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Foreign Direct Investment's Role in Increasing Commitment between the U.S., Japan, and South Korea Trilateral Partnership: Opportunities for the U.S. Senate

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Executive Summary

Due to the People's Republic of China (PRC) being the U.S. pacing challenge, the Indo-Pacific is of vital importance to U.S. and global security. The U.S., Japan, and the Republic of Korea, have formed a trilateral partnership to mitigate an increasingly threatening PRC. The success of the trilateral has immediate consequences to U.S. security.

The U.S. has made significant strides to create a successful trilateral partnership despite historical animosity between Japan and the Republic of Korea. This was most recently seen in the 2023 Camp David Summit and the following meetings. However, the level of commitment of Japan and especially the Republic of Korea to the future of the partnership raises concerns for U.S. policymakers. These concerns are due to historical animosity between the two countries and the tumultuous relations they saw from around 2017 to 2020. The solution for these commitment concerns could be found in a whole-of-society trilateral partnership. For example, potential assistance could come from the private sector via foreign direct investment (FDI) between the three countries. Large industry ties amongst the three nations could decrease the likelihood that Japanese and Korean politicians would want to take actions that would harm their political ties. Then, positive political ties would increase partnership commitment and security within the region and deter the PRC.

The purpose of this policy analysis is to examine possible policies which the U.S. Senate can enact to incentivize ties between the private industries of the three nations via FDI. The goal of these policies would be to further connect the trilateral countries' economies together which would hopefully contribute to future commitment.

Key Findings:

- The existing foundation for trilateral FDI policy formulation is strong.
- South Korea and Japan did not see a decrease in FDI trends from 2017 to 2020 which could mean that FDI is immune to moments of negative political ties.
- There are hurdles to FDI in all three nations that need to be addressed and considered.

Policy Recommendations:

- Utilize Existing Frameworks for Guidance
- Coordinate on Export Controls via a Trilateral Private Sector Investment Committee
- Capitalize on the Chip 4 Alliance to Create a Semiconductor Supply Chain
- Create a Trilateral Investment Treaty
- Make Tennessee the Model for Local Trilateral Cooperation

Introduction

Within the sphere of international relations, when a state is caught between two larger powers they must decide on a grand strategic direction for their state. Traditionally, scholars claim they have three choices: bandwagoning, balancing, or hedging.[1] This situation is most prominent when the world has a single hegemon, but another state simultaneously becomes a rising power and challenges the status quo.[2] Today, the People's Republic of China (PRC) has grown increasingly powerful and hostile, especially since the ascension of Xi Jinping. With this ascension, they are challenging the U.S.-led global order. Thus, states in the Indo-Pacific region have had to decide which path they will take in this new era of great power competition. To add complications to the current geopolitical scene, specifically in the Indo-Pacific, Russia and the PRC are increasing their ties. Additionally, the Democratic People's Republic of Korea (North Korea/DPRK) has been assisting Russia with their invasion of Ukraine; and DPRK's threat to South Korea is an constant issue.

Currently, the United States of America (U.S.) has five treaty allies and multiple bilateral, trilateral, and multilateral partnerships in the Indo-Pacific region. The five treaty allies are Australia, the Philippines, Thailand, the Republic of Korea (South Korea/ROK), and Japan. Trilaterally, the U.S. has multiple partnerships but the most relevant for this analysis is the trilateral partnership with Japan and ROK. The Biden Administration has facilitated large and effective strides within the trilateral; many did not think the current level of cooperation between the ROK and Japan could be reached. Despite recent successes, future uncertainties remain.

South Korea and Japan have a historical relationship that is tumultuous, mainly due to Japanese atrocities during World War II and the two countries' territorial dispute over the Dokdo/Takeshima islands. Efforts have been made to improve relations; currently, 42.7% of South Koreans view Japan negatively, which is a record low.[3] However, that is still concerningly high, especially if they need to cooperate with Japan in the future. Additionally, just in 2020 over 70% of South Koreans viewed Japan unfavorably.[4] While unfavorable polls are regularly high, they are usually never as high as 70%; that was a negative point in their relationship. Yet, it does show how volatile the relationship can be. Furthermore, the current South Korea Yoon government has made important strides regarding mending relations with Japan. Under the Yoon and the former Kishida governments, cooperation has risen to new heights. This can be seen militarily, culturally, commercially, fiscally, and economically.[5] However, military cooperation is dependent on the U.S. Also, Japanese FDI into South Korea still has not recovered from where it was in 2012.[6] Japan worries that Yoon's successor will overturn his pro-Japanese policies.

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[1] Stephen Walt, *The Origins of Alliances* (New Jersey: Cornell University Press, 1987); John D. Ciorciari and Jürgen Haacke, "Hedging in International Relations: An Introduction," *International Relations of the Asia-Pacific* 19 (2019): 367–374, https://doi.org/10.1093/irap/lcz017.
[2] John J. Mearsheimer, *The Tragedy of Great Power Politics*, Updated Edition (New York: W. W. Norton & Company, Inc., 2014).
[3] Nami Matsuura, "41.7% of South Koreans Have Favorable View of Japan, Most Ever in Poll," *Nikkei* (Tokyo), September 20, 2024, https://asia.nikkei.com/Politics/Japan-South-Korea-ties/41.7-of-South-Koreans-have-favorable-view-of-Japan-most-ever-in-poll.
[4] Ibid.
[5] "Relations between Japan and South Korea Are Blossoming," *The Economist* (London), March 18, 2024, https://www.economist.com/asia/2024/03/18/relations-between-japan-and-south-korea-are-blossoming.
[6] Ibid.

Additionally, as Yoon approaches the end of his term in 2027, his power over his party will fade. His opponents will use anti-Japanese rhetoric to criticize whichever policy he chooses.[7] All these reasons mentioned, along with the fact that Yoon has extremely low poll numbers (20% as of September 2024),[8] casts doubt over the longevity of recent cooperative successes. While the next ROK election is a few years away, this makes one wonder if the next government would be as pro-Japan and pro-U.S. as the current government. Alternatively, the next government could pull their country away from Japan, thus hurting the trilateral partnership and jeopardizing the recent success.

There have been countless studies regarding alliances about alliance reliability, the success of alliances, threat perception and alliances, trilateral partnerships, and states' navigation between two superpowers. Yet, the literature lacks studies about the role of the private industry in strengthening alliances. It also lacks studies about how the private industry can stabilize one leg of a trilateral partnership. This study will specifically look at the role of the U.S. Senate in helping stabilize South Korea's commitment to the trilateral via the private industry and foreign direct investment (FDI). It will also examine how FDI can help the overall strength of the trilateral alliance. This is a timely analysis due to a few reasons: the PRC's consistent hostile actions, DPRK's continued threat, Russo-Chinese engagement, Russo-DPRK engagement, ROK and Japan's history of bad relations, and the recent success within the trilateral partnership.

Prior to the analysis of FDI between the three states, a literature review and methodology will be explained. Then, the report will address three topics about FDI and the trilateral partnership. First, it will first describe the current state of FDI amongst the trilateral countries. Second, it will analyze FDI in relation to the political atmosphere between Japan and South Korea to learn if the two are correlated in any way. This is to learn if FDI is insulated from politics. Then, it will explain the hurdles to FDI cooperation within the trilateral alliance. Finally, the brief will provide realistic policy recommendations for the U.S. Senate, including opportunities for Tennessee to play a direct role in the alliance.

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[7] Ibid.

[8] Hyunsu Yim, "South Korea Poll Shows Yoon's Approval Rating Lowest since Inauguration," *Reuters* (Toronto), September 13, 2024, https://www.reuters.com/world/asia-pacific/south-korea-poll-shows-yoons-approval-rating-lowest-since-inaguration-2024-09-13.

Literature Review[9]

As mentioned, many studies have been conducted about alliances and political economy. Recently, scholars have studied the impacts of the rise of economic statecraft seen in the 21st century.[10] Additionally, intellectual capital has been put toward understanding the relationship between private industry and geopolitics. For example, corporations respond to many of the same incentives when creating alliances as countries do.[11] Regarding conflict, multinational companies are hesitant to invest in conflict-ridden areas, but once they have invested and the costs of said investments have been spent, they are resilient to the conditions unless they are unusually intense and continuous conflicts.[12] U.S. FDI decreases into countries involved in multiple wars; also, if the U.S. is involved in a host country's war, U.S. FDI decreases. However, if the U.S. is involved in *multiple* of the host country's wars, then U.S. FDI increases.[13] Amongst a pair of wealthy countries, security factors do not impact bilateral investment. Amongst a wealthy country and a poor country, security factors do impact bilateral investment.[14] Taiwanese small and medium-sized enterprises enter foreign markets in two main ways: wholly owned subsidiaries and joint ventures. When there are differences in the economic and industrial policies of the host country, they pursue wholly owned subsidiaries. When they perceive a large difference in socio-cultural differences in the host country, they pursue joint ventures.[15] This could be extended to ROK and Japan due to all three countries having economies based on advanced technology and manufacturing. Scholars know that FDI has a pacifying effect between dyads. Lu (2020) investigated further: when bilateral FDI between adversaries reach a certain level, the level of pacification is higher between dyads with past military cooperation. Additionally, more recent military cooperation has a stronger pacifying effect compared to those that were not as recent.[16]

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[9] The author searched "'international relations' and 'alliances' and 'private industry'" into UTK OneSearch through the University of Tennessee's library. He then narrowed his search to only include articles from 2010-2024 (however, the most recent article was from 2017), since the relationship between the PRC, North Korea, U.S., Japan, and South Korea has changed significantly in that time range. Anything prior to 2010 would not have been relevant. Four articles appeared yet none of them were relevant. Additionally, the author searched "'international relations' and 'alliances' and 'foreign direct investment'" into UTK OneSearch. He then narrowed his search to 2010-2024 for the same reason listed prior. He also chose to only allow peer-reviewed journals, articles, book chapters, and e-books to appear. This returned about 65 results. Only 21 of those were relevant to this study.

[10] Vinod K. Aggarwal and Andrew W. Reddie, "Economic Statecraft in the 21st Century: Implications for the Future of the Global Trade Regime," *World Trade Review* 20 (2021): 137-151, https://doi.org/10.1017/S147474562000049X.

[11] John Conybeare and Dong-Hun Kim, "Democracy, Institutionalization, and Corporate Alliances," *Journal of Conflict Resolution* 54, no. 5 (2010): 715-744, https://doi.org/10.1177/0022002710364127.

[12] Colin M. Barry, "Peace and Conflict at Different Stages of the FDI Lifecycle," *Review of International Political Economy* 25, no. 2 (2018): 270-292, https://doi.org/10.1080/09692290.2018.1434083.

[13] Li Dai and Yongsun Paik, "Propagating a Permanent War Economy? U.S. FDI in Warring Host Countries," *Multinational Business Review* 32, no. 1 (2024): 98-115, https://doi.org/10.1108/MBR-12-2022-0202.

[14] Quan Li and Tatiana Vashchilko, "Dyadic Military Conflict, Security Alliances, and Bilateral FDI Flows," *Journal of International Business Studies* 41 (2010): 765-782.

[15] Fang-Yi Lo, Yu-Ching Chiao, and Chwo-Ming Joseph Yu, "Network and Institutional Effects on SME's Entry Strategies," *Management International Review* 56 (2016): 531-563, https://doi.org/10.1007/s11575-016-0289-4.

[16] Kelan (Lilly) Lu, "Foreign Direct Investment (FDI) and Territorial Disputes between Adversarial States: Implications for Tsai Ing-wen's 'New Southbound Policy' and Taiwan's Approach to Territorial Disputes in the South China Sea," *Journal of Chinese Political Science* 25 (2020): 261-284, https://doi.org/10.1007/s11366-019-09635-w.

Geopolitical risk deters FDI outflows from China, especially in the energy sector,[17] something that could also be true of other states. Corporate alliances have the possibility of teaching local partners how to operate in the global market, particularly within legal, organizational, and financial terms.[18] Interestingly, Powell and Chacha (2016) show that capitalist peace theory can be extended to states facing a coup d'état.[19] FDI also possibly reduces militarization while increasing society security, past just the absence of armed conflict.[20]

Regarding popular opinion, when educated about economic and security risks from China, U.S. citizens are less likely to support China FDI compared to a placebo group.[21] A vital piece to Japanese-ROK relations is their negative historical record. Historical animosity could impact the success of foreign firms at the subnational level, as shown by Japanese investment into China. Also, Japanese firms in Chinese regions with greater Chinese civilian casualties during World War II performed worse than other regions in China.[22] Historical ties impact FDI in another way too. Historical strained relations may dampen the FDI process, while similar cultures and political identities may catalyze the process.[23]

For U.S., Japanese, and ROK firms collaborating on investment, there are multiple relevant studies. Cultural incompatibility is one element that decreases corporate alliances' duration.[24] Another aspect that complicates the situation is institutionalizing corporate alliances causes fear in the post alliance stage about issues like technology theft, free riding, and entering markets that were outside of the agreement.[25] Bilateral investment treaties that have stronger international dispute resolutions are associated with an increase in FDI. Thus, strong international dispute resolutions play an important role in bilateral investment treaties. This shows that, "policymakers should be aware of the fact that the incentive for foreign investors to invest abroad is strongly connected with international dispute settlement provisions."[26] Gowa and Mansfield showed that alliances help promote trade more effectively when trade is based on scale economies and not

[17] Bing Lu and Wenge Liu, "Does Comprehensive Geopolitical Risk Deter FDI Outflows: Evidence from China," *Defence and Peace Economics* 35, no. 3 (2024): 383-399, https://doi.org/10.1080/10242694.2022.2160140.
[18] Paloma Fernández Pérez, "Partners in a Journey to the Centre of the World: Spanish and Japanese Knowledge Transfer and Alliances in the Spanish Healthcare Industries (1960s–1980s)," *Business History* 62, no. 7 (2020): 1202-1230, https://doi.org/10.1080/00076791.2017.1348498.
[19] Jonathan Powell and Mwita Chacha, "Investing in Stability: Economic Interdependence, Coups D'état, and the Capitalist Peace," *Journal of Peace Research* 53, no. 4 (2016): 525-538, https://doi.org/10.1177/0022343316638588.
[20] Indra de Soysa, "Does Foreign Direct Investment Encourage State Militarization and Reduce Society Security? An Empirical Test, 1980-2017," *Peace Economics, Peace Science and Public Policy* 26, no. 1 (2020): 1-15, https://doi.org/10.1515/peps-2019-0011.
[21] Ka Zeng and Xiaojun Li, "Geopolitics, Nationalism, and Foreign Direct Investment: Perceptions of the China Threat and American Public Attitudes toward Chinese FDI," *The Chinese Journal of International Politics* 12, no. 4 (2019): 495-518, https://doi.org/10.1093/cjip/poz016.
[22] Gerald Yong Gao, Danny Tan Wang, and Yi Che, "Impact of Historical Conflict on FDI Location and Performance: Japanese Investment in China," *Journal of International Business Studies* 49 (2018): 1060-1080.
[23] Makino, Shige, and Eric W. K. Tsang. "Historical Ties and Foreign Direct Investment: An Explanatory Study." *Journal of International Business Studies* 42 (2011): 545-557. https://doi.org/10.1057/jibs.2010.53.
[24] Conybeare and Kim, "Democracy, Institutionalization, and Corporate Alliances," 715-744.
[25] Ibid.
[26] Michael Frenkel and Benedikt Walter, "Do Bilateral Investment Treaties Attract Foreign Direct Investment? The Role of International Dispute Settlement Provisions," *World Economy* 42 (2018): 1317-1342; 1335-1336, https://doi.org/10.1111/twec.12743.

differences in resource availability.[27] Japan and South Korea have an intense territorial dispute. Relatedly, Lee and Mitchell (2012) found that high amounts of bilateral FDI increase the chances of peaceful management of territorial disputes. It also decreases the chance of violent escalation. One important mechanism linking FDI and states' conflict management strategies is opportunity costs. Bilateral FDI helps pacify militarized disputes and this pacification becomes stronger between countries with a history of militarization around the issues at stake.[28] Much of Japan's automotive industries have alliance-based supplier integration in Europe,[29] which is something to consider when studying how the U.S.-Japan-ROK economies can better integrate.

In summation, while many studies have been conducted about the characteristics and impacts of economics, alliances, and FDI, there are none looking at what this study will examine. There are no studies on the macroeconomics and private industry characteristics of a trilateral partnership. There are also no studies done on the role of the hegemon's government to facilitate the private sector's cooperation amongst the three countries of a trilateral. Additionally, there are no studies about the impact of FDI on a trilateral when one of the countries appears to not be as committed as the other two, which would be South Korea in this case. This study will examine how the U.S. Senate can facilitate ties to be created between the private industry of each country via FDI. The goal of this facilitation will be to assist South Korea's commitment level to the future of the alliance and the overall strengthening of the trilateral alliance.

[27] Joanne Gowa and Edward D. Mansfield, "Alliances, Imperfect Markets, and Major-Power Trade," *International Organizations* 58, no. 4 (2004): 775-805, https://www.jstor.org/stable/3877803.
[28] Hoon Lee and Sarah McLaughlin Mitchell, "Foreign Direct Investment and Territorial Disputes," *Journal of Conflict Resolution* 56, no. 4 (2012): 675-703, https://doi.org/10.1177/0022002712438348.
[29] Albrecht Rothacher, "Global Alliances, Production Changes and Mature Markets: Japanese FDI in the European Car Industry and Their Implications for Bilateral Trade Policies," *Asia Europe Journal* 13 (2015): 163-174, https://doi.org/10.1007/s10308-015-0410-5.

Methodology

As shown, the broader topic of international relations, alliances, and investment fails to answer what this study will attempt to discover. This policy analysis aims to answer the question: How can the U.S. Senate facilitate private industry relations via FDI amongst the U.S., Japan, and South Korea? This question is important to the current geopolitical landscape for multiple reasons. First, the U.S. has vital interests in the Indo-Pacific region, namely deterring a rising and threatening PRC. Secondly, this cannot be done without allies and partners and Japan and ROK are the U.S.' largest allies in East Asia. Third, the DPRK is a consistent threat to all three states within the trilateral. Fourth, whole-of-society approaches of security are more effective compared to relying only on the military. While traditional security is an important piece to the situation, business relations and FDI have the potential to strengthen relations between the three states. This could have specific impacts on ROK's commitment to Japan, thus strengthening the trilateral.

Methodologically, this study will have multiple qualitative case studies using a type of process tracing analyzing different aspects of South Korea and its relationship to foreign direct investment, Japan, the U.S., and the trilateral alliance. Utilizing the work of Waltz,[30] and explained by Collier,[31] this study will use Recurring Empirical Regularity. Recurring Empirical Regularities are "established patterns in the relationships among two or more phenomena." They can be viewed as causal or descriptive;[32] this study will be descriptive. The timeline that will be analyzed will be 2009-2022. The timeline is due to the IMF's available dataset but will also be beneficial for this study because that is when Shinzo Abe's and Moon Jae-in's governments overlapped. During the overlap Japan and South Korea saw some of the worst relations between their two countries in recent history. Analyzing FDI data during this period will help policymakers determine whether decreases in FDI correlate with declines in political relations between Japan and South Korea. This may not show a causal relationship, a myriad of factors contribute to fluctuations in FDI, but this could show a correlation between the political relationship of the two countries and FDI between them during this time period. This is important because if FDI is insulated from negative political relations, perhaps the value of industry will cause Japanese and South Korean political leaders to not escalate their negative relations between each other. As a result, the U.S. Senate could facilitate and encourage trilateral FDI to increase in hopes to dampen the negative tension between Japan and South Korea. If FDI reaches a certain level, perhaps the power of industry and the economy could cause politicians to hesitate before heightening tensions with the other country.

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[30] Kenneth N. Waltz, *Theory of International Politics* (New York: McGraw-Hill, 1979), 1-2, 5.
[31] David Collier, "Understanding Process Tracing," *Political Science and Politics* 44, no. 4 (2011): 823-830.
[32] Ibid, 824.

Analysis

Part I – Current Status of Foreign Direct Investment within the Trilateral Alliance

Globally, foreign direct investment dropped by 10% from 2022 to 2023, when not including European conduit economies. International investment continues to be difficult due to "weakening growth prospects, economic fracturing trends, trade and geopolitical tensions, [and] industrial policies and supply chain diversification." Mergers and acquisitions (M&As) struggled in 2022; additionally, greenfield investments in developed countries declined by 6%. The industry showed negative signs in "investment infrastructure and digital economy sectors" but positive signs in manufacturing and critical minerals. Additionally, developed nations lean more toward restrictive investment measures. 57% of investment measures had a negative impact on investors; these measures were created due to national security concerns. A growing number of countries now screen FDI. From 2014 to 2023, countries with FDI screening rose by 141%. These countries now make up over 50% of global FDI flows and 75% of FDI stock. Data also shows that FDI restrictions increases negative impacts on outward FDI.[33] Regarding the FDI trend of the U.S., Japan, and South Korea, Figure 1 and Figure 2 below show their net FDI inflows and outflows, respectively. It will show that the overall U.S. inflows have been volatile and that during the Trump administration there was a sharp decline. Japan has had a small but stable inflow of FDI and had a small peak in 2021; the same can be said for South Korea. Figure 2 shows the net FDI outflows of each country. The U.S. FDI outflow numbers are volatile, similar to the inflows. A deficit of FDI outflows occurred in 2018 but have risen to the highest ever between 1990 and 2023. Japan saw FDI outflow increase under Abe, though the latter part of his second term as prime minister saw volatility in FDI outflows. South Korea has seen an increase in FDI outflows from 1990, but did experience a decline in 2023.

[33] United Nations Conference on Trade and Development (UNCTAD), *World Investment Report 2024: Investing in Sustainable Development* (New York: United Nations, 2024), 2-7.

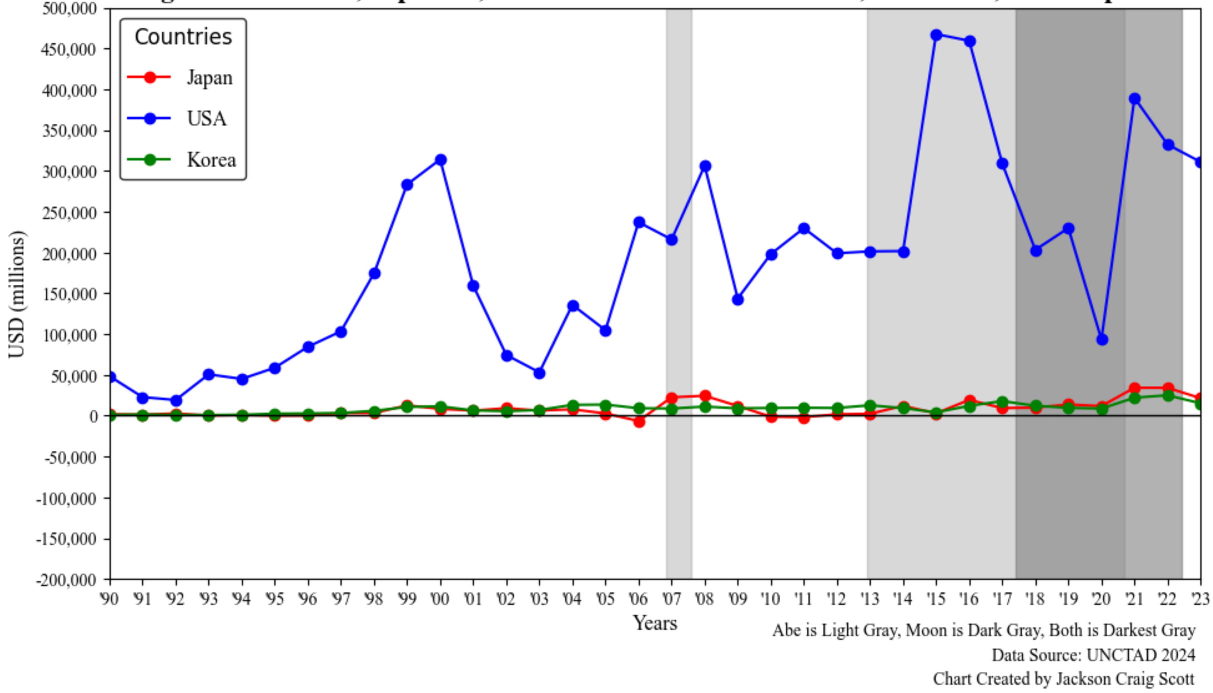

Figure 1: Net USA, Japanese, and South Korean FDI Inflows, 1990-2023, current prices

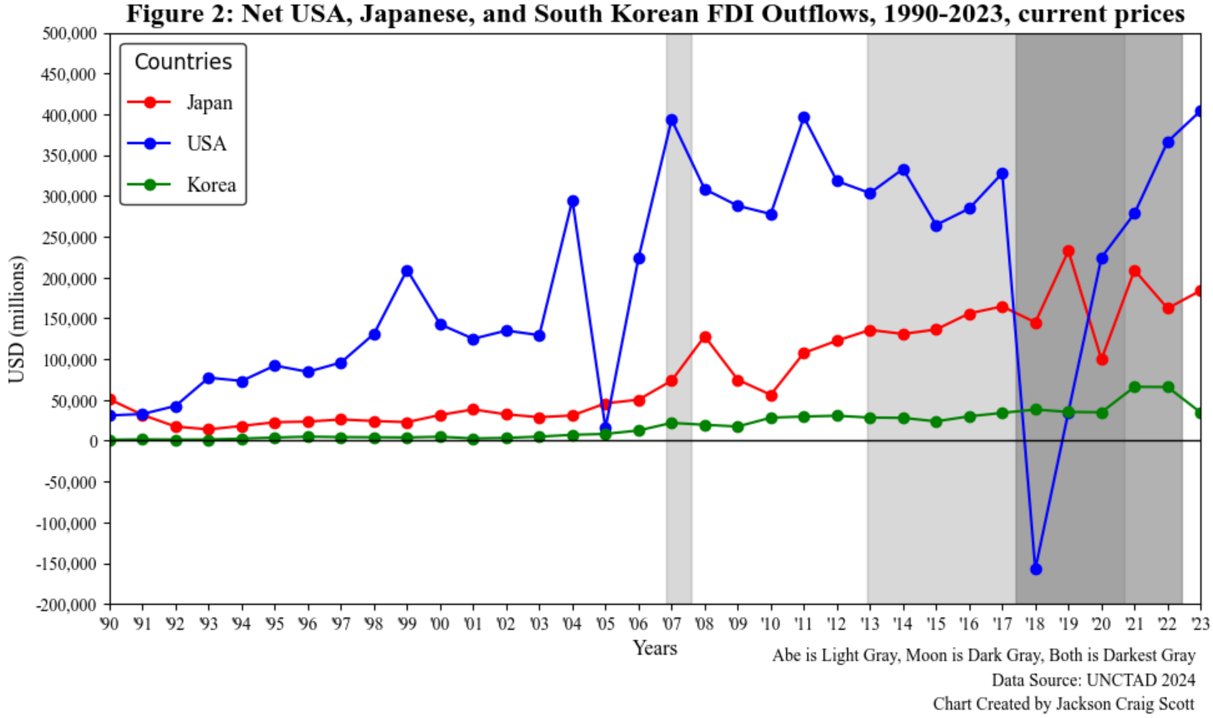

Figure 2: Net USA, Japanese, and South Korean FDI Outflows, 1990-2023, current prices

Regarding the United States specifically, it is the top destination for foreign direct investment throughout the entire world. This largely due to its workforce, legal protections, and emphasis on innovation. In 2022, $177 billion of foreign direct investment took place in the U.S. Inward FDI into the U.S. continues to increase, but the rate of growth has been decreasing. The inward FDI position and the new FDI by the ultimate beneficial owner country are mainly from the most advanced economies. California and Texas obtain the largest shares of new FDI and account for around 30% of total new FDI together. In 2023, the rate of return on FDI in the U.S. was 5.3%; this is 0.3% higher than the average rate of return over the last ten years.[34]

U.S.-Japan FDI relations might be the strongest bilateral FDI relationship in the world. Japan sends 40% of its FDI to the U.S., the most of any country. In Japan, the U.S. is the largest source of FDI.[35] In the past ten years, Japanese FDI in the U.S. has risen by 150%. Japanese trade and investment into the U.S. has created over 1 million jobs. Together, the two countries control over 50% of the world's semiconductor sales and parts production.[36] Japan invests more in the U.S. than any other country globally.[37] Japanese MNEs create jobs for close to 1 million workers in the U.S. Among the top exporters to Japan are Japanese MNEs in the U.S.; these exports directly support around 270,000 jobs and indirectly support about another 205,000 jobs. Specifically, exports to Japan support over 10,000 jobs in Tennessee. Additionally, Japanese greenfield investments have created 275,000 jobs in the U.S., between 2003 and 2023. Within the same timeline, 25,000 jobs have been created due to Japanese greenfield investments into Tennessee and 47,300 Tennessee jobs are located at Japanese MNEs.[38] Since 2003, California, Texas, and Tennessee have received the most Japanese greenfield investments.[39] In sum from 2009 to 2022, the U.S. saw a 198.97% increase in Japanese FDI inflows. In dollar amount, the U.S. saw an increase of $473.8 billion of Japanese FDI inflows, from 2009 to 2022.[40] For South Korean inflows, investment into the U.S. is responsible for close to 117,000 jobs since 2003.[41] Also since 2003, the top three states that obtained the most employment from South Korean greenfield investments are Georgia, Alabama, and Texas; Tennessee ranks fifth. South Korean greenfield investments have been responsible for 7,265 jobs in Tennessee.[42] There has been $6.4 billion of Korean multinational investment into Tennessee from 2003 to 2023. As of 2023, SK Innovation, in a joint venture with Ford Motor Company, plans to invest $4.3 billion into the U.S. which is estimated to create 11,000 jobs in Tennessee and Kentucky. Since the signing of the Korea Free Trade Agreement (KORUS) in 2012, South Korean investment into the U.S. has increased by 187%. Over 2,100 U.S. companies have an official presence in South Korea.[43]

[34] U.S. Department of Commerce, *Foreign Direct Investment in the United States* (Washington, DC: October 2024), https://www.commerce.gov/data-and-reports/reports/2024/10/foreign-direct-investment-united-states.
[35] East-West Center & Sasakawa Peace Foundation, *Japan Matters for America/America Matters for Japan* (Washington, DC: Sasakawa Peace Foundation, July 2023), 24, https://asiamattersforamerica.org/japan/publications.
[36] Ibid, 2-4.
[37] Ibid, 8.
[38] Ibid, 22-23.
[39] Ibid, 28.
[40] International Monetary Fund, "International Financial Statistics (IFS)," https://data.imf.org/regular.aspx?key=60564262, accessed November 1, 2024.
[41] East-West Center, Korea Economic Institute, and CHEY Institute for Advanced Studies, *Korea Matters for America / America Matters for Korea* (Honolulu: East-West Center, 2023), 4. https://asiamattersforamerica.org/uploads/publications/2023-Korea-Matters-for-America-Matters-for-Korea.pdf.
[42] Ibid, 26-27.
[43] Ibid, 28, 30.

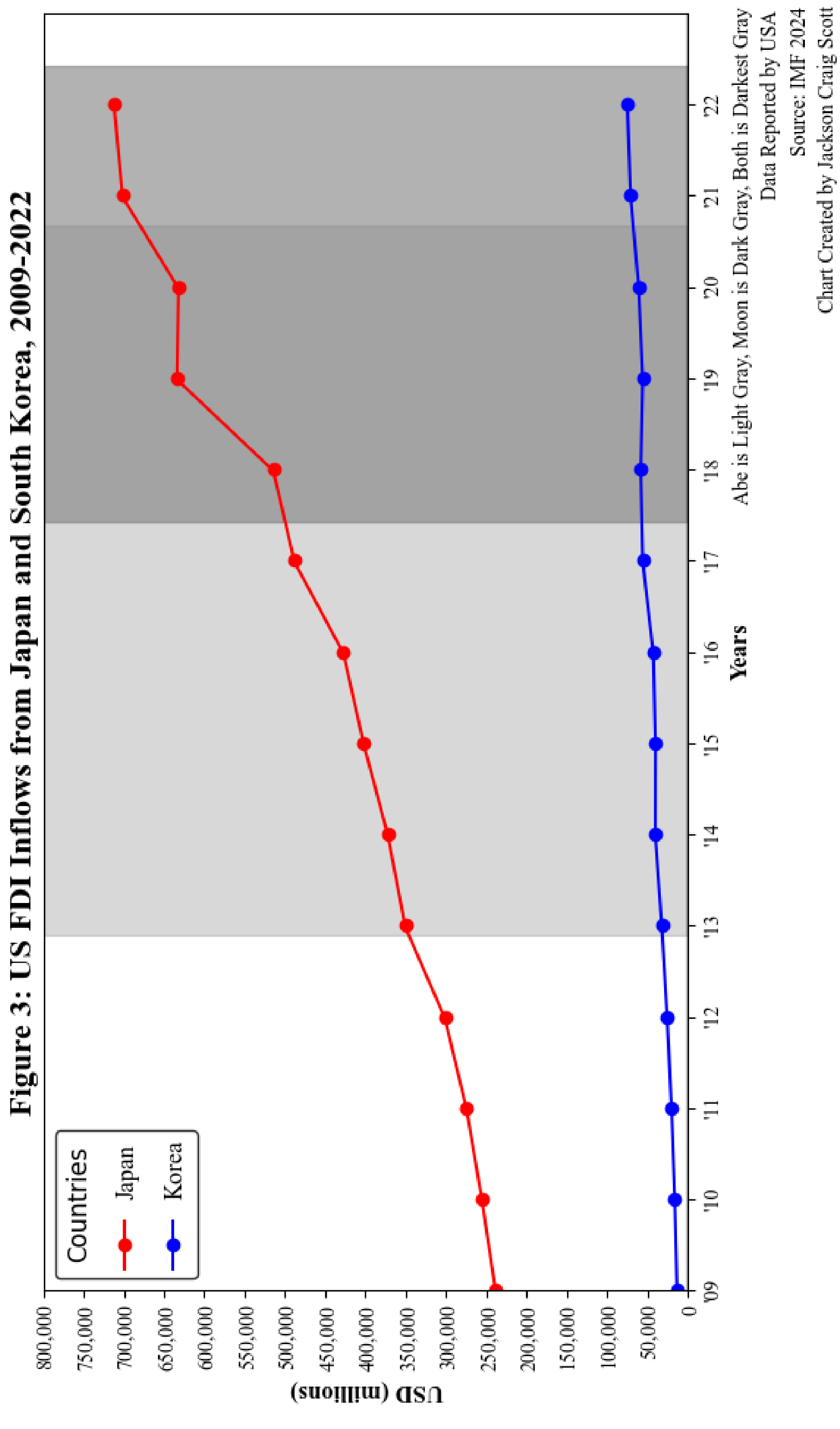
Figure 3: US FDI Inflows from Japan and South Korea, 2009-2022
Countries
Japan
Korea
USD (millions)
800,000
750,000
700,000
650,000
600,000
550,000
500,000
450,000
400,000
350,000
300,000
250,000
200,000
150,000
100,000
50,000
0
'09
'10
'11
'12
'13
'14
'15
'16
'17
'18
'19
'20
'21
'22
Years
Abe is Light Gray, Moon is Dark Gray, Both is Darkest Gray
Data Reported by USA
Source: IMF 2024
Chart Created by Jackson Craig Scott

To close, figure 3 above shows the trend from 2009 to 2022 of U.S. FDI inflows[44] from Japan and South Korea. There was no change in the general trend between the Abe and Moon administrations and Japanese and South Korean FDI into the U.S. Even the COVID-19 pandemic did not hinder growth. Interestingly, FDI inflows from Japan increased in 2018 before flattening out again in 2019. In sum, from 2009 to 2022, the U.S. saw a 475.96% increase in Korean FDI inflows. In dollar amount, the U.S. saw an increase of $61.7 billion of Korean FDI inflows, from 2009 to 2022.[45]

Regarding investment into South Korea, they offer "foreign investors political stability, public safety, world-class infrastructure, a highly skilled workforce, and a dynamic private sector." FDI inflows have increasingly grown since Korea's market liberalization in the 1990s. However, Korea's "complicated, opaque, and country-specific regulatory framework" have had negative impacts on foreign investors. The Korean government has made attempts to deregulate parts of their economy to encourage FDI; President Yoon has continued these efforts.[46] Additionally, an amendment to the U.S.-Korea Free Trade Agreement (KORUS) began on January 1, 2019 which assists in securing broad access to the Korean market for U.S. investors.[47] Korea welcomes foreign investment and in February of 2024 President Yoon met with 12 leaders of foreign firms that had investments in Korea. He promised to increase deregulation efforts and make Korea a world leader for FDI inflows.[48] Aspects of the Korean economy stopping FDI inflows are: "regulatory opacity, underdeveloped corporate governance, rigid labor policies, Korea-specific consumer protection measures, the predictability of tax enforcement, criminal liability risks for executives, digital economy regulations, and the political influence of large conglomerates, known as *chaebol*."[49] The top two largest countries with FDI inflows to Korea are the U.S. and Japan, with 15.6% and 13.3% of Korea's FDI share, respectively.[50]

Narrowing in on U.S. FDI into South Korea from 2009 to 2022, it has increased by 49.62%. In dollar amount, the U.S. inflows from 2009 to 2022 increased by $12.4 billion.[51] South Korea is the 7th largest recipient of U.S. FDI in the Indo-Pacific region. The leaders amongst U.S. companies with an official presence in South Korea are in the retail and telecommunication sectors.[52] Additionally, South Korea and the U.S. have strong relationships in the information and communication technology industries. The trade amongst these industries is worth $12.6 billion. U.S. cloud services have seen rapid growth in South Korea since 2016 due to companies like Amazon Web Services, Google, Microsoft, and Oracle.[53] While this latter point is

[44] This study is using FDI inflows because inflow data is more accurate than outflow data.
[45] International Monetary Fund, "International Financial Statistics (IFS)," https://data.imf.org/regular.aspx?key=60564262, accessed November 1, 2024.
[46] U.S. Department of State, *2024 Investment Climate Statements: South Korea* (Washington, DC: U.S. Department of State), https://www.state.gov/reports/2024-investment-climate-statements/south-korea/. Accessed November 1, 2024.
[47] Ibid.
[48] Ibid.
[49] Ibid.
[50] Ibid.
[51] International Monetary Fund, "International Financial Statistics (IFS)," https://data.imf.org/regular.aspx?key=60564262, accessed November 1, 2024.
[52] East-West Center, Korea Economic Institute, and CHEY Institute for Advanced Studies, *Korea Matters for America / America Matters for Korea*, 28.
[53] Ibid, 24.

information and technology trade and not specifically FDI, it does provide insight to potential opportunities for the U.S.-Korean corporate cooperation.

For Japanese FDI into South Korea from 2009 to 2022, it has increased by 101.93%. In dollar amounts, the Japanese inflows from 2009 to 2022 increased by $28.2 billion. There has been recent collaboration between the two neighboring countries: "The Japan Bank for International Cooperation (JBIC) signed an MOU with [the U.S. International Development Finance Corporation] and the Export-Import Bank of Korea (KEXIM) in August 2023 to collaborate in sectors such as quality infrastructure, resilient supply chains, and decarbonization in the Indo-Pacific region."[54] South Korea also has a bilateral investment treaty with Japan and the People's Republic of China (PRC). Additionally, South Korea has ongoing negotiations for a free trade agreement between Japan and the PRC too.[55] Continually, Japan leads FDI in industrial complexes in South Korea, with over $1 billion of investment in 2023.[56] To close, Figure 4 below presents the trend of FDI investment into South Korea from the U.S. and Japan between 2009 to 2022.

Turning to Japanese FDI inflows, Japan has the lowest inbound FDI stock amongst OECD countries. By the end of 2022, inward FDI stock was only 8.3% of their GDP which ranks as one of the lowest in the world. However, in April of 2023, the Council for Promotion of Foreign Direct Investment in Japan, which is led by the Minister of Economic and Fiscal Policy, announced new efforts to increase FDI inflows. Their goal is to increase their FDI inflows to about 15% of their GDP by 2030.[57] Japan's investment environment is favorable to foreign investors for several reasons; however, foreign investors continue to face hurdles. Some of these hurdles include corporate Japan is usually averse to mergers and acquisitions, Japan usually has weak corporate governance, strict labor laws, and administrative burden on labor recruitment and management which hurts managing human resources. The Japanese government has highlighted these problems and is attempting to improve investment conditions. Historically, the electrical machinery, finance, and insurance industries have had a large attraction to FDI in Japan.[58] The Japanese government has recently been investing heavily into decarbonization efforts.[59]

In 2022, the Japanese saw the U.S. invest $62.6 billion into their country. Unfortunately, this is a decrease from 2009, where the U.S. invested $75.1 billion into Japan. This is a 16.58% decrease in American FDI into Japan.[60] Yet, the U.S. remains the largest investor into Japan.[61] Japan does not have a bilateral investment treaty with the United States. Japan and the U.S. have multiple

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[54] U.S. Department of State, *2024 Investment Climate Statements: Japan* (Washington, DC: U.S. Department of State, 2024), https://www.state.gov/reports/2024-investment-climate-statements/japan/. Accessed November 1, 2024.

[55] Ibid.

[56] Michael Herh, "Japan Leads Foreign Investment in Korean Industrial Complexes," *Business Korea* (Seoul) October 31, 2024, https://www.businesskorea.co.kr/news/articleView.html?idxno=228317.

[57] U.S. Department of State, *2024 Investment Climate Statements: Japan* (Washington, DC: U.S. Department of State, 2024), https://www.state.gov/reports/2024-investment-climate-statements/japan/. Accessed November 1, 2024.

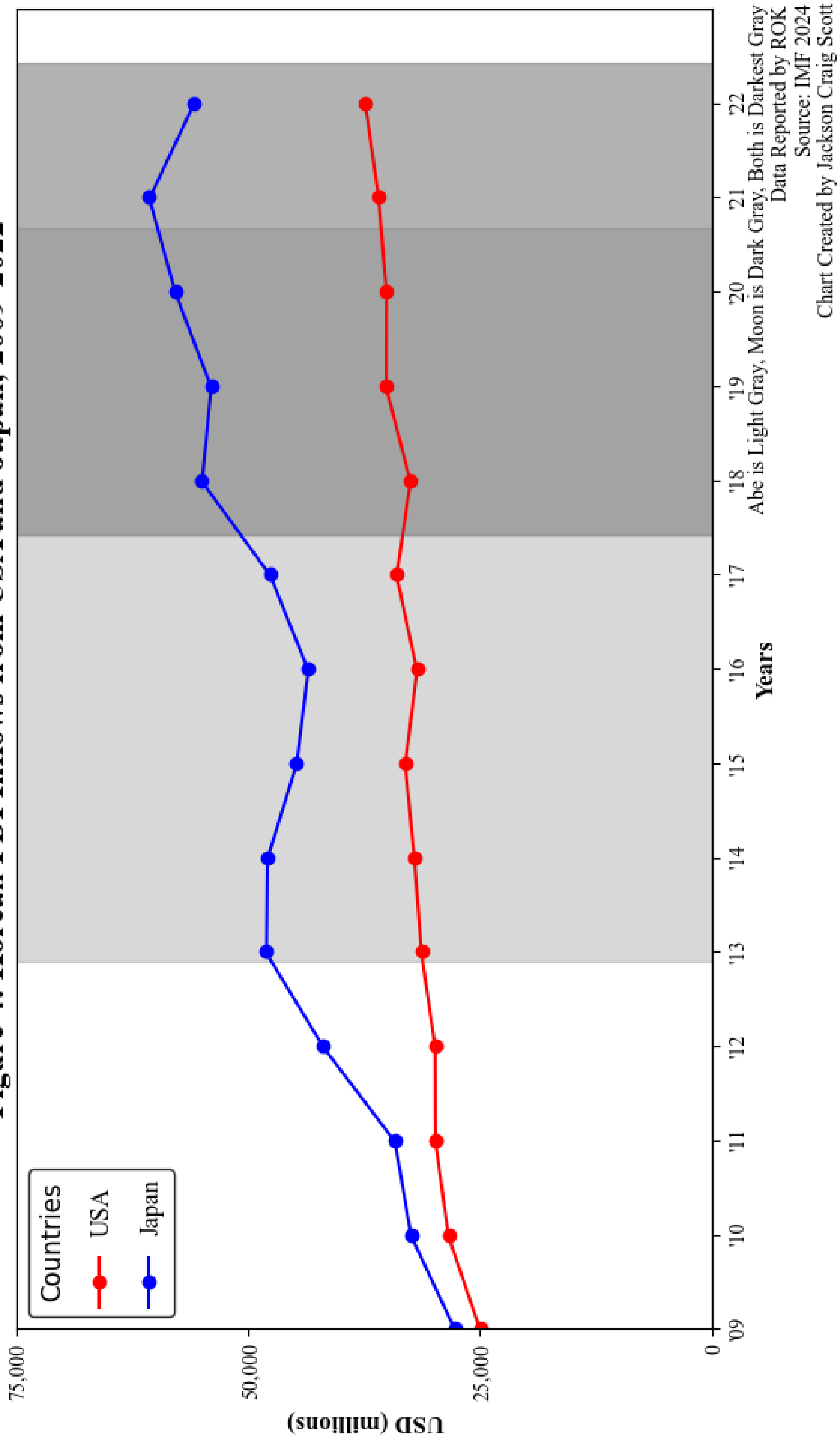
[58] Ibid.

[59] Ibid.

[60] International Monetary Fund, "International Financial Statistics (IFS)," https://data.imf.org/regular.aspx?key=60564262, accessed November 1, 2024.

[61] East-West Center & Sasakawa Peace Foundation, *Japan Matters for America/America Matters for Japan*, 24.

Figure 4: Korean FDI Inflows from USA and Japan, 2009-2022



sector specific trade agreements ranging from agriculture to critical minerals needed for batteries, but they do not have a comprehensive free trade agreement.[62] The U.S. and Japan control 50% of semiconductor sales and parts manufacturing. The U.S. leads the world in sales; the Japanese lead the world in parts manufacturing.[63] Both countries have made large public investments in the semiconductor industry.[64] In 2021, Japan and the U.S. signed the U.S.-Japan Commercial and Industrial Partnership (JUCIP) and the U.S.-Japan Competitiveness and Resilience (CoRe) Partnership. These efforts will help with the protection of key technologies and cooperation amongst the two nations. It will also increase digital innovation.[65] As of 2023, there are more than 1,600 U.S. MNEs in Japan and over 8,600 subsidiaries. Like most other foreign direct investors, "most U.S. investment in Japan is in the financial and insurance sector at $53 billion (45%). U.S. FDI in manufacturing ranks second, valued at $28 billion (24%)."[66]

In 2022, Japan saw South Korea invest $7.6 billion into their country. This was a large increase from just $1.4 billion in 2009; this was a 427.47% increase.[67] Previous bilateral information when South Korea was discussed can also be applied here to Japan. This includes the information about the JBIC's MOU with KEXIM, the bilateral investment treaty with South Korea and the PRC, and the ongoing free trade negotiations with South Korea and the PRC.[68] Overall, the largest issue is that Japan has relatively extremely low rates of FDI from anywhere, not just from South Korea. To close, Figure 5 below (p. 16) shows the FDI trends of inflows to Japan.

In conclusion, the FDI relationship between South Korea and Japan should be closely compared. This is perhaps the most important part of FDI in the trilateral due to Japan and South Korea's animosity. Figure 6 below (p. 17) shows the trend of their FDI inflow relationship from 2009 to 2022. In that timeframe, South Korean inflows from Japan have increased by $28.2 billion, which is a 101.93% increase. In that same time, Japanese inflows from South Korea have increased by $6.2 billion, which is a 427.47% increase. This shows that while the absolute amount of South Korean inflows from Japan are much larger than its counterpart, Japanese inflows from South Korea have increased at a much larger rate. This policy analysis will now turn to examine if FDI is insulated from periods of political rivalry between Japan and South Korea.

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[62] U.S. Department of State, *2024 Investment Climate Statements: Japan* (Washington, DC: U.S. Department of State, 2024), https://www.state.gov/reports/2024-investment-climate-statements/japan/. Accessed November 1, 2024.
[63] East-West Center & Sasakawa Peace Foundation, *Japan Matters for America/America Matters for Japan*, 30.
[64] Ibid.
[65] Ibid.
[66] Ibid, 26.
[67] International Monetary Fund, "International Financial Statistics (IFS)," https://data.imf.org/regular.aspx?key=60564262, accessed November 1, 2024.
[68] U.S. Department of State, *2024 Investment Climate Statements: Japan* (Washington, DC: U.S. Department of State, 2024), https://www.state.gov/reports/2024-investment-climate-statements/japan/. Accessed November 1, 2024.

Figure 5: Japan FDI Inflows from USA and Korea, 2009-2022

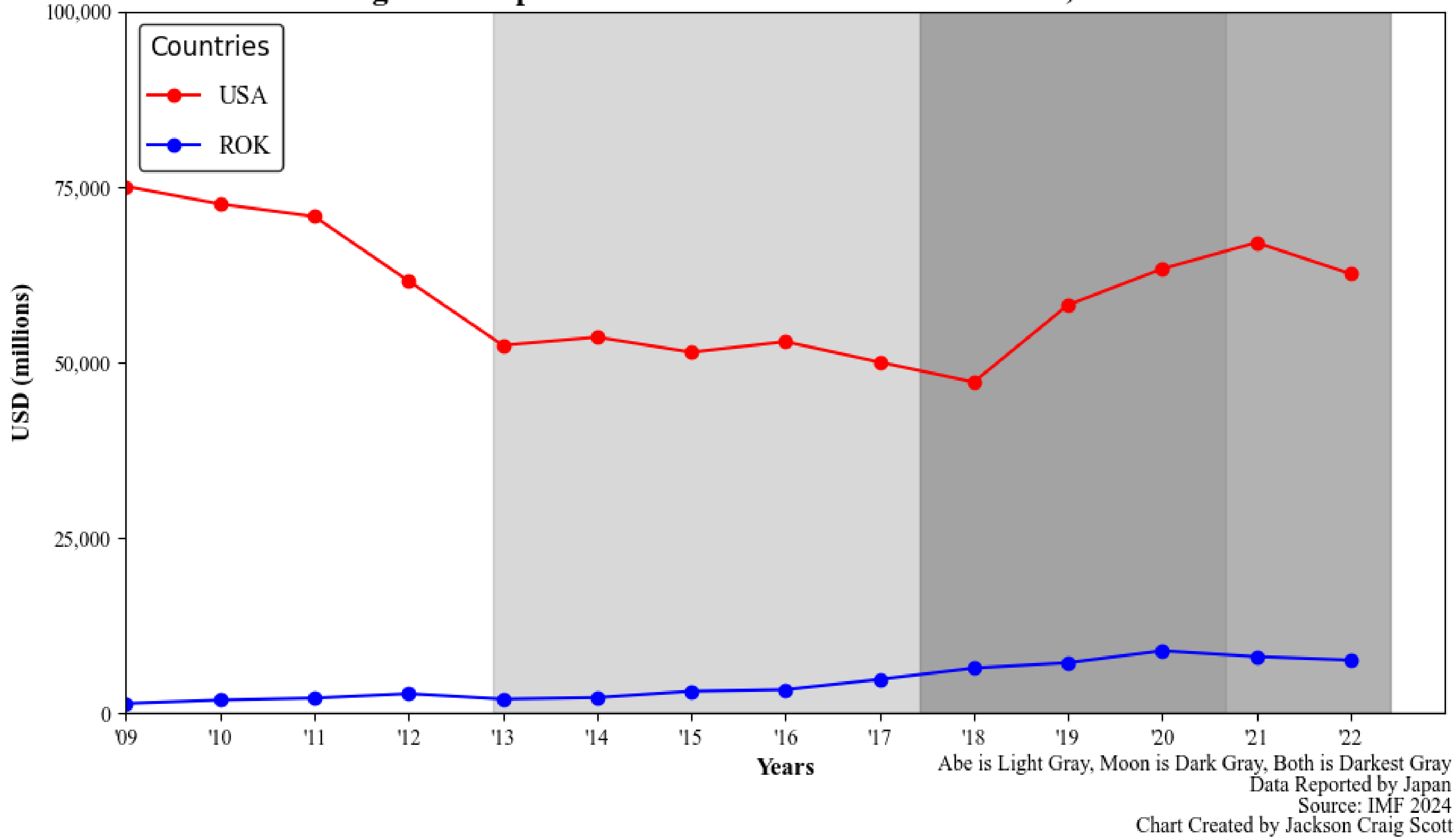
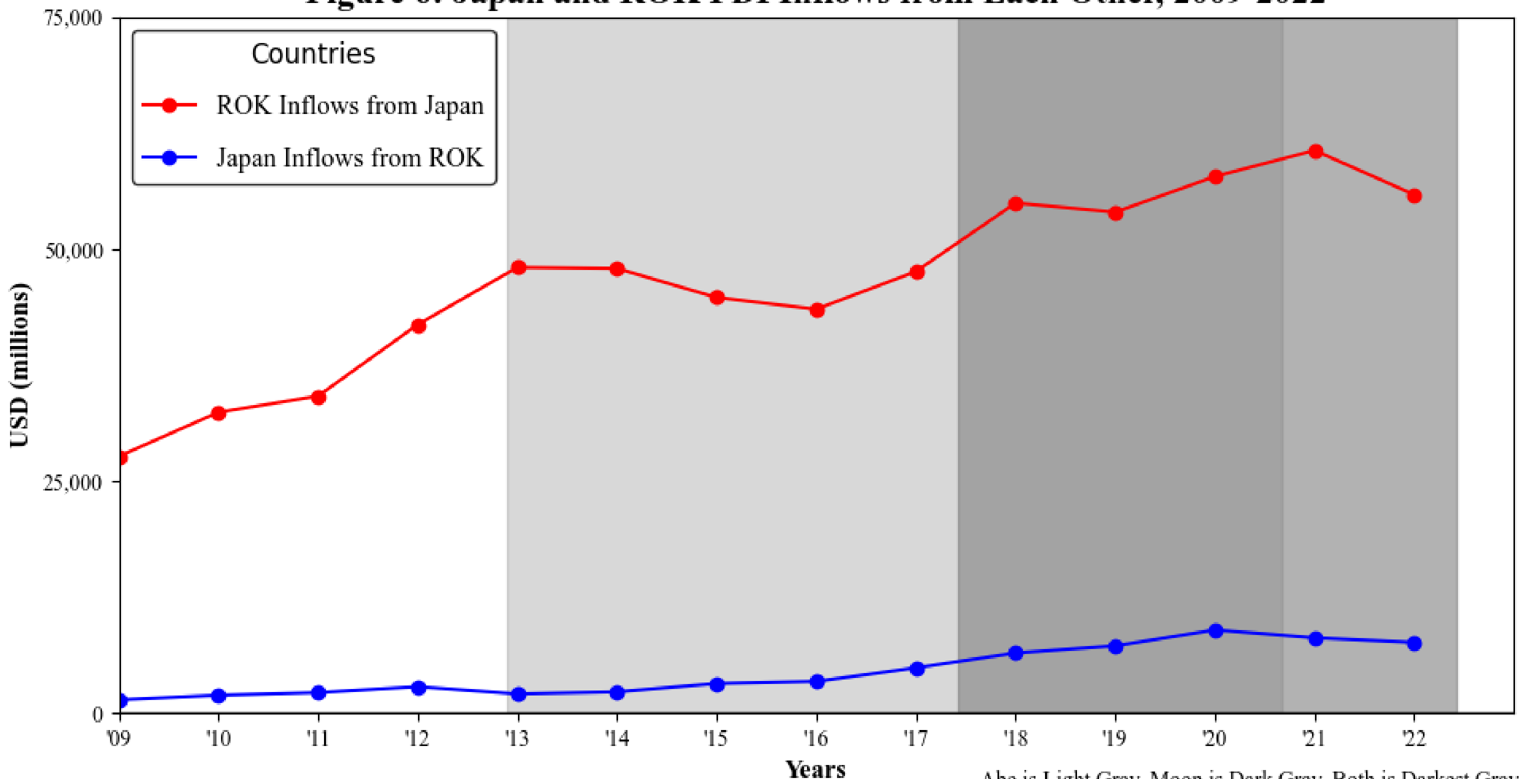


Figure 6: Japan and ROK FDI Inflows from Each Other, 2009-2022



Abe is Light Gray, Moon is Dark Gray, Both is Darkest Gray
Data Reported by Host Country
Source: IMF 2024
Chart Created by Jackson Craig Scott

Part II – Is Foreign Direct Investment Insulated from Domestic Politics?

As mentioned previously, Shinzo Abe and Moon Jae-in's overlapping tenure in office were when Japan-South Korea relations hit their lowest point in recent history. Figures 1-6 show when Abe and Moon were in office and when they overlapped. Abe was prime minister from 2006 to 2007, and again from late 2012 to mid-2020. Moon was president from 2017 to 2022. The two leaders overlapped from mid-2017 to mid-2020, when Abe left office. Relations were at their worst from 2018-2019. During the 2017 to 2020 overlap, many conflicts between the two nations arose. Most issues stemmed from the 1910-1945 Japanese occupation of South Korea. During this time, multiple war crimes and atrocities were inflicted on the Koreans by the Japanese like South Korean women being forced to be sex slaves, or "comfort women," for the Japanese military and South Koreans being used as forced labor.[69] Some of the other issues that would arise during the Abe-Moon overlap were over the Dokdo/Takeshima islet dispute, their information sharing agreement, and economic cooperation.[70] Importantly for this analysis, in 2019 Japan restricted exports for high-tech material to South Korea. However, the two countries announced they would work to lift that ban.[71] Export bans do not necessarily affect FDI though, so collaboration and strengthening ties in the private sector could still be an option for the future. Additionally, FDI industry leaders could be against export bans because this hurts their ability to operate how they normally would and cuts in on business profits.

Measuring FDI between Japan and South Korea from 2017 to 2022 would provide an accurate picture to see if FDI is correlated at all with politics. Extending the range two years after Abe left office would provide a more accurate analysis of this topic since one can expect any changes in FDI due to political events to lag behind the event. In 2017, Korea's FDI inflows from Japan was $47.6 billion and Japan's FDI inflows from Korea were $4.9 billion. In 2022, Korea's FDI inflows from Japan was $55.8 billion and Japan's FDI inflows from Korea were $7.6 billion. Korea's FDI inflows from Japan increased by 17.4% from 2017 to 2022. Japan's FDI inflows from Korea increased by 56%.[72] Table 1 below provides a year-by-year analysis between four categories: Japan's FDI inflows from Korea, Japan's total FDI inflows, Korea's FDI inflows from Japan, and Korea's total FDI inflows.[73]

There was fluctuation between 2017 and 2022 regarding bilateral FDI inflows with South Korea and Japan. However, almost every years' trend also correlated with the country's total FDI inflow numbers. The only outlier would be 2019 for Korea, when their inflows from Japan decreased by 1.6% but their total inflows increased by 1.6%; however, this is of minimal difference, especially when taking into account all the other years and variables. These numbers show that FDI trends and negative political relations between South Korea and Japan do not seem to be correlated during the Abe and Moon administrations. FDI continued its upward trend while those two leaders were in office. This could create a window of opportunity for the U.S. Senate to facilitate more bilateral investment between Japan and South Korea. Further increasing

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[69] Reuters, "The many disputes overshadowing relations between South Korea and Japan," *Reuters* (Toronto), March 14, 2023, https://www.reuters.com/world/asia-pacific/many-disputes-overshadowing-relations-between-south-korea-japan-2023-03-15/.
[70] Ibid.
[71] Ibid.
[72] International Monetary Fund, "International Financial Statistics (IFS)," https://data.imf.org/regular.aspx?key=60564262, accessed November 1, 2024.
[73] Ibid. Chart and percentages created and calculated by author.

the FDI amongst the two nations could cause stronger bonds to form which could impact political ties. If more Koreans and Japanese companies and their customers use the others' products and services and become dependent on them, the private sector could act as the cooling agent if the political relationship heats up. The business leaders and public of each country could pressure the political leaders to lower tensions.

Table 1: Japan and South Korea FDI Inflows Compared to Their Total Inflows, 2017-2022

YEAR	Japan's FDI Inflows from Korea		Japan's Total FDI Inflows		Korea's FDI Inflows from Japan		Korea's Total FDI Inflows	
	USD	% Chg.	USD	% Chg.	USD	% Chg.	USD	% Chg.
17	$4.9B	-	$202.4B	-	$47.6B	-	$212.0B	-
18	$6.5B	32.7% ↑	$204.5B	1.0% ↑	$54.9B	15.3% ↑	$215.8B	1.8% ↑
19	$7.2B	10.8% ↑	$223.8B	9.4% ↑	$54.0B	1.6% ↓	$219.3B	1.6 % ↑
20	$9.0B	25.0% ↑	$250.1B	11.8% ↑	$57.8B	7.0% ↑	$233.6B	6.5% ↑
21	$8.1B	10.0% ↓	$241.1B	3.6% ↓	$60.6B	4.8% ↑	$251.7B	7.7% ↑
22	$7.6B	6.2% ↓	$225.4B	0.1% ↓	$55.8B	7.9% ↓	$245.1B	2.6% ↓

Hurdles to FDI Cooperation

There are a few potential hurdles the U.S. Senate needs to keep in mind when creating FDI-friendly policies in order that the policies are successful. The first would be the South Korean civil society environment. The second would be the *chaebols* of South Korea. The third would be Japanese companies that took part in the human rights abuses during the Japanese occupation of Korea. A few examples of those companies would be Mitsubishi Heavy Industries and Nippon Steel & Sumitomo Metal Corporation; these still play a diminishing role in the bilateral relationship.[74] The fourth would be national security laws that hinder international investment.

The civil society environment in South Korea is comparable to the strong lobbying environment in the US. The most prominent civic groups in Korea are nationalistic and are centered on either the Dokdo dispute or Japanese war crimes. Wiegand and Choi summarize the situation well:

> Civic minded individuals and groups were mobilizing support for Dokdo to increase nationalist attachment, particularly with the composition of the famous song “Dokdo is Our Land” in 1982. Starting in the mid-1990s, civil society groups started to form with the intention of lobbying and supporting the government’s position on Dokdo (Choi, 2005). Such civil society groups came about around the same time as groups seeking recognition and retribution by Japan for Korean forced laborers and comfort women. There are also official interest groups who lobby the National Assembly regarding Dokdo, regularly pressuring lawmakers to take a certain stance on bilateral relations with Japan. There are two Dokdo museums, one on Ulleungdo and one in Seoul, funded by Samsung and the Northeast Asian History Foundation respectively (Dokdo Museum Seoul, 2015).[75]

Wiegand and Choi continue to explain how South Korea’s government response to this movement has not been nonchalant; they have responded positively. Korea legislators have actually been a part of the movement and demonstrations. One civil society, the Dokdo Love Society, at one point had 29 lawmakers as members.[76] These civil society organizations could be a hindrance to pro-Japanese FDI legislation in South Korea.

The second element of the bilateral relationship that the U.S. Senate needs to keep in mind is South Korean *chaebols*. *Chaebols* are large corporations or conglomerates that are usually run by a single family. They emerged in the 1960’s and are highly influential. A professor from Yonsei University in Seoul said, “The large conglomerates and Korean economy cannot be separated from the politics and the culture and history.”[77] Since they are so powerful, they would have large influence over FDI inflows and outflows. The largest are Samsung, Hyundai, SK Group, LG Group, and Lotte. They usually have multiple subsidiaries over a mixture of business sectors. They have historically been heavily reliant on the government for favorable policies. There are about 40 examples of *chaebols*, but the top five make up half of the stock market value in South

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[74] Reuters, “The many disputes overshadowing relations between South Korea and Japan.”
[75] Wiegand and Choi, “Nationalist, Public Opinion, and Dispute Resolution,” 240.
[76] Ibid.
[77] Eleanor Albert, “South Korea’s Chaebol Challenge,” (Washington, DC: Council on Foreign Relations, 2018), https://www.cfr.org/backgrounder/south-koreas-chaebol-challenge#chapter-title-0-1. Accessed November 13, 2024.

Korea.[78] Large corporations, including *chaebols*, make up only 12% of the employment market while small and medium sized enterprises make up 88% of the employment market. Meanwhile, *chaebols* make up 77% of the market capitalization of the Asia300 companies in South Korea, while small and medium enterprises make up only 23%.[79] Much of the public has become frustrated with *chaebols* though; while in South Korea's economy was declining in the late 2010's, they moved jobs overseas. Multiple executives of the large conglomerates have been found guilty of corruption too. Additionally, they crowd out small and medium sized enterprises, the primary employer for Korea.[80] Reform efforts are underway, but legislation faces a large obstacle simply due to the influence of the chaebols. The top ten chaebols own over 25% of all assets in the country.[81] Due to the listed reasons, the U.S. Senate will have to be mindful of the influence of *chaebols* when crafting trilateral investment legislation. There could certainly be room for cooperation with the *chaebols*, but it is something that needs attention before permanent legislation can be moved forward.

The third piece of Japan-South Korea relations that the U.S. Senate needs to acknowledge are the companies that were in part responsible for the World War II war crimes, like Mitsubishi and Nippon Steel.[82] From 1910-1945, around 5.4 million Korean civilians, 23.1% of their population, were forced to work for Japanese companies for little or no pay. Due to the war, beginning with the 1937 invasion of China and ending in 1945, it is estimated that about 500,000 Koreans died due to the Japanese.[83] Due to the forced labor atrocities, South Korea's supreme court ordered Mitsubishi and Nippon Steel to pay certain South Koreans for the slave labor. Japan refused to do this and used its massive economy to make the South Korean government withdraw its demand. Japan renewed their 1998 apology to South Korea, but also responded with aggressive economic and financial policies against South Korea.[84]

The Yoon administration decided to not enforce the court's decision and instead use funds from a Korean organization to pay the victims. This was met with "fierce opposition" and claims of diplomatic surrender.[85] Japan claims the issues were solved after their 1965 apology. Moon wishes to move forward with positive Japanese relations.[86] Yoon said the following in a cabinet meeting:[87]

> Japan has changed from a militaristic aggressor to a partner that shares universal values with us and cooperates with us on security, economy, science and technology, and global agendas. It's clear that future-oriented cooperation between South Korea and Japan will

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[78] Ibid.
[79] Ibid.
[80] Ibid.
[81] Ibid.
[82] Andrew Roberts, "Japan Offers Minimal Treatment for South Korea's Unhealed Wounds," *Hoover Institution* (March 8, 2023), https://www.hoover.org/research/japan-offers-minimal-treatment-south-koreas-unhealed-wounds. Accessed November 14, 2024.
[83] Ibid.
[84] Ibid.
[85] Kim Tong-Hyung, "Yoon: Forced Labor Plan Crucial for Better Ties with Japan," *AP News* (New York City), March 7, 2023, https://apnews.com/article/south-korea-japan-forced-labor-world-war-ii-3d78fe07258b0458df8258825cd6851c. Accessed November 14, 2024.
[86] Ibid.
[87] Ibid.

> preserve freedom, peace and prosperity not only for the two countries, but also for the entire world.

This could be great for bilateral private sector collaboration, but the U.S. Senate needs to be made aware that not everyone in South Korea agrees with Yoon's decision. For example, protestors at the National Assembly in 2023 held up signs that said, "Out with Yoon Suk Yeol's Humiliating Diplomacy."[88] Continually, in 2023 multiple polls showed that around 60% of South Koreans opposed Yoon's approach to the problem.[89]

The final hurdle to foreign direct investment amongst the three nations is national security cultures and policies that hinder FDI. On October 7, 2022, the Biden administration announced new export controls regarding artificial intelligence and semiconductors.[90] The U.S. has been increasing its efforts to keep U.S. corporations from investing in the PRC if it could lead to a national security risk. The objective of these policies is to "prevent the Chinese government from benefiting from cutting-edge dual-use technologies such as advanced semiconductors, forms of AI that have military applications, and quantum computing."[91] Usually, U.S. allies adjust their export controls to align with the U.S., but Japan and South Korea will struggle to implement these strict outbound investment controls because they simply do not have the market power domestically. Additionally, Japan and South Korea do not have the venture capitalist market that is anywhere close to the U.S.[92]

The Biden administration's October 2022 export controls instituted a massive switch in U.S. commerce policy toward the PRC. Biden's October 2022 export controls are different in three main ways. In the past, U.S. export controls on high tech semiconductors to China were only based on if they had military end uses or sanctioned individual end uses. The new export controls restrict high tech semiconductors to China on a *geographic* basis. Second, other export controls sought to slow China's technological advancements, but still allow growth. These new controls seek to purposefully hurt China's technological capability. Third, the new controls attempt to keep China from ever certain thresholds in the semiconductor industry.[93] Japan and the Netherlands have made plans to join the U.S. with semiconductor export controls, but the South Koreans have not. This will most likely mean they will face targeted campaigns from the PRC to discourage semiconductor export controls.[94] South Korea is the most important country to add to these export controls. They make up around 5% of the global market of semiconductor manufacturing and their firms produce semiconductors that are much more sophisticated than

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[88] Ibid.
[89] Frank Aum and Mirna Galic, "What's Behind Japan and South Korea's Latest Attempt to Mend Ties?," *United States Institute for Peace* (Washington, DC), March 21, 2023, https://www.usip.org/publications/2023/03/whats-behind-japan-and-south-koreas-latest-attempt-mend-ties. Accessed November 14, 2024.
[90] Gregory C. Allen, *China's New Strategy for Waging the Microchip Tech*, (Washington, DC: Center for Strategic and International Studies, May 3, 2023), 1-2, https://www.csis.org/analysis/chinas-new-strategy-waging-microchip-tech-war. Accessed November 16, 2024.
[91] Sarah Bauerle Danzman and Andrew Yeo, "Coordinating Investment Screening across the US, Japan, and Korea," *Brookings Institution* (Washington, DC), October 23, 2024, https://www.brookings.edu/articles/coordinating-investment-screening-across-the-us-japan-and-korea/. Accessed November 16, 2024.
[92] Ibid.
[93] Allen, *China's New Strategy for Waging the Microchip Tech*, 1-2.
[94] Ibid, 16.

China's.[95] However, SK Hynix and Samsung, the two largest manufacturers, are deeply invested in China via FDI. Thus, even though they were not built by a Chinese company, they are subject to China export controls from the U.S. This also means they cannot move their facilities out of China.[96] Yet, the export controls also have helped SK Hynix and Samsung since the controls also hurt Chinese producers. After the announcement of the export controls, both companies' stocks increased in value. Additionally, both countries had plans to build more facilities in China; however, they moved these plans to South Korea.[97] The main idea for discussing this fourth hurdle to FDI is that export controls are much more effective when they are coordinated with our allies, specifically in this case with Japan and South Korea. Due to U.S. export controls, South Korean companies are now being hurt for operating in China and they cannot move their facilities out of China.

Additionally, each country and each administration within the countries will have different approaches to economic security. Sharing information about how each country screens FDI to help with the process is certainly possible, however, it is much more difficult to encourage countries to share classified information.[98] Continually, Biden allowed Nippon Steel to buy U.S. Steel but he heavily considered blocking it on national security grounds. This caused Japan to question how reliable the U.S. is.[99] More situations like this could appear in the future. Governments should not stop every international potential merger and acquisition for national security reasons, this erodes the trust in the impartial process of labeling other regulations and reviews with national security.[100]

Despite the hurdles of the South Korean civil society, *chaebols*, modern problems stemming from World War II, and national security cultures and policies, stronger FDI ties between the three nations is certainly still possible. The main idea of this section is to simply highlight the four key cultural, historical, and legal points of the Japan-South Korea relationship that could hinder FDI and private sector collaboration. Ultimately, the U.S. Senate can do nothing to influence South Koreans and Japanese citizens' views of their counterparts. The U.S. Senate also cannot have influence over South Korean civil societies, a powerful force regarding reparations.[101] U.S. leadership can, however, facilitate reconciliation between the two countries, as the U.S. has done in the past for other countries.[102] This policy analysis will now turn to the policy recommendations for how the U.S. Senate can increase the continuation of the trilateral cooperation via the private sector.

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[95] Ibid.
[96] Ibid.
[97] Ibid.
[98] Danzman and Yeo, "Coordinating Investment Screening across the US, Japan, and Korea."
[99] Ibid.
[100] Ibid.
[101] Frank Aum and Mirna Galic, "What's Behind Japan and South Korea's Latest Attempt to Mend Ties?"
[102] Timothy Webster, "A Formula to Resolve the South Korea-Japan Wartime Forced Labor Issue," *United States Institute for Peace* (Washington, DC), August 18, 2022, https://www.usip.org/publications/2022/08/formula-resolve-south-korea-japan-wartime-forced-labor-issue. Accessed November 14, 2024; Also see the United States Institute of Peace's essay series entitled "Resolving Tensions Between South Korea and Japan: An Essay Series," https://www.usip.org/programs/resolving-tensions-between-south-korea-and-japan-essay-series.

Policy Recommendations

1. Coordinate on Export Controls

As mentioned as one of the hurdles to FDI, the U.S. national security culture and policies hurt South Korean companies invested in the PRC. Thus, it is recommended that the U.S. Senate initiates a trilateral advisory committee consisting of legislators, industry leaders, and scholars to coordinate on export controls. This should be initiated by the Finance Committee, specifically, the subcommittee on International Trade, Customs, and Global Competitiveness along with the Foreign Relations Committee. This trilateral committee would be able to provide advice about export controls stemming from the leaders of the U.S., Japan, and South Korea. The procedure this would be an elite-level notice and comment procedure similar to the administrative rulemaking process involving the general public found in the U.S. For example, before President Biden implemented his October 2022 export controls, he would first send a draft of the policies to the trilateral export control advisory committee. After receiving feedback, then he would implement, revise, or terminate the export controls.

2. Capitalize on the Chip 4 Alliance to Create a Semiconductor Supply Chain

If the U.S., Japan, and the South Korea can create an interconnected and secure semiconductor supply chain, this would make all three countries more reliant on each other, and less reliant on the PRC. The groundwork to make this a reality already exists. The Chip 4 Alliance, which also includes Taiwan, was established in 2022 but is yet to see much impact. Each country is a vital part of the semiconductor supply chain that can be capitalized upon. For example, the U.S. holds all Electronic Design Automation (EDA) tools licenses and thus the U.S. private industry controls the fabless market. Additionally, the U.S. houses the highest amount of semiconductor fabrication facilities in the world. South Korea is home to Samsung which has large design and manufacturing capabilities,[103] along with SK Hynix. Japan is a critical piece to semiconductor manufacturing due to its dominance in the production of important manufacturing equipment and materials like photoresists. Regarding Taiwan, they are the focal point of global semiconductor manufacturing and have semiconductor giants TSMC and UMC. They are also the main country for Assembly, Testing, Marking, and Packing (ATMP) processes due to Foxconn and Winstron.[104]

The primary issue with this policy recommendation is South Korea semiconductor industry's reliance on the PRC's market. China and Hong Kong make up around 60% of South Korea's semiconductor exports. South Korea is a global leader in memory chip production and China remains its biggest trading partner, making up almost half of South Korea's memory chip exports. Having South Korea's semiconductor industry decouple or openly ally with the U.S. could cause the PRC to impose large costs on South Korea, as it did when their military deployed

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[103] Arjun Gargeyas, "The Chip 4 Alliance Might Work on Paper, But Problems Will Persist," *The Diplomat* (Washington, DC), August 25, 2022, https://thediplomat.com/2022/08/the-chip4-alliance-might-work-on-paper-but-problems-will-persist/.

[104] Ibid.

U.S. anti-missile systems in 2016.[105] This reality causes South Korea to be more hesitant to create policies to incentive decoupling.

There are two ways this issue could be solved. First, the PRC is also reliant on South Korean semiconductors, thus retaliatory measures may hurt their own economy.[106] Second, South Korea needs the PRC for their semiconductor market. Thus, policies could be implemented to make the semiconductor market in the U.S. and Japan larger which would encourage companies like Samsung and SK Hynix to decouple from the PRC and go to the U.S. and Japan. A general example of a type of policy for this would be one that increases manufacturing in the U.S. and Japan in sectors that are dependent on semiconductors for success. This would increase demand for South Korean semiconductors in the U.S. and Japan.

3. Create a Trilateral Investment Treaty

Currently, the U.S. and South Korea have a bilateral investment treaty and so does South Korea and Japan. However, the U.S. and Japan do not. One way to encourage private sector investment amongst the trilateral partnership would be to create a trilateral investment treaty. This would help create insurances and an easier process for companies investing abroad in the trilateral partnership. This would tie the private industry of each country closer together. This would in turn boost economic growth and encourage the three governments to stay aligned in other areas.

4. Utilize Existing Frameworks for Guidance

There has been a recent increase in interest regarding terms like “friendshoring,” supply chain resiliency, and economic security. More frameworks and initiatives have begun to be developed amongst the U.S. and their allies. While these frameworks are not necessarily specific to the private industry and FDI, they can provide insights for best practices. For example, in fall of 2024, the U.S. and thirteen other nations just recently announced the Partnership for Indo-Pacific Industrial Resiliency (PIPIR). The agreement is described as:

> …a multi-lateral forum of allies and partners aimed at strengthening defense industrial resilience to promote continued regional security, economic security, and prosperity in the Indo-Pacific region. It serves as a platform to accelerate defense industrial base (DIB) cooperation by reducing barriers to production, creating new sustainment hubs, and addressing supply chain constraints.[107]

While PIPIR is specifically about the defense industrial base, most of the defense industry in the U.S. is non-governmental entities. This shows that whole-of-society collaboration is possible amongst like-minded nations. And, while non-governmental entities are involved, it has a clear defense objective, similar to the above policy recommendations.

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[105] Ibid.
[106] Ibid.
[107] U.S. Department of Defense, “Under Secretary of Defense for Acquisition and Sustainment Chairs Inaugural Plenary Meeting of Partnership for Indo-Pacific Industrial Resilience,” (release, Washington, VA: U.S. Department of Defense, 2024), https://www.defense.gov/News/Releases/Release/Article/3933100/under-secretary-of-defense-for-acquisition-and-sustainment-chairs-inaugural-ple/.

Additionally, the Biden administration announced the Industrial Collaboration Effort (ICE) Pact in July 2024. The ICE Pact is a memorandum of understanding that addresses shipbuilding shortfalls in the U.S. icebreaker building capacity. Through the ICE Pact, the U.S. will join with Canada and Finland to "build closer security and economic ties among [the three] countries through information exchange and mutual workforce-development focused on building polar icebreakers, as well as other Arctic and polar capabilities." It has three main pillars: information sharing between the U.S., Canada, and Finland, joint workforce development, and an invitation to like-minded nations to purchase icebreakers built in U.S., Canadian, or Finish shipyards. The ICE Pact reveals that specific industries in one country, like shipbuilding, can be connected with the same industry in another country of a like-minded nation. This can be applied to the trilateral between the U.S., Japan, and South Korea regarding multiple industries and supply chains.

5. Make Tennessee the Model for Local Trilateral Cooperation

Tennessee is uniquely positioned to be the model for local FDI trilateral cooperation. Japan is already Tennessee's largest foreign direct investor. South Korea also has a large presence. Industries like the automotive industry can increase, however, there will be competition between South Korean and Japanese firms. One place for private sector collaboration could be in the clean energy fields. Oak Ridge National Laboratory (ORNL) conducts research on clean energy and has industry resources. Japanese and South Korean clean energy companies could to ORNL to obtain resources for nuclear energy.

Secondly, in February 2022 the Tennessee Valley Authority (TVA) announced the Clinch River Nuclear Site (CRNS). In August of 2022, TVA announced they signed a contract with GE-Hitachi, an American-Japanese joint venture, to plan and license a small modular nuclear reactor (SMR) at the site. The CRNS is the only location in the U.S. with an early-site permit from the U.S. Nuclear Regulatory Commission for SMRs.[108] This is another opportunity to bring U.S., Japanese, and South Korean workers to the CRNS to train them. Tennessee could also bring international and Tennessee students to the CRNS for work force development programs. These initiatives would create further ties between the private industry of the three nations that are based in Tennessee. Additionally, the international student training programs would create the foundation for long term private industry ties.

[108] Office of Nuclear Energy, "11 Big Wins for Nuclear Energy in 2022," U.S. Department of Energy, accessed December 7, 2024, https://www.energy.gov/ne/articles/11-big-wins-nuclear-energy-2022.

Conclusion

With an increasingly threatening and hostile People's Republic of China, like-minded nations will need to unite to deter them. Alliances and partnerships are vital to this deterrence. The trilateral partnership between the U.S., Japan, and South Korea is one of the most important pieces to security in the Indo-Pacific. However, Japan and especially South Korea's commitment to the future of the partnership raises concerns for U.S. leaders. One problem that might prohibit success for the trilateral partnership is the Japan-South Korea bilateral relationship. They have historical animosity toward each other and relations saw a major decline from 2017 to 2020. However, non-governmental approaches could help with these possible future problems. One area that seemed to be immune to negative political ties between Japan and South Korea during a time of negative political relations is foreign direct investment. The private sector and FDI is a feasible mechanism that can bring the three nations closer to help with the future success of the trilateral. If this can cause the economic interests of business leaders and the public to be tied to success of the trilateral, they could pressure politicians to maintain positive political and security relations. It is recommended the U.S. Senate implement the above policies that will encourage private firms to invest abroad within the trilateral.

Appendix

Figure 1: Net USA, Japanese, and South Korean FDI Inflows, 1990-2023, current prices

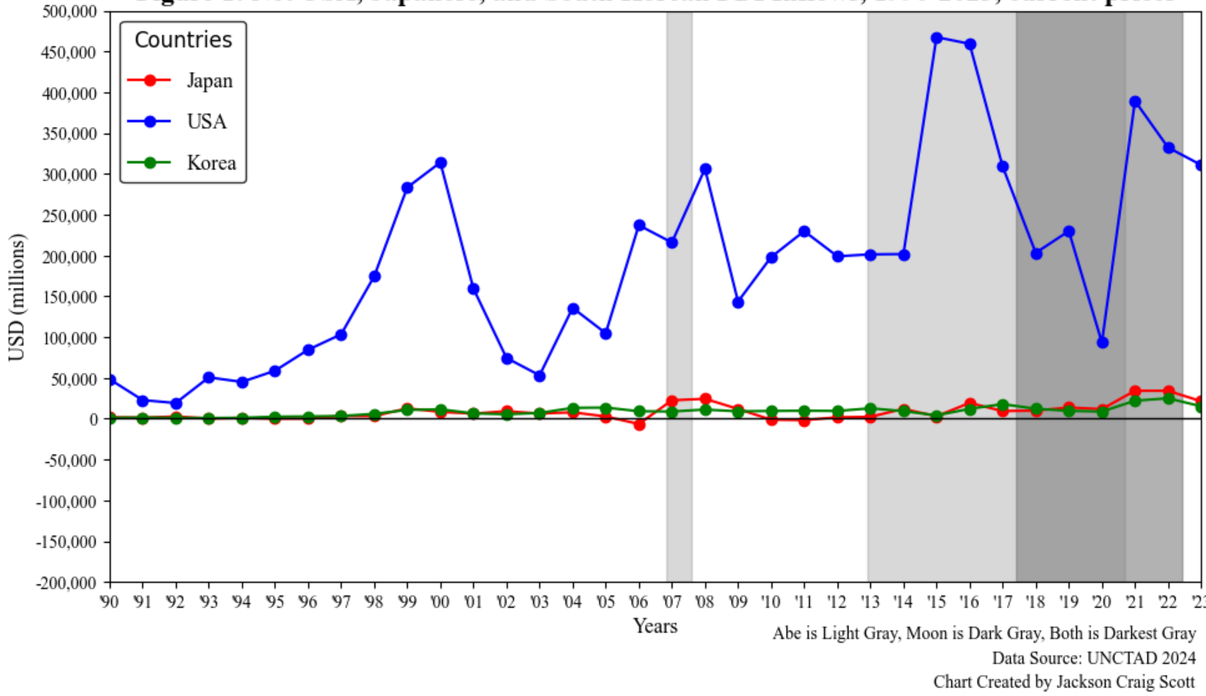

Figure 2: Net USA, Japanese, and South Korean FDI Outflows, 1990-2023, current prices

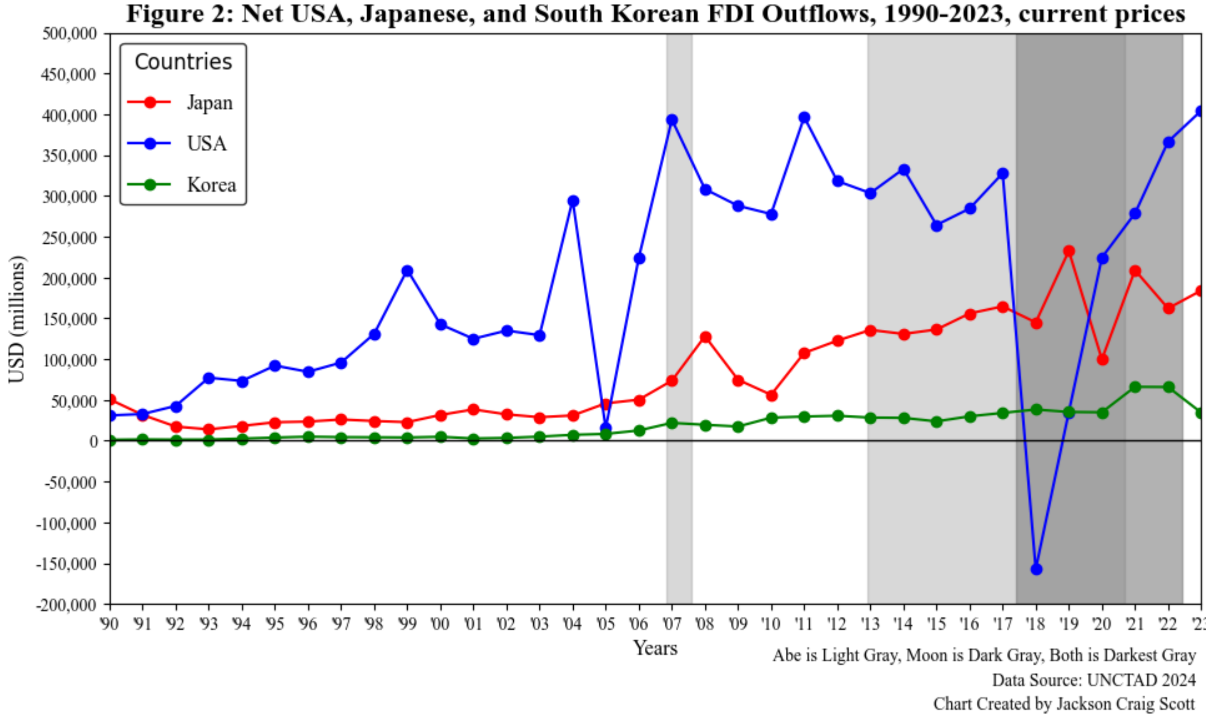

Figure 3: US FDI Inflows from Japan and South Korea, 2009-2022

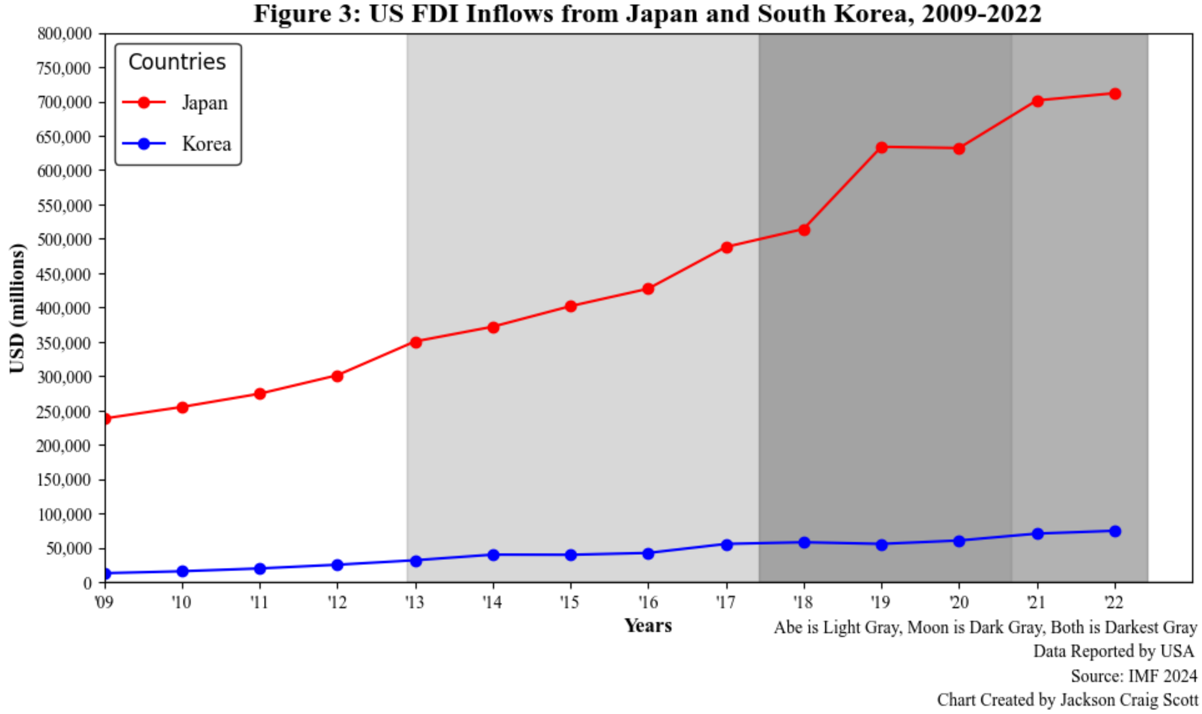

Figure 4: Korean FDI Inflows from USA and Japan, 2009-2022

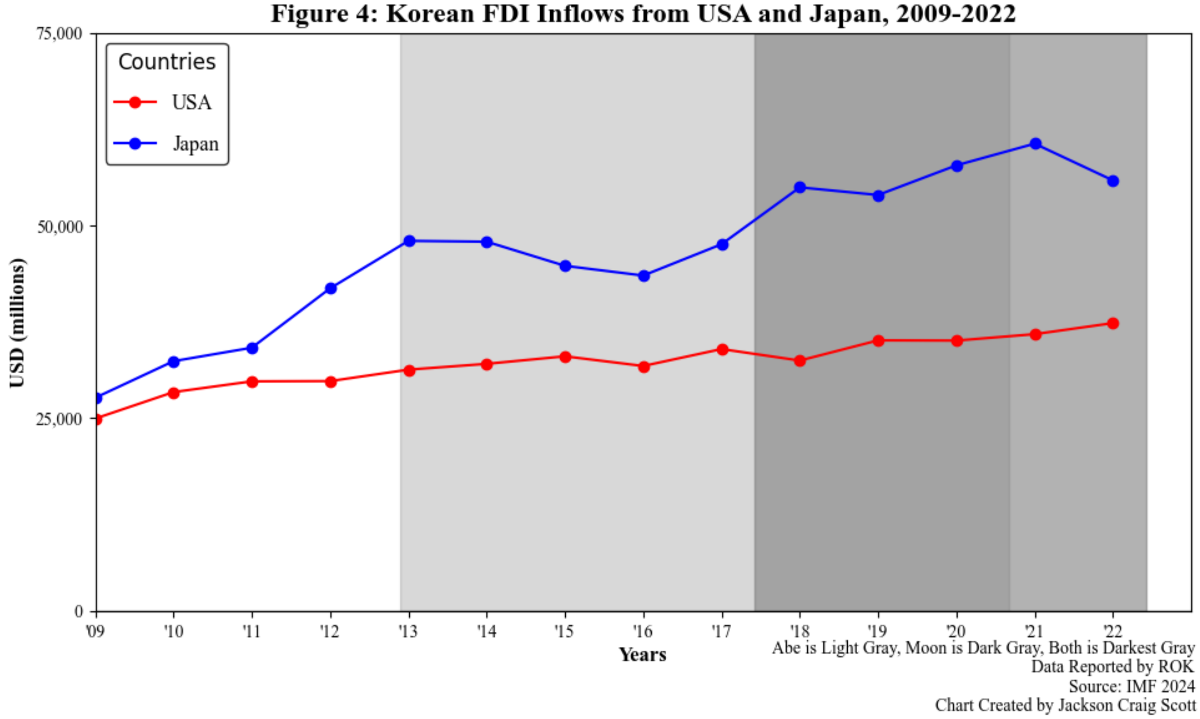

Figure 5: Japan FDI Inflows from USA and Korea, 2009-2022

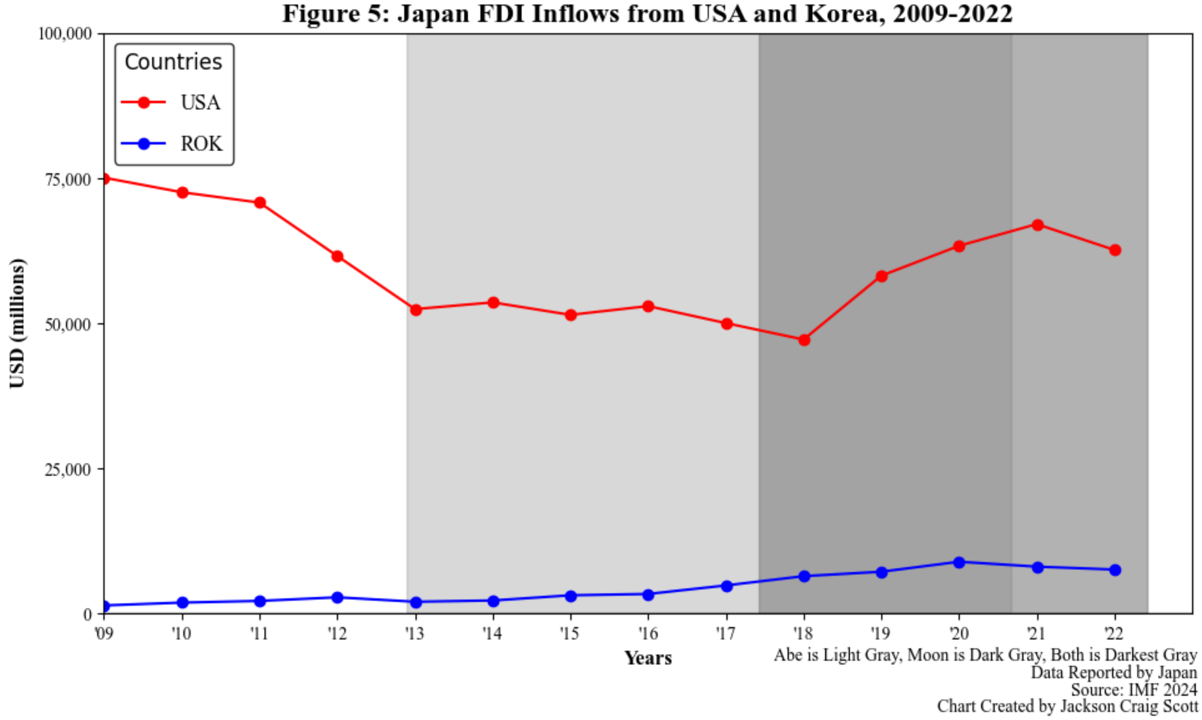

Figure 6: Japan and ROK FDI Inflows from Each Other, 2009-2022

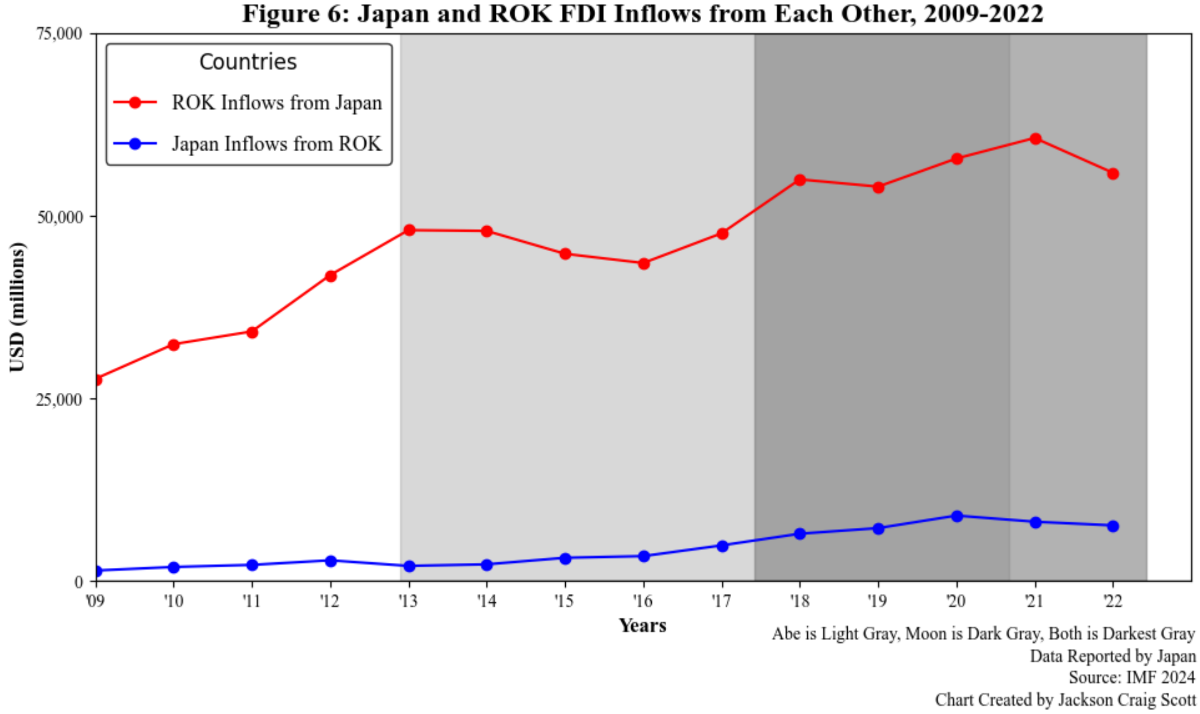

Table 1: Japan and South Korea FDI Inflows Compared to Their Total Inflows, 2017-2022

YEAR	Japan's FDI Inflows from Korea		Japan's Total FDI Inflows		Korea's FDI Inflows from Japan		Korea's Total FDI Inflows	
	USD	% Chg.	USD	% Chg.	USD	% Chg.	USD	% Chg.
17	$4.9B	-	$202.4B	-	$47.6B	-	$212.0B	-
18	$6.5B	32.7% ↑	$204.5B	1.0% ↑	$54.9B	15.3% ↑	$215.8B	1.8% ↑
19	$7.2B	10.8% ↑	$223.8B	9.4% ↑	$54.0B	1.6% ↓	$219.3B	1.6 % ↑
20	$9.0B	25.0% ↑	$250.1B	11.8% ↑	$57.8B	7.0% ↑	$233.6B	6.5% ↑
21	$8.1B	10.0% ↓	$241.1B	3.6% ↓	$60.6B	4.8% ↑	$251.7B	7.7% ↑
22	$7.6B	6.2% ↓	$225.4B	0.1% ↓	$55.8B	7.9% ↓	$245.1B	2.6% ↓

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