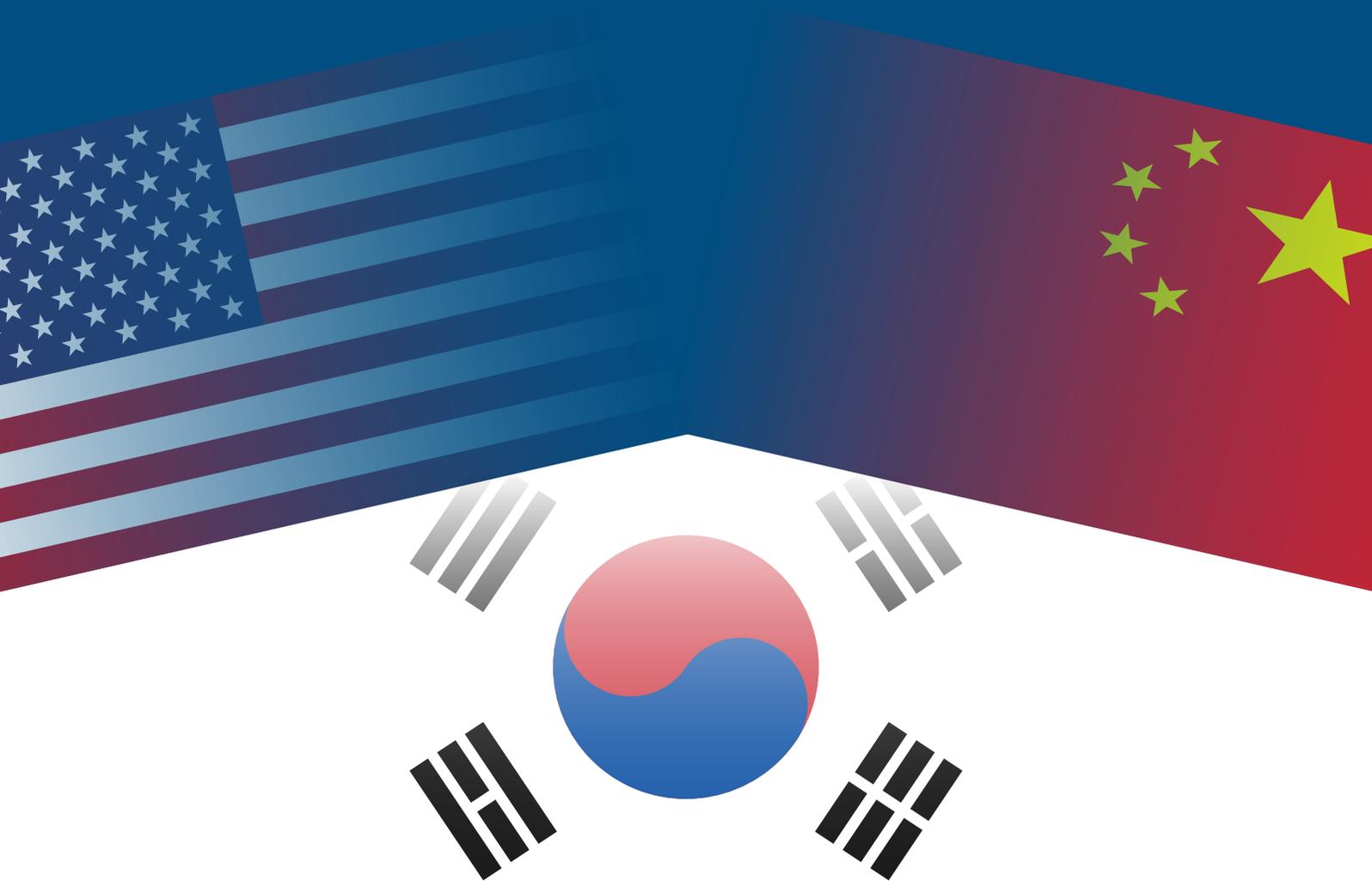


# Dynamics of the U.S.-China-Korea Triangle in Times of Decoupling



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### Abstract

Currently, the U.S.-China relations are on the borderline between “cold peace” and “new cold war.” Among the four key areas of geopolitics, geo-economics, technology, and ideology, Korea’s mainstream attention is mainly focused on the areas of geo-economics and technology from a pragmatic standpoint. If geopolitics, which mainly reflects military and security thinking, overwhelms the logic of the economy and market, international relations only degenerate into a venue for power struggle and zero-sum game. The decoupling between the U.S. and China would cause huge economic losses not only to the U.S. but also to countries around the world. Thus, amid the advent of the New Cold War, we must deliberate on “geopolitics beyond geopolitics.”

After the 25th anniversary of Korea-China diplomatic relations, Korea-China relations have gradually turned into a relationship of competition and confrontation from cooperative partnership. The structural reason for that is that the need for mutual cooperation and the areas of common interest between Korea and China are gradually decreasing.

The People’s Republic of China is not a Marxist-Leninist state as the West thinks. It is reasonable to regard China as a capitalism with an authoritarian system ruled by the Communist Party. As the Biden administration’s value diplomacy takes on the nature of systemic competition, there is less room for strategic ambiguity in Korean diplomacy. Under these circumstances, South Korea should clarify its national identity in respect of democracy, human rights, market economy, free trade and multilateralism. However, it is not wise for South Korea to push for identity-based diplomacy with China, explicitly citing values and alliances.

Currently, the U.S.-China relations are on the borderline between “cold peace” and “new cold war.” The United States recognizes China as a global hegemonic competitor and forms a competitive relationship in four realms: geopolitics, geo-economics, technology, and ideology.<sup>1</sup> In the realm of geo-economics and technology, the United States will seek competition while minimizing unfair trade practices and blocking industrial espionage. But the tensions can be eased gradually in the long term as the Biden administration implements multilateral policies and utilizes multilateral organizations such as the World Trade Organization. However, on geopolitics and values, the confrontation is not likely to be weakened, though unlike Trump, Biden will likely build “a coalition of democracies.”

Among the four key areas of geopolitics, geo-economics, technology, and ideology, Korea’s mainstream attention is mainly focused on the areas of geo-economics and technology from a pragmatic standpoint. This is because if Korea adopts confrontational attitudes or assertive positions in geopolitical and ideological issues, or follows the logic of the New Cold War, it will harm overall national interest. The situation is due to the deep economic interdependence between Korea and China. If the Cold War structure of the past is revived, Korea’s prosperity and survival could be greatly threatened.

Due to the geopolitical situation surrounded by great powers such as the U.S., China, Japan, and Russia, Korea should always accurately understand the movements of the outside world to ensure its survival and safety. On the other hand, Korea’s economic development owes much to its highly interdependent global value chain and global production networks. So only by capturing geo-economic changes quickly, Korea can maintain prosperity and competitiveness.<sup>2</sup>

The logic of geopolitics mainly contains hegemonic thinking of great powers. Therefore, the world can be mistaken for a place where only power conflict takes place, and economic and market logic can be excluded. If geopolitics, which mainly reflects military and security thinking, overwhelms the logic of the economy and market, international relations only degenerate into a venue for power struggle and zero-sum game. Thus, amid the advent of the New Cold War, we must deliberate on “geopolitics beyond geopolitics.”<sup>3</sup>

There is a difference between what the U.S. and South Korea want in the Indo-Pacific region. While the U.S. is focused on keeping China in check, South Korea is prioritizing implementing permanent peace on the Korean Peninsula.<sup>4</sup> Therefore, Seoul and Washington need to develop a joint strategy not only for checking China but also for establishing a permanent peace regime on the Korean Peninsula, including denuclearization of North Korea. As an ally, South Korea, too, feels the weight of supporting the U.S. Indo-Pacific strategy on the premise that it should not harm peace and stability in Northeast Asia. Therefore, it would be cooperation in the field of non-traditional security that the South Korea-U.S. alliance should jointly develop in a way that competition between the U.S. and China does not undermine peace and stability on the Korean Peninsula.

### The Impact of U.S.-China Decoupling and Korea’s Strategy

As the strategic competition between the U.S. and China intensifies in the aftermath of the COVID-19 pandemic, widespread debate is going on over supply chains, reshoring, and resilience. In this situation, the U.S. Chamber of Commerce published a report titled “Understanding U.S.-China Decoupling,” which analyzed the impact of full decoupling on the U.S. economy.<sup>5</sup> The report warned that continued mutual checks between the two countries have undermined U.S. companies’ global competitiveness and threatened hundreds of thousands of jobs in the U.S. According to the report’s forecast, the U.S. aviation industry will

lose 220,000 jobs every year, with up to \$51 billion in losses due to decoupling between the two countries. The semiconductor industry will also be deeply affected, with \$83 billion in annual sales losses and 120,000 job losses in the sector alone.

The report predicted that the Biden administration would maintain a similar policy stance to the previous administration. China could continue its pursuit of non-market economic systems and global hegemony, and the Biden administration is now forced to focus all its capabilities on recovering from economic damage caused by COVID-19. However, the U.S. Congress agrees with the need to check China and is expected to respond to China by cooperating with allies, reducing reliance on trade with China, and securing cutting-edge technology. Under the low political credibility between the two countries, it is expected that it would be difficult for the Biden administration to return to appeasement policies unless a new paradigm is formed.

The report recommends that three points should be considered in establishing policies with China. First, a strong ‘China policy’ may not be the answer. If thorough decoupling becomes a reality, it should be noted that there is a huge loss for both countries to shoulder. Second, before establishing policies and legislation against China, the impact and cost-benefit analysis on the economies of the two countries should be preceded by a complete data analysis, and opinions from various industries should be collected. Thirdly, the U.S. should establish a solid cooperative system with its allies rather than endure the economic damage caused by the confrontation with China alone.

Through the analyses of the report, we can see that decoupling between the U.S. and China will cause huge economic losses not only to the U.S. but also to countries around the world. Then what choice should Korea make in this situation? Not only economic considerations, but also more multifaceted and comprehensively, we should respond to the U.S.-China decoupling situation and find a solution to the crisis.

A group of strategic experts who are considering Korea's strategy argues that Korea needs to avoid the situation as much as it can where it chooses between the two countries in the process of decoupling. The arguments are as follows.<sup>6</sup>

1) South Korea and the U.S. are solid allies, but South Korea moves in its national interest, and the perception that South Korea should always be on the side of the U.S. is undesirable. In particular, considering the geographical proximity of China and Korea, it is unrealistic for Korea to choose the side of the United States. In order to respond to the security issues surrounding North Korea, South Korea needs both the U.S. and China's security cooperation, and flexible and wise measures to balance political and diplomatic balance between the U.S. and China are required.

2) The South Korea-U.S. alliance issues should be separated from the U.S.-China economic decoupling. And the South Korea-U.S. alliance should be decoupled from the U.S.-China strategic competition. South Korea regards the South Korea-U.S. alliance as a basis for national policy, but it will avoid joining the U.S.-led Indo-Pacific strategy or engaging in U.S.-China strategic issues such as the South China Sea issue.

3) There is a possibility that the trend of decoupling between the U.S. and China will weaponize "interdependence" within the East Asian region.<sup>7</sup> South Korea is also likely to be a victim, as is the case of retaliation for the THAAD deployment or the recent economic sanctions against Australia. However, amid this trend, there are also opportunity factors for Korea from an industrial standpoint. Korea needs to strategically and skillfully utilize the U.S. offensive against China in the short term. For example, South Korea can take a position as an alternative to Huawei in 5G competition.

4) While the U.S.-China technology competition reorganizes the regional supply chain, and Korea can diversify and reconfigure its own supply chain while maintaining its existing supply chain in China. Expanding exchanges with ASEAN and Central Asian countries through the Korean government's

current New Southern Policy and New Northern Policy could be a potential alternative to decoupling between the U.S. and China. Korea can respond to Huawei in the 5G sector through high-tech companies such as Samsung and SK Hynix. In particular, in the absence of 5G technology in the U.S., it can be an opportunity for Korean firms.

#### Defining the nature of the current Korea-China relations

Japan established diplomatic ties with China in 1972, and Korea established diplomatic ties with China 20 years later, in 1992. Japan and China have continued smooth cooperative relations for 20 years since establishing diplomatic relations, and signs of discord had begun in earnest after the thirtieth year had passed. Two countries currently maintain a hostile symbiotic relationship, and amid the U.S.-China strategic competition, the strengthening of the U.S.-Japan alliance is pushing the Sino-Japanese relations to become more tense. After the 25th anniversary of Korea-China diplomatic relations, Korea-China relations have gradually entered into a relationship of competition and confrontation from cooperative partnership.

The structural reason for that is the need for mutual cooperation and the areas of common interest between Korea and China are gradually decreasing. As China advances economically and technologically, the competitive nature between two countries is strengthening. In this structural situation, exogenous variables such as the U.S.-China strategic competition and pandemics are having more complex effects on bilateral relations. In particular, due to intensifying U.S.-China strategic competition, value-based relationships began to be more important than economic interest-based relationships. In other words, the aspects of economic mutual interest that promoted existing Korea-China relations are weakening and the confrontation over values and norms is intensifying. Currently, not only the United States but also the world's major economies' relationship with China has evolved

to assume the complex features of confrontation, competition, and cooperation. It is therefore difficult to establish a relationship with China in either direction. Korea-China relations seemed to have entered the same phase.

President Moon's visit to the United States last week provided a turning-point to upgrade the South Korea-U.S. alliance to a new level. It is estimated that Korea has become a partner in various global strategies of the United States. In particular, in the pandemic situation, South Korean biotech companies and US vaccine firms signed MOUs for cooperation. The aim is to combine U.S. vaccine technology and Korea's bio production capacity to boost global vaccine supply and contribute to bringing an early end to the COVID-19 pandemic.<sup>8</sup> The joint statement shows the direction in which the South Korea-U.S. alliance evolves into a value alliance, regional and global alliance, and technology alliance. The joint statement also shows a vision of expanding the spatial dimension of the South Korea-U.S. alliance into a global alliance, referring to the Indo-Pacific, South China Sea, Taiwan-Strait relations, climate change response, global supply chain and vaccine partnerships, and etc.<sup>9</sup> For South Korea, which has deep economic interdependence with China, it is a big decision to stipulate a value alliance that emphasizes liberal democracy, universal values, rule of law, and norm-based international order.

The outcome of the South Korea-U.S. summit this time is actually linked to South Korea's 2022 presidential election. Although the Moon Jae-in government's foreign policy actually is pro-American, the current government was viewed as pro-Chinese in the public opinion domain.<sup>10</sup> The image of pro-China could have disadvantages in the election at a time when Koreans' perception of China was not favorable due to China's retaliation against the THAAD deployment and the outbreak of pandemics. However, the performance of this Korea-U.S. summit could help the ruling party in the next year's presidential election. In fact, it is assessed that the Moon Jae-in government's foreign policy is too 'pro-American'. This is because much of the diplomatic capability was focused on

persuading the Trump administration to allow the North Korea-U.S. negotiations to progress. When the Blue House announced in 2018 that it would push for an end-of-war declaration excluding China, China had also strongly protested. Since President Trump rejected the agreement because of his political interests at the February 28, 2019 North Korea-U.S. summit in Hanoi, South Korea had to stop its one-sided way that only looked at Trump and come up with its own nuclear solution, but continued to focus only on persuading the U.S.

#### Conclusion: Can the New Cold War be avoided?

Konrad-Adenauer-Stiftung hosted an international webinar on March 25 by inviting experts from South Korea and Germany. At the meeting, there were various discussions on decoupling between the U.S. and China and what position export-oriented economies should take. A wide range of opinions has been raised.

Above all, the mainstream opinion that received attention is that decoupling is a structurally inevitable long-term trend rather than one initiated by Trump. China is further strengthening this trend by pushing for the Chinese Manufacturing 2025, Chinese standard 2035, and dual circulation strategy. Therefore, the world cannot avoid decoupling and needs to actively manage it. It is not only a strategic competition between the hegemon and a rising power, but also a systemic competition between a democratic economy and a hybrid economy led by the Communist Party of China. Thus, taking a neutral stance or taking a revival of multilateralism could further enhance the risk of decoupling. On the other hand, it has been argued that middle powers like Germany and Korea do not have to follow the US blindly, but should pursue a balanced approach such as 'high fences and small yard', 'partial decoupling', and 'patchwork globalization'.

In fact, the U.S. shift in its policy toward China is rooted in the perception that China is not shaped by western values, and is becoming a serious ideological challenge to liberal ideas. With regard

to this perception, China's critical economist Yao Yang, head of the Institute for National Development at Peking University, claims American perception about China's ideological challenge is misplaced. The People's Republic of China is not a Marxist-Leninist state as the West thinks. Instead, it has inherited characteristics of Confucian state, which is of course a different model of governance from liberal democracy, but which reflects human values essential to good governance.<sup>11</sup> So, it is reasonable to regard China as a capitalism with an authoritarian system ruled by the Communist Party. Branko Milanovic evaluates that Western liberal capitalism led by the U.S. and China's state capitalism are competing.<sup>12</sup>

Starting with the trade dispute, China-U.S. relations had entered a hostile phase, and the COVID-19 pandemic has been serving as momentum to lead the U.S.-China relations more confrontationally. Asia would be a key battlefield for the New Cold War. Confrontation in the political and military sphere is bound to accelerate decoupling, transforming the local economy of positive-sum into a negative-sum game. So far, Asian countries have benefited from their relations with China. By the way, a total disconnect from China would increase their cost, complexity and risk. Asian countries could have an antipathy to a United States, which is forcing comprehensive decoupling with China.<sup>13</sup> Thus, it would be wise for the United States to have a limited approach to highly sensitive security-related industries and high-tech industries.

The United States is a country with a long vision of liberalization and democratization. The United States thought it could transform China into a free and democratic country by allowing China to participate in the World Trade Organization in 2001. However, with the 9/11 terror attacks in 2001 and the 2008 global financial crisis, the U.S. missed an opportunity to keep China in check. In this regard, the trade war, which began in 2018, was the last option for check and balance.

This year China celebrates the 100th anniversary of the founding of the Communist Party of China, and in 2022 China holds the 20th National Congress of the Communist Party of China. It is a crucial time for China to legitimize the Communist Party's rule. Therefore, China is currently using the crisis of capitalism, democracy and governance in the United States to strengthen the legitimacy of its regime. In the process, the Communist Party of China is expanding its control in the political and social sectors and campaigning for patriotism.

As the Biden administration's value diplomacy takes on the nature of systemic competition, there is less room for strategic ambiguity in Korean diplomacy. Under these circumstances, South Korea should clarify its national identity in respect of democracy, human rights, market economy, free trade and multilateralism. However, it is not wise for South Korea to push for identity-based diplomacy and sovereignty game with China, explicitly citing values and alliances.<sup>14</sup> China's role in peace-building on the Korean Peninsula, the dangers of pushing for de-Sinicization without alternative markets, the economic interdependence in investment and trade between Korea and China should be considered. Accordingly, it is necessary to distinguish sovereignty and value, actively engage in multilateralism with similar countries, take transparent and discrete measures, and selectively express support and opposition on a case-by-case basis. It is necessary to select and express support and opposition for each issue between the U.S. and China.

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