introduction



Recalibration in South Korea and the Indo-Pacific

By Stephan Haggard

The challenges facing the Lee Jae Myung administration arise from three different sources, each operating on different timelines. The first is domestic. The new government brings different policy priorities to the presidential office, but will also need to repair the damage from former President Yoon Suk Yeol's declaration of martial law. The prolonged political transition bought South Korea some breathing room on the international front, as its diplomatic partners recognized the constraints of dealing with an interim government. But the pressures that now fall on the Lee administration are not just international; it will need to restore comity among contending parties at home and to address rising political polarization.

A second cluster of issues arises from the election of Donald Trump and the profound departure he brings to the conduct of U.S. foreign policy. To date, these departures have centered largely on the economic front and how South Korea will respond to demands regarding trade, investment, and the bilateral deficit. Yet, as the contributions to the first part of this volume show, the economic dimensions of South Korea's relationship with the United States may be more tractable than the wider strategic consequences of the Trump presidency. It is harder and harder to discern the contours of the so-called rules-based international order. As of mid-2025, there is still substantial uncertainty about how the United States will deal with China, how it ultimately conceives of the relationship with its allies in the Indo-Pacific, and whether it will engage with the region as intensely as hawkish voices within the administration have promised.

Finally, South Korea faces several long-standing and enduring issues. These include the stubbornness of the North Korean threat and how much effort to devote to addressing the challenge given its intractability. In addition to this long-standing strategic dilemma, however, there are structural factors operating over longer time frames. Two in particular stand out. South Korea is clearly an advanced industrial state, but as such, it must contend with the inevitable slowdown of economic growth as it enters the technological frontier. In addition, South Korea's demographic crisis lies at the extreme end of the global decline in birth rates and raises existential concerns over the long run. How deeply could the population—and total economic output—contract? How should we think about the strategic implications of such radical population decline?

This volume addresses these problems in two steps. South Korea is hardly alone in facing the uncertainties of the new Trump administration. Moreover, it is impossible to consider South Korea's response to Trump's foreign policy without considering how other countries might also respond, given that they constitute important partners for South Korea as well.

In the first part of the volume, we pose the issue in terms of a recalibration in the Indo-Pacific, considering both South Korea's response (Kuyoun Chung) and the response of other major players: Japan (Sayuri

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Romei), Australia (John Blaxland), ASEAN (Joseph Chinyong Liow and To Minh Son), and Vietnam (Bich Tran). This regional focus is not only useful for comparative purposes but also for what South Korea might learn from developments elsewhere in the region. The wider lens also raises questions about how U.S. allies and partners may be looking at one another—as well as China—in managing the disruption of the second Trump presidency. What opportunities might arise for closer coordination?

In the second part of the volume, we consider South Korea's more enduring policy challenges, starting with the North Korea problem (Christopher Green). The volume then turns to how the country might manage slower growth and declining birth rates. What might a new industrial policy look like (Sunhyung Lee)? And are there alternatives to the failed pronatalist policies that South Korea and many other countries have pursued up until now (Darcie Draudt-Véjares)?

Recalibration in the Indo-Pacific I: Is there a Trump Doctrine and What Are its Possible Effects?

There is some risk in postulating a clear grand strategy from President Trump's first six months in office. Rather, it makes more sense to think in terms of some general dispositions and to identify areas where we simply do not know where the administration will land as of this writing in mid-June. Three themes stand out: 1) a new sovereigntist approach to international law and organization; 2) a particular focus on trade policy; and 3) more marked uncertainty about where Asia fits into U.S. grand strategy, with conflicting signals of both continuity and change.

The overarching intuition of Trump's foreign policy is that the United States has substantial unexploited power. The best way to use that power is not through multilateral institutions, international law, or formal bilateral commitments, including alliances. Such arrangements fundamentally constrain U.S. choices. Rather, the Trump administration brings to office a new sovereigntism that has roots going back to the George W. Bush administration.¹ The premise of this approach is that the United States should use its leverage bilaterally to recraft diplomatic and economic relations in its favor. This shift is visible in President Trump's approach to international agreements. In his first term, Trump withdrew from the Paris Agreement, the World Health Organization (WHO), the Joint Comprehensive Plan of Action (JCPOA), and multiple UN agencies while abrogating five Article II treaties.² He also renegotiated two free trade agreements (FTAs), including the U.S.-Korea Free Trade Agreement (KORUS FTA) and the North American Free Trade Agreement (NAFTA). His second term has extended the pattern. The unilateral, reciprocal tariffs initiated in April 2025 marked an unambiguous departure from commitments to the World Trade Organization (WTO), and the administration quickly sought changes in the North American agreement—the U.S.-Mexico-Canada Agreement (USMCA)—that his first administration had negotiated. More broadly, a White House executive order in February 2025 launched a sweeping review of U.S. memberships in all intergovernmental organizations and treaties, asking whether they still “serve U.S. interests and can be reformed.”³

As the contributions on both South Korea and Southeast Asia note, this shift leaves substantial uncertainty about the contents of the rules-based international order and the U.S. commitment to it. What rules, exactly? Is the objective to forge a new international grand bargain—as hinted in the idea of a Mar-a-Lago Accord—or are we in a world where agreements are largely bilateral and ad hoc?⁴

Nowhere is this shift more clear than in a second defining feature of the Trump presidency: its skepticism about the benefits of free trade. Here, too, there is fundamental uncertainty about the global impact of U.S. tariffs. These can be arrayed from the most to the least liberal.⁵

- It is not impossible—although unlikely—that Trump’s reciprocal tariffs could be wholly tactical and lead to negotiations with important U.S. trade partners that would further liberalize trade across the board. In the case of South Korea, Australia, and Singapore, such changes would be marginal because trade is already relatively free. But changes for some Southeast Asian countries, India, and China would necessarily be more pronounced.
- A second possible outcome is that the very disparate tariffs assigned to East Asian trading partners—including South Korea’s 25 percent levy—will ultimately be negotiated away, but that a global 10 percent tariff and some important sectoral tariffs such as those on steel, aluminum, and autos would remain. China could constitute a significant exception and be handled by dedicated negotiations. This outcome would have costs but has the benefit of maintaining an element of implicit multilateralism because tariffs would be roughly equalized across partners.
- The costliest outcome, and one favored by trade hawks within the administration, is that the reciprocal tariffs are not tactical but should be an enduring feature of U.S. policy, both for industrial policy purposes and as a source of revenue. Even if some of the higher tariff rates are reduced in part, U.S. trade policy would rest on a complex and variegated system in which tariffs—and special deals—would vary across trading partners. Among the many costs of such a system, it would require complex rules of origin with each country to ensure that goods were not transshipped and would almost necessarily require a complex exemption system at home that would generate further uncertainty and risk political favoritism.

Two themes emerge from the discussion of trade policy in the contributions to this volume. The first is that all countries in the Indo-Pacific region are weighing their responses—what offers they are willing and able to make to placate U.S. concerns. The overwhelming share of the global U.S. trade deficit is possessed by Asian trading partners, so the region has been particularly hard hit with reciprocal tariffs. As Liow and Son point out in their discussion of ASEAN, there is an unfortunate irony to this story, as ASEAN’s trade surpluses have gotten larger in part as a result of both Chinese and foreign firms moving operations out of China due to geopolitical risk.

What can we expect going forward? For those countries that have had higher levels of protection, such as India and Vietnam in certain sectors, the proposed offers will no doubt involve lowering tariffs. But for countries like South Korea, Japan, Taiwan, Singapore, and Australia, trade is already free, and the game shifts to complex non-tariff barriers or other sweeteners, such as promises of foreign direct investment or energy purchases. As the purported UK trade deal demonstrates, even reaching a public text on a framework for such talks takes time, raising the question of whether pressures to show success will generate short-term, performative deals or more comprehensive agreements that are closer to standard FTAs.⁶

Yet, the second theme that runs through the papers centers around managing U.S. risk. For some time, the United States has urged countries to reconsider their dependency on China; for all of the countries

covered in this volume, China is a top—if not the top—trading partner, including the United States. Moreover, the U.S. posture on this issue is not only advisory. It extends to efforts on the part of the United States to use a variety of instruments that are, in effect, extraterritorial, such as limiting exports of advanced chips on security grounds.

All the papers raise the question of diversifying away from the United States, the economic counterpart of strategic hedging. These efforts will arise naturally as firms are forced to seek new markets in the face of U.S. tariffs. But they also come by focusing commercial diplomacy on other partners, primarily Europe but also South Asia, Latin America, and the Middle East.

Yet—and again ironically—hedging against the United States will involve complex choices with respect to China. The fact that the United States appears to be withdrawing from existing commitments under the WTO does not mean that China is. On the contrary, the evidence is accumulating that China sees U.S. trade policy as an opportunity to expand its footprint in the Global South and among key partners in East and Southeast Asia. It was only weeks after President Trump’s “Liberation Day” speech on April 2 that Chinese President Xi Jinping took a three-nation visit to Southeast Asia, which included stops in Cambodia, Malaysia, and Vietnam. Although the visit was undoubtedly longer in planning, it included large corporate delegations and resulted in numerous cooperation agreements, which were seen as clear contrasts with U.S. actions.⁷ Although its significance should not be overestimated, public commentary was quick to note the revival of the China-South Korea-Japan trilateral summit mechanism and subtle changes in its secretariat that suggested a more institutionalized approach to cooperation.⁸

These economic issues bleed into the third and most uncertain question with respect to Trump’s foreign policy: What will his Asia policy ultimately look like? The administration came to office with clear signals that Asia—and particularly China—would be a priority. His first administration played a crucial role in tilting the political consensus around China in a more hawkish direction, as evident in the surprising continuities between the Trump and Joe Biden administrations, from the concept of an Indo-Pacific strategy down to the very tariffs Trump imposed during the trade war from 2018 to 2020.

But the central focus on the Indo-Pacific failed to materialize. To be sure, China has been singled out for special treatment, and moves have been made beyond trade to address issues ranging from fentanyl and export controls to Chinese researchers and students at American universities. But the first one-hundred days were preoccupied with domestic as well as foreign policy issues, and the list of the latter is long: a surprising focus on the Western Hemisphere, the pressures emanating from the Middle East and the Persian Gulf, and the intractable issues surrounding Gaza, Iran, and Ukraine. As of this writing, we do not have any clear statement of what the second Trump administration’s China policy might look like beyond the expectation that the views of Elbridge Colby, undersecretary of defense for policy, will likely carry some weight, given that his views are well-defined.⁹

Yet several themes emerge, and two recur throughout the papers in the first part of this volume. The first is a surprisingly pessimistic assessment of U.S. capabilities and the corresponding need to focus resources on Asia. This has been a leitmotif of U.S. Secretary of State Marco Rubio’s confirmation hearings and engagements with the press, a premise undergirding Colby’s views, and a wider line of thinking in some portions of the Republican Party: that the attention given to Europe, Ukraine, and

the Middle East is ultimately a distraction from the need to focus on Asia.¹⁰ In East Asia, these themes are interpreted pessimistically as reflecting a phase of retrenchment in U.S. foreign policy and even an acceptance of foreign policy tropes advanced by China, North Korea, and Russia that the world is trending in a more multipolar direction.

The second question, however, is how the United States will deal with its allies in the region. The first Trump administration provides clues to the tensions. On the one hand, President Trump's personal view of alliances is well-known, and demands that allies do more on defense have been a consistent theme of the administration's foreign policy. These pressures are likely to wash ashore across the region, particularly in Japan, South Korea, and Taiwan.

At the same time, key players in the first administration—James Mattis, Rex Tillerson, and Mike Pompeo—consistently talked in quite traditional terms about the value of the alliances in the Indo-Pacific, the U.S. commitment to them, and the need to reach beyond traditional allies to pivotal states such as Indonesia, Vietnam, and India.¹¹ Although President Trump has expressed skepticism about the value of Taiwan and claims that it stole the U.S. chip industry, other advisors appear to believe that the U.S. commitment to Taiwan is central to maintaining credibility in the region. In a controversial yet detailed speech at the Shangri-La Dialogue in Singapore, Secretary of Defense Pete Hegseth not only reaffirmed the U.S. commitment to regional alliances but also called on allies to do more.¹² He also detailed commitment to a variety of multilateral undertakings, including AUKUS, QUAD, and the Partnership for Indo-Pacific Industrial Resilience (PIPIR), that had origins prior to the Trump administration and appeared directly in line with long-standing bipartisan traditions. As of this writing, we do not know how these tensions will be resolved. But policy will likely exert strong pressure on allies to do more and commit to U.S. priorities while simultaneously signaling U.S. commitment to the “allies and partners” architecture.

Recalibration in the Indo-Pacific II: Regional and National Views

In reading these contributions, it is important to underscore that they do not represent national positions but rather particular tendencies within the foreign policies of the countries in question. Nonetheless, those tendencies capture important features that the United States and South Korea need to bear in mind moving forward. The contribution by Kuyoun Chung strongly reflects the liberal internationalist inclinations of South Korea's middle-power diplomacy. Chung highlights both U.S. retrenchment and the departures from the liberal consensus, characterizing Trump's foreign policy as “illiberal retrenchment.” Chung catalogs the uncertainties in these departures, emphasizing the risks for South Korea in the event of a Taiwan contingency and the uncertainty surrounding how Trump will approach North Korea.

Sayuri Romei's essay on Japan also begins with concern about retrenchment and multipolarity, noting how the United States' posture on Ukraine will be read in the region as a leading indicator of U.S. commitments in the Indo-Pacific. But she focuses on the more immediate challenges Japan faces, specifically trade policy, defense spending, and alliance burden-sharing. She also provides interesting insights into how Japan has sought to strengthen ties with Europe, a theme that emerges in nearly all the papers in the collection.

John Blaxland strikes a somewhat more optimistic tone, picking up on the strand of U.S. thinking that still sees alliances as the centerpiece of U.S. grand strategy in the region. Blaxland is more forward in underlining the nature of the Chinese threat to Australia, recognized as early as 2009. He thus sees opportunities to both deepen defense cooperation with the United States, including but not limited to AUKUS, while expanding defense cooperation within the region in a variant of an Indo-Pacific strategy. Yet even Australia—which appears somewhat more aligned with the United States regarding the China threat than other countries in the region—increasingly sees such arrangements as hedges against U.S. risk.

Joseph Chinyong Liow and To Minh Son, by contrast, reflect a degree of pessimism about the constraints arising from a second Trump presidency. While Blaxland sees opportunities for Australia to deepen its defense partnership with the United States, ASEAN—and even U.S. treaty allies, the Philippines and Thailand—have historically sought to steer a course between competing great powers. As Liow and Son note, this path has become narrower. The United States has settled on a strategic rivalry framework for its relationship with China. As a result, ASEAN is potentially confronted with a declining U.S. commitment to the region at the same time as Washington is putting stronger pressures on countries in the region to clarify their alignment and stances, including with respect to trade relations with Beijing. Liow and Son call for tactical compromises that align with U.S. interests while also suggesting a longer-term strategic approach of diversifying partnerships with Japan, South Korea, India, Australia, and European countries to mitigate risks emanating from both the United States and China.

Finally, Bich Tran provides a richly detailed account of these dilemmas with respect to Vietnam, a country that has managed the competing pressures identified by Liow and Son with particular success under both the Trump and Biden administrations. Tran reminds us that the second Trump administration's approach has already resulted in the cancellation of aid commitments and disruptions in cooperative ventures, including the Mekong-U.S. Partnership and the Just Energy Transition Project, as well as cooperation on issues such as cybersecurity. Vietnam has mitigated the risks of strategic rivalry through its commitment to particular norms—categorically rejecting military alliances, foreign military bases on its territory, alignment with one country against another, and the use of force in international relations. Moreover, Vietnam remains steadfastly committed to key components of the liberal international order. But the country was particularly affected by the reciprocal tariffs imposed by the Trump administration and will need to negotiate its way back into the good graces of the United States while simultaneously mitigating the risks posed by geostrategic competition. In varying degrees, those two tasks seem to offer a pithy summary of the papers in the volume.

South Korea: Long-Term Challenges

The second section of the volume discusses three significant longer-term challenges facing South Korea: the North Korean issue, the development of a new industrial policy, and the looming demographic crisis that has become a pressing concern of policymakers and the public for some time.

In a number of ways, the North Korean issue remains embedded in the geostrategic themes discussed so far. The Trump administration's idiosyncratic strategy toward North Korea jettisoned previous U.S. approaches that leaned heavily on deterrence at the expense of diplomacy. In 2018, Trump made

history as the first sitting U.S. president to directly engage North Korean leader Kim Jong Un, breaking the impasse in negotiations that had persisted since the collapse of the Six Party Talks in 2008. Will Trump revive this diplomatic effort in his second term? If so, how will he get past the recriminations of the failed Hanoi Summit, which was a profound disappointment for Kim? Is there still a deal to be negotiated based on the Hanoi framework, or has the moment passed, particularly as North Korea has sought to deepen ties with Russia?

The North Korean issue cannot be understood without considering the complex political dynamics on the Korean Peninsula itself, including possible policy shifts as a result of South Korea's presidential election in June. Christopher Green identifies an even more profound shift in political dynamics that has not garnered the attention it deserves: Kim Jong Un's decision to treat South Korea not like a divided nation with aspirations for *détente* and reunification but as a completely separate and hostile country.

In addition to outlining how Kim's abandonment of unification has ramified in North Korea, Green also explains why this is occurring now and unpacks its possible consequences. The roots of the policy shift most likely lie in North Korea's growing concerns about regime security: that the steady drip of outside information through informal markets and media makes talk of reunification increasingly risky. With respect to consequences, political developments in the South will matter as well. Lee Jae Myung embraced centrist policy stances prior to the presidential election. He tried to carve out a middle ground that prioritized the U.S.-South Korea alliance but simultaneously left room to develop an inter-Korean dialogue channel to ease tensions on the peninsula. Yet, as Green concludes, Kim's surprising move will ultimately be reflected in increasing public hostility toward the North and even parallel legal developments on the part of the South. If accompanied by a continuation of the North's military buildup—which is almost certain—it will also provide justification for the South to continue focusing on defense readiness, including through trilateral cooperation with the United States and Japan. The result, particularly given U.S.-China animus, is a likely hardening of the two blocs around the peninsula.

A second longer-run issue facing the new South Korean administration is how to rethink industrial policy.¹³ The embrace of industrial policy among countries around the world is one of the more striking ideological shifts in recent decades. This rethink has several sources, including new empirical evidence of the success of industrial policies in countries such as South Korea and new thinking about how to manage China's fundamentally different statist political economy. Sunhyung Lee outlines the debate over industrial policy and walks through an exercise in measurement, tracking the extent of the adoption of industrial policy measures.

A surprising finding is that despite its history, South Korea has taken a relatively restrained posture toward industrial policy when compared to a number of other advanced industrial and middle-income states—and certainly when compared to China. Nonetheless, Lee reveals evidence that South Korea has adopted policies aimed at strengthening competitiveness. He provides a framework for thinking about such interventions by contrasting traditional industrial policies, operating in a closed-economy framework, with those that have emerged in recent years. There are areas of overlap, such as the effort to spur research and development (R&D) and innovation. Yet, he also catalogs a number of departures, including a move from top-down to collaborative policy processes, the effort to move

beyond manufacturing to target innovative services, greater attention to small and medium enterprises, and growing infrastructure to support a variety of business services. Lee's analysis provides a useful framework for the more discrete discussions of industrial policy that KEI has covered in previous publications.¹⁴

Finally, South Koreans are no doubt tired of hearing about their unique demographic circumstances. But because of its extremely low total fertility rate—now around 0.7 per woman—the country has become a leading indicator of what a low-birth future might look like. Demography permits pretty clear projections in the medium run. Most people who will be alive in South Korea in 2050 have already been born, and the fertility rate is unlikely to change dramatically. The country's population peaked around 2000 at about 51 million. The initial contraction going forward will appear gradual, falling to approximately 45 million by 2050. But the age structure will shift dramatically by then, with over 40 percent of the population over sixty-five, 17 percent over eighty, and less than 10 percent under nineteen, the group that will enter the workforce going forward. Looking ahead to 2100, projections are more uncertain, but under plausible scenarios, the country's population could more than halve to about 22 million, with profound political and geostrategic implications.

Darcie Draudt-Véjares offers a fresh perspective on how South Korea can cope with its demographic challenges in a way that is not mired in doom and gloom. She acknowledges the limitations of pronatalist policies and policies aimed at relocating younger people to aging regions. Since 2005, both conservative and progressive governments have implemented a series of plans—backed by real financial commitments—to reverse demographic trends. Yet, these efforts have yielded no significant results. Nor is immigration necessarily the solution, although more could be done on that front. About 16 percent of Americans are foreign-born; in South Korea, the number is between a third and a quarter of that. South Korea is an increasingly cosmopolitan society. But it is not xenophobic to say that absorbing large numbers of immigrants is politically and socially challenging and probably faces limits.

After a close look at the demographic challenges, including its gender components, Draudt-Véjares takes us on a tour of some of the policy alternatives that have not received adequate attention. Central to her approach is the idea that an aging society presents opportunities as well as constraints. First, demography makes it more imperative than ever that policy support prioritizes not declining activities but growing ones. In addition to technology, these include healthcare, social work, and retail, all sectors in which the elderly might extend their time in the workforce if jobs are made age-friendly. Second, a declining working-age population increases the urgency of automation at both the firm and policy levels. Most intriguing are her ideas about a silver economy: one in which sectors such as healthcare, caregiving, and interpersonal services offer avenues for integrating older workers, especially women, into a more resilient and demographically adaptive economy. What the essays by Lee and Draudt-Véjares teach us, above all else, is the importance of innovation not only in the private sector but also in the formulation of policy.

Conclusion

This collection of essays starts with common challenges posed by the Trump administration's emerging Asia policy, primarily its current preoccupation with tariffs and alliance burden-sharing. The essays

grapple with how countries across the region will position themselves between new U.S. demands, the ongoing gravitational pull exerted by China, and the prospects for heightened geostrategic tensions. Yet the pieces on industrial policy and demographics are a reminder of the underlying sources of national power and the difficulty of forging wider grand strategies oriented toward the medium- and longer-run. Achieving a modicum of autonomy requires not only deft diplomacy but also the capacity to address complex issues such as spurring innovation and managing demographic change, which directly impinge on national capabilities.¹⁵

Endnotes

¹ For treatments of this tradition from different perspectives, see Peter J. Spiro, “The New Sovereignists: American Exceptionalism and Its False Prophets,” *Foreign Affairs* 79, no. 6 (2000): 9–15; Michael Goodhart and Stacy Bondanella Taninchev, “The New Sovereignist Challenge for Global Governance: Democracy without Sovereignty,” *International Studies Quarterly* 55, no. 4 (2011): 1047–1068; and Jens David Ohlin, *The Assault on International Law* (Oxford University Press, 2015).

² The treaties include the Intermediate-Range Nuclear Forces (INF) Treaty, Treaty on Open Skies, Optional Protocol to the Vienna Convention on Diplomatic Relations concerning the Compulsory Settlement of Disputes, the Treaty of Amity, Economic Relations, and Consular Rights with Iran, and the New START Treaty. See Oona A. Hathaway, “Reengaging on Treaties and Other International Agreements (Part I): President Donald Trump’s Rejection of International Law,” *Just Security*, October 2, 2020, <https://www.justsecurity.org/72656/reengaging-on-treaties-and-other-international-agreements-part-i-president-donald-trumps-rejection-of-international-law/>.

³ The White House, “Withdrawing the United States from and Ending Funding to Certain United Nations Organizations and Reviewing United States Support to All International Organizations,” February 4, 2025, <https://www.whitehouse.gov/presidential-actions/2025/02/withdrawing-the-united-states-from-and-ending-funding-to-certain-united-nations-organizations-and-reviewing-united-states-support-to-all-international-organizations/>.

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Section 1

U.S. Allies and Partners' Recalibrations in the Indo-Pacific

Perils of U.S. Illiberal Retrenchment: South Korea's Perspective on Indo-Pacific Recalibration

By Kuyoun Chung

U.S. President Donald Trump has swiftly advanced an “America First” foreign policy agenda since re-entering the White House on January 20, 2025. By translating the populist rhetoric emphasized during his 2024 election campaign—largely capitalizing on economic nationalism that was pervasive among his supporters—into concrete policies, Trump not only deepens the controversy surrounding his seemingly isolationist stance but also challenges the postwar global order, doing much to dismantle the legacy of the Joe Biden administration. While his administration frames these policies as an effort to restore U.S. primacy, the America-First approach practiced thus far may ultimately hinder this very objective. Moreover, these policies are expected to undermine the alignment among like-minded democracies that the Biden administration has sought to strengthen, thereby reinforcing the narrative of an emerging multipolar order, an idea actively promoted by China, India, and Russia.¹ Lastly, President Trump's diplomatic overture toward the United States' principal adversaries, exemplified by his talks with Russian President Vladimir Putin and Chinese President Xi Jinping, and the resumption of negotiations with Iran over its nuclear program, shows his preference for strategic dealmaking to cultivate a favorable balance of power in each region.² Yet, this approach appears to be laying the groundwork for a world divided into spheres of influence, which is likely to further strengthen the alignment among China, North Korea, and Russia, affording them greater strategic leeway. In turn, this imposes additional burdens on U.S. allies in maintaining regional stability in the Indo-Pacific.

Meanwhile, South Korea's newly elected President Lee Jae Myung has expressed a commitment to maintaining the South Korea-U.S. alliance and the trilateral cooperation among South Korea, the United States, and Japan. However, his administration is expected to pursue pragmatic diplomacy between great powers at the same time. Therefore, it remains uncertain whether this will lead to a deepening of the alignment with like-minded democracies that was cultivated under the previous Yoon Suk Yeol administration. Having criticized President Yoon's values-based diplomacy, the Lee administration now appears poised to return to the approach of the former Moon Jae-in administration. The Lee administration is also expected to prioritize improving inter-Korean relations through rapprochement with North Korea, and in pursuit of this goal, it is likely to seek improved ties with China. This shift may weaken South Korea's strategic position amid ongoing recalibrations in the Indo-Pacific.

Debate on Retrenchment

Trump's America-First foreign policy resembles retrenchment, a policy designed to scale back grand strategic commitments in response to a decline in relative power.³ Accordingly, retrenchment involves reallocating resources from peripheral to core commitments to reduce foreign policy costs, mitigate risks, and increase burden-sharing with other states.⁴ It is important to note that the United States is not

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the first great power to implement retrenchment; historically, great powers that recognized or believed that they had reached the peak of their power have often opted for retrenchment.⁵ However, within the context of ongoing competition between the United States and China, U.S. retrenchment has been seen as a symptom of declining hegemonic power, fueling intense debates about whether and to what degree there is a changing balance of power. Furthermore, Trump's illiberal stance, which appears to undermine the existing rules-based order, has furthered debates over whether the United States' retreat from global leadership will imperil the rules-based international order that has been sustained since 1945.

Those who oppose retrenchment argue that doing so reflects U.S. weakness and signals its intention to retreat as an offshore balancer, which could embolden potential adversaries to challenge the status quo.⁶ Furthermore, they claim that when the United States adopts retrenchment to reduce foreign policy costs, it has often ended up incurring even greater costs in the long run. For instance, during World War II, the United States initially attempted to maintain the balance of power in Europe and East Asia through an offshore balancing strategy, relying on regional allies such as Britain and France to contain the Axis powers. However, the rapid collapse of France and the severe overstretching of Britain revealed the limitations of this strategy, ultimately compelling the United States to enter the war. As a result, approximately 400,000 American lives were lost, and the war cost the United States an estimated USD 4,104 billion (in constant FY2011 dollars).⁷ These immense costs, combined with the strategic landscape of postwar Europe, necessitated a sustained onshore U.S. military presence in the European theater.⁸ Additionally, critics of offshore balancing argue that this strategy could heighten the risk of nuclear proliferation among regional allies that may seek independent deterrents in the absence of credible U.S. security guarantees. They question whether the United States could rapidly project military power in times of crisis, given the weakening of the regional security architecture and potential future reduction of U.S. forward deployments. As a result, allies may be less likely to align their actions with U.S. interests. In sum, these concerns suggest that a U.S. retrenchment could undermine the liberal international order and its stability.

Meanwhile, proponents of retrenchment argue that its primary goal is to preserve U.S. primacy over the long term and to safeguard the country's freedom of action.⁹ In this context, offshore balancing is a pragmatic strategy of retrenchment with very limited objectives. For example, the United States does not need to act as the world's police, nor should this be the goal of an offshore balancing strategy. Maintaining leadership in the international community is a valid objective only when it directly serves U.S. interests. Of course, proponents of offshore balancing argue that this approach differs from isolationism, as the United States recognizes the importance of maintaining its commitment in key regions such as Northeast Asia, Europe, and the Middle East. For the United States, it is necessary to respond to emerging states that achieve or aspire to achieve great power status. But the core argument of offshore balancing is that the United States should allow regional states to respond to arising threats first and intervene only when necessary, rather than assuming the role of the world's police. In other words, it seeks to create parallel balance-of-power systems in each key region by combining buck-passing and balancing strategies.¹⁰ If this approach can minimize U.S. involvement abroad, it would not only free up resources for domestic investment but also reduce the sacrifices of American soldiers.

Against this backdrop, former U.S. President Barack Obama's foreign policy was characterized by multilateral retrenchment—maintaining a compromised commitment to the liberal international order while pursuing a realist policy of retrenchment.¹¹ The 2010 *National Security Strategy* endorsed the view that U.S. foreign policy is not only about reducing unnecessary military commitments overseas and sharing the burden with global partners but also about enhancing its standing in the international community.¹² This principle reflects a recognition of the limitations of U.S. resources and capabilities while acknowledging the imperative of maintaining U.S. global leadership.

Indeed, the Obama administration clarified its rebalancing strategy in *Sustaining U.S. Global Leadership: Priorities for 21st Century Defense*, the Department of Defense's 2011 strategic guidance document.¹³ The guidance emphasized not only repositioning U.S. forces to Asia but also reducing the size of the U.S. Army and Marine Corps. It further underscored the importance of limited military engagement, prioritizing drone warfare operations in Afghanistan, Yemen, Pakistan, and Somalia, as well as cyberwarfare operations against Iran using targeted malware like Stuxnet, instead of waging conventional warfare. This rebalancing strategy revealed not only the Obama administration's federal budget strains and attention to a rising China but also the political constraints arising from the war on terror initiated by the George W. Bush administration.¹⁴ These factors, coupled with the negative public opinion on any subsequent military actions, resulted in a reduction of U.S. military engagement in the Middle East.¹⁵ In this context, the Obama administration's *National Security Strategy*, published in 2015, raised the threshold for the use of military force in situations where U.S. interests are not directly threatened and stated the United States would share the burden with its allies if it did intervene, thus emphasizing the merits of retrenchment in some areas of foreign policy.¹⁶

At the same time, the Obama administration continued its institutional engagement with the international community to maintain global leadership. Its efforts to preserve global leadership were based on the judgment that upholding the U.S.-led global order, shaped by strategic restraint since World War II, aligns with U.S. interests.¹⁷ Strategic restraint in this context refers to the United States limiting its use of power over others in the short term while simultaneously creating rules, norms, and institutions that lock in its power in the long term.¹⁸ Through multilateral, reciprocal, and binding institutional bargains, the United States was able to establish those rules, norms, and institutions in various domains, projecting its asymmetric power advantage and eliminating the need for a constant struggle for power. In this way, strategic restraint sought to reassure countries within the rules-based order that they would be neither dominated nor abandoned, despite the sharply asymmetric power distribution favoring the United States.

This strategic restraint was instrumental in shaping a U.S.-led rules-based order and was further institutionalized due to the democratic nature of the countries involved, especially under the historical context of the Cold War. Furthermore, strategic restraint was a central component of the post-war settlement led by the United States and has even endured power shifts, including the end of the Cold War, that reinforced U.S. global leadership. Meanwhile, the Trump administration's retrenchment is based on the belief that the existing international order, rooted in this strategic restraint, contradicts U.S. interests. This, in turn, has endangered both U.S. primacy and global leadership.

The Trump Administration's Illiberal Retrenchment

The Trump administration's retrenchment raises concern that such efforts undermine the existing rules-based order. This order, made possible by strategic restraint and the presence of democratic countries that participate and agree with its legitimacy, demonstrates that the U.S. hegemonic order is not solely a U.S. prerogative but rather represents a form of coalitional hegemony.¹⁹ This collective nature of the U.S.-led rules-based order indicates the existence of international constituencies—U.S. efforts to legitimize its leadership being among them. Material primacy alone does not guarantee U.S. global leadership; instead, the cultivation of legitimacy and the process of persuasion are essential to maintain the support of democratic and like-minded countries for the U.S.-led order, despite the relative decline of the United States and the subsequent adoption of retrenchment.²⁰

In this context, the following characteristics of the Trump administration make its embrace of retrenchment polarizing, which reduces the cohesion fostered among like-minded countries in upholding the rules-based order since the end of World War II.

First, the Trump administration has shown a lack of commitment to liberal democracy and demonstrated a friendly attitude toward authoritarian leaders. For instance, President Trump thrashed Ukrainian President Volodymyr Zelenskyy during a meeting in the Oval Office in March 2025, which not only revealed the limitations of concerted NATO efforts to influence Trump's approach toward Russia's war against Ukraine but also demonstrated Trump's dismissive attitude toward NATO allies.²¹ Also, during the Munich Security Conference in February 2025, U.S. Vice President JD Vance stated that "the threat from the European continent does not come from Russia or China, but from within" and criticized European countries for allowing freedom of expression and accepting immigrants.²² Vance also attempted to intervene in European domestic politics by meeting with Alice Weidel, co-leader of Germany's far-right political party, Alternative for Germany (AfD).²³ These actions were perceived as signaling the Trump administration's antagonism toward European allies and contributed to eroding the solidarity that the Biden administration had worked hard to restore with democratic partners during its tenure. Such antagonism is likely to weaken alignment between the United States and its allies—that is, U.S.-led coalitional hegemony—which in turn undermines leverage over China, as the current great power competition is fundamentally between coalitional hegemonies led by the United States and China.

Second, President Trump's perception of allies as competitors has threatened to undermine the U.S.-led security architecture around the world. The Biden administration made significant efforts to rebuild alliances and partnerships, constructing a latticework framework that supplemented the existing hub-and-spokes alliance system. This was exemplified by initiatives like South Korea-U.S.-Japan trilateral cooperation and the NATO-IP4 consultative group, which generated a synergistic effect in bolstering the U.S. security architecture, particularly in the Indo-Pacific. These groups were centered around like-minded allies, and the Biden administration's values-based diplomacy further mobilized them by providing normative and ideological legitimacy for participation. Ultimately, these groups contributed to the recovery and consolidation of the transatlantic alliance, which had been fragmented during the first Trump administration.

Meanwhile, Trump prioritizes U.S. interests over those of its allies. Notably, he regards U.S. allies as competitors, has reopened debates over defense spending and burden-sharing, has signaled its desire to renegotiate free trade agreements, and even suggested the possibility of withdrawing from NATO. Trump's transactional approach led NATO allies to explore independent extended deterrence systems in pursuit of greater strategic autonomy.²⁴ By contrast, it remains unlikely that Indo-Pacific allies such as South Korea, Japan, and Australia, which depend entirely on U.S. nuclear extended deterrence, will distance themselves from the United States to the same degree. However, if the Trump administration continues to attribute U.S. trade deficits to the U.S. allies' perceived bad faith behavior, while imposing tariffs and complaining about their insufficient defense contributions, anti-U.S. public sentiment may grow in the Indo-Pacific region.²⁵ This, in turn, could constrain the political latitude of allied governments and diminish prospects for deeper strategic cooperation with the United States.

Third, retrenchment under Trump, seen as a response to strategic insolvency within the Department of Defense, is now taking shape in practice. Strategic insolvency refers to a condition in which a country's stated strategic objectives exceed the resources available to achieve them. In other words, it occurs when the scope of U.S. global commitments surpasses what can be sustainably supported by its capacity.²⁶ Recent discussions about integrating U.S. regional combatant commands can be viewed within this context. The Pentagon is currently assessing the benefits of combining European Command and Africa Command, as well as merging Northern Command, which covers the U.S. mainland, Canada, and Mexico, with Southern Command, responsible for Latin America.²⁷ This reflects a less ambitious or scaled-down U.S. military posture. Such restructuring is either underway or under consideration across the U.S. government, and examples like the closure of the U.S. Agency for International Development (USAID) can be understood within this same context.²⁸ The restructuring, driven by retrenchment, is likely to continue under the concept of the "Lippmann Gap," which was discussed during the Senate Committee on Armed Services' confirmation hearing of Elbridge Colby, who was nominated and confirmed as under secretary of defense for policy.²⁹ Lippman Gap describes a situation where foreign policy becomes unsustainable due to a mismatch between a state's international commitments and its available resources.³⁰ Therefore, this is not merely a matter of budget-related restructuring but should be understood as a deliberate reduction in the U.S. commitment to its allies and partners, potentially increasing uncertainty about U.S. reliability in critical regions such as Europe, the Middle East, and the Indo-Pacific.

Lastly, U.S. retrenchment under President Trump includes not only cynicism toward traditional alliances but also an emphasis on great power diplomacy and reduced involvement in global conflicts, aiming to keep U.S.-China competition as the primary focus of U.S. foreign policy. Against this backdrop, the administration has sought to end the war between Russia and Ukraine, apparently on terms more favorable to Russia.³¹

As evidenced by the Trump administration's efforts to reset U.S.-Russia relations, some analysts have characterized its approach as a "reverse-Nixon" strategy. Drawing on historical precedent, this strategy seeks to drive a wedge between Russia and China. However, the current U.S.-Russia relationship lacks the geopolitical conditions that enabled U.S.-China reconciliation during the Cold War. For a reverse-Nixon strategy to succeed, Washington would need to weaken the strategic ties between Moscow and

Beijing through a broader rapprochement with Russia, potentially including progress on the Russia-Ukraine ceasefire negotiations. Yet, as seen in those negotiations, Moscow has adopted a hardened position—demanding full capitulation from Ukraine and showing little willingness to compromise. Notably, Russia’s pursuit of rapprochement with the United States is not motivated by a desire to resolve the conflict with Ukraine, but rather by a desire to normalize bilateral relations, secure sanctions relief, and reduce its diplomatic isolation.

China, for its part, does not view U.S. efforts to restore relations with Russia as a strategic threat. On the contrary, Trump’s devaluation of alliances presents an opportunity for Beijing, as it encourages European countries to seek greater strategic autonomy from Washington.³² In the trade and financial sectors, many U.S. allies—including the United Kingdom, Germany, and Canada—are likely to pursue de-risking strategies to shield themselves from U.S. market volatility. Furthermore, China does not expect the Russia-Ukraine ceasefire negotiations to progress as rapidly as the United States might hope. As a result, Beijing sees little incentive to adopt a confrontational stance toward U.S.-Russia rapprochement efforts.³³

As a result, the United States now finds itself in a position where its accelerated efforts to restore relations with Russia—and to expedite a Russia-Ukraine ceasefire—have diminished its influence in Europe without any meaningful success in weakening China-Russia alignment. Whether the Trump administration’s reset with Moscow was intended as a tactical maneuver or a strategic pivot, it may contribute to the fragmentation of the transatlantic alliance. Contrary to Trump’s pivot toward Russia, NATO declared Russia a long-term threat to its collective security in a joint statement issued after the NATO summit in June 2025.³⁴

Should the United States abandon the liberal international order—which has historically resisted the division of global influence among great powers—the pace of U.S.-Russia rapprochement may accelerate further. Russia’s long-term objective remains the revision of the post-Cold War settlement and the reestablishment of a sphere of influence over the former Soviet Union territory and Eastern Europe. China, likewise, appears intent on restoring its regional dominance across Asia. Ultimately, it is up to the United States to decide whether a multipolar world with competing spheres of influence is an international system it is willing to accept.³⁵

In sum, U.S. retrenchment under the Trump administration is creating a different strategic landscape compared to the Biden administration. While the Biden administration emphasized values-based diplomacy and solidarity of like-minded countries to form a coalition of U.S.-aligned states amid U.S.-China competition, President Trump is seeking to foster global competition involving both allies and adversaries alike. This strategic shift will ultimately make it impossible to reclaim any sort of U.S. primacy in the world. Countries around the world are likely to hedge and de-risk against the United States, potentially forming their own coalitions to secure strategic autonomy.

In this context, the foreign policy dilemmas faced by Indo-Pacific countries, including South Korea, are likely to evolve in a significantly different direction. The Trump administration has seemingly renewed pressure on allies caught in the middle of the U.S.-China rivalry. As this competition intensifies, demands for cooperation from the United States are expected to increase, thereby narrowing strategic options for

countries like South Korea. Simultaneously, U.S. allies face the prospect of reduced security commitments and greater burden-sharing expectations. Consequently, these countries are likely to place increased emphasis on developing independent cooperative frameworks, potentially without U.S. involvement. How the Trump administration effectively addresses allies' concerns over U.S. pressures to choose between the United States and China will play a critical role in determining the future stability of U.S.-China competition. Otherwise, the coalitional nature of the U.S.-led hegemonic order risks dissolution, thereby weakening U.S. power in both relative and absolute terms.

Strengthened Narrative of the Multipolar Order

Trump's return to the White House has amplified, rather than initiated, debates about whether multipolarity best characterizes the current world order. For instance, Indian Prime Minister Narendra Modi asserted that the world is rapidly entering into a multipolar phase, while French President Emmanuel Macron surprised EU member states by stating that Europe must position itself as a major independent power within the emerging order, aiming to be a third pole that challenges U.S.-China dominance.³⁶ Similarly, in 2022, Putin declared that a multipolar system had already taken shape and described this development as irreversible.³⁷

Although academics and foreign policy specialists often discuss the concept of multipolarity, there is no consensus on whether this term accurately describes the world in 2025. Those who emphasize hard power tend to argue for a bipolar world—a new cold war between the United States and China. China's military strength has grown to the point where it can now compete with the United States in a direct conflict.³⁸ However, there are still debates over whether this military bipolarity is global or confined to the Western-Pacific region. Proponents of bipolarity often draw comparisons between the current international system and the Cold War, examining both the similarities and differences between the U.S.-China rivalry and the U.S.-Soviet confrontation.

On the other hand, those who argue that the world is becoming multipolar tend to focus on economic, social, and political dimensions of power.³⁹ While the United States and China remain the largest economies, economic influence is becoming increasingly diffused. For example, the European Union, with its extensive trade networks, wields significant regulatory power over global trade and technical standards. East Asian countries such as South Korea and Japan, alongside emerging economies in the developing world, also play major roles in the global economy. Although military strength remains a critical factor, the United States has demonstrated the limitations of relying solely on military coercion to achieve policy objectives, especially in non-military spheres. Despite its significant military capabilities and a two-decade commitment, for instance, the United States failed to realize its goals—such as building a stable democracy—in Iraq and Afghanistan.

Some scholars still argue that unipolarity—or a unipolar balance of power—remains intact despite relative declines in U.S. capabilities. Much of this research emphasizes the United States' unmatched global military reach, which remains unrivaled by any other state. These studies also underscore the dominance of the U.S. dollar in global markets and the lack of credible alternatives to replace it as the world's primary reserve currency. While China is undoubtedly a significant and rising competitor, it has not yet attained superpower status. It lacks an alliance network comparable to that of the United

States and faces substantial internal challenges, including mounting demographic pressures and signs of economic stagnation.⁴⁰ Under these conditions, the unipolar character of the international system is likely to persist in the near term.

The lack of consensus on polarity among scholars and practitioners suggests that the international system is in flux, and the future of the liberal international order led by the United States is uncertain. But the Trump administration's illiberal retrenchment is likely to convince many that the United States can no longer play the same influential role as before. As discussed above, U.S. retrenchment is not a typical case of great power retrenchment but rather that of a hegemonic power—one that has maintained the most extensive military reach in the world and issues the global reserve currency. In this context, the retrenchment of such a country signifies a reduction in its military and economic influence necessary to sustain coalitional hegemony. Pulling back from this will likely fuel arguments for multipolarity. Moreover, this retreat not only weakens U.S. alliances with like-minded democracies by framing them as competitors but also undermines the very concept of U.S. coalitional hegemony. As a result, countries seeking to hedge against the United States are more inclined to form alternative poles or strengthen their alignment with China. In this sense, President Trump's illiberal retrenchment may accelerate the emergence of a multipolar world.

South Korea's Vulnerability after Political Uncertainty

Former President Yoon Suk Yeol's declaration of martial law on December 3, 2024, and his subsequent suspension from office by the National Assembly two weeks later, effectively paralyzed the South Korean government. After the Constitutional Court upheld the National Assembly's decision and formally removed Yoon from office on April 4, 2025, South Korean voters elected Lee Jae Myung as the new president on June 3. Although President Lee expressed his commitment to maintaining the South Korea-U.S. alliance and supporting trilateral cooperation with Japan, the ruling Democratic Party's inclusion of anti-U.S. and anti-Japan rhetoric in the impeachment motion drew criticism from Washington.⁴¹ Notably, the motion cited Yoon's confrontational posture toward North Korea and China as grounds for impeachment, although this justification was sharply criticized by U.S. Representative Young Kim (R-CA), who described it as undermining a core pillar of the alliance.⁴²

Yoon's foreign policy emphasized strategic clarity in the context of U.S.-China competition. South Korea has participated in various U.S.-led security initiatives and expanded cooperation with like-minded democracies, such as Japan, Australia, and New Zealand, particularly in areas like supply chain restructuring and emerging technology collaboration.⁴³ The Yoon administration published the country's first *Indo-Pacific Strategy*, articulating South Korea's commitment to promoting stability in Northeast Asia beyond the Korean Peninsula.⁴⁴ Under President Yoon, South Korea contributed to Ukraine's defense through financial, humanitarian, and reconstruction aid as well as non-lethal military support, further signaling South Korea's willingness to expand its global role beyond the Korean Peninsula. But this momentum is unlikely to continue in the short term because the U.S. administration that facilitated such collaboration no longer exists, and South Korea is set to face trade disputes and burden-sharing negotiations with the Trump administration in the foreseeable future. This friction will likely intensify if the United States downsizes or reduces its military footprint in the Indo-Pacific.

It is worth noting that not all individuals within the Trump administration agree with this approach, particularly traditional Republican leadership, including Nikki Haley, Tim Scott, Chris Christie, and Mike Pence, who find it difficult to support the administration's retrenchment. Comments such as those by Colby regarding the withdrawal or realignment of U.S. forces in South Korea and the potential acceptance of nuclear armament among Asian allies are unlikely to find much support among GOP lawmakers.⁴⁵ Although the Trump administration is only six months in and much remains in flux, the precedent established during Trump's first term suggests that these sorts of internal divisions will continue and exacerbate uncertainty abroad about the U.S. security strategy.

This uncertainty may be felt most acutely in the Indo-Pacific, with the Taiwan Strait serving as a key example. The U.S. Congress has long supported preserving the status quo between China and Taiwan and maintaining the existing power balance in the region. As a result, it would be difficult for a Trump administration to ignore or disengage from a potential crisis in the Taiwan Strait. But, as with all allies and partners, Trump will likely demand that Taiwan increase its defense spending, expand its security contributions, and assume a greater role in pursuing shared objectives. In addition, the United States will likely request its allies, including South Korea, Japan, and the Philippines, to maximize deterrence capabilities by enhancing their conventional military capabilities. These allies will likely continue to utilize current alliance and minilateral cooperation frameworks to achieve such goals. However, rather than achieving a dominant position over China through the current security architecture and the visible presence of U.S. forces in the Western Pacific, the Trump administration may prefer to shift from a fixed, large-scale presence toward contingency-based deterrence in the Indo-Pacific, which may generate strategic uncertainty among Asian allies.⁴⁶

President Trump has also expressed an interest in resuming face-to-face talks with North Korean leader Kim Jong Un.⁴⁷ South Korea's concern about restarting such summitry lies in the low feasibility of North Korea's denuclearization and the potential shift in U.S. goals from denuclearization to nuclear arms reduction. Given Trump's unilateral approach to diplomacy, there are also concerns about how or whether the United States would consider South Korea's preferences and priorities toward the North. With North Korea's strengthening ties with Russia, it remains uncertain whether North Korea will be willing to engage in dialogue with the United States. Furthermore, given the current momentum in China-Russia relations and deteriorating U.S.-China ties, it is uncertain whether the United States can successfully convince China to help support diplomacy with North Korea.

Conclusion

The Trump administration's illiberal retrenchment changes the dynamics of international relations amid U.S.-China competition and broader great power competition. Trump's apparent favoritism toward great power diplomacy and disdain for the U.S.-led liberal order weaken the alignment between allies and like-minded democracies, thereby undermining the very balance of power through which the United States bargains, negotiates, deters, or engages with China and Russia. Notably, the triangular alignment between China, North Korea, and Russia—however ephemeral—is forcing U.S. allies in Europe to enhance cooperation with partners in the Indo-Pacific, with or without the United States. In this context, Trump's attempts to reset relations with Russia may complicate the U.S. ability to manage competition

with China. Given these international dynamics, the South Korea-U.S. relationship is likely to be plagued by greater uncertainty, further complicating U.S. security objectives and priorities in the Indo-Pacific.

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Adjusting to a Scary New World: U.S. Retrenchment and Japan's Deepening Dilemma

By Sayuri Romei

Several international leaders have used the word “multipolarity” to describe the current state of international relations. China and Russia, unsurprisingly, use the term to indicate a preferred alternative world order that is not dominated by the United States. Russian President Vladimir Putin, for example, claimed at the 2024 BRICS summit that the “process of forming a multipolar world is under way.”¹ Chinese Foreign Minister Wang Yi has also emphasized a “trend” toward a multipolar world.² Other leaders, such as French President Emmanuel Macron and Brazilian President Luiz Inácio Lula da Silva, claim that not only is the world now multipolar, but a multipolar world is desirable. Macron explicitly stated that the world is now multipolar, often encouraging Europe to seek strategic autonomy and become a “third superpower.”³ German Chancellor Olaf Scholz echoed similar sentiments in 2023, urging Europe to capitalize on multipolarity by seeking more global cooperation on equal terms.⁴

This rhetoric certainly resonates with those who criticize the United States as an imperialist power. The discourse on multipolarity may also attract and resonate with U.S. allies and partners who see a decline in U.S. power and believe it is time to move away from a system where they are completely reliant on the United States.

Japan, however, is a clear exception. Japan's 2024 annual defense white paper opens ominously: “The international community has entered a new era of crisis...The existing order is being seriously challenged. Japan finds itself in the most severe and complex security environment of the postwar era.”⁵ Although the white paper does not explicitly mention multipolarity, Japan is deeply worried about the implications of the United States losing its so-called unipolar moment.⁶ Among all seventeen countries surveyed in the 2025 Munich Security Index, Japan recorded the highest degree of anxiety about a future in which the United States is not the dominant power.⁷ According to the index, 54 percent of Japanese respondents indicated that they were “concerned” about the prospect of a multipolar world, compared to 33 percent of U.S. respondents and 24 percent of Chinese respondents. The survey also showed a higher proportion of Japanese respondents still believing in U.S. primacy. In response to the question of whether “we live in a world in which the U.S. is still the dominant superpower,” 45 percent of Japanese respondents responded in the affirmative compared to an average of 32 percent across other countries.

Japanese respondents also believe the least that “we live in a world in which powers beyond the U.S. and China can have a strong and independent influence on global affairs” (9 percent compared to the average of 24 percent). Moreover, the survey reveals that Japan is the most pessimistic about a multipolar world being more peaceful (-20) compared to the United States (+19) and, of course, China (+41). From Japan's perspective, a shift toward a multipolar world carries serious consequences for three

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foreign and security policy goals: preserving the liberal international order; maintaining a strong U.S.-Japan alliance and a strong U.S. engagement in the Indo-Pacific; and strengthening economic security.

Japan is a status quo power *par excellence*, as it has greatly benefited from the unipolar post-Cold War era, where the United States was the preeminent power. As stated numerous times by Japanese officials, Japan's main objective is to uphold the liberal international order based on the rule of law and to fight against any attempts to subvert it. Japan's 2022 *National Security Strategy* posits that maintaining the rule of law and an international order based on international law is one of the country's fundamental national interests.⁸ The cornerstone of Japan's postwar foreign policy has been its sole military alliance—the U.S.-Japan alliance. However, since Donald Trump's first term in office, debates have emerged in Tokyo about the future of the alliance and to what degree it is necessary to prepare for a new world where the United States is no longer the hegemonic power. In the words of the late political scientist Makoto Iokibe in 2019, “[Japan] always somewhat thought that the U.S.-Japan alliance would last forever, but with the arrival of someone like President Trump, that is not the case. There is no such thing as an eternal alliance.”

As prime minister, Shinzo Abe somewhat successfully weathered the first Trump administration by establishing a strong personal rapport early on, yet Iokibe's assessment rings true for an increasing number of policymakers in Tokyo. Trump's reelection in 2024 confirms that the “America First” approach to foreign policy is not an aberration and may be the new norm for U.S. and international politics. Trump 2.0 is already affecting how European and Indo-Pacific allies perceive the United States, and the new administration's rhetoric and policies will have major consequences for partners worldwide. Interestingly, a few days after he was inaugurated, Secretary of State Marco Rubio also stated in an interview that the unipolar world in the aftermath of the Cold War was an anomaly and that the world is now in a multipolar era.⁹ He also added that because the United States was the only power in the world after the end of the Cold War, it assumed the responsibility of “becoming the global government in many cases, trying to solve every problem.” Although he did not affirm it explicitly, this statement implies that the United States itself is ceding its claim to primacy and shifting its gaze to a multipolar world.

The multipolarity discourse is robust, but there are competing definitions of “multipolarity” and even “polarity.”¹⁰ Moreover, there is no consensus on what a great power is, and although it seems like the international system is moving toward several different poles, it is premature to describe international relations today as definitively multipolar. China has become a major contender, but the United States is still far ahead in many measures of hard power, namely military and economic strength. Perceptions are important, however. It is undeniable that for the past ten years, Japan has braced for a reduced U.S. presence in the world. Before Trump, President Barack Obama hinted at reduced U.S. engagement when he stated in 2013 that “America is not the world's policeman.”¹¹ It is in this context that Japan unveiled the Free and Open Indo-Pacific (FOIP) vision in August 2016.¹² After the concept was formally rolled out as the primary pillar of Japan's foreign policy, the Trump administration enthusiastically endorsed it in 2017. The U.S. military also renamed its Pacific Command to the Indo-Pacific Command in May 2018 to reflect this new alignment.¹³ The new FOIP framework has allowed the Japanese government to continue emphasizing the U.S.-Japan alliance while simultaneously branching out to find new partnerships in different areas of cooperation (such as counterterrorism, cybersecurity, quality infrastructure, maritime

security, humanitarian assistance/disaster relief, and education and human resource development).¹⁴ Tokyo's timing in promoting the FOIP vision, therefore, coincided with an increasingly insular Washington that is more wary of traditional alliances.

A Very Different Trump Administration

The 2024 U.S. presidential election saw significant trepidation among U.S. allies across the world. In Japan, for example, nearly nine in ten people said they were interested in the outcome of the election, according to a September 2024 NHK poll.¹⁵ *Moshitora* (What if Trump?) became a ubiquitous phrase in the Japanese news.¹⁶ Now that *moshitora* has turned into *mata-tora* (Again Trump), Tokyo should rethink the best way to approach the next four years.

Japanese Prime Minister Shigeru Ishiba is off to a relatively smooth start, according to Japanese analysts who assessed his first visit to the White House in February 2025.¹⁷ He was well-prepared and well-coached going into the bilateral summit, listing Japan's existing efforts to make the United States safer and more prosperous and appealing to Trump's relationship with Abe (despite Ishiba's intraparty rivalry with the deceased prime minister).¹⁸ Ishiba also noted Japanese investments that have generated jobs in the United States and pledged to increase these numbers.

Unlike during his first presidential campaign in 2016, where Trump singled out Japan several times, nothing inherently negative about Japan emerged in Trump's rhetoric during his campaign leading up to the 2024 election, which gave Japan some initial hope about the future of the U.S.-Japan alliance under a potential second Trump administration.¹⁹ However, one major difference from his first presidential term is that, having served as president once, Trump is now more politically experienced. His party also controls both chambers of Congress, and there is a 6-3 conservative majority in the Supreme Court. As a result, these institutions may make it easier to codify an America-First foreign policy that lasts even after Trump leaves the White House.

Another significant difference between the Abe-Trump and the Ishiba-Trump dynamic is that Prime Minister Ishiba is currently in a politically weak position at home, which will make it difficult for him to lean on Abe's legacy for much longer. Ishiba had become popular among voters for openly criticizing other politicians in his own party, including former prime ministers Abe and Fumio Kishida. After a very tight race, Ishiba was nominated as leader of the Liberal Democratic Party (LDP) in September 2024 and, a few days later, he called a snap election for the Diet's House of Representatives (lower house) with the goal of consolidating his mandate. However, the election did not go as planned, and the LDP lost its majority in the Diet. The LDP had been riddled with scandals for several years, and in the past two years, the party attempted to repair its reputation, with Kishida eventually stepping down amid fallout from the latest scandal.²⁰ A new corruption scandal, however, quickly tanked Ishiba's approval ratings ahead of the crucial House of Councillors (upper house) election in July 2025, meaning he is less able to pirouette on the international stage while his focus remains on domestic issues.²¹

An additional element that could impact alliance dynamics between the United States and Japan is the upcoming negotiations on the bilateral host nation support agreement. The agreement is set to expire in 2027, and negotiations are expected to be lengthy and difficult—not unlike the defense cost-sharing

deal between the United States and South Korea in Trump's first term.²² The new U.S. Ambassador to Japan George Glass already stated in March 2025 that Washington should press Tokyo to increase its financial contribution for hosting U.S. forces in the region.²³

An Erosion of Confidence in the United States

Also in March 2025, President Trump suggested that the U.S.-Japan security treaty was “unequal” and claimed that the United States has to protect Japan, while Japan is not obligated to protect the United States.²⁴ He further stated that this arrangement had allowed Japan to make a “fortune.” This is a sentiment that Trump has repeated several times over the years, not just about Japan but other U.S. allies as well.²⁵ A Trumpian worldview is zero-sum: if other countries gain, the United States loses. The president has held this view for decades, and although he encountered some hurdles during his first term due to his lack of preparedness to serve as U.S. president, he will be more decisive in this second term and less constrained to implement his policies, as he has ensured that he is exclusively surrounded by loyalists.

In his nomination hearing for under secretary of defense for policy on March 4, 2025, Elbridge Colby described Japan as a “vital ally” that needs to spend far more on its defense.²⁶ According to Colby, the Japanese government's pledge to increase its defense budget to 2 percent of GDP by the 2027 fiscal year is “manifestly inadequate” and made “little sense,” as Japan is directly threatened by nuclear-armed countries such as China and North Korea. He added that Japan should spend “at least 3 percent of GDP on defense as soon as possible” and that the U.S. government will make this clear to Japan in a “constructive but pressing fashion.”²⁷ However, Japan's defense spending is already at historic levels—the 2 percent goal is ambitious, and it is unlikely that the country will be able to spend “at least 3 percent” anytime soon.²⁸ In the meantime, Prime Minister Ishiba quickly rebutted Colby's remarks, stating that Japan “determines its own defense spending, not at the direction of any other country.”²⁹

The approach that the Japanese government has taken so far is to emphasize what the country is already doing for the U.S.-Japan alliance and across the Indo-Pacific region. Significant progress is being made in areas that are not fiscally tied to any budget increases—for instance, the establishment of a service component of the United States Space Force at the Yokota Air Base in Japan and its potential cooperation with Japan's Space Operations Group.³⁰ Moreover, in line with the United States' request to step up its defense contribution, Japan is deepening its cooperation with NATO in the context of the Individually Tailored Partnership Program (ITPP), including support for Ukraine, cyber defense, disinformation, and technology.³¹ Japan will likely continue to draw attention to these developments to help assuage criticisms from the Trump administration that it is not pulling its weight.

However, it is not clear how effective this approach will be. Many in Japan watched the tense exchange between President Trump and Ukrainian President Volodymyr Zelenskyy in the Oval Office on February 28, 2025—with Trump briefly cutting off military aid to Ukraine after the meeting—as a horrific preview of how the United States may deride Japan or any other ally if it faced a security crisis and needed U.S. help.³² The public dressing down of Zelenskyy, combined with Trump's history of praising Putin, has major consequences for U.S. allies in Europe and the Indo-Pacific. European countries are now

scrambling to respond to the “existential threat” from Russia without the help of the United States, as Trump seems to have grown frustrated with the conflict and his inability to broker a peace deal after all.³³

Under Prime Minister Kishida, Japan was one of the most vocal critics of Russia’s invasion of Ukraine and one of the biggest supporters of Ukraine.³⁴ “Ukraine today may be Asia tomorrow,” Kishida warned countless times, and his assertion that “unilateral attempts to change the status quo by force are not acceptable” is a clear message toward China.³⁵ An unnamed cabinet member was quoted by *The Nikkei* as saying that the Trump administration’s treatment of Ukraine is “unbearable when you think about Asia.”³⁶ Nobukatsu Kanehara, former deputy national security adviser to Prime Minister Abe, commented, “What Japan has learned from the Ukraine war is that the era where we could rely entirely on the U.S. is over.”³⁷

This divide between the positions of the Trump administration and the Japanese government on the war in Ukraine is undoubtedly creating a dilemma for Japan. How can Japan strengthen its relationship with the United States if the U.S. government is disinterested in preserving the international status quo? Although Japan is anxiously grappling with this dilemma, the Ishiba government has publicly refused to take sides between the United States and Ukraine.³⁸ Ishiba has instead emphasized that “the most important thing is for the Group of Seven to stay united.”³⁹ After the Trump-Zelenskyy meeting, Yoshikazu Watanabe, an influential retired lieutenant general in Japan, suggested that the only action Japan can take is to “passively watch while Trump acts erratically.”⁴⁰

Although confidence in the U.S.-Japan alliance can be measured in many ways, Trump’s relentless deployment of disinformation and abrasive rhetoric toward allies—often mirroring Russian propaganda—severely undermines confidence in U.S. leadership.⁴¹ Trump’s longtime affinity with authoritarian regimes and unwillingness to criticize Putin is pushing U.S. allies in Europe and East Asia to lose confidence in the United States’ resolve to help allies in a contingency.⁴² Newly elected German Chancellor Friedrich Merz questioned whether NATO would remain in its “current form” when “it is clear that this [U.S.] government does not care much about the fate of Europe.”⁴³ Dutch Foreign Minister Caspar Veldkamp echoed such sentiments, commenting that this “signals we are at the start of a new era.”⁴⁴ As a way to increase the rate of defense equipment production in Europe, French President Macron has called on European countries that are “buying American” to invest in European defense equipment instead.⁴⁵

Trump’s sympathy toward Russia has also triggered renewed fears of nuclear proliferation in East Asia among U.S. analysts.⁴⁶ Former South Korean Minister of Foreign Affairs Yoon Young-kwan wrote in March 2025 that “we should strengthen our national defense capabilities, including potential nuclear capabilities, and prepare to handle the deterrence of North Korea with our own strength.”⁴⁷ It is worth noting that the nuclear debate is not new in South Korea and remains far-fetched. Even if South Korea were to go nuclear, it does not automatically mean that Japan would follow suit. Japanese policymakers and bureaucrats will continue to discuss all available options for national defense in the event the United States fails to fulfill its security commitments, but nuclear armament would be an abrogation of Japanese policymakers’ deep commitment to preserving the status quo and protecting the liberal international order.

Another potential challenge for the U.S.-Japan relationship is the Trump administration's policy toward North Korea. The president has repeatedly expressed interest in meeting Kim Jong Un again, and he and members of his cabinet have either described North Korea as a "nuclear power" or alluded to a policy objective less than the longstanding goal of complete, verifiable, and irreversible denuclearization (CVID).⁴⁸ Although the United States, Japan, and South Korea renewed their two-decades-old pledge to make CVID possible on the Korean Peninsula, Trump continues to refer to North Korea as a "nuclear power."⁴⁹ These mixed messages could become a problem in U.S.-Japan relations if the two allies' messaging, priorities, and approach vis-à-vis North Korean issues differ. When Trump moved ahead with an unexpected summit with Kim in the summer of 2019, some officials in Tokyo expressed surprise and a feeling of isolation.⁵⁰ If the United States fails to consult Japan ahead of any potential meeting or deal with North Korea in the future, this would drive a wedge in the alliance and further erode trust in the United States.

Maintaining the Status Quo Through a Network of Partnerships

To build resiliency and durability in Japan's ability to weather external uncertainties, its FOIP strategy outlines the country's goal of not only maintaining a strong alliance with the United States but also building a robust network of allies and partners in case the U.S.-Japan alliance weakens. Although Japan is committed to various multilateral and minilateral arrangements, the unpredictability of the current U.S. administration will test the stability and effectiveness of Japan's strategy.

There are several frameworks that include both the United States and Japan that are likely to flourish in the next few years. The Quad, for example, is an informal strategic partnership among the United States, Australia, India, and Japan and is a critical node of Japan's FOIP policy. It also seems to be at the forefront of the agenda for the second Trump administration's foreign policy. Secretary Rubio attended the Quad's foreign ministerial meeting in Washington, DC, only hours after he was appointed on January 21.⁵¹ The Quad has engaged in public health activities such as vaccine distribution during the COVID-19 pandemic and several technology-focused initiatives, including cooperation on 5G networks, technical standard development, and cybersecurity. The first Trump administration was similarly active and supportive of the Quad, which suggests that Rubio's participation is indicative of continued efforts over the next four years. Japan hopes that the framework can continue to grow into an important counterweight to China's regional influence—an approach that Trump will likely emphasize during his tenure as well. The key relationship to watch is the one between the United States and India, as Prime Minister Narendra Modi has fully embraced Trump's positions on many issues, including backing his proposal to end the war in Ukraine.⁵²

Trilateral security and economic cooperation among the United States, Japan, and the Philippines also has a good likelihood of continuing under Trump.⁵³ In April 2024, U.S. President Joe Biden met with Japanese Prime Minister Fumio Kishida and Philippine President Ferdinand Marcos Jr. in a first-ever trilateral summit. The meeting underscored the importance of military and economic security cooperation among the three partners and showcased the Philippines' eagerness to deepen its strategic alignment with the United States and Japan in response to Chinese coercion.⁵⁴ The Philippines' recent pro-U.S. lean following former President Rodrigo Duterte's departure in 2022 and its increasingly proactive

stance in deterring China's aggressive activities in the South China Sea may win President Trump's favor and approval for this trilateral to grow stronger in the future.⁵⁵

Meanwhile, it seems there is less momentum to continue or sustain fledgling trilateral cooperation among the United States, Japan, and South Korea. South Korea's Yoon Suk Yeol was impeached for attempting to seize power in a martial law decree last December. Yoon was already deeply unpopular, partly as a result of his outreach efforts to Japan.⁵⁶ On June 3, South Korean voters decisively elected Lee Jae Myung from the Democratic Party as the new president. Lee and his party have historically been more cynical toward Japan, which will inevitably have an impact on Japan-South Korea relations in the coming years.⁵⁷ Without bilateral maintenance between Seoul and Tokyo, sustaining trilateral progress could rely entirely on the Trump administration—a role it seems unlikely to have an interest in playing. Moreover, Trump's past tensions with former South Korean President Moon Jae-in over cost sharing and his potential unilateral overtures to Kim could further strain U.S.-South Korea relations.⁵⁸ A positive first step is the Lee-Ishiba meeting that took place on the sidelines of the G7 summit in Canada in June 2025. In the short thirty-minute meeting, the two leaders vowed to deepen their "inseparable" bilateral ties and acknowledged the importance of the trilateral partnership. This development shows that both Lee and Ishiba fully understand the significance of this trilateral. Regardless, however, operational cooperation through the U.S.-Japan-South Korea Freedom Edge exercise, which was launched in 2024, will likely ensure some level of engagement between the three countries, at least in the short term.⁵⁹

On the European front, Japan has recently revamped its relationship with the European Union. For many decades, Japan has been the European Union's closest strategic partner in the Indo-Pacific, and the partnership is based on common interests and shared values, such as support of human rights and democracy, multilateralism, and the rules-based international order.⁶⁰ The timing of the adoption of the EU-Japan Economic Partnership Agreement (EPA) and the Strategic Partnership Agreement (SPA) in December 2018 is significant, as the multilateral system was being challenged by China and Russia, as well as a U.S. administration whose direction was guided by an inward-looking America-First policy. The EU-Japan SPA went fully into force in early 2025, the first-ever bilateral political framework agreement between the two partners designed to strengthen their shared commitment to a rules-based global order.⁶¹ The SPA presents a solid framework for cooperation across several domains, including global security cooperation, anti-terror initiatives, and nonproliferation. Japan also reinvigorated its engagement with NATO in the aftermath of Russia's invasion of Ukraine, and the Japanese prime minister participated in the NATO summit for the first time in 2022. As part of the Indo-Pacific Four (IP4) countries that partner with NATO, Japan is expected to cooperate further with NATO in the coming years on a number of important priority areas, such as cyber defense, countering disinformation, and technology.⁶²

Additionally, Japan is becoming more proactive in Central and Eastern Europe. In April 2024, Japan joined the Three Seas Initiative (3SI) as a new strategic partner alongside the United States and the European Union.⁶³ The 3SI was established in 2015 to strengthen connectivity and reduce the disparities in Central and Eastern Europe (CEE) and the Baltic states. The initiative is centered on the promotion of developing infrastructure in the region's energy, transport, and digital sectors. The war in Ukraine has highlighted the relevance of this initiative, and it has become increasingly clear that the stability of the Euro-Atlantic region is inseparable from the stability of the Indo-Pacific. As CEE countries realize

the limited economic benefits from continued engagement with China, Japan can capitalize on this skepticism with its own long-term economic deals.⁶⁴

U.S.-Japan Trade Developments

Trump's policy priorities in the first few months of his presidency seem mostly devoted to trade, specifically raising tariffs and entry barriers for U.S. allies and adversaries alike. Japan has accelerated investments in the United States, promising to raise the total value from USD 800 billion to USD 1 trillion.⁶⁵ However, as described above, Ishiba is in a weak position domestically and will likely struggle to effectively balance both security and economic ties with the United States. Due to the state of its economy and the importance of trade with the United States, Japan is not in a position to retaliate with its own tariffs, so it has few other options than to muddle through tariff negotiations with the Trump administration and seek exemptions.⁶⁶ Although Japan was able to secure some insulation against tariffs during the first Trump administration, it is struggling to do so this time around. Minister of Economy, Trade and Industry Yoji Muto failed to receive assurances from U.S. officials that Japan would be exempt from tariffs in March 2025.⁶⁷ Trump's so-called "Liberation Day" tariff announcement pegged Japan with a 24 percent rate starting in July, while Japanese steel and aluminum are expected to suffer from a 25 percent tariff penalty.⁶⁸ After five rounds of negotiations with the United States, Japan's Economic Revitalization Minister Ryosei Akazawa finally alluded to "some progress" in early June, yet declined to elaborate further.⁶⁹

Although global markets had viewed Trump's intention to impose tariffs as merely a threat, it quickly became clear that Trump believes a harsh tariff policy is the right solution to put pressure on other countries, which he is convinced will bring manufacturing back to the United States and create more jobs at home. Trump's tariff announcements in April wrecked the stock market and imperiled the bond market, and his willingness to start a trade war with the entire world has pushed Japan to deepen economic ties with other countries. In order to prepare for Trump's tariff policy, the Japanese and UK foreign and trade ministers met in Tokyo in March for their first-ever two-plus-two economic dialogue and agreed to work together to address energy and security challenges and stand up for "fair, rules-based international trade."⁷⁰ In late March, Trade Minister Muto also met with his Chinese and South Korean counterparts at their first economic dialogue in five years, seeking to facilitate and fortify regional trade links to insulate Japan from the U.S. market.⁷¹

Despite concerns over the economy and financial markets both in the United States and abroad, Trump moved forward with his announcement, which the Japanese government called "extremely regrettable."⁷² However, after one of the worst market crashes since 1929 and a lot of international backlash, Trump paused the tariffs for ninety days, taking a step back from his initial announcement.⁷³ This dramatic economic instability by the United States brings serious concerns regarding the reliability of U.S. security commitments, which have the potential to weaken the United States' relationships with allies and partners in the Indo-Pacific.⁷⁴

Japan's Dilemma Moving Forward

Trump's return to the White House has brought new fears and anxiety in Tokyo. In less than six months since his inauguration, Trump signed over 160 executive orders, openly ridiculed and belittled a friendly nation in need, and announced worldwide tariffs that caused stock markets to nosedive and set the stage for a possible recession.⁷⁵ Trump's cabinet appears far less willing to constrain his worst impulses.⁷⁶ The gap between the United States and Japan is steadily widening as only the latter articulates a deep commitment to a free and open international order based on the rule of law.

Although the Biden administration did not always act rapidly and strongly enough in support of Ukraine, its rhetoric was typically aligned with other democracies, such as Japan, in denouncing imperialism and wars of conquest.⁷⁷ In one meeting with Zelenskyy, Trump completely overturned the U.S. position and sowed what could be permanent doubt among allies across Europe and the Indo-Pacific about whether the United States would come to their aid in a crisis. Despite its apparent reluctance to accept a potential shift toward a multipolar world, Japan's recent efforts to build a strong network of partners apart from the United States may ultimately push the country to develop into a regional pole, at least in certain domains.

Since the first Trump administration, Japan has steadily diversified its partnerships and proactively deepened ties with other countries in the Indo-Pacific and Europe while simultaneously strengthening the U.S.-Japan alliance. Now, however, Japan finds itself in a dilemma between maintaining a strong relationship with the United States, which is essential for its national security, and continuing to pursue its strategic goal of preserving the liberal international order—a goal currently not shared by the United States. A nightmare scenario for Japan would involve having to choose between the United States and the liberal international order. This fundamental difference in worldview between the two allies will inevitably become a growing challenge that drives a wedge between Washington and Tokyo over the next four years and, possibly, beyond the current U.S. administration. For the time being, all Japan can do is to continue its dual approach of strengthening its alliance with the United States while proactively deepening its partnerships in Europe and elsewhere, thus serving as a bridge between the Euro-Atlantic and the Indo-Pacific theaters.

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Recalibration in the Indo-Pacific: An Australian Perspective

By John Blaxland

The geopolitical importance of the Indo-Pacific region is increasingly apparent, particularly when considered through the lens of Australia's strategic placement on the edge of Asia and its deep integration in regional security and economic frameworks. As middle powers, Australia and South Korea have consequential roles to play in the region economically, politically, and strategically. As long-standing allies of the United States, both countries are key players in what has traditionally been a "hub-and-spokes" security architecture.¹ Historically, their primary strategic links have been with Washington. However, in recent years, there has been a notable rise in inter-spoke or "spoke-to-spoke" collaboration—direct cooperation among the allies themselves.² This form of networking has accelerated significantly, reflecting a broader recalibration in the region in response to evolving challenges. To a large extent, such cooperative efforts were encouraged by the United States, but in 2025, U.S. treaty allies are finding plenty of reasons to collaborate beyond any encouragement from Washington.

This article argues that Australia and South Korea, as U.S.-aligned middle powers in the Indo-Pacific, are increasingly engaging in direct bilateral and multilateral cooperation independent of U.S. facilitation or encouragement. This shift is driven by the convergence of global challenges that include climate change, governance breakdowns, great power competition, and technological disruption. Deeper collaboration among like-minded states is both a strategic necessity and a means of sustaining regional stability amid uncertainty about U.S. leadership.

Australian policymakers, like those across the globe, have had to grapple with what has come to be known as the "poly-crisis." I define this as a combination of the overlapping effects generated by looming environmental catastrophe (e.g., rising sea levels, storm surges, droughts, fires, floods, extreme weather events, an unprecedentedly large global human population, and pandemics); a spectrum of governance challenges (including terrorism, people and drug smuggling, piracy, civil war, corruption, anarchy, and international conflicts); great power competition (notably but not exclusively between the United States and China and the spillover effect on international relations and institutions); and the accelerating effect of the Fourth Industrial Revolution (in which society has transformed from web-enabled to web-dependent and, in turn, web-vulnerable). This last domain includes quantum computing, robotics, 3D printing, and artificial general intelligence. If this were pictured as a Venn diagram, the overlapping segment is a domain not addressed in its entirety by any one academic discipline, not governed by any one jurisdiction, and not addressed by any one institution. Yet it affects us all.

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A New Normal

In a recent policy report entitled *Adapting to Poly-crisis: A National Security Strategy for Australia*, I argued that states are experiencing a period characterized by overlapping and compounding crises.³ They span great power competition, looming environmental catastrophes, a spectrum of governance challenges, and rapid technological changes under the Fourth Industrial Revolution. Included in the revolution are addictive games and devices that are widely regarded as having a transformative effect on how societies behave, how people think and interact, and how easily people's views are shaped—in both positive and negative ways—by algorithms that reinforce behavioral patterns. The resulting condition might be best described, in popular terms, as “everything, everywhere, all at once.”⁴

A notable dimension of the current strategic uncertainty is the perceived shift in the United States' approach to international engagement. While still early in the new U.S. administration's tenure, there are indications of a retrenchment, or a retreat, from international and ideational leadership. Scholars rightly caution against premature conclusions; historical precedent reminds us that the George W. Bush administration initially focused on China during its early months—an agenda ultimately overshadowed by the events of 9/11 and the subsequent wars in Iraq and Afghanistan.⁵ Accordingly, it is appropriate to exercise some caution in making pronouncements about the trajectory of a presidency early in its term and what the implications might be for Indo-Pacific middle powers and U.S. allies like Australia and South Korea.

Yet, recent imagery and actions suggest a pattern. One notable example includes an early encounter between President Donald Trump in his first term and then German Chancellor Angela Merkel at the Group of Seven (G7) Summit in 2018. Jesco Denzel, an official photographer for the German government, captured a now-infamous image hinting at deep divisions between the United States and some of its closest allies.⁶ The more recent scene depicting tense exchanges between Trump and Ukrainian President Volodymyr Zelenskyy, when the Ukrainian president visited the White House for a dressing down by the U.S. president and vice president, offers a counterpoint.⁷ That image underscores what appears to be a deeper shift in U.S. thinking under the second Trump administration toward greater sympathy for the position of Russia, a disdain for Europe and its apparent weaknesses (demonstrated by Vice President JD Vance's speech at the Munich Security Conference), and a chillingly transactional approach to the fate of Ukraine.⁸ These developments are difficult to reconcile for middle powers such as Australia, which have long benefited from a U.S.-led international order built on U.S. ideational leadership and institutions born and headquartered in the United States. The United Nations, for instance, owes its very existence to U.S. initiatives dating back to the closing stages of World War II.⁹ It is perplexing, then, to witness the United States pull back from the very institutions it created and fortified for decades, largely surrendering the space to its strategic competitors.

Trump's talks of annexing territories such as Canada, Greenland, or Panama might seem implausible, but to U.S. allies, they are repugnant and foster uncertainty and unease.¹⁰ Such uncertainty is also corrosive of goodwill toward the United States and resonates negatively in Australia's domestic politics.¹¹

Moving Beyond the Unipolar Moment

Academic critics abound regarding the rules-based international order—many dismissing it as illusory or having come to an end.¹² Yet, it is difficult to ignore the security, stability, and prosperity that such an order has enabled. Confidence in maintaining such a security arrangement saw many developed countries drop their defense expenditure to low levels, and stability has fostered an unprecedented increase in the level of economic prosperity among countries around the world.¹³ This is evident in Australia, but it is particularly striking when considering South Korea and its rapid economic development.

This global system—as flawed as it may be—has provided predictable mechanisms for trade, arbitration, and security since 1945. It is, in many respects, a historical anomaly that has underwritten decades of peace and prosperity, especially for nations such as Australia and South Korea.

To see such ambivalence toward this system from the United States is deeply troubling for long-standing security and economic allies and partners. Overtures that look like emerging strategic friendships with authoritarian leaders such as Xi Jinping, Vladimir Putin, and Kim Jong Un stand in stark contrast to public rebukes of democratic allies.¹⁴ Such developments raise fundamental questions about the U.S. commitment to ideational leadership and its resolve to maintain global dominance economically and militarily. At the start of the millennium, scholars and policymakers alike described the United States as a “hyperpower” at the helm of a unipolar order in which the United States dictated the terms, but those terms were ones that many in the global community were happy to accommodate.¹⁵ During this time, China was accepted as a member of the World Trade Organization (WTO). There was a strong sense of optimism in the Bill Clinton administration that this would lead to a path of democratic reform in China. In time, the concessions of designating China with the status of a developing nation would come to be criticized.¹⁶

The intervening quarter of a century saw the end of the “unipolar moment,” with the United States bogged down in two largely fruitless and profoundly expensive wars in Afghanistan and Iraq. It also witnessed the 2008 global financial crisis and the eclipsing of U.S. economic dominance.¹⁷ The last decade or so has seen the emergence of a more authoritarian and assertive China, eager to sign security pacts in the Indo-Pacific and more forcefully declaring its martial ambitions for Taiwan.¹⁸ Those ambitions are backed by a Chinese economy that now dwarfs all others bar one in total GDP.¹⁹ In addition, China has already emerged as globally preeminent in terms of the number of trade relationships it has forged around the world.²⁰

This apparent ending of the unipolar moment and a movement toward a more multipolar world order has deep historical and theoretical resonance. Indeed, if the post-war order in place since 1991, if not 1945, is now in flux, then perhaps the utility of the study of earlier history once again comes to the fore.

The emerging multipolar world has revived interest among scholars in classical geopolitical thinkers, stretching back to Sun Tzu, Thucydides, and Halford Mackinder. While there are reasons to doubt Graham Allison’s “Thucydides Trap” thesis that rising powers inevitably clash with established ones, the broader interpretation remains salient.²¹ As for Mackinder, his “Heartland Theory,” which emphasizes the strategic centrality of Eurasia and the significance of its global dominance, once seemed a relic of the

early twentieth century.²² Today, however, as global power shifts accelerate, Mackinder's ideas appear newly relevant. It suggests that Chinese dominance of East Asia likely will have global ramifications not just in terms of economic relationships but also security ties, with small and middle powers reassessing their choices to bandwagon with China, balance with the United States, or hedge between the two.²³

Similarly, Hans Morgenthau's realist framework, especially his identification of the "elements of national power," offers a valuable lens through which to interpret today's geopolitical transformations.²⁴ His emphasis on power, geography, economy, and military capacity as determinants of state behavior continues to resonate in the current strategic environment. For states like Australia and South Korea, this necessitates a sober reassessment of their national capabilities and diplomatic postures, particularly in view of shifting signals from the United States. The Trump administration's unpredictable strategic communications—ranging from economic tariffs to ambiguous security guarantees—underscore the importance of resilience and preparation among U.S. allies.²⁵

Amid widespread speculation about the possible unraveling of the existing order, some analysts are sounding the alarm. They describe the current moment as an existential crisis or even portending systemic collapse.²⁶ While I acknowledge the seriousness of the challenges at hand—including great power rivalry and climate threats—I believe that doomsday predictions are overstated. The situation is grave but not apocalyptic. Still, the shifting military and economic power dynamics call for a realistic reassessment of existing and prospective capabilities as the prospect of trade wars possibly escalating looms large.

Prospects for the Stability of Regional Dynamics

Drawing on Alfred Thayer Mahan's theories on the influence of sea power, one can see how China's maritime expansion is reshaping strategic calculations across the Indo-Pacific.²⁷ China's rapid buildup of its navy, coast guard, and maritime militia has caught many off guard. Australia and South Korea, long accustomed to relatively benign maritime environments, now face significant security dilemmas. The Royal Australian Navy (RAN) is modern, agile, and potent, but relatively small for a maritime trading nation responsible for 10 percent of the Earth's surface. The efficiency, effectiveness, and scale of South Korea's shipbuilding industry illustrate Australia's shipbuilding limitations and the vulnerability of a small and under-resourced fleet. Some in Canberra have been calling for an expanded and modernized RAN fleet going back to at least the 2009 *Defence White Paper*.²⁸ But successive governments, facing competing political and economic pressures that have drowned out demands for urgent additional defense expenditure, have declined to increase investments.²⁹ Instead, they have made little more than incremental adjustments in order to modernize and expand the fleet.³⁰ Today, the RAN has ambitions to replace its fleet of frigates and submarines, but such plans have yet to be delivered substantively and involve only an incremental fleet expansion. This is due in part to recruiting difficulties, industrial bottlenecks, the pursuit of exquisite solutions at the expense of speed of delivery, coupled with constrained government resourcing, whereby the political rhetoric is not fully matched by the funding reality.³¹

As U.S. scholar Michael Green explains in *By More Than Providence*, U.S. policy in the Indo-Pacific has historically been driven by a deep-seated concern that a rival power might dominate the Pacific Ocean

and isolate the United States from key markets and allies in Asia.³² This has long given confidence to strategists in Australia that the United States would maintain enduring interest and active engagement in East Asian and Indo-Pacific affairs writ large. Though much remains unknown about Trump 2.0 this early into the administration, a number of indicators suggesting a lean toward isolationism are misplaced, as the U.S. approach to the region will likely remain consistent with that outlined by Green. The appointment of Elbridge Colby as under secretary of defense for policy suggests this is a valid hypothesis. In his book, *The Strategy of Denial*, Colby argues that the unipolar moment is passing, and as a result, “There are now structural limitations on what the United States can do... it must make hard choices.”³³ While “there is a powerful strain, especially in the academy, of arguing that the United States should retrench and adopt a dramatically less engaged foreign policy than it has pursued since the Second World War,” the United States can, nonetheless, “pursue and protect their important interests abroad at levels of risk and cost they can realistically and justifiably bear.”³⁴ The United States, he argues, has to play the leading anti-hegemonic role in Asia.³⁵ Australia and South Korea feature prominently in this calculus. For instance, Australia provides what has been described as a “suitable piece of real estate” for U.S. forces on rotation (in Darwin, Tindal, and Perth, for instance) and for the joint intelligence facility at Pine Gap.³⁶

The strategic logic of Green and Colby’s work remains relevant. Green’s observation about the enduring importance of maritime access, values, and forward defense is particularly salient as China’s power grows. Though it is unlikely that Trump has explicitly studied Mackinder, Mahan, or Morgenthau, the

Figure 1. Comparison of the Comprehensive Power of Select Indo-Pacific Countries



Source: Lowy Institute Asia Power Index (2024)

strategic behavior of the United States—intentional or not—often reflects these foundational theories and evidently follows the strategy defined by Green and Colby.

Recent data from the Lowy Institute’s Asia Power Index (see Figure 1) further illustrates the shifting trends in Indo-Pacific power dynamics. While not identical to Morgenthau’s elements of power, the index similarly categorizes power in multifaceted terms, including military capability, economic relationships, resilience, and diplomatic influence.³⁷

From Australia’s vantage point—and likely from South Korea’s as well—the Indo-Pacific is not merely a stage for binary U.S.-China competition. Rather, it is a dynamic region with multiple actors possessing varying degrees of agency and influence. I have added Canada and France to the Lowy Index as, in my view, they are consequential regional powers with a significant physical presence in the Pacific and with agency on a broad range of fronts across much of the region.

Shifting power dynamics and the U.S.-China strategic competition extend beyond the Indo-Pacific. One notable example is the rise of alternative power blocs, most notably the BRICS grouping between Brazil, Russia, India, China, and South Africa. Since its formation in 2010, BRICS membership has increased to eleven countries, including Egypt, Ethiopia, Iran, Indonesia, the United Arab Emirates, and Saudi Arabia. Covering 45 percent of the global population and more than 35 percent of global GDP, BRICS has emerged as a critical institution representing voices in the Global South.³⁸ Strategically, China sees BRICS as a mechanism for promoting and driving a multipolar order to end the U.S. unipolar moment.³⁹ The recent inclusion of Indonesia suggests the country’s deliberate move toward greater geopolitical hedging between the United States and China.⁴⁰ Nonetheless, the emergence of BRICS signals a growing dissatisfaction from China and other emerging economies with the post-World War II liberal international order established by the West.⁴¹

China Looms Large

This disaffection is especially evident in the context of China’s extraordinary growth. In particular, the scale and pace of China’s economic rise are without precedent. In the twenty-five years since its accession to the WTO, China has transformed from being a peripheral economic actor to a central hub of global commerce, emerging as the leading trading partner for countries across Eurasia, Africa, Latin America, and Oceania.⁴² There are limits to the applicability of the comparison, but its dominance echoes the evolution of the British Empire. Whereas Britain’s rise unfolded over 250 years—driven by the Industrial Revolution, its need for raw materials and markets, and an evolving governance framework—China has achieved comparable systemic influence in a mere quarter-century (evidenced by its leading role in UN-related agencies and in bodies like the Shanghai Cooperation Organization).⁴³

The rapid acceleration of China’s military spending and its growing dominance in global trade have radically shifted the regional balance of power.⁴⁴ For countries like Australia and South Korea, this shift has been particularly jarring. Until recently, neither country felt compelled to match China’s defense investments, especially due to the United States’ long and outsized role in sustaining regional peace and stability, including its security commitment to both countries. Both Australia and South Korea now find themselves scrambling to respond to what increasingly resembles an existential strategic challenge.

When weighing potential adversaries, intelligence analysts are trained to measure capability and intent. In terms of capability, China's military has exploded onto the scene, with advanced hypersonic weapons, an extended and extensive nuclear ballistic missile force, and much more. In terms of the country's intent, China's "wolf warrior diplomacy" and extensive network of security ties being signed in the last few years, including in the South Pacific, generate considerable concern.⁴⁵ Capability takes time to develop, but intent can change in short order. Meanwhile, North Korea presents an existential threat, to which Australia still has an active commitment to come to the defense of South Korea in extremis.

China's rapid ascendancy presents critical questions regarding expectations for the next twenty-five years. For Australia and South Korea, the implications are profound. Economically, both countries are deeply enmeshed with China, yet strategically, they remain wary of a rising China and its assertive behavior and revisionist intentions while maintaining alignment with the United States. Even though the imposition of U.S. tariffs has made this politically less palatable for domestic audiences, the enduring perception is that close alignment with the United States remains critical to what they perceive to be their national interests. This duality underpins a broader fracturing or splintering of the international system. It manifests not only in foreign policy but also in domestic political discourse, where polarizing debates over national identity, trade, and alliance commitments are intensifying. U.S. alliance critics in Australia, for instance, suggest that the United States' transactional retreat from ideational leadership leaves few common values to defend, arguing Australia "should resist strident calls for military boosterism."⁴⁶ This duality is becoming harder to manage as both Washington and Beijing grow less tolerant of ambiguity. For Canberra and Seoul, navigating this space has become a central—if uneasy—feature of strategic policymaking.

As a military historian, I find it instructive to view these developments through the prism of evolving domains of warfare. From land and sea, through the introduction of air power in World War I, to space (with the V-2 rocket) during World War II, and now to the digital revolution and the emergence of cyberspace, each domain has brought unique challenges and opportunities. Today, it is also necessary to consider the cognitive domain associated with cyber issues. This cyber domain covers not just hardware or software but wetware—the human mind, or the cognitive domain.⁴⁷ This domain is increasingly targeted by influence operations, disinformation campaigns, and digital propaganda, often blurring the line between healthy collaboration, robust and sometimes aggressive competition, and outright (kinetic) conflict.

In understanding today's strategic competition between the United States and China, it is helpful to move beyond Western analogies such as chess, which emphasize direct confrontation and elimination. Instead, the Chinese game of Go offers a more apt metaphor, emphasizing encirclement, indirect pressure, and strategic patience. Chinese military theorists, including those drawing from the legacy of Sun Tzu, prioritize winning without fighting.⁴⁸ This gray-zone approach encompasses cooperation, compromise, contestation, and confrontation—often simultaneously.

In assessing the possibility of conflict in East Asia, it is essential to revisit several key regional flashpoints, or what Professor Brendan Taylor described as the "four flashpoints" in his well-received 2018 book of the same name.⁴⁹ These include the Korean Peninsula, the East China Sea, the South China Sea, and

Taiwan—areas that remain volatile due to unresolved territorial disputes, overlapping military claims, and the growing assertiveness of regional powers such as China, North Korea, and Russia.

Among the four flashpoints, Taiwan is perhaps the most geopolitically charged. Contemporary scenarios evoke strong historical parallels, particularly with the outbreak of the Korean War in 1950. U.S. Secretary of State Dean Acheson excluded the Korean Peninsula from the U.S. defensive perimeter in Asia during a speech at the National Press Club in January 1950.⁵⁰ North Korean leader Kim Il Sung interpreted this as a green light for aggression, and within months, North Korean forces had crossed the Thirty-Eighth Parallel to invade the South. The United States reacted forcefully, supported by the United Nations, after the Soviet delegation's absence at the UN Security Council meeting enabled the formation of the UN Command. Over one million Chinese casualties later, the war ended with what effectively looked like a return to the pre-war status quo.

No rational Chinese leader would wish to replicate that experience. But China's strategic ambitions regarding Taiwan are real and intensifying. Rather than pursuing a high-risk military invasion, Beijing may instead opt for incremental coercion—a concept some analysts describe as “squeezing, not seizing.”⁵¹

Kevin Rudd, former prime minister of Australia and current ambassador to the United States, has advocated for “managed strategic competition” as a means of avoiding open conflict between the United States and China.⁵² This concept reflects a broader recognition that the Indo-Pacific is entering a protracted period of strategic contestation. Competition is increasingly playing out in the gray zone—a space between peace and war—characterized by cyber operations, maritime brinkmanship, psychological operations, and economic and legal competition (or lawfare), among other tactics. Australia has been grappling with the implications of this challenge for more than a decade, although the political elites tend to be reluctant to address this publicly, criticizing those who raise concerns as “China hawks.”⁵³

Growing U.S.-China Competition

In Australia, the concerns of the so-called hawks revolve around the implications of an authoritarian and economically dominant China squeezing out the United States, Australia's principal ally and preferred security partner. As Kevin Rudd observed in *On Xi Jinping*, Xi is a Marxist, a Leninist, and a nationalist.⁵⁴ In other words, Xi believes in communism and the one-party state, with a mission to extract revenge for the country's “century of humiliation.” Treatment of Tibet, Xinjiang, and Hong Kong is seen not just as internal affairs but as pointers to the future—a world where China's economic power, military power, and political ambitions expand commensurately.

China's growing footprint in the South Pacific is also a source of concern for Australia.⁵⁵ Security pacts with Solomon Islands, Tonga, and Kiribati, in addition to other forms of expanding cooperation and exchanges, are natural by-products of China's dramatic economic expansion. It is understandable that China's expanding desires for raw materials, seabed resources, political influence in domestic politics, and support in international organizations drive its regional actions. However, China's penetration into Oceania undercut Australia's influence over these southern Pacific Island countries and is thus perceived as a strategic risk, if not threat, to Australia.

With regards to Taiwan, the contest matters enormously. Not only has Taiwan become a beacon of liberal democracy for Asia, but it is also critical to the first island chain, which stretches from northern Japan down to Indonesia. Control of the island chain by U.S. allies and partners constricts the freedom of action by the People's Liberation Army (PLA) across the Pacific Ocean. If China were to invade or gain control over Taiwan and the first island chain, this could trigger the neutralization or co-optation of neighboring Japan and the Philippines, with the prospects of cascading effects in the region. Its fall could also generate constraints that lead to a significant U.S. withdrawal from engagement across the Indo-Pacific.

Like the United States, Australia is a continent-spanning, multicultural, English-speaking, federal, bicameral, constitutional, free-market, and broadly liberal democracy. In addition, Australia has deep historical and cultural ties with the United States and has invested in the bilateral relationship through active economic, technological, military, and intelligence cooperation. Conversely, the United States is enormously invested in facilities across Australia, as mentioned earlier. It should be expected that the bilateral relationship may endure some turbulence generated by U.S. domestic politics and the prospect of a major regional conflict. Barring an unlikely precipitate U.S. withdrawal from the region, Australia will continue to align with the United States, regardless of its own domestic ructions and emergent regional challenges.

Notwithstanding this enduring alignment, Australia's alliance with the United States—while historically robust—is now under significant scrutiny. Unlike NATO's Article 5 clause of collective defense, the U.S.-Australia alliance is based on a treaty that lacks binding force commitments beyond an agreement to consult.⁵⁶ There are no standing headquarters, no assigned forces, and no automatic triggers for military intervention. This structural ambiguity creates both flexibility and uncertainty. Australia—like South Korea—simultaneously fears both abandonment and entrapment: the prospect of being left unsupported in a crisis or war, or alternatively, being drawn into a conflict not of its choosing and in which it might otherwise seek to avoid being entangled.⁵⁷

Australia on the Move

Managing U.S.-China strategic competition has become more centrally placed in Canberra's policy repertoire in recent years. This has manifested through a number of reports and proposals aimed at bolstering regional diplomacy, cybersecurity, defense engagement, and regional aid and development. The Department of Home Affairs, for instance, issued a cybersecurity strategy document in 2023, providing a roadmap for Australia to become a world leader in cybersecurity and a benefactor to partner nations in need.⁵⁸

Australia has also signed numerous security and economic agreements with a range of regional partners, raising the floor significantly for bilateral and multilateral engagement across Southeast Asia, the South Pacific, and beyond. For instance, bilateral trade, development, educational, and security ties have deepened with Indonesia, Japan, Papua New Guinea, the Philippines, Singapore, South Korea, and Vietnam. In addition, Australia has strengthened multilateral security connectivity through the Five Power Defence Arrangements (FPDA) with Malaysia, New Zealand, Singapore, and the United Kingdom to bolster regional security and stability.⁵⁹

Another multilateral mechanism to consider is the Australia-UK-U.S. technology-sharing agreement known as AUKUS. AUKUS is intended to enable the transfer of nuclear propulsion technology to Australia, allowing the RAN to operate a fleet of nuclear-powered submarines. These submarines are designed to circumvent challenges that have made diesel-electric submarines redundant for long transits. Such vessels are exposed to highly capable low-Earth-orbit (LEO) satellites, and when coupled with pattern analysis, AI, and armed drones, they face critical vulnerabilities. The combination means that the wake of a submarine snorkel can be detected from overhead as the submarine runs its diesel motors to recharge its batteries. This means stealthy transits over long distances are now impossible for diesel-electric submarines, even between ports around Australia.⁶⁰ The way around such vulnerability is to stay underwater. For long transits, like from Perth to Darwin or Melbourne, nuclear propulsion is required.

There is also the Quadrilateral Security Dialogue, or Quad, between Australia, India, Japan, and the United States. While not a formal security treaty, these four countries have a common interest in collaborating to respond to China's assertive maritime claims and aggressive actions in the East China Sea, South China Sea, and beyond.⁶¹

In addition to the Quad, Australia has worked with like-minded states in enforcing UN-mandated sanctions on North Korea. Yet, the environment of strategic competition is challenging traditional distinctions between war and peace. For example, Australian surveillance aircraft continue to patrol near North Korea, even as China and Russia have withdrawn their support for the UN-endorsed mission.⁶² Australian forces are not ideally postured for this multi-faceted strategic competition. With no counterpoint at sea, for instance, to the Chinese Coast Guard and armed maritime militia, Australia has no instrument short of naval forces with which to respond to their maneuverings.

A notable incident that illustrates Australia's changing regional threat environment occurred in early 2025, when Chinese forces circumnavigated Australia and conducted naval gunfire exercises under the flight path between Sydney, Australia, and Auckland, New Zealand. This is an activity that, while it may appear relatively routine and benign in the Korean context, represents a significant shift in Australia's and New Zealand's security calculus. This is not a standard transit route for Chinese naval vessels and has not happened in living memory. The closest similar incident happened when a Russian naval flotilla transited the Coral Sea off the northeastern coast of Australia during the Group of Twenty (G20) meeting in Brisbane in 2014.⁶³

A Pivotal Region

U.S. strategic interests in the Indo-Pacific region are deeply entrenched. Pundits who dismiss this view overlook the enduring U.S. territorial presence in the western Pacific. However, for too long, U.S. policymakers seem to have viewed the region as a constellation of minor islands or isolated outposts.⁶⁴ This perception overlooks the vast political and economic significance of the region, which includes over twenty votes in the UN General Assembly across the Pacific and at least ten more in Southeast Asia and covers a vast expanse of exclusive economic zones, extensive fisheries stocks, and considerable seabed resources.⁶⁵ China is not clueless to the region's economic, strategic, and political potential. Through trade, investment, financial assistance, security support, and education and cultural connections, China actively expanded its influence in the Solomon Islands, Kiribati, Tonga, and other Pacific Island countries

traditionally dominated by the United States and its allies. There are mixed views on whether the United States can sustain its influence and protect its strategic interests.⁶⁶

For Australia and South Korea, this strategic encroachment is alarming and merits a considered and coordinated response. It underlines the interdependence of regional security and highlights the urgency of collective action. The maritime chokepoints of the Indo-Pacific—most notably the Strait of Malacca—remain vital arteries for global trade. Over 70 percent of East Asian trade (by value) passes through this narrow corridor.⁶⁷ China's Belt and Road Initiative can be understood, in part, as a strategic hedge against this vulnerability. It seeks to develop overland routes and alternative sea lines of communication to reduce China's dependence on this jugular vein of commerce.⁶⁸

Australia has responded to these shifting dynamics strategically and with some flexibility. Faced with rising uncertainty about U.S. leadership and growing pressure from China, the Australian government has taken steps to diversify its partnerships and reinforce its position within the Indo-Pacific. Australia's 2017 *Foreign Policy White Paper*—a “Plan B” for Australian diplomacy—was crafted in the aftermath of the first Trump administration's retreat from multilateral engagement, notably its departure from the Trans-Pacific Partnership (TPP). It outlined a comprehensive strategy to strengthen ties with partners across ASEAN, the Pacific Islands, and the Indian Ocean. It also emphasized deeper engagement with other multilateral and minilateral frameworks such as the Quad, AUKUS, and NATO, as well as an expanding network of bilateral free trade agreements (FTAs), including one with South Korea.⁶⁹

These efforts reflect Australia's broader concern that the United States, once the principal architect of the post-war international order, may be abdicating its leadership role. The U.S. withdrawal from the TPP and the underwhelming implementation of the Indo-Pacific Economic Framework (IPEF) have left significant gaps. The absence of strong U.S. economic engagement in the region has undermined the United States' strategic credibility, especially but not exclusively in Southeast Asia, where states are evidently hedging their bets about future security and economic ties with China vis-à-vis the United States. As Hunter Marston observed, “The US risks irrelevance in Asia.”⁷⁰

A Wide Range of Spokes

For Australia, trade diversification is a national imperative. After China imposed punitive tariffs and sanctions in 2020—estimated at USD 16 billion—Australia intensified efforts to expand economic ties elsewhere.⁷¹ It renewed negotiations with the European Union for an FTA and a security pact.⁷² It also reinvigorated existing agreements with Singapore, ASEAN, and New Zealand. This involved refreshing ties, expanding collaboration on defense capabilities, and expanding multinational military exercises.⁷³ Australia is also advocating for renewed engagement with India, encouraging the country to reconsider its withdrawal from the Regional Comprehensive Economic Partnership (RCEP).

Australia's relationship with Singapore stands out as a model of strategic alignment. It rivals the intimacy of the Australia-New Zealand relationship, underpinned by mutual trust (with recognized common educational, legal, professional, and technical standards), overlapping interests (a shared interest in supporting ASEAN-related mechanisms, for instance), and a shared commitment to open trade and

regional stability (exemplified by their comprehensive strategic partnership and the Singapore-Australia FTA).⁷⁴

Similarly, the relationship between Australia and South Korea is rooted in seventy-five years of commitment to the defense of South Korea under the banner of the United Nations, as well as decades of shared training, technological standards, and the U.S. defense architecture—all of which have been fostered by U.S. strategic leadership. That has manifested in the establishment of Hanwha's defense manufacturing precinct in Geelong, Victoria.⁷⁵ However, the continuation of strong ties cannot be taken for granted. A concern increasingly voiced in Canberra and Seoul is that Washington's retreat from ideational leadership risks eroding the normative foundations of the international order. U.S. power has always rested on a mix of hard and soft power. When the soft power component erodes, U.S. influence becomes harder to sustain in democratic contexts, where public opinion is sensitive to perceived hypocrisy or abandonment.

Indeed, many in Australia, South Korea, and Japan are watching developments in the United States with growing unease. Domestic democratic processes mean that the public of each country is not a passive observer. The perception of U.S. unreliability—whether in defense, trade, or global governance—has tangible consequences. It not only affects alliance planning but also reshapes political debates within these countries.

Middle Power Leverage

Despite prevailing anxieties over great power rivalry, it would be a mistake to view the Indo-Pacific solely through the lens of U.S.-China bipolarity. Middle powers such as Australia and South Korea still possess considerable agency. Morgenthau's elements of national power are worth reflecting upon. These countries are not mere pawns but active participants in shaping the regional order. Both countries are democracies, possess significant economic and technological capabilities, have committed to bolstering each other's defense capabilities and force postures, and continue to demonstrate a consistent commitment to international norms.

As such, they are not without leverage. Indeed, their shared interests create significant scope for cooperation. Strategic hedging—a form of calibrated alignment that avoids total dependence on any single major power—has become the *modus operandi* for many in the region. This is evident in the behavior of ASEAN states, which continue to balance engagement with both the United States and China while quietly strengthening intra-regional ties and defense capacity. Australia and South Korea have a role to play in influencing the perceptions of these nations and their policies toward resisting, hedging, or bandwagoning on a range of issues, particularly in response to Chinese attempts at economic and political coercion, cybersecurity challenges, maritime economic pressures, and more. The current moment also offers opportunities. Crises often reveal previously unrecognized pathways for innovation and collaboration.

Not surprisingly, therefore, cooperation between Australia and South Korea has been deepening. Military interoperability, defense industrial collaboration, and intelligence sharing have all advanced significantly. South Korean and Japanese defense companies are now manufacturing equipment in

Australia, and joint command-and-control systems have enhanced trilateral coordination. Australia and South Korea have often reinforced each other's military, diplomatic, and related efforts in Southeast Asia and the Pacific by collaborating to deepen an ASEAN-led regional architecture and cooperation with the Pacific Island Forum.⁷⁶ This is particularly important in light of the evident looming environmental catastrophe faced by several of the micro-states in the Pacific Ocean.

Conclusion

For Australia and South Korea, there is a strong case for deeper strategic and economic integration—not only bilaterally but also with other like-minded actors such as Canada, the European Union, India, Japan, and Singapore, while remaining engaged with China. The legacy of interoperability across defense platforms, intelligence-sharing frameworks, and economic systems positions these countries to work more closely together. The imperative for such cooperation only grows should there be a faltering of U.S. leadership in Asia.

It is equally important, however, that these efforts are not construed as anti-American. On the contrary, they should be seen as a form of strategic burden-sharing that reinforces U.S. interests by promoting regional stability. Even if U.S. ideational leadership recedes, the realpolitik calculus of U.S. engagement in Asia remains intact. As long as the United States seeks to prevent Chinese hegemony over the Indo-Pacific, alliances with Australia, South Korea, and Japan will remain indispensable.

But the long-term sustainability of these alliances depends on mutual credibility. Strategic ambiguity, inconsistent messaging, or unilateralism by any party threatens to erode the trust that underpins these relationships. Australia and South Korea must, therefore, continue pressing the United States—politely but firmly—to uphold what remains of the rules-based order it once championed. As middle powers, they cannot afford to be passive. Their prosperity and security are at stake.

Finally, it must be emphasized that the challenges the Indo-Pacific faces today are not occurring in isolation. Great power competition, climate-related crises, governance breakdowns, and disruptions from the Fourth Industrial Revolution are converging to create a new, more complex strategic environment. This poly-crisis demands a new kind of strategic literacy—one that combines historical insight with geopolitical foresight.

As Australia navigates this landscape, its goal should not be to predict the future with certainty but to build resilience, expand cooperation, and act with principled pragmatism. In this, the partnership between Australia and South Korea can serve as a model—not only for the Indo-Pacific but for the wider world.

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Vietnam's Navigation of the Second Trump Administration

By Bich Tran

At the fifty-fifth World Economic Forum Annual Meeting on January 22, 2025—just one day following Donald Trump's return to the U.S. presidency—Vietnamese Prime Minister Pham Minh Chinh articulated confidence in Vietnam's capacity to manage its relationship with the United States.¹ The two countries had elevated their relationship to a comprehensive strategic partnership (CSP)—the highest level of such relations—in September 2023.² While this diplomatic upgrade occurred during the Joe Biden administration, the first Trump administration had also actively sought to deepen ties with Vietnam.³ This suggests a continuity in U.S. strategic interest that transcends partisan politics.

Over the past decade, successive U.S. administrations have consistently identified Vietnam as a pivotal economic and security partner.⁴ The 2015 *National Security Strategy* under the Barack Obama administration emphasized the U.S. partnership with Vietnam alongside relationships with Indonesia and Malaysia. Despite Trump's "America First" foreign policy, the 2017 *National Security Strategy*, 2018 *National Defense Strategy*, and 2019 *Indo-Pacific Strategy Report* all recognized Vietnam's significance in implementing a "Free and Open Indo-Pacific" strategy. The Biden administration subsequently reinforced this commitment, with the 2022 *Indo-Pacific Strategy* explicitly identifying Vietnam as one of the United States' most important regional partners. This consistent recognition across three different administrations underscores Vietnam's growing strategic importance to the United States in dealing with challenges posed by China in the Indo-Pacific region.

However, the second Trump administration exhibits significant departures from its first iteration, particularly in its apparent devaluation of traditional allies and partners. This paper examines Vietnam's perception of the 2024 U.S. presidential election outcome, analyzes the impacts of evolving U.S. foreign policy on Vietnam's strategic interests, and assesses how Vietnam will recalibrate its relationship with the second Trump administration, while maintaining strategic autonomy amid intensifying U.S.-China strategic competition.

Vietnam's Perception of the U.S. Election Outcome

Vietnamese state media provided comprehensive coverage of the 2024 U.S. presidential election, from its historical context and procedural elements to the battle for swing states and the ultimate outcome.⁵ This extensive coverage reflected Vietnam's preparation for either a Kamala Harris administration or a second Trump administration, as both outcomes would have significant implications for regional dynamics.⁶

In an interview immediately following the election, Vietnamese Ambassador to India Ton Sinh Thanh stated that the change in White House leadership would not significantly impact Vietnam-U.S. relations.

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He noted that both Democrats and Republicans have advocated for strengthening ties with Vietnam.⁷ This assessment reflects Vietnam's confidence in the bilateral relations' foundation, which transcends individual administrations and partisan divides in U.S. politics.

This confidence is partly due to the positive trajectory in Vietnam-U.S. relations during the first Trump administration. President Trump made a state visit to Vietnam in November 2017, resulting in a joint statement to advance the bilateral comprehensive partnership.⁸ Defense ties strengthened notably during this period, highlighted by the historic visit of the USS *Carl Vinson* to Da Nang in March 2018—the first U.S. aircraft carrier to dock in Vietnam since the Vietnam War.⁹ The USS *Theodore Roosevelt* followed two years later, further solidifying defense cooperation.¹⁰ Trade between the two sides expanded substantially as well, growing from USD 50.8 billion in 2017 to USD 90.79 billion in 2020, catapulting the United States to number three on Vietnam's trading partner list behind China and South Korea.¹¹

This momentum continued under the Biden administration. A defining achievement was the establishment of the U.S.-Vietnam Comprehensive Strategic Partnership, announced during President Biden's state visit to Hanoi in September 2023. This upgrade elevated the United States to Vietnam's highest tier of diplomatic relations, alongside China and Russia, marking a significant evolution in bilateral ties. In security and defense domains, the joint statement's emphasis on maritime security and cybersecurity cooperation reflected shared concerns about regional stability.¹² Bilateral trade continued to grow, reaching USD 134.56 billion in 2024, making the United States Vietnam's second-largest trade partner.¹³

Despite these positive developments, Hanoi is not necessarily supportive of every decision Washington has made since 2017 or enthusiastic about every comment from the White House over that time. For instance, Trump's decision to withdraw from the Trans-Pacific Partnership (TPP) in 2017 and his accusation of Vietnam being a currency manipulator did not go over well in Hanoi.¹⁴ Furthermore, then Secretary of State Mike Pompeo occasionally made inflammatory remarks, such as "communists always lie," which was directed at China but nonetheless raised distrust in Vietnam.¹⁵ Conversely, the Biden administration's Summit for Democracy, which excluded many of its like-minded partners, was counterproductive in strengthening ties with alternative regimes such as Vietnam.

Nonetheless, before the start of the second Trump administration, Vietnam had anticipated that the United States would continue to view it as an important partner in its Indo-Pacific strategy.¹⁶ Vietnam's long coastline of over 2000 miles positions it as an essential partner in maintaining freedom of navigation and countering China's assertive maritime claims in the South China Sea. Economically, Vietnam's robust manufacturing sector, skilled workforce, and integration into global supply chains make it an attractive alternative to Chinese production networks, particularly as U.S. companies pursue supply chain diversification to reduce dependency on China.

Impacts of Trump 2.0 on Vietnam

However, the second Trump administration has significantly discounted allies and partners across the world. For example, it reportedly considered halting plans to expand the U.S. military presence in Japan, despite Japan's crucial role in U.S. power projection throughout the Indo-Pacific region. This measure would save approximately USD 1.1 billion—a relatively insignificant sum compared to the United States'

current defense budget of over USD 800 billion.¹⁷ Reducing the U.S. military presence in Northeast Asia in this manner could undermine the U.S. ability to counter China's military ambitions in the Indo-Pacific. It also sends troubling signals to allies and partners about the strength of the U.S. commitment to regional security.¹⁸ For Vietnam, such developments would complicate the country's strategic calculations as it counts on a stable U.S. presence to deter China's aggression in the South China Sea.

Additionally, Trump's initial cabinet picks in his second term appear to be less informed about the region. During his Senate confirmation hearing for secretary of defense in January 2025, for example, Pete Hegseth could not name a single member of ASEAN. Instead, he referenced South Korea, Japan, and Australia—none of which are ASEAN members.¹⁹ Hegseth's apparent unfamiliarity with Southeast Asia, a region critical to U.S. strategic interests due to its proximity to China and key maritime routes, raises concerns about effective policy formulation. For Vietnam, an ASEAN member substantially reliant on U.S. support to counterbalance China's regional ambitions, Hegseth's knowledge gap signaled a weaker U.S. understanding of Vietnam's security requirements. This could hinder efforts to deepen defense cooperation between the two countries.

Furthermore, Trump's treatment of Ukraine undermined U.S. reliability as a security partner. After the contentious Oval Office meeting with Ukrainian President Volodymyr Zelenskyy in February 2025, the U.S. president suspended all military aid to Ukraine in what he said was a move to pressure the Ukrainian government into peace negotiations with Russia.²⁰ This abrupt termination of support, affecting advanced weaponry such as long-range missiles and air defense systems, undermined Ukraine's defensive capabilities against Russian aggression.²¹ Furthermore, Trump's favorable disposition toward Russia, despite Russia's invasion of Ukraine, undermines the principle of territorial sovereignty upon which Vietnam itself depends for its long-term security and independence.

Trump's tariffs on allies and partners send a clear message that he is willing to disregard shared economic interests and long-standing trade agreements in favor of protectionist policies. On March 3, Trump announced 25 percent tariffs on goods from Mexico and Canada, with some exceptions.²² On April 2, he expanded this approach by introducing global tariffs with a baseline of 10 percent on all imports, affecting U.S. allies and partners, including Vietnam (which will be discussed in detail later).²³ On May 23, Trump declared his intention to impose a 50 percent tariff on goods from the European Union starting June 1. However, he later backpedaled on this threat and agreed to extend the deadline for U.S.-EU negotiations until July 9.²⁴ These actions significantly undermine trust in the United States and signal a fundamental departure from cooperative trade relationships with key allies and partners.

Within its first two months, the second Trump administration has implemented decisions that undermine three decades of reconciliation and cooperation between the United States and Vietnam. On January 20, 2025, the administration initiated a ninety-day suspension of foreign aid, severely disrupting U.S.-funded projects in Vietnam focused on war legacies and environmental issues.²⁵ While the review was initially scheduled to conclude on April 19, it was completed early on March 10, resulting in the cancellation of 83 percent of all programs by the U.S. Agency for International Development (USAID).²⁶ Although war legacy projects in Vietnam have since resumed, they continue to experience funding delays.²⁷ More

importantly, this pattern of suspension and reinstatement reinforces longstanding concerns in Hanoi regarding Washington's reliability as a strategic partner.

The suspension of USAID projects severely harms the Vietnamese population. Unlike standard foreign assistance programs, initiatives addressing Agent Orange contamination and unexploded ordnance constitute reparative obligations rather than charitable endeavors. These hazards originated from U.S. military operations during the Vietnam War. The suspension of the USAID Agent Orange remediation project at Bien Hoa Air Base has left approximately 500,000 cubic meters of dioxin-contaminated soil exposed. With the approaching rainy season, this situation risks dioxin-contaminated soil flooding into adjacent communities, potentially contaminating food supplies and causing severe public health consequences.²⁸ Concurrently, demining operations—critical for removing an estimated 800,000 tons of unexploded ordnance (UXO) remaining from the war—have halted. Since the end of the war in 1975, these explosive remnants have resulted in more than 40,000 fatalities and 60,000 injuries among Vietnamese civilians.²⁹ The interruption of demining activities leaves communities vulnerable to deadly explosions. Vietnamese leadership has consistently emphasized that addressing war legacies constitutes the foundation of Vietnam-U.S. defense and strategic relations.³⁰ Although the funding has been reinstated, these suspensions have damaged bilateral trust significantly.

The Trump administration's restructuring of USAID has also interrupted the Mekong-U.S. Partnership. Established in 2020, the partnership seeks to address transboundary challenges confronting the Mekong region, especially from upstream dams constructed by China.³¹ This suspension disrupts programs vital to the Mekong Delta—Vietnam's primary rice-growing and aquaculture region, which accounts for 17 percent of national GDP.³² With the funding stalled, Vietnam faces increased vulnerability to food insecurity and economic losses. This disruption particularly affects Vietnam's capacity to manage water resources, which are increasingly controlled by upstream Chinese infrastructure projects.

The U.S. government's foreign aid freeze has impacted Vietnam's cybersecurity cooperation with the United States as well. Between 2021 and 2023, USAID committed USD 2.2 million to provide digital skills training to 500 educators and over 3,000 students from more than 60 higher education institutions in Vietnam.³³ The U.S. Department of State's Bureau of Cyberspace and Digital Policy, which Congress established in 2022 as the focal point for U.S. cyber-diplomacy, conducted a training workshop with Vietnamese government representatives.³⁴ Additionally, the partnership between the U.S. Cybersecurity and Infrastructure Security Agency (CISA) and Vietnam's Authority of Information Security (AIS), formalized in November 2024, promised to improve information sharing, joint-training programs, and cybersecurity best practices.³⁵ In March 2025, the Trump administration reduced CISA staffing by hundreds of employees and implemented substantial funding cuts. These decisions inevitably compromised the aforementioned cooperative initiatives, thereby reducing Vietnam's capacity to address growing cybersecurity threats from both state and non-state actors.

On March 6, 2025, the Trump administration withdrew from the Just Energy Transition Partnership (JETP), a framework established in 2021 by the United States and several other developed nations to help Vietnam and other developing countries transition from coal to clean energy sources.³⁶ The partnership aimed to mobilize an initial USD 15.5 billion in public and private financing over a three-to-five-year

period to support Vietnam's green transition and help it meet its net-zero goals inspired by the Paris Agreement. The U.S. withdrawal wipes out over USD 3 billion in commitments to Vietnam and Indonesia, primarily in commercial loans.³⁷ While this is not necessarily staggering amounts of money, pulling out of JETP further diminishes the impression that the United States is a reliable partner in addressing long-term development challenges, particularly in the critical area of climate change adaptation.

Then there are the tariffs. On February 10, 2025, President Trump imposed a comprehensive 25 percent tariff on all steel and aluminum imports. In 2024, Vietnam exported 1.2 million metric tons of steel—valued at USD 1.13 billion—to the United States, making it the United States' fifth-largest source of steel. During the same period, Vietnam's aluminum exports to the U.S. market totaled 35,593 metric tons, valued at USD 142.9 million.³⁸ While Vietnamese steel has been subject to a 25 percent tariff since Trump's first term, the recent decision increased the tariff on Vietnamese aluminum by 15 percentage points.³⁹ Such actions directly impact Vietnam's exports in these sectors, potentially slowing economic growth and affecting employment in manufacturing regions.

In response, Vietnam announced tariff reductions on various U.S. imports on March 26, hoping to secure a lower levy by reducing its trade surplus with the United States. These measures included slashing duties on liquefied natural gas (LNG) from 5 to 2 percent, automobiles from 45–64 to 32 percent, ethanol from 10 to 5 percent, and removing tariffs entirely on ethane. Additional tariff cuts were also made on agricultural goods such as chicken thighs and almonds.⁴⁰ Despite these efforts, however, the United States announced a staggering 46 percent tariff on Vietnam, one of the highest among the countries targeted.⁴¹ Given that Vietnam's exports to the United States in 2024 constituted approximately 29.5 percent of its total exports, reaching a record USD 119.46 billion, such high tariffs pose significant challenges to its economic development trajectory.⁴²

Following an initial market panic that triggered Vietnam's stock index to plummet by 6.7 percent—marking its steepest single-day decline since the index's inception in 2000—Vietnam reached out to the United States and initiated negotiations to reduce the tariffs.⁴³ While bilateral trade talks are ongoing, the 46 percent reciprocal tariff has been suspended for 90 days until July 2025. In the interim, Vietnam is subject to the 10 percent universal baseline tariff imposed on all countries. During negotiations, the United States reportedly demanded that Vietnam reduce China's role in its supply chain.⁴⁴ Given that Chinese goods account for 38 percent of Vietnam's total imports, Vietnam faces significant challenges in meeting this demand and securing meaningful tariff relief from the United States.⁴⁵

Looking Back to Move Forward

To manage its relationship with the United States under the second Trump administration and navigate U.S.-China competition, Vietnam is likely to double down on its principles-based foreign policy and efforts to elevate its international standing. Since the National Congress of the Communist Party of Vietnam (CPV)—the most important political event in the country, which is convened every five years—in 1996, Vietnam has shaped its foreign policy around five principles: independence, self-reliance, openness, multilateralization, and diversification.⁴⁶ Independence stresses Vietnam's commitment to national sovereignty and non-interference in domestic affairs, meaning Vietnam makes foreign policy decisions based on its national interests rather than external pressure. The principle of self-reliance emphasizes

the development of Vietnam's internal capabilities across various domains to reduce dependence on any single country or bloc. This principle reflects lessons learned from the country's over-dependence on the Soviet Union during the Cold War.⁴⁷ The openness principle represents Vietnam's commitment to integration into the global economy and international community. At the same time, this openness is selective and managed to ensure it serves Vietnam's development goals while preserving its political system. Multilateralization involves actively participating in multiple international frameworks, such as ASEAN and the United Nations, rather than relying solely on bilateral relationships. This approach enables Vietnam to amplify its voice on global issues while avoiding being drawn into exclusive blocs. Diversification of foreign relations enables Vietnam to maintain beneficial relationships with various partners while mitigating risks associated with overreliance on any single power. These principles work together to create a foreign policy framework that guides Vietnam's international engagements, while maintaining strategic autonomy and protecting its core national interests.

In terms of defense, Vietnam's "Four Nos, One Depend" policy, articulated in its 2019 *National Defense White Paper*, reaffirms its long-standing approach to non-alignment and maximizing strategic flexibility.⁴⁸ The "Four Nos" reject military alliances, foreign military bases on Vietnam's territory, siding with one country against another, and the use of force in international relations. Vietnam refuses any efforts to draw the country into proxy conflicts or use it as a strategic asset against third parties. The "One Depend" allows Vietnam to develop defense and military relations with other countries based on the circumstances. This defense policy is designed to avoid entanglement in great power rivalries and preserve maximum strategic flexibility. Vietnam's repeated commitment to strategic autonomy has enabled the country to establish a robust foundation for navigating the intensifying competition between the United States and China, while advancing its own national interests.

Beyond its principles-based foreign policy, Vietnamese leaders have sought to elevate their country's international standing since the 2011 National Congress of the CPV, aiming to gain greater autonomy and broaden its strategic space for navigating U.S.-China competition.⁴⁹ This strategic objective was inspired by Vietnam's successful performance as a non-permanent member of the UN Security Council in 2008–2009 and ASEAN chairmanship in 2010, which demonstrated the country's capacity for meaningful international leadership. Vietnam has pursued this goal through active participation in international organizations, hosting peace talks, and proactively engaging in economic integration.

First, Vietnam has established itself as an active and constructive member of international organizations. For example, the country hosted the Asia-Pacific Economic Cooperation (APEC) meetings in 2017, marking the twentieth anniversary of its APEC membership.⁵⁰ This timing allowed Vietnam to showcase its diplomatic progress and commitment to regional cooperation. Vietnam then chaired ASEAN in 2020 during the COVID-19 pandemic. It was another significant milestone that further consolidated its regional influence, deepened relationships with member states and external partners, and fostered regional stability conducive to its national development.⁵¹ This experience served as a foundation for Vietnam's continued engagement and integration in international initiatives.⁵² Further elevating its global profile, Vietnam was elected as a non-permanent member of the UN Security Council from 2020 to 2021. During its tenure, Vietnam twice served as president of the Security Council, shaping the body's agenda and pushing discussions in directions that aligned with its foreign policy objectives.⁵³ These have created

multiple platforms for advancing Vietnam's strategic interests and significantly strengthened Vietnam's position in regional and international affairs.

Second, Vietnam elevated its international standing by hosting the second U.S.-North Korea nuclear summit in February 2019. This event represented a significant evolution from Vietnam's previous role as a participant in foreign-hosted peace talks to becoming a host of critical international negotiations. The summit's timing coincided with the twentieth anniversary of Hanoi receiving UNESCO's City for Peace designation, creating a powerful symbolic backdrop that reinforced Vietnam's message of reconciliation and aspirations for regional stability.⁵⁴ Hanoi seeks to position itself as a neutral and constructive partner in addressing regional tensions, which has enhanced its strategic importance to the international community and bolstered its reputation as a responsible stakeholder in regional stability.

Third, Vietnam has enhanced its international status through proactive economic integration. As of April 2025, the country has concluded seventeen free trade agreements (FTAs)—seven under the ASEAN framework—with two additional agreements under negotiation.⁵⁵ This comprehensive approach to trade liberalization has stimulated economic development through expanded market access, increased foreign investment, and technology transfer. Furthermore, this network of FTAs highlights Vietnam's vital role in the regional supply chain.

Amid intensifying strategic rivalry between the United States and China, Vietnam has accelerated its diversification of external relations by upgrading its relationships with ten countries to CSPs—the highest level of such relationships—between December 2022 and May 2025. These include South Korea, the United States, Japan, Australia, France, Malaysia, New Zealand, Indonesia, Singapore, and Thailand. This was significant because Vietnam signed only three CSPs between 2008 and 2016—with China, Russia, and India. Moreover, this represents an unprecedented diplomatic achievement that reflects Vietnam's growing importance in the international community.

In addition to its principles-based foreign policy and enhanced international standing, Vietnam has skillfully navigated U.S.-China competition through parallel diplomatic initiatives. For instance, only three months after upgrading its relationship with the United States to the highest level of partnership, Vietnam agreed to build a Community with a Shared Future with China, taking the bilateral relationship to new heights.⁵⁶ This balanced approach helps reduce the chances that deepening ties with one major power come at the expense of relations with the other. By maintaining comparable levels of engagement with both countries, Vietnam preserves greater strategic flexibility while accessing economic, diplomatic, and limited security benefits from each relationship.

Vietnam's balanced approach has paid off well. Vietnam did not seek to cut ties with or sour its relationship with Russia following the latter's invasion of Ukraine, yet the United States, Japan, Australia, and France proceeded with upgrading their relationships with Vietnam. Despite China being its largest trading partner and a challenging neighbor, Vietnam has successfully deepened ties with the United States and its allies. Vietnam can also manage the South China Sea disputes without jeopardizing vital economic ties with China by compartmentalizing different aspects of these relationships—cooperating where interests align while managing areas of disagreement.

However, as U.S.-China competition intensifies, Vietnam's carefully cultivated position of strategic neutrality faces mounting pressure. The diplomatic space for balanced engagement narrows when major powers increasingly frame regional issues in binary terms that demand clear alignment. Vietnam's preference for autonomy will be tested as opportunities for equidistant positioning diminish amid a more polarized regional environment. Acute security crises could present Vietnam with particularly difficult strategic options. A significant escalation of tensions in the South China Sea or a Taiwan Strait crisis might require Vietnam to signal alignment more definitively than it would otherwise want to. For example, if the United States were to come to Taiwan's defense against a theoretical naval incursion by China and ask Vietnam to provide support, China could retaliate by initiating violence at its border with Vietnam, cutting off or limiting trade, or other coercive measures. Conversely, accommodating Chinese preferences in a Taiwan contingency could undermine Vietnam's long-term security interests. Either choice would represent a departure from Vietnam's balanced approach to U.S.-China competition and limit its range of options in the future.

Policy Recommendations

Vietnam's 17 FTAs have not yet granted the trade diversity it seeks. Chinese imports increased from USD 84.19 billion in 2020 to USD 144.62 billion in 2024, constituting 38 percent of total imports. At the same time, exports to the United States increased from USD 77.08 billion in 2020 to USD 119.46 billion in 2024—approximately 29.5 percent of Vietnam's total exports.⁵⁷ This dual dependency creates significant economic vulnerabilities and potential geopolitical exposures for Vietnam in an increasingly polarized regional environment.

A comprehensive strategy to leverage existing FTAs is needed to establish more balanced trade relationships, enhance economic security, and increase Vietnam's resilience against external economic pressures. A significant barrier to FTA utilization is limited awareness among Vietnamese enterprises, particularly small- and medium-sized businesses that lack international trade experience. Establishing a centralized FTA information portal with sector-specific guidance would address this knowledge gap. Complementing this digital resource with targeted outreach programs, including regional workshops, industry-specific seminars, and case studies highlighting success stories, would significantly increase awareness and FTA utilization rates.

Additionally, navigating complex FTA requirements presents substantial challenges for Vietnamese businesses seeking to access preferential terms. Establishing dedicated FTA support units within relevant government agencies could provide technical assistance tailored to specific sectors and markets. These units would offer practical guidance on certification procedures, compliance documentation, and verification processes.

Relatedly, developing public-private partnerships with industry associations would create sustainable mechanisms for knowledge transfer. Investing in digital tools to streamline compliance processes would further reduce administrative burdens, making FTA utilization more accessible to companies with limited resources and international trade experience. Reducing trade overdependence will ultimately strengthen Vietnam's ability to navigate an increasingly complex regional environment characterized by great power competition.

For the United States, Vietnam represents a critical strategic partner in Southeast Asia as the new Trump administration shapes its approach to counter China's influence in the region. With its growing economy, strategic location along critical shipping lanes in the South China Sea, and historical wariness of Chinese dominance, Vietnam offers the United States a valuable counterbalance to China's regional aspirations. Deepening economic, diplomatic, and security ties with Vietnam provides the United States with increased regional access while supporting Vietnam's desire to maintain its sovereignty and independence amid China's expanding power-projection capabilities.

When articulating concerns about Chinese actions with Vietnamese counterparts, U.S. officials must carefully frame criticisms around China's revisionist behavior in international affairs rather than its communist political system. Doing so acknowledges Vietnam's own communist governance while focusing on shared interests in preserving the rules-based international order. Emphasizing China's territorial expansionism, economic coercion, and disregard for the sovereignty of smaller nations resonates with Vietnam's own experiences and concerns, whereas ideological critiques of communism would create unnecessary friction with a partner that, despite different political systems, shares U.S. interests in regional stability.

Trust is the essential foundation for any meaningful cooperation between Vietnam and the United States. To build that trust, the Trump administration should demonstrate a steadfast commitment rather than rely on coercion. Vietnamese leaders, having navigated complex relationships with major powers throughout their history, are cautious about U.S. reliability. Establishing predictable diplomatic channels, maintaining consistent high-level dialogues, fulfilling economic commitments, and avoiding sudden policy reversals will signal to Hanoi that Washington views this relationship as a long-term strategic priority worthy of stable investment rather than merely a tactical tool in broader geopolitical competition.

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U.S.-China Rivalry and Southeast Asia in the Era of Trump 2.0

By Joseph Chinyong Liow and Minh Son To

The return of Donald Trump to the White House heralds an acceleration of the U.S. withdrawal from the post-Cold War liberal international order and an end to the short-lived unipolar moment. Whatever criticisms one may level at President Trump—and there are, and have been, many—one thing remains clear: he has taken his campaign promises very seriously. To that end, he has hit the ground running after Inauguration Day, launching an escalating series of wide-ranging tariffs while significantly scaling down U.S. commitments to global institutions and security.

More disconcerting, perhaps, is the fact that his initial round of tariffs targeted not so much adversaries as friends: Canada, Mexico, and the European Union. Indeed, the agenda of the second Trump administration, or Trump 2.0, seems to be nothing short of a teardown of established U.S. foreign and trade policy practices, not unlike the dramatic downsizing of the U.S. federal government under the banner of efficiency.¹ While the manner and ends to which Trump has thus far been exercising presidential authority are a far cry from the conventions associated with previous presidents, equally notable is the fact that it also differs from his first term. Trump's second tenure so far has been defined by either the evident lack of regard for institutional restraints, ranging from discomforting statements about Greenland and Canada to the haphazard war on bureaucracy, to efforts to reinterpret—if not challenge—constitutional constraints on presidential term limits.

Whereas the first Trump administration benefited from the presence of experienced officials and staffers, the second iteration is stacked with loyalists and confidantes who have hewed closely to his script.² Backed by a Republican majority in Congress and a conservative majority in the Supreme Court, Trump has a clear runway to pursue many of his “America First” goals.

Trump's redoubled efforts to implement his nationalistic foreign policy and protectionist trade agenda portend a historic reset of the role of the United States in Europe and Asia and an exacerbation of the ongoing U.S.-China rivalry with an element of unpredictability. In the face of a retrenched U.S. global leadership, the perception that the world is careening into a new era of multipolarity with multiple—albeit not equally matched—poles of power has hardened, prompting states to hasten their search for security and growth through the exercise of agency *with* and *between* multiple poles of powers at the national and regional levels. Already, the reconsideration of support for Ukraine in the face of Russian aggression has ushered in a historic and critical moment of soul-searching in Europe, compelling European countries to bear a greater burden for defense while exercising increased strategic autonomy against the backdrop of a sharp erosion of trust in the transatlantic relationship.

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Unlike Europe, Southeast Asia has insisted on nonalignment and hedging rather than picking a side in the ongoing rivalry between the United States and China. While this may have served the region well in the past, Southeast Asia is not quite in an enviable position in the current climate. The increasing unreliability of U.S. commitments casts doubt on the role that the United States can be expected to play as a regional counterweight to China, while persistent trade protectionism jeopardizes the economic strategies of Southeast Asian economies eager to capitalize on the supply chains of the two great powers. While many in the region have pushed back against what Washington has called “values-based” diplomacy, they may soon come to find its nakedly transactional side equally daunting.

Facing unpredictable U.S. leadership, more conditional forms of U.S. engagement and commitment, and the decline of a rules-based order, Southeast Asia will have to double down on hedging and an omnidirectional policy—all while seeking to avoid overreliance on the United States and brace themselves for the worst of U.S. tendencies.

America First 2.0

The agenda of the second Trump administration appears to be a maturation of the unfinished job carried over from the president’s first term. But this belies continuity carried through by the Joe Biden administration, which adopted many of Trump’s overt hawkishness toward China and reservations about trade liberalization that—until only very recently—became bipartisan tenets of U.S. foreign policy. Trump 1.0 launched a two-year-long trade war with China that ended inconclusively in 2020, with neither China fully abiding by the terms of the negotiated agreement nor the United States lifting its sanctions.³ Central to this is the prioritization of technological competition with China upon the release of two reports in 2018 by the U.S. trade representative under Section 301 of the 1974 Trade Act—the same provision the United States used against Japan’s technological ascendancy four decades earlier.⁴ These reports shifted the policy narrative on China from an ineffectual or negligent enforcer of intellectual property to an active, systemic thief of cutting-edge U.S. technology with tacit encouragement by the Chinese party-state, precipitating the ongoing “tech war” between the United States and China.⁵

By the time Biden came to office, being tough on China had become a bipartisan matter, and as president, he readily retained and enhanced Trump-era tariffs on China.⁶ What differentiated the Biden administration’s policies was the adoption of a more surgical approach to prevent key tech outflows to notable Chinese personnel through consistent, targeted use of sanctions toolkits such as the Bureau of Industry and Security and the Committee on Foreign Investment in the United States—an approach that came to be known as “high fence, small yard.”⁷ The early months of Trump 2.0 have seen a willingness to dispense with this gradualism and pursue maximal restrictions on China. The escalatory ladder of tariffs from April to May 2025 between the two global powers led to what effectively resembled an embargo on U.S.-China trade, which was then temporarily suspended to open the way for negotiations to the great relief of global markets.⁸ A key reason for this approach is that Trump wants to give the impression of a clean break from his predecessor.

By corollary, the Indo-Pacific theater—specifically Taiwan and the South China Sea—gained renewed security focus in Washington since Trump 1.0, in ways both welcome and unwelcome by regional states. The first Trump administration articulated the Indo-Pacific concept (with the China threat baked in) and

spearheaded a “Free and Open Indo-Pacific” strategy, both of which continued as prominent priorities during the Biden administration.⁹ The Trump administration’s concrete plans for these contingencies are unclear, as it remains preoccupied with trade priorities.

Signs from Trump’s previous tenure and current appointments, for now, very tentatively point toward some continuation of established policy lines. This was made clear in remarks by Secretary of Defense Pete Hegseth at the Shangri-La Dialogue in May 2025. Furthermore, while Trump’s campaign accusations of Taiwan stealing business away from U.S. chip manufacturers raised eyebrows, his first administration demonstrated a high degree of commitment to Taiwan.¹⁰ During Trump 1.0, the United States permitted more frequent high-level meetings with Taiwanese officials, stepped up arms sales, and sailed through the Taiwan Strait more frequently than during the Barack Obama administration.¹¹ Moreover, several of Trump’s cabinet picks are unapologetic China hawks, such as Secretary of State Marco Rubio and Under Secretary of Defense for Policy Elbridge Colby, who believe that supporting Taiwan is vital to denying Chinese regional dominance but not an “existential interest” for the United States.¹²

The first Trump administration also expended resources in the South China Sea to deny Chinese claims. This included freedom of navigation operations (FONOPs) and a first-of-its-kind rejection of China’s unlawful maritime claims in alignment with the 2016 arbitral tribunal ruling.¹³ Recent assurances from the Department of State and Department of Defense indicate a continuation of this line.¹⁴ At the same time, Trump himself hardly spoke publicly of the South China Sea during his first term. Indeed, unshackled from prevailing security commitments, it is not at all clear that the United States would rush to defend and protect interests 10,000 miles away from home.

A New Normal

U.S. commitments in Asia, whether the Korean Peninsula or the South China Sea, will also have to be squared with the sea change in U.S. perceptions of its power and position. The assumptions that lend meaning and credibility to these commitments—that the United States is capable and willing to expend resources to maintain faraway security networks—may no longer be as self-evident as they once were.¹⁵

A key issue is the question of U.S. primacy in the region. While it has been a long-held belief that one of the key U.S. strategic objectives in Asia since World War II is preventing the rise of a regional hegemon, this may no longer be the case. While academics continue to argue about multipolarity, the second Trump administration has gone ahead to accept it as *the* premise of the contemporary distribution of power. As Rubio recently opined, “It’s not normal for the world to simply have a unipolar power ... that was an anomaly. It was a product of the end of the Cold War, but eventually you were going to reach back to a point where you had a multipolar world, multi-great powers in different parts of the planet.”¹⁶ Likewise, he continued elsewhere, “We’re not a global government ... we’re the Government of the United States [and o]ur number one priority needs to be our national interest.”¹⁷

This narrow definition of national interest and presumption of multipolarity are predicated on growing weariness toward costly commitments—chiefly overseas military ventures—which in turn manifests in concerns that the United States is overstretched and sacrificing men and material on causes irrelevant to core U.S. interests.¹⁸

Trump has long articulated an aversion to overseas “forever wars” and military intervention in general, pushing allies to assume greater responsibility for U.S. defense commitments by either paying more for the U.S. security umbrella or mustering their own defense.¹⁹ Colby stated during his confirmation hearing for undersecretary of defense for policy that he “understands strength for sure, but also understands... the downside risks of the use of military force ... of not being cavalier about... deploying our men and women in uniform.”²⁰

Instead of seeing alliances and relationships as commitments and vehicles for pursuing regional interests, the Trump administration openly views them as underutilized leverage to further advance an America-First agenda. This logic is presently best seen in the U.S. approach to European friends, partners, and allies. Put simply, Trump has undone decades of investment and trust in the transatlantic relationship by openly castigating Europe for under-commitments to NATO, which, incidentally, is not entirely untrue.²¹ To make matters worse, the administration has threatened to abandon Ukraine while holding its security ransom in exchange for access to its critical minerals, all while Trump expresses enormous sympathy for Russian President Vladimir Putin.²² More dumbfounding impulses like the threats to annex Canada and Greenland, reclaim the Panama Canal, and develop a “Gaza Riviera” only serve to amplify the cautionary tale about shifting U.S. foreign policy priorities.²³

To be sure, Trump’s ire has not been limited to the transatlantic relationship. While a clear framework for Indo-Pacific security is yet to be seen, there are early signs that allies and partners in the region are not spared from Trump’s scrutiny. For instance, he has recently castigated the U.S.-Japan security pact as unequal, while one of his defense officials has urged Japan to increase its defense spending to 3 percent and Taiwan to a near-impossible 10 percent of GDP.²⁴ As the administration demands greater burden-sharing, it also wants to charge the world significantly more for the privilege of trading with the United States. More worrying for Asian partners are the 25 percent general tariffs recently imposed on steel and aluminum imports and the “reciprocal tariffs” that took effect in early April, only the latter of which were paused to make way for talks with many anxious trade negotiators.²⁵

Trump’s actions and rhetoric are fundamentally undergirded by an overpowering resentment at how the United States has been taken advantage of in terms of both security and economics, within and beyond its borders. As Singaporean Minister for Defense Ng Eng Hen aptly put it, “The image of [the U.S.] has changed from liberator to great disruptor to a landlord seeking rent.”²⁶

Navigating Multipolarity

Southeast Asia finds itself at the cusp of a new world where the trade liberalization and multilateral cooperation that served the region so well in the last thirty years, by way of undergirding stability, growth, and prosperity, is now giving way to coercive impulses from multiple poles of power from East to West.

Ongoing trends of deglobalization and great power rivalry have been exacerbated by Trumpian transactionalism. In a major departure from convention, linkages to the United States have become a source of risk, forcing allies to bake in contingency plans. A bewildered Europe is being compelled to take primary responsibility for Ukraine by committing EUR 800 billion (USD 841 billion) to Ukraine while

simultaneously initiating an unprecedented move toward self-reliance for security and defense.²⁷ North American neighbors have found relations with the United States spiraling downwards at an alarming pace. At the time of writing, Canada has steeled itself to impose steep retaliatory tariffs against the United States, while Mexico has chosen restraint in hopes of a more conciliatory deal.²⁸ An exception was made for goods covered under the U.S.-Mexico-Canada Agreement (USMCA) that Trump himself spearheaded—which covers most imports between the three countries—but the damage was already done.²⁹ As Canada’s newly minted Prime Minister Mark Carney declared, “[T]he old relationship we had with the United States ... is over.”³⁰

A major concern for Southeast Asia, in this light, is the erosion of the Western-led rules-based international order. International pillars and institutions that once provided and sustained predictability now face threats of irrelevance and incapacitation, from the United States dismantling the sprawling aid regime and intergovernmental bodies that sustained its soft power to questions of U.S. resolve in the face of China’s assertiveness in the Indo-Pacific. Imperfect as these “rules” may be, there is no viable alternative. As they erode, regional states may have to choose between constructing a new governance regime without a U.S. anchor, such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), or a unilateral pursuit of narrow national interests. Southeast Asian states have long been effective hedgers, refusing to take sides while engaging with all to fill emerging gaps in security and economic linkages. However, it is less clear now whether the same efficacy can be achieved during and after Trump 2.0.

Southeast Asian states are increasingly confronted by the issue of choice, or more specifically, choosing or not choosing sides between the United States and China. But what does it mean to choose? A zero-sum outlook between global powers was characteristic of the Cold War, where ideological divisions were clear, but this is no longer the case today—certainly not with Southeast Asia. Instead, regional states approach choice in a retail fashion; they decide whether to support and join discrete programs and initiatives offered or backed by either the United States or China, but not at the expense of cooperation with the other. For a while, both great powers sought to outbid each other by coming up with initiatives (for example, China’s Belt and Road Initiative, in tandem with consistent security cooperation with the United States) instead of giving ultimatums. Until Trump 2.0, Southeast Asian countries have managed to engage with both.

This latitude has allowed some Southeast Asian states to benefit from the decoupling between Western and Chinese supply chains by enticing investors and firms under pressure from U.S. economic restrictions on China to relocate to the region—some more than others. With the United States accelerating scrutiny of imported goods and China disciplining big tech firms to curb their potential political influence, Western multinationals and Chinese companies have found Southeast Asia—a region geographically close to China with varied economic capacities—a suitable alternative destination to park their capital and diversify their supply chains.³¹ This picture is mixed, however—bigger beneficiaries include Vietnam, Malaysia, and Singapore.³² Others, like Thailand and Indonesia, which cynics argue have fallen behind in competitiveness with their neighbors, or Cambodia and Laos, which have proven more susceptible to Chinese influence, have found Chinese investments instrumental for building infrastructure in transport and critical industries.³³

How Southeast Asian states have positioned themselves to benefit from decoupling speaks to another feature of regionalism: Southeast Asian states have tended to rely more on their relations with external powers than on each other. This reliance is most apparent in trade. Southeast Asia has historically traded more with great powers than among themselves. Notably—and a cause of Trump’s ire—they maintain a persistent trade deficit with China but a trade surplus with the United States.³⁴ This means that the region faces growing risks when tensions within *and* between the poles rise, in spite of—or precisely because of—accrued benefits from great power competition.

From this shared predicament, risk profiles vary according to individual countries’ position within U.S.-China supply chains. For instance, Vietnam—the perceived biggest winner from the first U.S.-China trade war—has the most to lose. Vietnam’s trade surplus of USD 123 billion with the United States, behind only Mexico and China, made it one of the top targets in the “Liberation Day” tariffs, and its leaders have jumped the gun in negotiating to ensure their trade position with the United States.³⁵ On the other hand, Thailand and Indonesia (also subject to Trump’s tariffs) have found their critical industries either dominated by Chinese stakeholders or sidelined by Chinese goods superior in both quality and quantity.³⁶ Already assumed to be aligned with China, Cambodia and Laos face even higher tariffs than Vietnam and will find themselves gravitating further to China as seemingly the most viable option for political and economic support.

As home to a substantial amount of U.S. offshore investments, Singapore will have to reassess its underlying security and strategic assumptions in the face of a Trump administration that is prioritizing onshoring. Meanwhile, the Philippines, embroiled in territorial disputes with China in the South China Sea, is starting to question the substance of the United States’ “ironclad” security commitment, especially in light of U.S. scrutiny of its defense commitments toward Taiwan and Japan.

Under Trump, Southeast Asia cannot expect the United States to necessarily support their economic interests. The White House’s open antagonism toward trade liberalization effectively destroys any prospects of increased U.S. economic engagement with Southeast Asia.³⁷ Likewise, regional efforts like the Mekong-U.S. Partnership or minilateral initiatives like the Quad—both of which Trump 1.0 supported—are up in the air given the United States’ cessation of aid and imposition of tariffs. In terms of diplomatic engagement, Southeast Asia understands that they were peripheral to the regional strategy of the Trump administration. Pete Hegseth’s inability to name a single ASEAN member during his confirmation hearing for secretary of defense hardly inspired confidence that the White House would prioritize ASEAN over the next four years.³⁸

The United States and Southeast Asia

U.S. strategic priorities in Southeast Asia will center on the South China Sea as part of the broader objective of denying China regional dominance. But there are several factors to consider. First, it is clear from early remarks by the administration that insofar as Southeast Asia will feature at all in Trump’s foreign and security policy, it will primarily be in relation to China.³⁹ This is a concern for a region whose resident states have always preferred that the United States deal with them on their own terms rather than through the lens of China policy.⁴⁰ Nevertheless, in view of Trump’s preference to think and act in terms of great power diplomacy, this may be a reality that Southeast Asia will have to accept.

Second, convergent security interests alone may not be enough to entice the second Trump administration to step up or fulfill security assurances and commitments. Given the administration's transactional approach to relationships, it is likely to look closely at the contributions that Asian partners are prepared to make to the relationship. As one regional official expressed during a discussion, "Ukraine has to give up their critical minerals. We will have to see what the U.S. asks us to give up (to them)."⁴¹ Even then, the picture will not be entirely clear. Japanese Prime Minister Shigeru Ishiba was the second leader to meet with President Trump at the White House after his inauguration. The reportedly successful meeting was followed by an unexpected announcement of a merger-turned-investment deal by Nippon Steel in U.S. Steel.⁴² But then Trump called into question the utility of the U.S.-Japan security alliance, suggesting it was a bad deal for the United States.⁴³ Likewise, Taiwan's TSMC ventured a cumulative USD 165 billion investment in chip fabs in the United States in light of Trump's criticism of Taiwan "stealing" chip business, triggering domestic concerns over eroding the very leverage that gave Taiwan strategic relevance for the United States and global supply chains.⁴⁴ Even with this, Taiwan was hit with a 32 percent tariff and had to engage in talks with the United States.

In Southeast Asia, Trump's "tough" trade demands for Vietnam, a country long identified as key for U.S. strategic interests, highlight the transactional approach he has undertaken to partners and foes alike.⁴⁵ Southeast Asian partners with more diminished capabilities and wherewithal can, at best, hope to step up and showcase their military purchases and cooperation to the United States to demonstrate their consistency and reliability toward a vacillating, distracted power. Maritime Southeast Asia can continue to maintain their already steady purchases of U.S. arms with extra publicity to drive home the point of consistency, while Vietnam has already struck commitments to buy more U.S.-sourced defense and security products.⁴⁶

The economic front presents an even steeper challenge. It is still unclear the true extent of the effects of Trump's chainsaw to trade—specifically reciprocal tariffs—on Southeast Asia, given the bureaucratic hurdles and still-vague measurements to enact a highly varied set of tariffs designed for different economies and sets of trade relations.⁴⁷ Countries should nevertheless preempt U.S. efforts by signaling reform and market access that align with U.S. preferences. Making more deals with the United States, particularly with commercial interests with ties to Trump, appears to be the necessary evil.⁴⁸ For instance, Vietnam has already opened up greater market access for U.S. goods and proactively cultivated ties with select U.S. companies close to the administration, including Starlink and the Trump family's business.⁴⁹

Meanwhile, Singapore, as one of the very few countries that has a trade deficit with the United States and the only Southeast Asian country with a free trade agreement with it, was spared the worst of Trump's tariffs and given a default, universal 10 percent tariff rate. Trump's tariffs, while not as disruptive for the city-state as for others, would likely hamstring procurement and imports, destabilize supply chains, and worsen inflation. Singapore's negotiations with the United States are narrower in scope, primarily to carve out exceptions for high-value exports vital to its supply chains, a lesser burden compared to what its neighbors face.⁵⁰ This outcome is specific to Singapore's unique economic position as a small, globalized trade hub with the region's arguably strongest partnership with the United States, and any notions of replicating its success should be understood within that context.

Other states are not as well-positioned as Singapore or as proactive as Vietnam, though the end picture is murky for all. Thailand and Malaysia appear to be making some progress on talks as they seek to reduce their rates to the default 10 percent.⁵¹ The largest economy of the region, Indonesia, does not share Vietnam's frantic approach and has submitted its trade proposal in June 2025.⁵² Indonesia's odd nonchalance reflects a disjointed conduct of foreign affairs, as the country has astoundingly left its ambassadorial post to the United States vacant since July 2023.⁵³ Cambodia also initiated its own trade talks with the United States, but like Laos, deepening dependence on China appears to be a foregone conclusion as both countries continue to be marginalized by the United States through tariffs, aid suspension, and travel bans.⁵⁴

There is a broader need for strategic reorientation that looks beyond the United States. While the United States busies itself with isolationism, the rest of the world has continued trading within and amongst themselves. There were some 370 deals in force as of mid-2024.⁵⁵ Meanwhile, China has stepped up its trade with the world. Sentiments from China and multinational corporations lean on the side of guarded confidence.⁵⁶ A former advisor to the People's Bank of China has said that measures are already in place and that the U.S. tariffs would not rank high among China's concerns.⁵⁷ Nevertheless, China's leadership in economic globalization does not necessarily mean improved growth conditions for the developing countries of Southeast Asia, particularly given their mutual competition in manufacturing and exports and the realistic risk of Chinese overcapacity. Southeast Asian anxieties about the impact of Chinese geopolitical assertiveness will continue but must be balanced against the economic reality that China remains dominant in global export and manufacturing in vital sectors.⁵⁸

To that end, Southeast Asia needs to consider greater diversification and integration efforts to improve their collective resilience in order not to be held hostage to U.S.-China rivalry. This will entail deepening engagement at both bilateral and multilateral levels with other external powers, in which some have fared better than others. Vietnam and Singapore, for instance, are enmeshed within robust trade networks such as the CPTPP and trade agreements with the European Union, while Thailand is seeking to conclude long-overdue trade talks with the European Union.⁵⁹ Indonesia and Malaysia, on the other hand, are moving in the other direction in seeking closer ties with Russia and Central Asia as well as the BRICS grouping.⁶⁰ Cambodia recently forged free trade deals with South Korea and the United Arab Emirates, but such efforts at diversifying trade ties are still too incipient to offset being cut off from what is its largest export market, the United States.

In addition, Southeast Asian states must double down on their efforts at regional integration. Economic integration among Southeast Asian countries has long figured in the region's agenda, but heightened global uncertainties have injected new urgency into this mandate. They must also look to each other as real, viable complements to shared strategic interests, rather than taking a myopic view focused on external powers. Such efforts can and should start small rather than through the cumbersome processes of ASEAN. Recent defense cooperation between the South China Sea claimants of Vietnam and the Philippines and the new special economic zone between more developed Malaysia and Singapore are modest but welcomed signs of mutual confidence-building.⁶¹ Such efforts are easier said than done, but there is a common denominator on which they can build a common cause: no Southeast Asian state wishes to be in a position where they have to choose between the United States and China, and

all Southeast Asian states are staring at the possibility of being collectively squeezed by the two great powers.

It is in that respect that there is great urgency to deepen integration so that regional states, in the words of former Singapore Prime Minister Lee Hsien Loong, have “some life rafts to hang on to and to have collective safety in this uncertain world.”⁶²

Conclusion

Even the most optimistic analyst does not believe Southeast Asia will be a region of priority for the second Trump administration, which clearly has its eyes set on reducing U.S. trade deficits, managing great power politics, and institutionalizing a particular strain of U.S. nationalism. In that respect, the return of Donald Trump to the White House has, in a few short months, catalyzed a sea change in global affairs. A brazenly transactional approach to trade and an unabashedly America-First posture abroad have found expression not only in more robust pushback against adversaries such as China and Iran but, more bewilderingly, in assertive postures toward friends and allies. By that measure, it is perhaps only a matter of time before the harsh light of Trump’s scrutiny is cast on Southeast Asia, particularly through trade.

Given these risks, Southeast Asian states will have to adapt and manage multiple complex yet concurrent vectors of diplomacy. Toward the United States, the region has to find ways to retain sufficient attention so that the United States will continue to play a stabilizing role, the absence of which could portend heightened tensions, particularly over regional flashpoints. But they have to do this in a way that appeals to the new approaches to and definitions of commitment and engagement that have come to characterize the Trump administration. At the same time, efforts to retain U.S. attention cannot be undertaken at the expense of engagement with China or, worse, in ways antagonistic to China. The reasons for this are quite simple. Most, if not all, regional states have benefited from strong economic relations with China, and this shows no signs of abating despite the domestic economic challenges confronting the Chinese government. As such, they can ill afford to shut off access to this growth opportunity, all the more given the unpredictability of U.S. commitments in the era of Trump.

Ultimately, though, it is in the interest of all Southeast Asian states that they realize—notwithstanding the inherent diversity of the region, including in terms of strategic outlooks—they are all in the same position in terms of the need to manage geopolitical uncertainties, deepening U.S.-China rivalry, and greater unpredictability of U.S. commitments to the region. These are shared travails that will hopefully hasten convergence on the realization that faster and deeper regional integration is a matter not only of the national interest of all Southeast Asian states but also a matter of survival.

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Section 2

Recalibrations on the Korean Peninsula

From Peaceful Unification to Two Koreas? Paradigm Shifts in Inter-Korean Relations

By Christopher Green

For more than three decades, inter-Korean relations have oscillated between confrontation and cautious engagement, grounded in a shared yet contested aspiration—more honored in the breach than the observance—of eventual peaceful unification. This aspiration, rooted in nationalist ideals on both sides of the thirty-eighth parallel, has shaped the political lexicon and security posture of the two Koreas. Yet, developments throughout the past year suggest that North Korea under Kim Jong Un is abandoning the peaceful reunification paradigm altogether.

At the turn of 2024, North Korea publicly reframed South Korea not as a compatriot regime but as a separate and hostile state. Speaking at a session of the country's rubber-stamp parliament, Kim issued orders to transform that political decision into reality in the country's society, military, and economy. Given the extent of these ambitions, it seems correct to conclude that the pivot marks a potentially irreversible rupture in inter-Korean relations. Even if there were to be more flexibility in the policy line than currently appears to be the case, it would be one with consequences not only for the Korean Peninsula but also for regional geopolitics.

This article explores three interrelated dimensions of North Korea's policy turn. First, it examines the nature, drivers, and implementation of the country's paradigm shift on unification and reconciliation, dating the beginning of the policy back to 2019 due to both the end of U.S.-North Korea dialogue and the global COVID-19 pandemic. Second, it analyzes the spectrum of South Korean political responses, from government policy to public sentiment. Finally, it reflects on the potential long-term implications of this shift for the future of the Korean Peninsula and the broader security environment in Northeast Asia.

Kim Jong Un's Break with Reunification: Drivers and Implementation

Declaring the End of a Historical Mandate

In December 2023, Kim Jong Un trailed a noteworthy recalibration of the country's approach to inter-Korean relations. Kim articulated this new direction at an annual year-end plenary meeting of the Workers' Party of Korea, which, since January 2020, has replaced the North Korean leader's annual New Year's speech and functioned as a forum for providing policy guidance across all fields for the year. Kim then repeated his position during a public appearance at a military installation on January 8, 2024, and the Supreme People's Assembly (SPA), which functions as the country's formal legislative body, ratified the policy changes on January 15.¹ Speaking in stark terms during a speech to the SPA, Kim declared that the long-standing policy of pursuing peaceful unification with the South was no longer viable and would not be pursued. Therefore, he said that the North Korean people should be educated to regard South Korea as their country's "primary foe and invariable principal enemy"—a complete reversal of previous rhetoric centered on shared ethnicity and historical destiny.²

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He explained:

Since our Republic definitely defined the ROK as a foreign country and the most hostile state after completely eliminating the original concept contradictory to reality that the ROK is the partner for reconciliation and reunification and the fellow countrymen, it is necessary to take legal steps to legitimately and correctly define the territorial sphere where the sovereignty of the DPRK as an independent socialist nation is exercised.³

Accordingly, North Korean authorities soon set about implementing the new policy line, going well past mere “legal steps” in doing so. A demolition crew was sent to the Monument to the Three-Point Charter for National Reunification, or the Arch of Reunification, a landmark situated on the outskirts of Pyongyang that had hitherto symbolized the commitment of Kim Il Sung, Kim Jong Un’s grandfather and the founding leader of North Korea, to peaceful reunification.⁴ Concurrently, a number of online platforms previously administered by the United Front Department (UFD), the principal agency tasked with overseeing inter-Korean relations prior to the radical institutional reform, were taken offline.⁵ The UFD itself was also dismantled, with many of its functions relocated to the Ministry of Foreign Affairs, a logical step given the reframing of South Korea as a foreign country.⁶ The North Korean Constitution has also reportedly been revised to reflect the new posture. These revisions have not been independently verified, although a session of the SPA appeared to be convened in October 2024 partly to do so.⁷

The policy reversal marks a clear departure from North Korea’s long-standing inter-Korean engagement strategy. The once-prominent slogan of “By Our Nation Itself” (*uri minjok kkiri*), a concept implied in the first inter-Korean statement of 1972 and that conceptually underpinned inter-Korean agreements in 2000, 2007, and 2018, has disappeared from official discourse along with any and all rhetorical commitments to “peaceful unification.”⁸ The Unification Pavilion (*tongilgak*), a hall just across the demilitarized zone (DMZ) where the two Koreas met several times for peace talks, is now known simply as Panmun Hall (*panmungwan*).⁹ The steps that North Korea has taken since Kim’s declaration in early 2024—in fact, since the collapse of U.S.-North Korea dialogue in 2019—suggest a key working assumption: that the change to the country’s inter-Korean policy is a strategic shift of considerable duration, not a tactical one that may prove ephemeral. Kim hopes to fundamentally redefine the inter-Korean relationship as one of two sovereign and antagonistic entities rather than long-lost brothers.¹⁰

History

One key question on North Korea’s policy shift involves the timing. It is no secret that alternating cycles of engagement and estrangement have long shaped inter-Korean relations. Limiting our focus to the twenty-first century, we can see how the period between 2000 and 2008 was characterized by cautious optimism under the “Sunshine Policy” of engagement initiated by President Kim Dae-jung in the late 1990s and continued by his successor, Roh Moo-hyun, in the 2000s.¹¹ The two presidents’ approach, rooted in humanitarian and economic cooperation with the North, brought about a certain degree of warming in inter-Korean relations and led to two inter-Korean summits in 2000 and 2007, where both sides reaffirmed the richly symbolic commitment to eventual peaceful unification. These initiatives helped open channels of dialogue and establish joint ventures such as tours to Mount Kumgang and the Kaesong Industrial Complex.¹²

Conversely, fueled by North Korea's first nuclear test in 2006 and a string of deadly incidents beginning with the death of a South Korean tourist in the North in the summer of 2008, consecutive conservative presidents Lee Myung-bak and Park Geun-hye moved to a strictly conditional approach to dialogue between 2008 and 2017, refusing to overlook North Korea's development of nuclear weapons and ballistic missiles in contravention of an increasing number of UN resolutions. Lee's "Vision 3000: Denuclearization and Openness" policy and Park's "Trustpolitik" policy—their respective branding for what was mostly the same package of inter-Korean policies—emphasized a balance of pressure and cooperation.¹³

A return to a version of the earlier period came with Moon Jae-in's presidency from 2017 to 2022. It resulted in three summits with Kim Jong Un, a speech by Moon to a select audience of residents in Pyongyang, and a period of close U.S.-South Korea policy coordination under the first Donald Trump administration.¹⁴ Trump and Kim's failure to reach a deal at the Hanoi Summit in February 2019 quickly reversed the momentum, however, and thereafter, North Korea became largely uninterested in seriously engaging either the United States or South Korea. Kim met with Trump (and Moon) in Panmunjom in July 2019, and North Korea attended working-level talks with U.S. officials in Sweden in October 2019, but without any of the impetus of the first two summit meetings. The COVID-19 pandemic erupted soon thereafter, and a policy review in Pyongyang birthed today's anti-South orientation.

This brief historical overview shows that inter-Korean policy whiplash has been a feature of relations between the two countries for a long time. Sometimes, relatively warm inter-Korean relations, mostly under left-wing administrations in South Korea, brought North Korea financial and other material resources but also produced complex political tensions at home. At other times, frosty relations, usually with South Korea's conservative administrations, alleviated North Korea's ideological contradictions but reduced income flows, impoverishing segments of the patronage networks that keep the Kim regime afloat.¹⁵

It is of great interest, therefore, that Kim Jong Un chose this moment to initiate a medium- to long-term realignment of inter-Korean strategic culture. For Kim to have made such a firm and potentially irreversible decision implies that North Korea perceived serious risks in the period between 2020 and 2024 that made the choice necessary, when it had not been necessary previously, and that the decision cannot have been driven simply by the shift in emphasis between the Moon administration and that of his successor, Yoon Suk Yeol.

Explaining the Shift: Domestic and Geopolitical Drivers

Domestic Pressures

Regime security and continuity are *the* perennial concerns for Pyongyang, and Seoul is a (arguably *the*) major source of risk for regime security. As such, internal North Korean political and social factors are vital in explaining the timing of the inter-Korean rupture.

Prior to the COVID-19 pandemic, the North Korean state had grown deeply wary of—and concerned by—South Korea's cultural and informational influences on society. From the regime's perspective, the spread of illicit South Korean cultural content among the North Korean population over many years

served as a pernicious influence on ordinary North Korean hearts and minds. To a lesser degree, political rapprochement between 2018 and 2019, during which South Korean music was played on North Korean television and then President Moon gave a speech in the May Day Stadium in Pyongyang, brought new and unwelcome ideas into the North.¹⁶

Accordingly, amidst the enduring effects of its pandemic border closure, the regime sought to narrow the aperture through which South Korean cultural content or ideas might infiltrate, thus sending a clear message to the domestic population about the acceptable limits of cultural liberalization amidst a marked threat to regime stability. In other words, the pandemic presented an opportunity for Pyongyang, guided by the timeless maxim that a crisis must never be allowed to go to waste, to try and slam the door on South Korea's negative influences, a policy through line that led to the infamous Law on Rejecting Reactionary Ideology and Culture in 2020, changes to the rules and regulations of the Korean Workers' Party (KWP) in 2021, and the passage of the Pyongyang Cultural Language Protection Act in 2023.¹⁷

The decision to reject South Korea altogether represents the denouement of this line of political thinking.¹⁸

Geopolitical Realignments

Externally, the strategic environment surrounding the Korean Peninsula changed significantly, just as North Korea needed it to, creating a political and economic environment conducive to the policy shift Pyongyang wished to undertake. U.S.-China competition escalated, cementing North Korea's relationship with its main trading ally.¹⁹ North Korea's new comprehensive strategic partnership with Russia also brought opportunities for arms transfers and personnel deployments, economic and diplomatic insulation from Western pressure, and long-sought-after economic diversification away from China. At the UN Security Council, a Russian veto shuttered the Panel of Experts set up to monitor North Korean sanctions enforcement, opening the door to more and easier violations going forward.

Former South Korean President Yoon's uncompromising stance toward North Korea, coupled with the Biden administration's ambivalent policy of—in essence—strategic patience, served only to reinforce this dynamic, elevating the North Korean regime's threat perception and leading it to conclude that there was nothing to lose. The conservative Yoon administration prioritized deterrence, expanded joint exercises with the United States, and promoted trilateral coordination with Japan. These choices were reasonable, but they were undertaken without any related attempt to engage North Korea.²⁰ Thus, for Kim, South Korea's constellation of policies only reaffirmed the desirability of casting the country as a strategic adversary rather than a potential partner.

Operationalizing the New Doctrine

North Korea's shift from a policy of cautious inter-Korean engagement to open hostility is far-reaching in practical terms. Pyongyang has been systematically embedding this doctrinal shift across its military strategy, domestic information environment, diplomatic alignments, and border security posture.

First, North Korea has intensified the pace and scope of weapons development and testing, with the ultimate goal of securing second-strike capability.²¹ This has been a constant policy of the North Korean state over decades and, as such, is not directly related to its policy pivot toward South Korea. But it is important to note that the rhetoric surrounding its weapons programs has altered somewhat since 2021,

when Kim issued a list of military development goals for the country's new five-year plan.²² The North Korean government has adopted a posture that increasingly emphasizes operational readiness and potential preemptive use—with South Korea as an explicit target.²³

Second, regime propagandists have recalibrated state media to reflect the new adversarial framing of the South. They have scrubbed slogans promoting the ethnic unity of the two Koreas from official communications. Even weather forecasts no longer feature the entirety of the Korean Peninsula.²⁴ Such messaging—a form of banal and effective statist communication—aims to reinforce a worldview in which adversarial coexistence, not eventual unification, becomes the normative frame.²⁵

Third, North Korea has dismantled the institutional infrastructure built for inter-Korean dialogue. The regime blew up the Inter-Korean Liaison Office in Kaesong with great fanfare in the summer of 2020 and ultimately severed virtually all remaining direct communication channels with the South Korean government, including military hotlines. North Korea also declared the Comprehensive Military Agreement (CMA), signed by the two at an inter-Korean summit in September 2018, as “void” after South Korea’s suspended portions of the agreement in response to a North Korean satellite launch.²⁶

Relatedly, at the inter-Korean border, the regime has moved to physically reinforce the conceptual break. In February 2024, the South Korean military observed North Korean military-construction units laying concrete roadblocks and anti-tank barriers along roads near the Military Demarcation Line.²⁷ The same units have also dug up, barricaded, or otherwise obstructed rail and highway links originally developed under the 2000s-era engagement projects. North Korean authorities are also closely managing their northern border with China to tighten control over smuggling routes. These efforts reflect an intensified determination to isolate the population from external information flows, especially South Korean cultural content.

Together, these developments illustrate how Pyongyang is operationalizing its doctrinal shift not as a rhetorical escalation but as a cross-domain restructuring of its national strategy. The dismantling of the unification apparatus, the securitization of the border, the adversarial rebranding of the South, and the embrace of alternative alliances suggest that North Korea now sees long-term strategic and ideological benefits in institutionalizing division—even at the cost of foregoing economic engagement and, perhaps more importantly from the North’s perspective, a measure of diplomatic flexibility. The Korean Peninsula may not yet be formally divided in law, but in practice, North Korea is preparing for that reality.

South Korea’s Political Responses and Interpretations

The Yoon Suk Yeol and Lee Jae Myung Administrations

Under President Yoon from 2022 to 2025, South Korea mirrored North Korea’s policy about-face by foregrounding deterrence and alliance coordination with the United States and Japan. The Yoon administration’s *National Security Strategy*, released in 2024, emphasized a “clear perception of the enemy”—clearly indicating that this is North Korea—and countering the threats posed by the North through robust trilateral cooperation with the United States and Japan.²⁸

By contrast, the newly ruling Democratic Party (DP) has adopted a more ambivalent stance reflecting internal party configurations. While recognizing the gravity of Pyongyang's actions, DP lawmakers argue that a complete disengagement from dialogue would foreclose future options. They advocate for a "conditional engagement" approach that maintains pressure but also leaves space for diplomacy.²⁹

The person whose views matter most at present is Lee Jae Myung, the former DP leader and newly anointed president, who spent time on the campaign trail advocating a policy of conditional engagement with North Korea rooted in—as Lee says—pragmatism and reducing the risks posed by North Korean nuclear weapons and their delivery systems. While he has been critical of Pyongyang's provocative behavior and acknowledges the need for deterrence, Lee also emphasizes the dangers of abandoning inter-Korean dialogue altogether. He has called for the revival of humanitarian cooperation and suggested reestablishing liaison channels to lessen the likelihood of miscommunication or accidental escalation. Lee has also signaled support for revisiting the 2018 inter-Korean documents, including the military agreement that led to some level of de-escalation in the Yellow Sea. At the same time, Lee insists that denuclearization must remain a long-term objective and that economic engagement, which North Korea has effectively forsworn, should proceed only if the North demonstrates tangible restraint in its weapons programs.

Lee's somewhat ambivalent, middle-ground approach largely reflects how deeply divided South Korean progressives and civil society more broadly have become over inter-Korean issues. Humanitarian organizations warn that abandoning engagement entirely would worsen the plight of the North Korean people, who are deprived of basic human rights and suffer from high levels of malnutrition and impoverishment.³⁰ Religious groups and academic voices also lament what they see as the erosion of a national ethos of reconciliation.³¹ Yet, even within these sectors, the belief in near-term unification is waning, replaced by calls for stable coexistence and humanitarian pragmatism.

Public Opinion: Disillusionment and Realignment

The shifting politics of unification reflect the fact that for two decades, a growing number of South Koreans have seen unification as unnecessary or undesirable.³² Economic concerns, cultural divergence, and security fears have all contributed to this reassessment, which has been happening mostly along generational lines. Younger South Koreans, raised in a hyper-connected, globally oriented society, tend to view North Korea less as family and more as a foreign—even alien—polity.³³ The emotional resonance of unification has faded, replaced by pragmatic anxieties about the financial burden and social integration challenges it would entail. While older generations still voice support for reunification in principle, even they acknowledge the deepening divide in identity, politics, and daily life.

Shifts in perception of this type are relatively subtle, but over time, they shape how societies imagine the future—and whether reconciliation remains within the realm of possibility. There is no particular reason to believe that North Korean citizens, already exposed to decades of ideological insulation, see things dramatically differently, and the regime's recent efforts to erase kinship narratives further entrench an adversarial posture.

Popular culture reflects these ongoing shifts. In the democratic era of the 1990s, South Korean dramas and films depicted North Koreans as either sympathetic victims of circumstance or comic figures. This persisted into the twenty-first century, but more recent works, conversely, came to treat the North as distant or alien. Themes of surveillance, defection, and espionage dominated films such as *Secret Reunion* (2010), *The Spies* (2012), *The Berlin File* (2013), and *Secretly, Greatly* (2013).³⁴

It should be noted that this erosion of unification sentiment among South Koreans does not ipso facto mean hostility toward North Koreans as people, although events that foreground the most distasteful elements of North Korea's brutal politics—sobbing crowds at the funeral of Kim Jong Il in December 2011, which suggested (inaccurately, but nevertheless) a brainwashed North Korean populace, or the ruthless purge and execution of Jang Song Thaek in December 2013—do have the capacity to diminish South Koreans' feelings of similarity to the people of North Korea.³⁵ Rather, it reflects a profound disillusionment with the anachronistic and nuclearized state apparatus in Pyongyang and a broader sense that peaceful reconciliation may no longer be feasible, irrespective of its alleged desirability as an end-state. This attitudinal shift is, perhaps, the most underappreciated development of all—and one that is contributing to reshaping South Korean policy discourse in real-time.³⁶

The most recent collapse of inter-Korean engagement is often described in terms of broken summits or canceled agreements. But something deeper is unfolding—a mutual redefinition of what the two Koreas are to each other. For North Korea, as Kim made clear in his January 2024 speech, the South is no longer a wayward sibling to be reunited with but a hostile state aligned with foreign powers. In the South, the North has long appeared as a foreign country rather than a long-lost twin. To reiterate, this is not just a failure of diplomacy; rather, it is the erosion of a shared narrative that once—however tenuously—linked the two.

That is why strategic concerns alone are insufficient to fully explain North Korea's change. Kim could have pursued confrontation without scrapping the principle of peaceful unification—just as South Korea strengthened its defense without revisiting its own constitutional vision of national reunification.³⁷ What has changed is not only the relationship between the two states but the stories they tell about the relationship. The narrative of one people divided by history has long been giving way to a view of two distinct nations with separate futures. In this sense, identity and perception are shaping policy just as much as missiles and alliances. The shift now underway is not simply tactical; it is conceptual.

Implications for Inter-Korean Relations and Regional Security

The implications of the paradigm shift are far-reaching. At the inter-Korean level, military escalation is an ever-present risk. The breakdown of prior agreements—such as the 2018 inter-Korean military deal that Lee Jae Myung says he wishes to revive—has already led to increased border tensions. Diplomatically, channels of communication have fallen silent. Inter-Korean hotlines, liaison offices, and family reunion programs—once symbols of cautious engagement—are either defunct, abandoned, or destroyed. The prospects for renewed talks are dim.

Assuming the status quo persists, as seems likely, South Korea will eventually begin to adapt to the new reality that unification with North Korea is not a widely desired or sought-after outcome. While no South Korean administration is likely to explicitly renounce the constitutional principle of unification—such an action would carry a high cost in terms of political capital and yield little reward—bureaucratic and curricular reforms may gradually de-emphasize the principle in the way that popular culture already does.³⁸ National identity, long anchored in the idea of a singular Korean people, can be redefined in ways that normalize the two-state status quo, which tracks existing sentiment changes among the public in any case.

The collapse of the unification paradigm is doomed to reverberate beyond the Korean Peninsula. Most immediately, it will strengthen the rationale underpinning the U.S.-South Korea-Japan security triangle. Trilateral missile defense integration, joint command-and-control systems, and shared intelligence platforms are all already underway or in the plans. Whilst the Lee administration might not trumpet these as successes in the way the Yoon administration used to, Lee has already indicated that they will not be forsworn either. President Yoon's rapprochement with Japan will outlive his failed administration, and with good reason. These arrangements serve not only to deter North Korea but also to hedge against rising Chinese assertiveness in the Taiwan Strait and South China Sea, making them a no-brainer for everyone involved, including the United States, which values highly its presence inside the first island chain. Northeast Asian security concerns are being integrated at pace, driven primarily by U.S.-China competition and the repercussions of the Ukraine conflict. North Korea's policy pivot is an additional catalyst on the one hand and, on the other, likely to be cemented in place by the changing security landscape.

Conclusion

We do not yet know whether the Korean unification era that began in 1945 is truly over, but its decline is well underway in practice. Kim Jong Un's explicit abandonment of even a rhetorical commitment to peaceful unification has crystallized what many analysts have long suspected: that the North's political leadership now sees strategic advantage in institutionalized division. This presents an identity challenge—one that demands a recalibration of policy and a reckoning with deeply held national ideals.

With both Koreas appearing to settle into a long-term posture, the road ahead is uncertain. Several scenarios are possible, each capable of shaping the future in divergent ways.

The first is a continued stalemate, where intermittent tensions flare along the DMZ and in cyberspace, but neither side crosses proverbial red lines. This would resemble a protracted Cold War dynamic, with robust deterrence but limited engagement. For this, the two Koreas would need to find ways to initiate dialogue if they wish to know each other's red lines, and the influence of Russia on North Korea will have to be mostly stabilizing, rather than the opposite.

A second, more volatile path—emerging from a failure or unwillingness from one side or the other to initiate dialogue, and with Russia actively stoking instability—involves accidental or calculated escalation. Given the militarization of the inter-Korean border and the lack of functional communication channels,

a misstep or tactical provocation could spiral into open conflict. For now, both sides have incentives to avoid this outcome, but an absence of guardrails would increase latent risk.

A third scenario of selective re-engagement cannot be ruled out. If conditions change sufficiently—for example, a leadership shift in either Korea, external pressure from the United States or China, a too-good-to-refuse offer emanating from the Trump administration, or a severe economic crisis engulfing the North—tactical dialogue could resume. However, even this would likely be transactional rather than transformative, ultimately aimed at goals other than peaceful unification. Even here, there would be no turning back to the past.³⁹

Given the desirability of an outcome that preserves the somewhat fragile peace and security of the Korean Peninsula, it is time for the international community to reconsider its role as well. For decades, the default approach of international actors to Korean diplomacy has been to treat unification as the end goal to be encouraged or facilitated. That assumption appears to be no longer tenable. The United States, Japan, the European Union, the United Nations, and other actors will need to adopt a more flexible framework that acknowledges the reality of division while still advocating for peace, human rights, and nuclear restraint.

At present, the task for North and South Korea is to manage their shared conceptual separation without closing the door entirely on future transformation. History on the peninsula has shown that periods of hostility can give way to surprise openings. But the terms of engagement must now be rebuilt from the ground up. That process begins with a clear-eyed understanding of where the relationship stands today: not at a crossroads, but on a new and very different path.

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¹² Valérie Gelézeau, Koen De Ceuster, and Alain Delissen, *De-Bordering Korea: Tangible and Intangible Legacies of the Sunshine Policy* (Routledge, 2013).

¹³ Park Geun-hye, “A New Kind of Korea: Building Trust Between Seoul and Pyongyang,” *Foreign Affairs*, September/October 2011, <https://www.foreignaffairs.com/articles/northeast-asia/2011-09-01/new-kind-korea>; “Lee Myung Bak, ‘3000 Plan for Denuclearization and Opening of North Korea,’” *Daily NK*, September 27, 2007, <https://www.dailynk.com/english/lee-myung-bak-3000-plan-for-denucl/>.

¹⁴ “Translations of President Moon Jae-in’s Speeches in Pyongyang: Mokrangwan Address in Reply, May Day Stadium Speech, and Mt. Baekdu,” *HRNK*, October 2018, <https://www.hrnkinsider.org/2018/10/translations-of-president-moon-jae-ins.html>. The document also includes the text of Moon Jae-in’s dialogue with Kim Jong Un on Paektu Mountain during the same visit.

¹⁵ It is important to note that North Korea’s trade with China, especially in the period 2009–2016, greatly alleviated any pain felt due to the slow death of the Sunshine Policy from the summer of 2008, when a South Korean tourist was killed at Kumgang Mountain, to February 2016, when South Korea shuttered the Kaesong Industrial Complex.

¹⁶ “North Korea ‘Concerned’ Over Public Response to South Korean President’s Speech,” *Radio Free Asia*, September 27, 2018, <https://www.rfa.org/english/news/korea/speech-09272018143257.html>.

¹⁷ Kim, “Why Did Kim Jong-un Delete Unification? Issues and Implications of North Korea’s Position on ‘Hostile Relations Between Two States,’” 673-674; “Crushing dissent: N. Korea’s anti-reactionary thought law and its effect on daily life,” *Daily NK*, January 17, 2025, <https://www.dailynk.com/english/crushing-dissent-north-korea-anti-reactionary-thought-law-effect-daily-life/>; “Suppressing Foreign Influence: The Impact of the Reactionary Ideology and Culture Rejection Law on North Korean Society,” *Daily NK*, October 1, 2024, <https://www.dailynk.com/english/crushing-dissent-north-korea-anti-reactionary-thought-law-effect-daily-life/>; “Daily NK obtains the full text of the Pyongyang Cultural Language Protection Act,” *Daily NK*, March 23, 2023, <https://www.dailynk.com/english/daily-nk-obtains-full-text-pyongyang-cultural-language-protection-act/>. The regulations of the ruling KWP are a much more important indicator of change than the wording of North Korea’s Constitution, which is principally a piece of propaganda for overseas consumption.

¹⁸ Additionally, institutionalizing confrontation with South Korea in this way gives Kim an additional mechanism by which to consolidate elite loyalty and preempt factionalism, especially among military and security institutions that benefit from an ongoing state of high alert. Across 2024 and 2025, the apparatus of North Korea’s police state has become the key player in deciding if, when, and on what terms North Korea opens its borders to outsiders and to which outsiders it opens.

¹⁹ There are signs that friction in the China-North Korea relationship has been created by North Korea’s warming with Russia in the wake of Russia’s war against Ukraine, but there is no serious possibility that this will cause China to abandon North Korea.

²⁰ Former President Yoon Suk Yeol’s “Audacious Initiative,” though morally appealing, cannot be seen as a serious attempt at engagement with North Korea. Following in the footsteps of the twin initiatives of presidents Lee and Park noted on page 3, Yoon’s plan was not likely to succeed for several reasons, all of which are explored in detail by Scott A. Snyder, “Why North Korea Might Reject Yoon Suk-yeol’s Audacious Initiative,” *Council on Foreign Relations*, August 18, 2022, <https://www.cfr.org/blog/why-north-korea-might-reject-yoon-suk-yeols-audacious-initiative>.

²¹ Taehyun Kim, “North Korea’s Efforts to Attain De Facto Nuclear Weapon State Status and ROK-US Response Strategy,” 38 *North*, March 14, 2025, <https://www.38north.org/2025/03/north-koreas-efforts-to-attain-de-facto-nuclear-weapon-state-status-and-rok-us-response-strategy/>.

²² Christopher Green, “North Korea Plots a Course of ‘Heavy Agony’ for 2022,” *International Crisis Group*, January 10, 2022, <https://www.crisisgroup.org/asia/north-east-asia/korean-peninsula/north-korea-plots-course-heavy-agony-2022>; “On Report Made by Supreme Leader Kim Jong Un at 8th Congress of WPK,” *Korean Central News Agency*, January 9, 2021, <https://kcnawatch.org/newstream/161015511-665078257/on-report-made-by-supreme-leader-kim-jong-un-at-8th-congress-of-wpk/>.

²³ “North Korea marks the delivery of 250 nuclear-capable missile launchers to frontline units,” *Associated Press*, August 6, 2024, <https://apnews.com/article/north-korea-kim-jong-un-tactical-nuclear-weapons-missile-launchers-29674804c22aea7d7de8bb6a6aa5a92d>; Kim, “Why Did Kim Jong-un Delete Unification? Issues and Implications of North Korea’s Position on ‘Hostile Relations Between Two States,’” 685-686.

²⁴ Robert King, “Kim Jong-un Changes Policy on Inter-Korean Reunification and Issues Threats of War,” *Korea Economic Institute of America*, January 19, 2024, <https://keia.org/the-peninsula/kim-jong-un-changes-policy-on-inter-korean-reunification-and-issues-threats-of-war/>.

²⁵ Michael Billig, *Banal Nationalism* (SAGE Publications, 1995).

²⁶ However, North Korea had not been observing the agreement in full for several years.

²⁷ “N. Korea cuts power lines supplying electricity to shuttered Kaesong complex,” *Yonhap News Agency*, November 26, 2024, <https://en.yna.co.kr/view/AEN20241126002500315>; “N. Korea’s explosion of inter-Korean roads epitomizes leader Kim’s animosity against S. Korea,” *Yonhap News Agency*, October 15, 2024, <https://en.yna.co.kr/view/AEN20241015008000315>; “Map Shows Where North Korea Has Placed Land Mines in Demilitarized Zone,” *Newsweek*, April 30, 2024, <https://www.newsweek.com/north-south-korea-map-dmz-land-mines-1895427>.

²⁸ Office of the President, “The Yoon Suk-yeol Administration’s National Security Strategy,” 17, 88, https://overseas.mofa.go.kr/eng/brd/m_25772/view.do?seq=16&page=1.

²⁹ “South Korea’s new President Lee vows to pursue talks with North and bolster ties with US and Japan,” *Associated Press*, June 4, 2025, <https://apnews.com/article/south-korea-president-lee-a754f6c7fe8f44d15e2898b59b9a5f3c>.

³⁰ “[2025대선] 더불어민주당 선대위와 남북관계 개선과 한반도 평화 정착 관련 정책협약체결 [[2025 Presidential Election] Democratic Party Campaign Committee Signs Policy Agreement on Improving Inter-Korean Relations and Establishing Peace on the Korean Peninsula],” *People’s Solidarity for Participatory Democracy*, May 22, 2025, <https://www.peoplepower21.org/peace/%ED%95%9C%EB%B0%98%EB%8F%84-%ED%8F%89%ED%99%94/1992759?ckattempt=1>.

³¹ Wondong Lee, “From Nationhood to Peoplehood: A Crisis of Meaning in South Korea’s Unification Discourse,” *Pacific Focus*, March 23, 2025, <https://doi.org/10.1111/pafo.12276>.

³² The state-run Korea Institute for National Unification and Institute for Peace and Unification Studies of Seoul National University survey South Koreans annually to examine current opinion of unification in South Korea. See The Institute for Peace and Unification Studies, *Consciousness Survey*, https://ipus.snu.ac.kr/eng/archives/publications_cat/unification-consciousness-survey.

³³ Saeme Kim, “MZ Generation’s Perspective on Korean Unification,” *Korea Economic Institute of America*, August 26, 2024, <https://keia.org/the-peninsula/mz-generations-perspective-on-korean-unification/>; Emma Campbell, *Korea’s New Nationalism: Politics, Identity and Culture in South Korea* (Routledge, 2016); Emma Campbell, “The End of Ethnic Nationalism? Changing Conceptions of National Identity and Belonging among Young South Koreans,” *Nations and Nationalism* 21, no. 3 (2015): 385–403.

³⁴ Stephen Epstein, “Sympathetically, Gravely? North Korean Spies in Recent South Korean Cinema,” unpublished manuscript.

³⁵ Ra Jong-yil, *Inside North Korea’s Theocracy: The Rise and Sudden Fall of Jang Song-thaek* (State University of New York Press, 2019); “North Korea: The Dramatic Fall of Jang Song Thaek,” *38 North*, December 9, 2013, <https://www.38north.org/2013/12/amansourov120913/>; “Kim Funeral, As North Koreans Wail and Mourn,” *Associated Press*, December 28, 2011, <https://youtu.be/4BDz4rFPTqY?si=FP3JuETH9ho9Vtlo>;

³⁶ This process has been underway for years, but a summary of the latest trends can be found in Darcie Draudt-Véjares, “The Transformation of South Korean Progressive Foreign Policy,” *Carnegie Endowment for International Peace*, May 2025, <https://carnegieendowment.org/research/2025/05/the-transformation-of-south-korean-progressive-foreign-policy?lang=en>.

³⁷ Indeed, in his August 15 Liberation Day speech in 2024, former President Yoon sought to take ownership of the peaceful unification agenda. “Address by President Yoon Suk Yeol on the 79th Liberation Day,” *Korea.net*, August 15, 2024. <https://www.korea.net/Government/Briefing-Room/Presidential-Speeches/view?articleId=256919>.

³⁸ This would have the additional, largely unintended consequence of rationalizing South Korea’s national identity by moving it away from ethnic nationalism, which is articulated principally in the inter-Korean field. As such, it runs counter to the country’s otherwise curricular commitment to multiculturalism and diversity. See Rennie Moon, “Globalisation and citizenship education: diversity in South Korean civics textbooks,” *Comparative Education* 49, no. 4 (2013): 424–439.

³⁹ President Lee Jae Myung has embarked on trying to create the conditions for dialogue, but it remains unclear how North Korea’s top decision-makers regard his efforts. See “北 고위 간부 ‘평화 의지 있다면 9·19 군사합의 복원될 수도 [Senior North Korean official: If there is a willingness for peace, the September 19 military agreement could be restored],” *Daily NK*, June 17, 2025, <https://www.dailynk.com/20250617-1/>.

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South Korea's Industrial Policy in Comparative Perspective: Challenges and Strategies

By Sunhyung Lee

Global trade dynamics are undergoing a seismic shift, marked by a rise in deglobalization and protectionism.¹ More nations with advanced manufacturing supply chains, such as the United States and China, are adopting inward-looking policies that favor domestic production and protect strategic industries related to national security, technology, and critical resources.² Thus, industrial policy is evolving in response to new economic demands. While many state interventions, including the U.S. Inflation Reduction Act (IRA) of 2022 and Made in China 2025, primarily focus on the manufacturing sector, emerging issues such as climate change, automation, supply chain vulnerabilities, and geopolitical fragmentation complicate the effectiveness and scope of traditional industrial policies (e.g., subsidies and tax incentives).³ These multiple objectives require different strategies, where policymakers face various questions regarding trade-offs and political tensions. For example, is a green transition possible when a country imposes a domestic content requirement in supply chains?⁴ How can the government protect middle-class jobs when subsidies for skill-intensive work are used to adopt industrial robots?

Given these global shifts toward protectionism and strategic industrial policies (e.g., reshoring incentives, export control, and subsidies targeting strategic sectors), industrial policy is becoming a tool for economic security and technological self-reliance. Thus, South Korea faces critical decisions in shaping its industrial strategy. While South Korea has historically relied on state-led industrial policies to drive economic growth—a strategy that remains subject to debate due to concerns about market distortions, inefficiencies, and long-term competitiveness—the rise of geopolitical tensions, supply chain vulnerabilities, and technological competition necessitate a reassessment of its approach in light of the evolving economic climate.⁵ For instance, the 2023 Special Tax Treatment Control Law, or the K-Chips Act, is South Korea's attempt at improving competitiveness in high-tech industries. How is it comparable to the United States' CHIPS and Science Act or China's Made in China 2025 policy?

This paper examines the evolution of industrial policy, tracing its shift in perception from being viewed negatively to positively and from conventional approaches to innovative strategies. It also identifies reliable data sources for tracking recent developments in industrial policies worldwide and synthesizes key emerging trends. This analysis aims to help South Korea develop more innovative and effective industrial policies, enabling domestic firms to better adapt to the evolving landscape and maximize available incentives.

Reframing Industrial Policy: From Controversy to Consensus

Industrial policy has emerged as a highly debated topic in the field of economic policymaking for several decades. It frequently encounters skepticism from mainstream economists, who typically advocate

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for free-market mechanisms over governmental intervention in the economy.⁶ Also, government interventions often shift resources (e.g., labor and capital) from more productive to less productive uses, leading to productivity and growth stagnation. In addition to the inefficient outcome, according to the general principles established by the World Trade Organization (WTO), industrial policies are often perceived as potential threats to free trade, posing significant political challenges among international trading partners.

Conventional industrial policies are under siege across other fronts as well. Governments frequently fail to gather comprehensive and accurate information needed to understand and identify all market failures. Even with potentially extensive data, it is unlikely that they could pinpoint the precise solutions required to rectify these deficiencies effectively due to incomplete information and a lack of resources.⁷ Another source of skepticism arises from the possibility of political capture, suggesting that even if sufficient information is available, industrial policies may be disproportionately influenced by lobbying efforts and other resource-consuming political activities.⁸ This influence tends to favor private interests, often at the expense of the broader public good. The third critique of conventional industrial policies concerns the challenges associated with tracking and measuring constantly evolving policy objectives. A case in point is China's strategic push for its shipbuilding sector between 2006 and 2010, which was part of a five-year development plan that included substantial state subsidies to encourage new entrants. But as the industry became populated with numerous inefficient firms, the Chinese government revised its approach between 2009 and 2013, opting to consolidate these firms and elevate the performance of more efficient entities.⁹

The economic literature has acknowledged these shortcomings over the past decade. While it generally remains positive about the advantages that a clear and deliberate industrial policy provides to national economies, scholars today offer a more nuanced and sophisticated assessment of its role within economic development frameworks.¹⁰ Researchers now typically advocate for a more complex understanding of how industrial policies function, moving beyond the simplistic binary of government intervention versus free-market autonomy.¹¹ Expanded definitions of industrial policy now encompass regional strategies, place-based initiatives, and innovation-driven policies. This reflects a growing consensus that targeted government interventions can effectively mitigate market failures, promote technological innovations, and bolster economic resilience.

This rebranding of industrial policy has helped make it a less contentious subject. More importantly, there is a fundamental transformation occurring in how governments approach economic challenges in the twenty-first century. Faced with escalating protectionism, vulnerabilities in supply chains, and intense global technological competition, many nations are reassessing the role of industrial policy as a crucial tool for navigating these complex challenges.¹² For instance, the United States has undertaken ambitious initiatives such as the IRA and CHIPS Act, which illustrate a departure from its historical reluctance toward state intervention in economic matters.¹³ This example suggests that the United States has recently embraced direct government intervention to shape strategic industries and domestic supply chains. Meanwhile, South Korea, where state-led industrial policy has long been a key pillar of economic strategy, is refining this approach by drawing insights from global trends and the latest research developments. For example, the K-Chips Act included new and emerging technologies

to foster the high-tech industries, which are regarded as strategic assets for economic security.¹⁴ This trend toward a more pragmatic and evidence-based understanding of industrial policy suggests that government leaders increasingly recognize industrial policy as a flexible and adaptive instrument for promoting sustainable economic growth.

Measuring Industrial Policy

As advanced nations increasingly adopt policies to stimulate economic growth and competitiveness, it becomes essential to systematically monitor and evaluate the effects of government interventions. The Global Trade Alert (GTA) database is a crucial resource in this context, offering comprehensive and meticulously organized data on a country-by-country, industry-by-industry, and year-by-year basis regarding various policy measures.¹⁵

Utilizing an advanced text-based algorithm, the GTA meticulously processes a wide array of government announcements, official publications, and legislative documents to categorize policy initiatives. This classification encompasses key measures, including financial subsidies targeted at specific sectors, trade restrictions that may hinder imports or exports, and tax incentives designed to promote investment and innovation.

This robust, data-centric approach enhances the transparency of government actions. It also empowers researchers, economists, and policymakers by providing them with the necessary tools to analyze global trends in industrial policy with real-time speed. Furthermore, it enables comparative studies across different countries, facilitating a deeper understanding of diverse strategic approaches in industrial policies and their economic implications. By leveraging these detailed insights, stakeholders can more effectively assess the efficacy and implications of industrial policies in a rapidly evolving global trade and investment landscape.

Analyzing the Global Industrial Policy Pattern

Using information from the GTA database, this paper analyzes patterns in global industrial policies from 2014, with an emphasis on recent developments since 2022.

Table 1 outlines the frequency of government interventions for 197 countries related to industrial policy from 2014 to 2024. During the initial period from 2014 to 2019, GTA data reveals a consistent pattern of interventions, with numbers fluctuating between 3,300 and 3,900. This stability indicates a careful approach to industrial policy characterized by minor adjustments rather than significant overhauls or reactions to external crises.

But in 2020, interventions surged to 7,267, nearly doubling levels recorded in 2019. This dramatic escalation can be attributed to the global repercussions of the COVID-19 pandemic, prompting governments worldwide to adopt emergency measures aimed at stabilizing industries, protecting supply chains, and invigorating economic recovery efforts with unprecedented levels of spending.¹⁶

In subsequent years, the trend of high intervention levels persisted, with reported figures of 6,603 in 2021, 7,288 in 2022, and 6,355 in 2023. These ongoing elevated levels of intervention suggest

that, even beyond the immediate crisis of the pandemic, industrial policy has remained a vital tool for governments.¹⁷ This sustained activity may reflect broader ambitions to fundamentally restructure economic landscapes, enhance the resilience of supply chains, and navigate the shifting dynamics of global geopolitical relations.¹⁸ It is an understandable reaction as pandemic-related lockdown policies caused significant supply chain disruptions that have not been seen in recent eras.

Table 1. Total Number of Government Interventions Per Year, 2014–2024

Year implemented	Value
(1)	(2)
2014	3697
2015	3809
2016	3379
2017	3471
2018	3875
2019	3758
2020	7267
2021	6603
2022	7288
2023	6355
2024	4862

Notes: Compiled by author from the Global Trade Alert database (<https://globaltradealert.org/data-center>). Data was retrieved on March 31, 2025.

The sheer number of policy interventions does not adequately reflect the true scale or impact of each industrial policy. These policies exhibit a broad spectrum of intensity. For instance, some governments may allocate modest subsidies of a few million dollars, while others can reach staggering sums in the billions. The scope of these industrial policies also varies significantly. Some may target a single corporation, encompass multiple sectors, or apply to entire industries based on the goals and context of the intervention. Furthermore, the duration of these measures can range from short-term initiatives lasting only a few months to extensive, long-term strategies intended to unfold over several years.

Despite the diversity in scale, scope, and duration, the increasing prevalence of industrial policies worldwide underscores a notable transformation in economic strategy at the international level. This shift is reshaping the competitive landscape and enhancing the role of government involvement in pivotal industrial sectors, such as automotive and high-tech. As advanced countries increasingly adopt these measures, the dynamics of global commerce and industrial competitiveness are being redefined, signaling an era of heightened state engagement in the economic sphere.

Table 2. Total Intervention by Intervention Type

2014–2025		2019–2021		2022–2025	
(1)	(2)	(3)	(4)	(5)	(6)
Value	Intervention Type	Value	Intervention Type	Value	Intervention Type
12042	Financial grant	3772	Financial grant	3289	Financial grant
11786	State loan	3265	State loan	2631	Import tariff
10680	Import tariff	2456	Import tariff	2145	State loan
6814	Trade finance	1013	Trade finance	1309	State aid, unspecified
3222	Local content incentive	808	Loan guarantee	843	Tax or social insurance relief
2623	Anti-dumping	668	Tax or social insurance relief	713	Trade finance
2300	Loan guarantee	539	Financial assistance in a foreign market	689	Loan guarantee
2296	Tax or social insurance relief	432	Local content incentive	601	Production subsidy
1731	Financial assistance in a foreign market	424	Anti-dumping	599	Export tax
1659	State aid, unspecified	363	Capital injection and equity stakes (including bailouts)	568	Public procurement localization

Notes: Compiled by author from the Global Trade Alert database (<https://globaltradealert.org/data-center>). Data was retrieved on March 31, 2025. The sample period 2025 refers to observations up to March 2025.

Table 2 provides a detailed analysis of the top ten industrial policy instruments categorized by different eras: overall (2014–2025), the COVID-19 pandemic (2019–2021), and the rise of protectionism since 2022. The landscape of these policy instruments has undergone a significant transformation in recent years, driven by changing economic dynamics and emerging global challenges during the pandemic and the increasing de-globalization. Between 2014 and 2025, as illustrated in columns (1) and (2), the predominant interventions included financial grants, state loans, and import tariffs. This trend highlights

a blend of direct financial assistance aimed at promoting domestic industries, combined with measures designed to safeguard local markets from foreign competition.

During the pandemic, as shown in columns (3) and (4), the priority of interventions remained consistent with the broader trend of the total sample. The necessity for immediate economic relief led to a continued reliance on financial grants and state loans, mirroring the strategies of previous years while addressing urgent health and economic crises.

In the following era from 2022 to 2025, a notable shift in the composition of industrial policy instruments becomes evident. Import tariffs have surged in significance, eclipsing state loans as the leading tool of intervention. This change indicates a pronounced shift in policy toward trade protectionism (i.e., tariffs and subsidies), reflecting an increasing desire to bolster local production (e.g., local content requirement) amid global uncertainties in trade policies.¹⁹ Moreover, state aid has risen in importance, moving up to the fourth most frequent kind of state intervention from a previous ranking of tenth within the overall sample. This trend indicates a growing involvement of subnational governments in the formulation and execution of industrial policies, highlighting their crucial role in supporting local economic initiatives (e.g., state-funded subsidies and tax incentives to attract foreign investment) and affecting global industrial policies.²⁰

Additionally, the advent of production subsidies, export taxes, and localized public procurement practices among the top ten policy instruments marks a shift toward strategies designed to enhance the resilience of domestic industries. These tools aim to lessen dependence on foreign suppliers and reduce foreign exposure risks, echoing a broader commitment by the United States, China, and India to foster national self-sufficiency. The natural economic consequences of industrial policies sweeping the world are the reduction of trade and foreign direct investment. This evolution in industrial policy reflects a response to contemporary economic pressures, including the need for supply chain resilience, the impact of geopolitical fragmentation, and the pursuit of technological independence.²¹ These developments collectively illustrate how governments are recalibrating industrial policy to navigate an increasingly complex and interdependent global landscape.

Table 3. Total Intervention by Country, 2022–2025

Rank	Implementer	Value
(1)	(2)	(3)
1	United States of America	2720
2	China	2330
3	Brazil	1505
4	Australia	1456
5	Germany	1191
6	Italy	1137
7	India	1123
8	Russia	961
9	France	876

10	Canada	873
36	South Korea	450
37	Mexico	433
38	Japan	419

Notes: Compiled by author from the Global Trade Alert database (<https://globaltradealert.org/data-center>). Data was retrieved on March 31, 2025. The sample period 2025 refers to observations up to March 2025. The interventions account for all levels of government.

Table 3 presents a detailed overview of government interventions in industrial policy by country since 2022, ranked from the highest to the lowest number of interventions. At the top of the list is the United States, which has recorded an impressive total of 2,720 government interventions, demonstrating its proactive approach to shaping its industrial landscape. A close second is China, with 2,330 interventions that reflect its strong governmental strategies aimed at promoting industrial growth and innovation.

Among other notable economies, Brazil has recorded 1,505 interventions, demonstrating an active commitment to promoting its agricultural and mineral sectors. Australia follows closely with 1,456 interventions. In Europe, several nations have demonstrated significant engagement in industrial policy intervention. Germany has enacted 1,191 interventions, maintaining its position as a key player in the European continent's industrial framework. Italy's total stands at 1,137 interventions, while France follows with 876, illustrating their influential roles in shaping Europe's industrial strategies.

Conversely, South Korea ranks relatively low at thirty-sixth place with 450 interventions. Furthermore, Mexico and Japan exhibit relatively modest intervention figures, with 433 and 419 interventions, respectively. This indicates a more consistent approach to government involvement in industrial policy in terms of frequency. But it does not imply that these countries are not actively engaged in industrial policies, as the scale and intensity of each intervention can vary. Still, these nations seem to prioritize a more targeted approach rather than frequent interventions, possibly focusing on high-impact policies over sheer volume.

Table 4. Total Intervention by Country and Sector, 2022–2025

Value	Implementer	Sector
(1)	(2)	(3)
583	United States of America	Fabricated metal products
557	United States of America	Products of iron or steel
529	United States of America	Basic iron and steel
368	United States of America	Grain mill products
366	United States of America	Cereals
192	China	Computing machinery and parts and accessories thereof
183	China	Chemical products

183	China	Electronic valves and tubes
168	China	Pharmaceutical products
167	China	Motor vehicles, trailers and semi-trailers
35	Japan	Electronic valves and tubes
33	Japan	Television and radio transmitters
28	Japan	Motor vehicles, trailers and semi-trailers
25	Japan	Aircraft and spacecraft
25	Japan	Accumulators, primary cells and primary batteries
38	South Korea	Electronic valves and tubes
35	South Korea	Television and radio transmitters
33	South Korea	Other electrical equipment
31	South Korea	Other special-purpose machinery
30	South Korea	Accumulators, primary cells and primary batteries

Notes: Compiled by author from the Global Trade Alert database (<https://globaltradealert.org/data-center>). Data was retrieved on March 31, 2025. The sample period 2025 refers to observations up to March 2025.

Table 4 provides a detailed analysis of government interventions in various sectors across four specific countries since 2022, showcasing their unique priorities and focuses. The U.S. government, for instance, has mostly intervened in ways that support its metals and agriculture sectors, signaling the nation's primary interests. Among the most supported areas are fabricated metal products, which received a total of 583 interventions, followed closely by products of iron or steel with 557 interventions and basic iron and steel with 529 interventions. Furthermore, the government directed significant assistance to the agricultural sector, particularly to grain mill products, which received 368 interventions, and cereals, which received 366 interventions. This targeted approach demonstrates an apparent effort to strengthen foundational industries that are crucial to the United States.

Conversely, China has focused government interventions on high-tech and strategic industries that it believes are pivotal to its long-term economic success.²² Heavily favored sectors include computing machinery, which has received 192 instances of support, as well as chemicals (183), electronic components

(183), pharmaceuticals (168), and motor vehicles (167). This emphasis on advanced technology positions China as a global leader in innovation and manufacturing.²³

Similarly, both South Korea and Japan have recognized the importance of technology-driven sectors, although at a smaller scale compared to the United States and China. Japan has concentrated intervention in areas such as electronic components, television and radio transmitters, and battery technologies, highlighting the country's commitment to maintaining its competitive edge in electronics. South Korea's interventions also reflect its strengths, with significant support directed toward electronic valves and tubes (38 interventions), other electrical equipment (33), and special-purpose machinery (31). This focused investment demonstrates South Korea's intent to enhance its advanced manufacturing capabilities in high-tech industries and strengthen its position in the global electronics market.

These trends demonstrate a growing awareness among nations of the importance of tailoring industrial policies to remain competitive in critical sectors. By concentrating efforts on sector-specific interventions that align with national competitive advantages, many developed countries are addressing immediate economic challenges and laying the groundwork for sustained growth and innovation in these industries.

Table 5. Total Intervention by Country for Eligible Firms, 2022–2025

Value	Implementer	Eligible Firms
(1)	(2)	(3)
1676	United States of America	Firm-specific
973	United States of America	All
66	United States of America	Location-specific
3	United States of America	SMEs
1	United States of America	State-controlled
1	United States of America	Sector-specific
1423	China	Firm-specific
818	China	All
57	China	Location-specific
25	China	SMEs
5	China	Sector-specific
2	China	State-controlled
286	Japan	Firm-specific
122	Japan	All
10	Japan	SMEs
1	Japan	Location-specific
260	South Korea	All
121	South Korea	SMEs

63	South Korea	Firm-specific
4	South Korea	Location-specific
2	South Korea	Sector-specific

Notes: Compiled by author from the Global Trade Alert database (<https://globaltradealert.org/data-center>). Data was retrieved on March 31, 2025. The sample period 2025 refers to observations up to March 2025.

Table 5 provides a comprehensive overview of the total number of industrial policy interventions across four countries, detailing the category of firms eligible for government support since 2022. The United States stands out for its predominance of firm-specific industrial policies, which comprise the most substantial portion of overall interventions. This approach is characterized by targeted support measures, such as state-funded subsidies designed to aid individual businesses, providing tailored assistance that addresses the unique challenges faced by specific firms. Additionally, the United States employs broader policies that offer support across all firms, although these are less prevalent than firm-specific measures.²⁴ Notably, there were fewer location-based and small and medium-sized enterprises (SMEs)-focused interventions. While there are occasional instances of state-specific interventions and sector-specific policies, such as subsidies and tax incentives set by states, they are not substantial elements of the U.S. industrial strategy.

China has similarly prioritized firm-specific interventions, demonstrating a strong tendency toward policies designed to benefit particular state-owned businesses. Alongside these targeted measures, China also implements a considerable number of policies that are applicable across all firms (e.g., Made in China 2025 and 2021–2035 New Energy Vehicle Industry Development Plan). However, it is essential to note that China places a relatively greater emphasis on supporting SMEs and developing sector-specific initiatives compared to the United States, indicating a more nuanced approach to industrial policy aimed at fostering growth within smaller enterprises and specific industry sectors, as they are often state-owned.

Japanese industrial policies target both specific firms and broader economic sectors, while measures supporting SMEs and targeting specific geographic locations are relatively sparse. This suggests that Japan may rely heavily on an approach that prioritizes larger or more established firms over the broader spectrum of SMEs due to the economic importance of Japanese multinational corporations. In contrast, South Korea adopts a more balanced approach, demonstrating a wider array of policy interventions that span across all types of firms, including SMEs, while also incorporating firm-specific measures. This is an important distinction as South Korean multinational corporations are no longer guided by government-led industrial policy as in the past and often overlook the government's numerous future growth visions. Nonetheless, location-specific and sector-specific policies remain relatively limited in both frequency and application.

This analysis highlights the diverse range of strategies employed by different countries in shaping their industrial policies. The United States and China, in particular, favor firm-specific interventions tailored to individual businesses through state policies for the United States and state-owned enterprises for

China. Meanwhile, South Korea and Japan adopt a broader mix of eligibility criteria, reflecting diverse priorities and approaches within their respective industrial policy frameworks.

Table 6. Total Intervention by Country and Affected Flow, 2022–2025

Value	Implementer	Affected Flow
(1)	(2)	(3)
2278	United States of America	Inward
297	United States of America	Outward
145	United States of America	Outward subsidy
2189	China	Inward
102	China	Outward
39	China	Outward subsidy
234	Japan	Inward
129	Japan	Outward subsidy
56	Japan	Outward
331	South Korea	Inward
100	South Korea	Outward subsidy
19	South Korea	Outward

Notes: Compiled by author from the Global Trade Alert database (<https://globaltradealert.org/data-center>). Data was retrieved on March 31, 2025. The sample period 2025 refers to observations up to March 2025.

Table 6 provides a detailed overview of the total number of industrial policy interventions by country, highlighting their impact on investment flows since 2022. The data reveals a pronounced trend in which industrial policy interventions are primarily aimed at promoting inward investment, such as the IRA. Notably, the United States has taken the lead in this area, enacting an impressive 2,278 measures—the highest among the advanced nations—primarily to attract foreign investment. China follows closely with 2,189 inward-focused interventions. These figures show the strategic priorities of both nations to stimulate economic growth by improving domestic investment environments.

In contrast, the number of outward interventions, which include measures such as subsidies to support domestic firms in exporting activities, is markedly lower. The United States has implemented 145 outward subsidies, while China has recorded an even smaller number of 39. Again, this disparity highlights a significant focus on inward investment policies over outward initiatives in these leading economies to protect domestic industries from foreign competition.

Japan, on the other hand, exhibits a more balanced approach in its industrial policy framework. With 234 interventions aimed at attracting inward investment, Japan also emphasizes outward support, as evidenced by its provision of 129 subsidies to firms looking to expand internationally. This strategy

suggests that Japan is keen on nurturing its domestic industries while simultaneously encouraging global competitiveness.

South Korea presents a unique case. Although the total number of interventions is fewer compared to the United States and China, it has implemented a substantial number of inward policies similar to the CHIPS Act or the IRA (e.g., attracting foreign investment into South Korea), totaling 331. South Korean policymakers have long favored domestic firms and worked to facilitate their expansion into overseas markets, and the numbers suggest this is still largely the case.²⁵

Overall, these global trends indicate a significant shift toward protecting and promoting domestic industries while still permitting selective support for outward expansion, reflecting changing economic priorities amid evolving global trade dynamics since the pandemic and the rise of geopolitical tensions.

Traditional vs. New Industrial Policy

The evolution of industrial policy signifies a transformative shift from rigid and top-down frameworks to more agile and adaptable strategies. Traditionally, governments designed these policies primarily to address market failures, relying heavily on mechanisms such as subsidies and tax breaks. Often, they focused on the manufacturing sector and favored multinational corporations, placing them at the center of economic growth.²⁶

However, today’s industrial policies adopt a broader and integrated approach, intertwining automation, services, and investment coordination.²⁷ This comprehensive approach aims to foster innovation and boost economic resilience amid a rapidly evolving global landscape shaped by lessons gathered from the pandemic and rising geopolitical tensions. This transition recognizes the intricate complexities of modern economies due to the increased interdependency of supply chains, emphasizing the urgent need for industrial policies that are not only dynamic but also responsive to the rapidly evolving global environment since the pandemic and the rise of protectionism. Table 7 illustrates these significant differences, which are explored in greater detail below.²⁸

Table 7. Traditional vs. New Industrial Policy

	Traditional	New
Market Failure Targets	R&D and innovation Investment coordination	R&D and innovation Investment coordination Automation
Sectors	Manufacturing	Manufacturing Services

Eligible Firms	Multinational Corporations	All (large and SMEs)
Informational Shortcomings	The government has complete information	The government has informational shortcomings
Instruments	Subsidies Tax breaks	Subsidies Tax breaks Business services (marketing, management, technology, training, infrastructure, etc.)
Disbursements	Fixed schedule	Customizable
Selections	Pre-determined	Voluntary participation
Conditionality	Rigid	Provisional
Government-Firm Relationship	Top-down	Collaborative

Notes: this table is a modified version of Table 1 in Réka Juhász, Nathan Lane, and Dani Rodrik, “The New Economics of Industrial Policy,” Annual Review of Economics 16, no. 1 (2024): 213–242, <https://doi.org/10.1146/annurev-economics-081023-024638>.

Market Failure Targets

A notable distinction between traditional and contemporary industrial policies lies in their respective strategies for addressing market failures. Traditional policies often maintain a specific focus on research and development (R&D) and innovation as fundamental drivers of economic growth. These policies typically advocate for subsidies and tax incentives—as they are the easiest to implement—aimed at fostering technological breakthroughs and securing intellectual property rights.

In stark contrast, contemporary industrial policies adopt a more comprehensive approach, recognizing that effective investment coordination across sectors is crucial for achieving sustainable economic competitiveness. This modern perspective emphasizes the importance of integrating automation and digital tools within industries, such as in Made in China 2025, for the automotive industry, going beyond innovation to include comprehensive growth strategies.²⁹ Consequently, contemporary policies take into account a wide range of factors, including workforce development, infrastructure improvements, and cross-industry collaboration—all aimed at harnessing the transformative impacts of technology and digitization on industrial expansion.³⁰ This broader viewpoint reflects the growing need for industrial policies to remain adaptable and forward-thinking in addition to the existing approach in a rapidly evolving technological landscape with the rise of automation and emergence of artificial intelligence, ensuring that nations can maintain their competitive edge in an era characterized by continuous innovation and disruption.

From Manufacturing to Service

The focus of industrial policies has significantly evolved in recent years. Historically, these policies were aimed at boosting the manufacturing sector based on the belief that industrialization was the primary engine of economic growth. This narrow focus often led to an overreliance on manufacturing industries, where the critical stages of production are outsourced, leaving economies vulnerable to fluctuations in demand and external market conditions.³¹

In contrast, contemporary industrial policies are broader in scope and include the services sector, which has become increasingly vital in the context of global economic dynamics. This recognition stems from the growing role that services play in enhancing the competitiveness of manufacturing, as well as their direct contributions to GDP and employment. For instance, sectors such as information technology (e.g., Intel), finance (e.g., JP Morgan), and logistics (e.g., Amazon) now intersect seamlessly with manufacturing processes, forming intricate global value chains.³²

By supporting both manufacturing and services, policymakers aim to foster more diversified economies. This approach enhances resilience against economic shocks and encourages innovation and adaptability in response to changing market demands. For instance, U.S. firms like Tesla can integrate manufacturing with in-house software development as electric vehicle firms receive subsidies from the IRA. Ultimately, this broader vision seeks to minimize reliance on any single sector, paving the way for sustainable economic growth and long-term stability. This is a critical point as a narrow industrial policy focus, such as Malaysia's emphasis on domestic manufacturing up to the 1990s without strong export integration, can limit long-term global competitiveness.

From Large Firms to SMEs

Governments have also adjusted their criteria for private sector eligibility in recent years. In the past, industrial policies primarily focused on assisting multinational corporations due to their substantial contributions to the economy (e.g., employment and FDI) and their ability to expand operations on a large scale. These multinational companies were perceived by policymakers as key drivers of economic growth and job creation.³³

Today, however, SMEs are often just as likely to benefit from industrial policies as larger firms. This change acknowledges the critical role that SMEs play in driving innovation, creating local employment opportunities, and stimulating regional economic growth.³⁴ By recognizing the diverse contributions of SMEs (e.g., local employment creation), the new industrial policy framework aims to create an economic landscape that enables both large and small businesses to thrive together.

Informational Shortcomings

A significant differentiation in modern industrial policies revolves around government strategies for addressing informational deficiencies within the market. Traditional industrial policies operated under the presumption that government entities possessed a thorough understanding of both market demands and market failures. In contrast, contemporary approaches recognize the reality of informational shortcomings of governments and policy uncertainty in trade, macroeconomics, and national security.³⁵

This paradigm shift is crucial to the role of government interventions, as it acknowledges that governments may not always have access to complete, up-to-date, or accurate information regarding industry dynamics and consumer behavior. As a result, modern industrial policies foster a more flexible and responsive approach to policymaking. This approach involves implementing robust feedback mechanisms, such as data collection efforts and analysis of market trends, which enable policymakers to adjust their strategies in real time.³⁶ Moreover, there is an increased emphasis on collaboration with private sector stakeholders who can provide valuable insights and expertise (e.g., increased government-firm meetings and seminars). Together, these elements contribute to a more informed and effective decision-making process that addresses the complexities of today's economic environment and the needs of firms.

Instruments: From Tax Breaks and Subsidies to Support for Business Services

The landscape of industrial policy has evolved significantly, incorporating a wider array of instruments beyond the traditional reliance on subsidies and tax incentives that used to drive investment decisions. While these fiscal tools remain relevant in encouraging businesses to expand and invest, modern industrial strategies now encompass a range of additional support mechanisms. These include essential business services for various operational needs, such as marketing assistance to help firms effectively reach their target audiences, management consulting to improve organizational efficiency, and technology support that enables companies to adopt innovative solutions. Government subsidies to SMEs in these areas can expand their growth capacity. Furthermore, training programs are increasingly recognized for their role in developing a skilled workforce ready to meet the demands of changing industries.

Crucially, infrastructure development has become a focal point, as robust systems of transportation, communication, and utilities are vital for firms to operate efficiently. By integrating these diverse instruments into a comprehensive industrial policy framework, governments can better equip businesses to tackle operational challenges. This multifaceted approach supports companies financially and nurtures an environment conducive to holistic industrial growth.

Disbursements: From Fixed to Customizable Payment Schedules

The flexibility in implementing industrial policies has significantly expanded in recent years. Traditional approaches adhered to a rigid disbursement schedule, in which financial support was provided at specific intervals regardless of individual circumstances. In stark contrast, contemporary industrial policies embrace a more adaptable framework. This customizable strategy enables modifications tailored to the unique needs of each firm and the prevailing economic landscape. As a result, support mechanisms can be fine-tuned to better target the specific needs of businesses, ensuring that resources are allocated in a way that aligns with the dynamic shifts occurring in the market. This heightened adaptability enhances the effectiveness of financial assistance and fosters a more responsive economic environment that can address challenges as they arise.

Selections: From Pre-Determined to Voluntary Participation

Traditional industrial policies often rely on a predetermined selection process in which government authorities identify specific firms or entire industries that qualify for support, usually based on established strategic priorities. This rigid methodology can stifle flexibility and result in the exclusion of emerging sectors or groundbreaking firms that do not fit neatly into the predefined criteria. For instance, while established industries like manufacturing and energy may receive significant attention, emerging fields such as renewable energy technologies or digital startups could be overlooked.

In contrast, modern industrial policies promote voluntary participation among firms, enabling them to opt in based on their unique capabilities, interests, and potential for innovation. This approach encourages a broader range of firms to engage with the government's support structures and enables a more fluid and responsive allocation of resources. As a result, companies can compete more effectively, driving innovation across multiple sectors while simultaneously mitigating the risks of inefficiencies that can arise from government misallocation of resources. By prioritizing dynamic engagement over rigid selection, new industrial policies foster a more vibrant economic ecosystem that can adapt to shifting market demands and technological advancements.

Conditionality: From Rigid to Provisional

In the realm of traditional industrial policies, the concept of conditionality has long been characterized by rigidity. Under these conventional frameworks, firms are required to meet strict, predefined criteria, often including concrete performance targets and obligations specific to their respective sectors. This strict adherence is intended to promote accountability and ensure that government support is directed toward achieving measurable outcomes. However, this inflexible approach can hinder businesses' ability to adapt and thrive, particularly in industries experiencing rapid changes due to technological advancements or shifting market dynamics.

In contrast, the emerging paradigm embraces a more dynamic form of conditionality. This provisional approach introduces flexibility to the performance requirements, allowing them to be modified in response to the fluidity of market conditions. For example, rather than imposing set performance targets that may become irrelevant in a short period, policymakers can recalibrate support mechanisms in response to real-time economic developments and emerging trends. This adaptability enables firms to pivot and innovate in response to new challenges and opportunities, contributing to a more resilient industrial strategy. Ultimately, this new framework fosters an ecosystem that enables businesses to remain competitive and responsive, aligning government support with the economy's immediate needs.

Government-Firm Relationship: From Top-Down to Collaborative

Traditional industrial policy frameworks typically employ a centralized, top-down strategy in which the government establishes policy measures with limited engagement with businesses. This often results in a disconnect between the government's policy objectives and the actual needs and challenges faced by industries. For example, a government might impose regulations or incentives that do not account for the unique circumstances of specific sectors, leading to inefficiencies and frustration among businesses.

In contrast, contemporary approaches to industrial policy advocate for a more collaborative relationship between the government and firms. This new paradigm prioritizes dialogue, feedback mechanisms, and the active co-creation of policies. By fostering an environment where industry leaders and government officials can communicate openly, policymakers can draw upon the valuable insights and expertise that businesses possess regarding market dynamics and operational realities. Such collaboration allows for the design and implementation of interventions that are more relevant and better tailored to address the specific challenges and opportunities faced by different sectors. Consequently, these iterative approaches can enhance the overall efficacy of the measures taken while simultaneously nurturing a more dynamic and innovative industrial landscape. This shift toward a partnership model signifies a profound evolution in how industrial policies are crafted and executed, ultimately benefiting both the state and the business.

Conclusion

South Korea's industrial policy is at a critical juncture, shaped by global economic transitions, geopolitical uncertainties, and rapid technological advancements.³⁷ As the global landscape shifts toward protectionism, supply chain resilience, and national security-driven industrial strategies, South Korea must recalibrate its approach to remain competitive. One of the primary challenges South Korea faces is balancing its export-driven growth model with the rising trend of localization and strategic autonomy in major economies such as the United States, China, and Japan. As these economies strengthen domestic manufacturing through targeted policies, South Korea risks losing its competitive edge if it does not enhance its domestic production capabilities.³⁸ Moreover, South Korea's industrial strategy must emphasize innovation-led growth. Unlike previous industrial policies that focused on heavy industries and large-scale manufacturing, future policies should prioritize R&D investments in high-tech sectors. Strengthening public-private collaboration in these areas will be crucial for ensuring that South Korea remains a leader in next-generation industries. Expanding support for startups and tech-driven SMEs will also help create a more dynamic and resilient industrial ecosystem.

Another crucial aspect is South Korea's approach to supply chain security. The country's reliance on global production networks makes it vulnerable to disruptions stemming from trade conflicts, geopolitical tensions, and raw material shortages.³⁹ South Korea must navigate the evolving geopolitical landscape carefully. The intensifying U.S.-China rivalry poses a unique challenge, as South Korea is economically intertwined with both superpowers. Industrial policies should aim to maintain strategic neutrality while securing access to key technologies and markets.⁴⁰

The shift from traditional industrial policies to more flexible, innovation-driven strategies also requires a transformation in government-business relations. Rather than implementing rigid, top-down interventions, South Korea should adopt a more collaborative, adaptable approach to industrial policy. Encouraging voluntary participation in policy initiatives, tailoring support mechanisms to industry-specific needs, and fostering a business-friendly regulatory environment will enhance the effectiveness of state interventions.

South Korea's industrial policy must evolve to address the realities of a shifting global economy. By prioritizing innovation, enhancing supply chain resilience, and adopting a strategic yet flexible industrial

policy framework, South Korea can sustain its competitive advantage. The government's ability to anticipate global trends and implement proactive, adaptive policies will determine the country's long-term economic success as countries around the world continue to increase the frequency of industrial policies and government interventions.

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Beyond the Demographic Cliff: Workforce Trends and Economic Adaptation in Hyper-Aged Korea

By Darcie Draudt-Véjares

South Korea's fertility rate has plummeted to an unprecedented global low of 0.7 children per woman, pushing the country closer to what demographers have ominously termed the "population cliff." This demographic free-fall—from six children per woman in the 1960s to today's sub-replacement levels—has triggered consecutive years of population decline since 2021 and portends a future where innovative economic adaptation becomes not merely advantageous but existential.¹ By 2040, the working-age population will shrink from 72 percent to 56 percent of the total population, creating profound implications for everything from pension sustainability to housing markets to industrial policy. Unlike previous economic challenges the country has overcome, the demographic decline cannot be reversed in the short term, making technological innovation and structural economic reform essential levers available for sustaining prosperity.

South Korea's demographic transformation is particularly striking in its speed and severity. In 2024, the country reached the threshold of a "super-aged society" with over 20 percent of its population above sixty-five years old—a transition that took France 175 years but South Korea less than three decades.² Government projections indicate that by 2070, the total population will shrink 27 percent (to around 37 million), and those over sixty-five will constitute over 46 percent of the population, creating an inverted population pyramid unprecedented in modern history.³ This aging trajectory exceeds even that of Japan, which competes with South Korea for the claim of fastest-aging society and currently leads the world with 28 percent of its population over sixty-five.⁴

According to the OECD, South Korea's elderly dependency ratio alone is projected to grow faster than any other country: from 28 percent in 2024 to 155 percent in the 2080s.⁵ This foretells a particularly acute problem not just of worker shortages but a skew toward the elderly population (ages sixty-five and older), which puts different dependency concerns on the policy agenda. The core working-age population (ages fifteen to sixty-four) is expected to decrease from approximately 37.6 million in 2016 to just 25.9 million by 2050—a striking 31 percent reduction.⁶ This demographic contraction will fundamentally alter the composition of South Korea's workforce, with the proportion of older workers increasing substantially.

While South Korea is not the only advanced economy facing demographic challenges, several factors set it apart from other countries. Unlike traditional immigrant-receiving countries that offset demographic decline, like Germany (over 18 percent foreign-born population) or the United States (14.3 percent foreign-born), South Korea has maintained one of the lowest immigration rates among developed economies, with non-citizens comprising just over 5 percent of the total population.⁷ That said, the number of immigrants is slowly rising, but largely in temporary, low-skilled migrant labor and international students,

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who tend to return to their home countries.⁸ Similarly, while southern European nations like Greece, Italy, Portugal, and Spain face comparable fertility challenges, their demographic transitions have been more gradual, allowing for incremental policy adaptations.⁹ Latin American countries experiencing fertility declines still maintain younger population profiles, with the most quickly aging countries of Argentina, Chile, Cuba, and Uruguay not projected to reach South Korea's current aging levels until the 2040s.¹⁰

South Korea's demographic crisis has deepened over the past two decades, pushing the issue to the political agenda. In 2005, the government established the Presidential Committee on Aging Society and Population Policy—a body led directly by the president and comprising multiple ministers and experts—alongside the National Assembly enacting the *Framework Act on Low Birth Rate in an Aging Society*.¹¹ This institutional architecture has overseen four consecutive five-year basic plans and approximately KRW 280 trillion (roughly USD 10 billion) in spending to reverse the fertility decline.¹² Yet, these efforts have failed to produce meaningful results, with the country's total fertility rate plummeting to a record low of 0.72 in 2023, far below the replacement level of 2.1 and even lower than when interventions began.¹³

As a whole, these tactics—small-scale and temporary immigration, pronatalist family welfare programs, and gender-sensitive employment policies—largely aim to increase the working-age population by boosting fertility rates or marginally expanding the labor force. But the dominant framing of South Korea's demographic change as a looming “population cliff” (*ingu jeolbyeok*)—an irreversible economic death sentence—obscures a more transformative imperative: the need to fundamentally realign economic structures with demographic realities.

Rather than treating demographic decline solely as a crisis to be averted, South Korea should reframe it as a generational opportunity: a chance to transition toward a new model of economic development and social organization. This paper adopts that approach. Rather than asking how society must adapt to existing economic systems, it interrogates how South Korea's economic systems must adapt to enduring demographic realities. The current policy paradigm, focused on delaying decline rather than redesigning systems, is unlikely to sustain the productivity levels necessary for the country's long-term economic well-being—from labor-intensive export sectors to tax bases essential for defense, welfare, and education.

The good news is that South Korea is well-positioned to counter the effects of a hyper-aged society by leaning on its strong technological and industrial base and legacies of social embeddedness and adopting economic policies tailored to demographic realities.¹⁴ The analysis that follows argues for a two-track approach that prioritizes (1) technology-driven productivity enhancement to enable a smaller workforce for maintaining economic output and (2) structural economic reforms necessary to optimize capital allocation, labor utilization, and financial systems in a hyper-aged society.

Demographic Structure and National Economic Well-being

South Korea's postwar economic transformation was built on a foundation of demographic strength. From the 1960s through the 1990s, the country benefited from what economists call the “demographic dividend.” First formalized by researchers at the World Bank and later expanded by the UN Population

Division, the concept of a demographic dividend refers to a temporary economic boost that arises when the share of the working-age population increases relative to dependents, provided that complementary investments in education, health, employment, and governance are made.¹⁵

Cross-national evidence demonstrates that population dynamics, particularly shifts in age structure, played a major role in East Asia's rapid economic growth. Unlike traditional Neo-Malthusian concerns focused on absolute population numbers or resource limits, contemporary demographic scholarship emphasizes the role of age structure in shaping developmental trajectories and competition over resources.¹⁶ Notably, Professors David Bloom and Jeffrey Williamson estimate that demographic change alone accounted for one-third to one-half of the so-called "East Asian Miracle," during which the region's GDP per capita grew by about 6 percent annually between 1965 and 1990.¹⁷ Countries like Singapore and Thailand, alongside South Korea, saw particularly high growth due in part to favorable age structures combined with state-led investments in human capital and export-led industrial strategies.

In South Korea's case, this dividend was especially pronounced, overlapping with the country's era of rapid industrialization and developmental state expansion. While much of the literature on South Korea's economic takeoff focuses on industrial policy and state-business coordination, favorable demographic trends created the social conditions for high national savings rates, rising labor force participation, and large-scale investments in education and infrastructure. Between 1960 and 2000, South Korea's changing age structure—fewer children and relatively more working-age adults—meant that each person (after accounting for how many non-working dependents each worker supported) saw, on average, about 34 percent more GDP per capita. This was one of the highest contributions of the demographic dividend among East Asian economies.¹⁸

This demographic dividend led to economies of scale in education and production and facilitated social mobility through mass employment and rising household incomes. It was during this window that South Korea transitioned from a lower-middle-income country to a high-income economy, laying the groundwork for what is often termed the "Miracle on the Han River." However, this societal advantage has now ended—and without structural reforms, it may become a financial liability.

South Korea's transition to a hyper-aged society can be better understood in a comparative context with other advanced economies that have undergone or are undergoing similar demographic shifts. Japan, which became the world's first "super-aged" society in 2007, offers a particularly instructive example for South Korea, both in terms of policy innovation and the risks of delayed adaptation. While Japan has sustained relatively high living standards through automation, eldercare technology, and industrial upgrading, it also faces persistent challenges such as regional decline, public debt accumulation, and intergenerational inequality.¹⁹

What distinguishes South Korea's demographic challenge from other aging societies is not merely the scope but the unprecedented velocity of this transition. The demographic aging process that required more than a century and a half in France—progressing from 7 percent to 20 percent of the population being sixty-five or older—will be compressed into just twenty-six years in South Korea. This represents a demographic transformation rate even faster than Japan's already rapid thirty-six-year transition to super-aged status.²⁰ This compressed timeframe gives South Korean policymakers and institutions

far less time to adapt their economic and social systems to accommodate such profound structural change, creating urgency for forward-looking policies that can maintain economic dynamism with a fundamentally different population structure.

Just as South Korea leveraged its demographic dividend to fuel industrialization in the twentieth century, it must now leverage technological innovation and structural reform to adapt to demographic maturity in the twenty-first century. The question is not whether the country's workforce will shrink and age—this outcome is demographically inevitable—but how its economic institutions and systems can evolve to maintain prosperity with a fundamentally different population structure.

Workforce Restructuring in a Hyper-Aged Society

South Korea's transition to a hyper-aged society is fundamentally transforming its workforce structure across three critical dimensions—sectoral composition, regional distribution, and gender participation. Understanding how these dimensions interact with population aging is essential for developing economic adaptations that align with demographic realities rather than resisting them.

The first dimension, sectoral transformation in a hyper-aged economy, is driven by population decline, creating both vulnerabilities and opportunities that demand strategic adaptation. Traditional sectors with aging workforces face profound challenges as retirement rates accelerate and replacement becomes difficult. Analysis for Bank of Korea shows that sectors already experiencing significant employment declines between 2010 and 2019—such as agriculture/forestry/fishing (-35.3 percent), public administration (-22.6 percent), and wholesale/retail trade (-12.0 percent)—simultaneously maintain the highest concentration of elderly workers.²¹ Most notably, nearly one-quarter of public administration workers and two-thirds of agriculture and fisheries workers were elderly as of 2009. As these elderly-dominated sectors continue to lose workers to retirement, their labor shortages will intensify, absent a dramatic reorientation toward technological augmentation or process redesign.

In contrast, sectors experiencing employment growth amid demographic aging reveal the emergence of new economic drivers better aligned with an older population structure. Health and social work saw 50 percent employment growth during the 2010s, with less than 9 percent being elderly workers, while science and technology grew 22 percent, with only 6.3 percent elderly workers.²² These growth sectors simultaneously address the needs of an aging population (healthcare) and leverage technology to enhance productivity with fewer workers. The demographic aging process is thus accelerating a sectoral shift from labor-intensive, physically demanding industries toward knowledge-intensive and care-oriented services that can better accommodate an older society.

The broader industrial restructuring due to population aging has driven “a decrease in the proportion of employment in occupations such as machine operation and assembly and skilled positions” since the mid-2010s.²³ The manufacturing, retail, transportation, and storage sectors experienced slowdowns or declines in relative employment during this period, partly because aging workforces in these sectors interacted with automation, online transactions, and offshoring to accelerate employment contraction.²⁴ This trajectory illustrates how demographic aging necessitates economic adaptation—industries with

aging workforces must either transform through technology or contract as retirement rates outpace replacement.

The service sector, meanwhile, has demonstrated greater resilience to demographic aging and offers a model for economic adaptation. Professors Daron Acemoglu, Nicolaj Søndergaard Mühlbach, and Andrew J. Scott identify the emergence of “age-friendly jobs” concentrated in service industries with low physical intensity and flexible work arrangements—characteristics that make them particularly suitable for an aging workforce.²⁵ Data on South Korea’s labor market supports this analysis, showing that service sectors have been more successful at integrating and retaining older workers, especially women.²⁶ As Korea Capital Market Institute’s Research Fellow Hyunju Kang estimates, absent productivity gains, demographic aging could reduce South Korea’s potential growth by 1 percentage point every three years.²⁷ These sectoral patterns highlight how South Korea’s economic structures must evolve to align with its changing demographic profile, emphasizing industries and work arrangements compatible with an older labor force.

The second workforce restructuring in hyper-aging South Korea manifests in stark regional variations that require differentiated economic strategies adapted to local demographic realities. By 2020, sixteen rural regions reached “super-aged” status (more than 21 percent over the age of sixty-five), with South Jeolla, South Chungcheong, and South Gyeongsang provinces experiencing the most advanced aging.²⁸ This regional disparity reflects decades of youth migration to larger metropolitan areas, leaving rural economies with severely aged workforces. Yet, urban centers are rapidly catching up—Busan became super-aged in 2023, followed by Daejeon, Daegu, and Gwangju in 2024, and Seoul, Incheon, and Ulsan are projected to cross this threshold by 2026. By 2029, every region in South Korea will have a super-aged population structure, with the newly founded administrative capital of Sejong being the last to transition.²⁹

The pace of aging across regions reveals a counterintuitive pattern with significant implications for regional economic adaptation strategies. Sejong, currently South Korea’s youngest region, will experience the most dramatic acceleration of aging through 2050, while rural areas that are already heavily aged will see slower progression.³⁰ This inverted pattern stems from rural regions having already depleted their demographic reserves for continued aging. For economic and workforce development policy, this means urban and rural areas require fundamentally different adaptation approaches aligned with their specific demographic trajectories. Urban areas must prepare for rapid workforce aging, while rural regions must design economic systems sustainable with permanently older, shrinking populations.

Traditional economic development approaches focused on attracting young workers to aging regions are increasingly futile. As Korea University Professors Kee Whan Kim and Oh Seok Kim note, “fertility-focused policies that might benefit urban areas are unlikely to succeed in rural regions where the demographic foundation for population regeneration has already eroded.”³¹ Instead, rural economic adaptation must embrace hyper-aged demographics as a permanent condition, focusing on age-appropriate industries, technology-augmented agriculture, and service models designed for elderly populations. In fact, part of the employment decline in agricultural sectors may already be caused by automation and other machine advances.³² Additional evidence suggests that as older farmers retire,

larger, more capital-intensive farms consolidate their land, boosting productivity.³³ The dramatic regional variation in aging trajectories highlights the need for economic strategies tailored to local demographic realities rather than a one-size-fits-all national policy.

A third product of South Korea's workforce restructuring concerns gender-differentiated aging. South Korea's workforce is diving sharply across gender lines, creating a feminization of older labor that demands gender-sensitive economic adaptation. Women under sixty-five have shown remarkable growth in workforce participation as the population ages, driven by educational advancement and the expansion of service sectors compatible with female employment. This trend is especially pronounced among female baby boomers born after the Korean War (1955 to 1974), who possess both improved educational credentials and strong motivation for economic activity.³⁴ Educational attainment has become a critical determinant in older female workforce participation, with highly educated women in their fifties and sixties consistently increasing their labor force participation while less-educated counterparts experienced stagnation since the mid-2010s.³⁵

In stark contrast, aging has driven declining labor force participation among men, particularly in traditional industries unsuited for an older workforce. Since the mid-2010s, labor force participation among men under sixty-five has stagnated or declined as demographic aging has progressed.³⁶ This gender divergence largely stems from occupational segregation, with older men disproportionately concentrated in industries vulnerable to both technological disruption and physical limitations associated with aging—manufacturing, construction, and transportation. Thus, population aging both reveals and exacerbates underlying structural mismatches between traditionally male-dominated sectors and the capabilities of an older workforce, forcing many men to involuntarily and prematurely exit their primary occupations.

These gender-differentiated impacts of workforce aging carry profound economic implications. Projections suggest continued growth in female labor force participation in a hyper-aged South Korea, while men face declining employment prospects unless significant economic restructuring occurs.³⁷ This pattern represents both a challenge and an opportunity for adapting to demographic aging: female labor participation offers a partial offset to workforce contraction but requires economic policies that explicitly support women's continued employment through flexible work arrangements, elder care services, and the elimination of age- and gender-based discrimination. Meanwhile, industries employing primarily older men must undergo technological transformation to accommodate age-related physical limitations or risk continued decline.

Together, these sectoral, regional, and gender dimensions of workforce aging demonstrate that South Korea's economic adaptation must be multifaceted and targeted rather than generic. Each dimension reveals how population aging necessitates fundamental economic restructuring rather than marginal adjustments to existing systems. Attempts to maintain traditional economic structures in the face of these demographic shifts will likely accelerate the decline, while strategies that align economic activities with the realities of a hyper-aged society offer sustainable paths forward.

Economic Adaptation Strategies for a Hyper-Aged Society

South Korea's demographic transition demands a comprehensive redesign of economic structures to align with the realities of a hyper-aged society. Rather than attempting to reverse population aging—a goal that has proven elusive despite substantial financial and programmatic investment—South Korea must develop strategies that can sustain prosperity with a fundamentally smaller and older workforce. This requires moving beyond traditional growth models based on labor inputs and toward systems that maximize productivity and optimize resource allocation within demographic constraints.

Between 2016 and 2050, the core working-age population (ages fifteen to sixty-four) is projected to fall by 31 percent—from 37.6 million to 25.9 million—while the share of older workers (ages fifty-five to sixty-four) is expected to rise from 19.7 percent to 26.7 percent.³⁸ This means a growing proportion of South Korea's labor force will fall into age cohorts typically associated with declining physical productivity and reduced capacity for upskilling or occupational transition. As discussed in the previous section, these challenges are compounded by sectoral and skill mismatches: aging male workers are often concentrated in declining or automating industries like agriculture and manufacturing, while employment growth has been strongest in younger, more female-dominated sectors such as healthcare and IT, indicating a partial demographic and gendered restructuring of the economy.

Yet, South Korea's demographic trajectory also opens new economic horizons. While the dual pressures of a shrinking labor supply and an aging workforce are already constraining the country's economic productivity—especially in labor-intensive sectors—they also create incentives for capital deepening and automation, which, if properly channeled, can raise labor productivity. South Korea already has one of the highest rates of investment in industrial robots, with annual robot sales more than quadrupling from about 7,000 units (2000–2007) to 30,000 units (2010–2018) and achieving a robot density of 77.4 installations per 1,000 manufacturing workers in 2018—second only to Singapore.³⁹ The growing “silver economy”—the aggregate market and productivity potential tied to aging populations—offers opportunities for innovation in healthcare, care work, age tech, and senior-friendly industries. Nearby Japan, which competes with South Korea for the “most quickly aging society” title, has begun turning longevity into a growth engine.⁴⁰

However, in South Korea, efforts to enter promising senior-focused markets remain largely ad hoc: chaebols and startups alike will explore aging-related niches on their own, but without an overarching government policy framework or strategic plan, these initiatives tend to be fragmented and under-resourced.⁴¹ A targeted industrial policy could signal that the silver economy is a strategic priority by offering research and development (R&D) grants for age-tech, tax incentives for eldercare innovations, and streamlined regulatory pathways for assistive devices. Establishing dedicated innovation clusters—where firms share infrastructure like testing centers and data platforms—would reduce duplication and lower entry barriers. Public-private partnerships between universities, research institutes, and industries could pilot aging-friendly technologies in real-world settings, mitigating market risks. By aligning subsidies and setting clear performance benchmarks, industrial policy can transform piecemeal efforts into a cohesive ecosystem that drives scale, innovation, and cost reduction. Unlocking productivity

in a hyper-aged society will require reframing aging as not just a fiscal burden but also a platform for industrial adaptation and strategic investment.

As South Korea's working-age population shrinks and its demographic profile skews increasingly older, the capital-labor ratio—the amount of capital available per worker—is expected to rise significantly. In theory, a higher capital-labor ratio can help sustain labor productivity by compensating for reduced labor inputs through greater use of advanced equipment, automation, and process innovation.⁴² For a hyper-aged society like South Korea, capital deepening is not only inevitable but essential.

However, its effectiveness hinges on how both private investors and public policy guide capital toward high-growth, technology-intensive sectors. As Kang notes, if investment continues to flow into low-growth or capital-saturated industries—such as traditional real estate or low-productivity service sectors—South Korea will face diminishing marginal returns on capital, potentially further eroding its GDP growth rate after 2035.⁴³ Researchers at the Korean Capital Market Institute similarly stress that future investments must prioritize sectors capable of absorbing capital efficiently, such as AI-powered manufacturing, digital healthcare, and age-tech industries tailored to an older consumer base.⁴⁴ Building on the legacy of government-guided initiatives—such as the continued impact of investments in an era of human-computer interaction (HCI)—future policy measures should align incentives so that private capital and chaebol investment flow into AI-powered manufacturing, digital healthcare, and age-tech industries tailored to an older consumer base, rather than into already saturated or low-productivity areas.

These dynamics underscore the urgent need for South Korea to reorient its economic strategy away from past growth formulas rooted in labor-intensive production and speculative asset bubbles. Simply injecting more capital into a shrinking and aging labor force will not produce sustainable growth unless accompanied by systemic reforms that channel investments into productivity-enhancing sectors aligned with South Korea's demographic trajectory.

Household Finance and Pension Reform

Demographic aging is driving a profound shift in the structure of household income and wealth. The composition of national income is moving from earned wages to asset-based income—such as pensions, interest, and dividends—as older adults exit the labor force. This shift presents both macroeconomic and microeconomic challenges. At the household level, elderly households show strong preferences for low-risk, illiquid assets—particularly residential real estate—over higher-return financial instruments such as equities or mutual funds. In 2021, more than 75 percent of net wealth among elderly households was held in real estate, while capital market assets (stocks, bonds, and funds) comprised less than 8 percent of their financial portfolios.⁴⁵

This imbalance in asset allocation not only undermines long-term retirement income security but also distorts national investment patterns. The underdevelopment of South Korea's private pension system and weak capital market participation among the elderly limit the pool of domestic capital available for financing innovation and productivity-enhancing sectors. The story is similar in countries with political economies as varied as China, the United States, and Greece, where misaligned pension structures and

low elderly engagement in capital markets likewise constrain savings for growth-oriented investment.⁴⁶ While younger generations briefly increased stock market activity during the COVID-19 pandemic, structural barriers—such as low financial literacy, poor corporate governance, and lack of trust in capital markets—continue to depress sustained household investment in equities or annuitized pension products.⁴⁷

These trends are exacerbated by the structure and sustainability of South Korea's public pension system. The National Pension Service (NPS), a central pillar of the country's retirement security framework, faces acute fiscal stress as the contributor-to-beneficiary ratio declines. This issue is especially salient because elderly poverty hovers around 40 percent—one of the highest rates in the OECD.⁴⁸ A long battle for pension reform culminated in March 2025 when the National Assembly passed a revision to the National Pension Act, marking the first increase in contribution rates in twenty-eight years. Under the new “pay more, receive more” scheme, contribution rates will rise by 0.5 percentage points annually from 9 percent in 2025 to 13 percent by 2033, while the nominal income replacement rate will increase to 43 percent beginning next year.⁴⁹ The bipartisan compromise also modestly increased the income replacement rate and introduced new noncontributory credit periods for first-time parents and military service members. Despite these advances, critics noted the reform package lacked an automatic balancing mechanism tied to life expectancy—highlighting ongoing political sensitivities around deeper structural changes.⁵⁰

In short, South Korea's rising capital-labor ratio presents both a structural necessity and a potential opportunity. But capital deepening will only translate into sustained economic resilience if paired with structural reforms. These must include improved capital market access and participation across generations, modernization of financial systems to support long-term investment vehicles, and strengthened private and occupational pension systems. Without such reforms, South Korea risks entering a demographic trap in which capital accumulation fails to generate meaningful productivity gains, and fiscal pressures erode public trust and macroeconomic stability.

Technological Innovation and the Silver Economy

Alongside capital deepening, South Korea's advantage in technological innovation offers another critical—yet underleveraged—avenue for adapting to a hyper-aged society. The country consistently ranks among the world's most automated economies, with high deployments of industrial robots in manufacturing sectors—significantly above the global average.⁵¹ While these technologies have historically displaced some older male workers in manufacturing, they also open space for a workforce transition toward service-oriented and digitally mediated roles that are more age-inclusive. In this context, the expansion of South Korea's service sector—particularly in healthcare, caregiving, and interpersonal services—offers a promising avenue for integrating older workers, especially women, into a more resilient and demographically adaptive economy. In short, the existing technological foundation could be leveraged to offset labor force contraction through strategically automating physically demanding tasks, particularly in industries with aging workforces.

Beyond traditional automation, South Korea's strengths in AI and digital infrastructure create opportunities for productivity enhancement that transcend demographic constraints. Advances in AI-assisted design,

predictive maintenance, and process optimization could enable smaller workforces to maintain or even increase output levels. Economic analysis suggests that comprehensive digital transformation across key industrial sectors could potentially offset a significant portion of the projected productivity losses from demographic decline.⁵²

The emerging “silver tech” sector represents a promising frontier in addressing the dual challenge of population aging and economic growth. Technologies specifically designed for older adults, from assistive devices to telemedicine platforms, not only respond to mounting healthcare needs but also open new avenues for industrial innovation and global competitiveness. Japan and Finland—countries with similar political economies and aging societies—have cultivated robust silver-tech ecosystems that serve aging populations in sectors such as home care and health services.⁵³ South Korea’s strong technological capabilities and industrial base make it well-positioned to become a global leader in this space, transforming demographic pressures into strategic economic advantage.

To fully realize the potential of silver tech, increasing the inclusion of older adults in digital transformation efforts is essential. Despite their slower uptake of new technologies, older workers possess valuable experience that, when paired with targeted digital training and support, could enhance productivity and strengthen the competitiveness of South Korean firms.⁵⁴ Recognizing older adults not as digital liabilities but as active participants in innovation ecosystems will be critical to unlocking this opportunity.

Yet, technological adaptation across the broader economy faces significant barriers as well. Small and medium enterprises (SMEs)—which employ over 80 percent of South Korea’s workforce—lag behind large conglomerates in adopting digital tools and automation.⁵⁵ While public-private initiatives like the Ministry of SMEs and Startups’ Win-Win Smart Factory Support Program for Large Enterprises and SMEs have enabled over 5,500 SMEs to adopt digital tools since 2018, broader uptake of technology across SMEs remains slow.⁵⁶ This limited diffusion is especially concerning in the context of South Korea’s rapidly aging workforce. Many SMEs, particularly in manufacturing, depend heavily on older workers yet lack the resources or strategies to integrate them into digital innovation.⁵⁷ Without targeted efforts to reskill senior employees and redesign workflows to suit an aging labor force, SMEs risk falling further behind—both technologically and demographically.

Furthermore, technological solutions must be implemented with careful attention to their social impacts. Automated systems designed without consideration for older users’ needs may inadvertently exclude them from economic participation. South Korean government data confirms this digital divide, showing that while elderly citizens made steady progress in digital adoption between 2019 and 2021 (reaching 69.1 percent on digital inclusion metrics), they continued to lag significantly behind other demographic groups, including persons with disabilities (81.7 percent), rural residents (78.1 percent), and low-income households (95.4 percent).⁵⁸ Bridging these gaps will require targeted technology literacy programs and inclusive design approaches that ensure technology enhances rather than diminishes older adults’ economic engagement.

Workforce Policy Framework for Demographic Adaptation

South Korea cannot resolve its demographic challenges through short-term fixes. As shown above, the country's demographic structure has several interactions at the industrial, regional, and gender levels. Thus, policymakers must develop comprehensive strategies that address both immediate workforce needs and long-term structural economic transformations while navigating complex political realities. Based on the analysis presented, several key policy directions emerge for South Korea's adaptation to a hyper-aged society.

The first is that South Korea must accelerate its transition toward a more technology-intensive economy while addressing adoption barriers. The country's strong technological foundation provides a crucial advantage, but current innovation patterns remain concentrated in traditional export sectors and face resistance among older populations. Policies should encourage the development of age-tech solutions that complement rather than replace human care, ensuring technology augments older workers' capabilities instead of displacing them. Implementation strategies should include dedicated digital literacy programs targeting the significant educational divide between younger and older generations.

The government should expand public-private partnerships like the smart factory program to reach more SMEs, particularly in sectors with aging workforces. These programs should emphasize not only technological adoption but also workforce integration, helping companies redesign workflows and training systems to accommodate older employees. Sector-specific technology roadmaps should identify automation priorities that would maximize productivity gains while creating new roles suitable for an aging workforce. Future research should explore both the logistical and political dynamics of technology adoption among different demographic groups and regions to identify potential coalition-building opportunities.

Second, South Korea must fundamentally reform its financial systems to support economic security in an aging society, ensuring that these reforms fairly balance the needs of both younger and older generations. The current heavy reliance on real estate as a retirement vehicle creates systemic vulnerabilities, from excessive household debt to capital misallocation. Pension reforms should be structured with transparent burden-sharing between generations, potentially including grandfather clauses for those near retirement while establishing new parameters for younger workers. If South Korea follows how Nordic countries have updated their pension systems—making modest, predictable tweaks rather than big, sudden cuts—it could start factoring in longer lifespans when calculating how big each retiree's check should be. At the same time, it could protect people who are already retired by preserving their current payment levels and only applying the new life-expectancy adjustments to future retirees or younger workers.⁵⁹

Beyond pension reform, policies should address the overconcentration of elderly wealth in real estate. This could include tax incentives for diversification into productive financial assets, expansion of reverse mortgage programs with capital market linkages, and the expansion of long-term care insurance markets that reduce precautionary savings motives. Financial literacy programs specifically targeted at pre-retirees could help shift asset allocation patterns toward investments that better support both individual security and broader economic productivity.

Third, South Korea must reconsider its approach to migration policy. While large-scale immigration remains politically and logistically challenging, incremental reforms to the current Employment Permit System (EPS) could gradually build acceptance for greater workforce integration. Recent debates over foreign caregiver programs highlight this complexity, as seen in the controversial 2024 pilot project for foreign caregivers in Seoul, which faced criticism from the public for primarily benefiting affluent districts while raising concerns about potential increases in undocumented migrants if minimum wage requirements were adjusted.⁶⁰ As advanced Asian economies face labor shortages driven by declining birthrates, South Korea will need to adopt more attractive policies to secure much-needed workers in demanding sectors.

The South Korean government could modify the EPS system to allow for longer residency periods, improved skills development, and clearer pathways to permanent residence and family reunification for select workers, starting with sectors facing critical labor shortages. Future migration initiatives should emphasize broad-based economic benefits and strategic workforce integration rather than short-term labor gap-filling, helping to build public support for incremental policy changes.

A fourth policy dimension is gender-based disparities in labor force participation. Policies should support continued growth for female workforce participation through improved work-family balance measures while also addressing the specific vulnerabilities of older male workers displaced from traditional sectors.

For women, particularly those with higher education levels, policies should focus on removing barriers to continued participation, including flexible work arrangements, improved childcare access, and the elimination of workplace discrimination. For men displaced from traditional industries, targeted retraining programs should focus on transferring skills to growing sectors like healthcare, technology services, and specialized manufacturing. Educational programs that facilitate mid-career transitions could help bridge these gender gaps and strengthen overall workforce resilience. The constraints of this study preclude a deeper examination of gendered political dynamics in hyper-aged societies, highlighting an important area for subsequent research.

Fifth, regional disparities in aging require differentiated policy approaches. For urban areas still experiencing population growth, policies should focus on housing affordability, transportation systems, and family-friendly labor policies to support growing families. In rural areas facing advanced aging, both national and local governments should play a proactive, responsive role by supporting private-sector innovations through targeted industrial policies—such as centrally funded subsidies, local tax incentives, and region-specific R&D grants—alongside infrastructure improvements and vocational training programs. This approach enables firms and entrepreneurs to identify and invest in sectors suited to an older workforce, including agricultural technology, specialized tourism, remote-work services, or elder-care innovation. By partnering with community groups and local research institutions, these efforts leverage existing resources and build on long-standing state-private collaboration.

Finally, and perhaps most difficult, South Korea should rethink its approach to economic measurement in a hyper-aged society. Traditional GDP growth may become a less relevant metric than measures of productivity, well-being, and sustainability. Policy success should be evaluated against metrics that reflect quality of life across generations rather than solely focusing on aggregate output expansion.

An important question not addressed in this analysis concerns the political acceptance of alternative economic metrics and indicators of national well-being—a topic that deserves systematic investigation in its own right.

Conclusion

South Korea stands at a demographic crossroads that will fundamentally reshape its economic future. The unprecedented speed and scale of population aging—from one of the world’s youngest societies to potentially its oldest in a single lifetime—presents challenges that conventional policy approaches to reversing demographic trends cannot resolve. Instead, this paper has argued for reconceptualizing demographic aging as a catalyst for necessary economic transformation—an opportunity to develop systems better aligned with South Korea’s inevitable demographic future.

The key insight emerging from this analysis is that South Korea’s economic structures must adapt to demographic realities rather than expecting demographic patterns to conform to existing economic models. Attempts to boost fertility rates or marginally expand immigration have failed to meaningfully address the fundamental mismatch between the country’s aging population structure and its economic systems designed for a younger, expanding workforce.

South Korea’s economic future in a hyper-aged society depends not merely on how many workers it has but on transforming how those workers contribute to economic output. This requires sophisticated capital allocation, technological augmentation of labor, financial system modernization, and gender-responsive policies that maximize economic participation within demographic constraints. Sectoral restructuring—already underway in manufacturing, services, and the care economy—combines automation, human-capital investments, and incentive realignment to lay the groundwork for a productive, resilient, and equitable system. Policymakers must embrace a long-term vision that puts demographic transformation at the center of growth strategy rather than treating it as an afterthought. Only by reorienting economic structures to fit an aging society can South Korea secure sustainable prosperity and social cohesion for generations to come.

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