



[EAI Online Seminar]

After Trump Series

U.S.-China Economic Decoupling under the New U.S. Administration and South Korea's Choices

East Asia Institute

I. Executive Summary

Sharp Fluctuations in the U.S. Foreign Economic Policy toward China

- Barry Eichengreen: There had already been some discomfort in the pre-Trump era over the intensity of Chinese competition and complaints that China was manipulating its currency. But that discomfort was inchoate. Trump articulated it. He presented the economic interaction of the two countries as a 'zero-sum game' and brought that simmering discomfort to a head. Trump came along at a time when there was growing awareness of domestic problems in the United States and that there was a correlation with the "China shock". Ironically, Trump's focus on an invalid concern over the bilateral trade imbalance forced his critics to identify and articulate valid concerns (e.g. forced technology transfer, industrial espionage, inadequate intellectual property rights, etc.).
- However, China did its part to fuel these economic concerns, holding onto poor country concessions in the World Trade Organization (WTO) long after it no longer was a poor country, and not being transparent in its Belt and Road Initiative lending to developing countries. With the advent of President Xi, it became clear to American observers that engagement would not lead to democratization as previously anticipated; therefore assumptions needed to be revised. China became more assertive and nationalistic in its foreign policy (e.g. conflicts over the South China Sea) and technology cooperation (e.g. Huawei), requiring assumptions to be further revised. American public's sentiments on China as well as the U.S. foreign policy on China shifted in alignment with China's assertive emergence.

A Return to Pre-Trump Normalcy? : "There Will Be Only 'Post-Trump' America" under the Biden Administration

- Barry Eichengreen: Biden's America cannot change everything. Even under the Biden administration, new intellectual property rights, foreign policy and human rights concerns will not go away. Concern about China is now a bipartisan, shared position in the United States. What will change is how the U.S. seeks to advance its goals: rather than unilaterally, as under Trump, Biden will attempt to build a coalition of the willing.



- If Biden really wants to bring changes into the U.S., he should pay attention to the backgrounds explaining why the U.S. could not have engaged in international affairs and cooperation. Above all, Biden should look over the domestic concerns relevant to the public health insurance, minimum wage, pre-school education that activated protectionist and isolationist thoughts and actions among Americans. The priority for the Biden administration is to come up with solutions for such domestic issues at the Senate where the Republicans dominate.

Prospects of TPP and Multilateralism: What Hinders America's Return to Multilateralism Are Domestic (Political) Landscape and Allies' Ever-Lowering Trust

- Barry Eichengreen: Trans-Pacific Partnership (TPP) with the U.S. would be a way of building a larger trade block that could more effectively engage in trade negotiations with China. But the Republican Party post Trump has gone over to the dark (protectionist) side and shows no signs of swinging back. Biden may be a centrist, but he will have to give something to the progressive wing of his party. That progressive wing, led by Bernie Sanders, hates trade agreements. Biden himself may believe in trade agreements, but as he campaigned against them in the primary, it will be hard for him to switch.
- Return to multilateralism seems to be better in 2021 than in 2020, since the U.S. will re-engage with the WTO, World Health Organization (WHO) and Paris Accord; it will be less hostile toward and suspicious of NATO. However, since the U.S. is now viewed, understandably, as a less reliable alliance partner, both bilaterally and multilaterally, this will pose some hurdles to the U.S. leadership in the multilateral regime.
- T.J. Pempel: In the midst of increasing protectionist stances against the multilateralism, Biden administration is not likely to approach multilateral economic settings worldwide (e.g. TPP). Multilateral approaches that Biden Admin will make will be along the line of Asia-Pacific Economic Cooperation (APEC), East Asia Summit (EAS) or ASEAN Regional Forum (ARF) where you can go out and meet with leaders from other countries, dealing with multiple issues simultaneously and pressing for greater localization. American companies will be at a singular disadvantage by joining the multilateral/multilateral agreements like Regional Comprehensive Economic Partnership (RCEP) because tariffs and regulations will be reduced, making the multilateral agreements less attractive. Even though the U.S. will cut many of the economic deals as much as possible, the U.S. will see more of its participation in the institutions that the U.S. is part. Biden administration will also avoid “show-boating and photo-op silliness” that Trump showed with North Korea, making the U.S. cooperation with South Korea and Japan smoother.

Dangers of Decoupling: Biden Administration's 'Sensible' Engagement with China

- T.J. Pempel: For the U.S. to become competitive worldwide, full decoupling from China is impossible. Even if the decoupling works, European and Japanese firms that will remain coupled to China. Also, despite the decoupling, value of the Chinese market will be still high for most of the U.S. companies



and industrial sectors. In the fields of science, health, global warming, nuclear proliferation, higher education etc., the cooperation between the U.S. and China will be vital.

- Sensible engagement with and competition against China requires the following five big things.
 - 1) The U.S. needs to realize that the center of gravity of the global marketplace lies in Asia with China the predominant hub of the region as a whole. China is not just a CHALLENGE but also an OPPORTUNITY.
 - 2) The U.S. needs to confront China's embedded mercantilism—China demands access to global markets while keeping own market closed, favoring State-owned Enterprises (SOEs) and Chinese Communist Party (CCP) controls.
 - 3) The U.S. must therefore return to competing head to head with China on emerging technologies like AI, 5G, renewable energy, electric cars, high speed rail, etc. This will require massive money for R&D, public private partnerships, infrastructure advances, cheap and available internet access, systematic support for higher education, etc.
 - 4) In dealing with China, the U.S. must stop Trumpian opposition to alliances and multilateralism. Many other countries share the U.S. concerns about China and would join in coalitions to put pressure on China for domestic economic changes.
 - 5) However, the U.S. should acknowledge how its position in Asian multilateral economic bodies is being overshadowed by Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), RCEP, Free-Trade Agreements (FTAs), etc. U.S. image as 'engaged' has been suffering.
- To advance most of that above-mentioned agenda, the U.S. is facing the following three main obstacles.
 - 1) Huge costs for such actions will confront incredibly high U.S. public debt. Dealing with debt will require tax reform and willingness to risk more borrowing for long term benefits.
 - 2) Protectionist sentiment among Democratic Party and the U.S. labor class—belief that job losses in manufacturing are due to globalization rather than to technology changes.
 - 3) Deep partisan opposition to 'giving Biden a victory.' Republicans will likely control Senate, already control many states, and courts are stacked with hundreds of pro-business, conservative Federalist Society judges; collectively likely to oppose any treaties (like CPTPP), big government.

Intersections between Economic Policies and Security Issues

- Barry Eichengreen: As we see from the exemplary case of ROK-U.S. relations, good economic and security relations go together. We should note that the goals of the U.S. are not to slow down China's emergence as an economic and security force. We cannot slow down China, but what Biden administration should do is to speed up the U.S.
- T.J. Pempel: The U.S. economic engagement with East Asia is interlinked to the security issues as the case of Belt and Road Initiative shows. For the Belt and Road Initiative, China's usage of AIIB's money is increasingly moving from South East Asia to Central Asia to South Asia. This provides China with a way to advance its economic and security profile globally without touching sensitive geographical spots in Northeast Asia where the U.S. has its biggest partners. In other words, China is trying to expand its influence in other parts of Asia where the U.S. is not deeply involved, not contesting the U.S. interest in South Korea and Japan.



Implications for South Korea: Need for Foreign Policy that Extends beyond the Korean Peninsula and China

- Yul Sohn: South Korea has been economically dependant on China, while working closely with the U.S. in terms of security and technology. At the same time, intensifying U.S.-China conflicts have been a great challenge to South Korea. With the advent of the Biden administration, South Korea should prepare new foreign policies reflecting its national interest as well as its relations with both the U.S. and China.
- T.J. Pempel: The U.S.-ROK relationship has been heavily focused on the peninsula, largely over security concerns about DPRK. ROK-China relations have been highly asymmetrical with ROK being reluctant to confront China on most agenda. Korean policymakers must think outside the peninsula and bilateral ROK-China relations; they must realize that, due to the increased economic and security interactions across the Asia-Pacific, its relationship with the U.S. and China are an integral part of a broader geoeconomic and geostrategic canvas. “Look South” is good but such policies must be focus on more than trade and FDI; include geostrategic thinking as well.
- Seungjoo Lee: Possibility of China’s economic retaliation on South Korea is not only South Korea’s problem, but is rather widely shared among other East Asian countries. South Korea cannot come up with one policy towards China, instead, the country should come up with a combination of policies(multi-track). Strengthening bilateral cooperation with the U.S. would be a useful means to reduce the possibility of China’s retaliation. Thinking outside of the box called bilateralism, South Korea should seek coordination with other Asian countries as part of the regional cooperation. In addition, South Korea has to work to reduce structural vulnerabilities and restrictions by restructuring of the global value chain. This should be attempted both in terms of decoupling and also diversification of economic relationship and global value chain, in an effort to reduce Korea’s economic vulnerabilities in dealing with China’s sanctions. ■



II. Speakers, Discussant, Moderator Bios

■ **Yul Sohn** is the President of the East Asia Institute (EAI) and Professor of the Graduate School of International Studies (GSIS) at Yonsei University, Seoul, Korea. Sohn currently serves President of the Korean Association of International Studies (KAIS). He served Dean of the GSIS (2012-2016) and President of the Association for Contemporary Japanese Studies (2012). Before joining the faculty at Yonsei, Sohn taught at Chung-Ang University, and was a visiting scholar at institutions in the University of Tokyo, Waseda University, the University of North Carolina, Chapel Hill, and the University of California, Berkeley. Sohn serves as policy advisor Ministry of Foreign Affairs, Ministry of Trade and the Korean Diplomatic Academy. Sohn has written extensively on Japanese and East Asian political economy, East Asian international relations, and public diplomacy. His most recent publications include *Japan and Asia's Contested Order* (2018, with T. J. Pempel) and *Understanding Public Diplomacy in East Asia* (2016, with Jan Melissen) both from Palgrave MacMillan, and “South Korea under US-China Rivalry: the Dynamics of the Economic-Security Nexus in the Trade Policymaking,” *The Pacific Review* (2019), 32, 6. Sohn received his Ph. D. in Political Science from the University of Chicago, Illinois, USA.

■ **Seungjoo Lee** is the chair of Trade, Technology, and Transformation Research Center at East Asia Institute(EAI) and Professor of Chung-Ang University. Lee received his Ph.D. in Politics from the University of California, Berkeley. His major research interest covers International Politics and Economics, International Politics of Coomerce, Global Digital Governance, etc. His most recent publications include "International Politics and Economy in Cyber Space," "Institutional Balancing and the Politics of Mega FTAs in East Asia," 《Northeast Asia: Ripe for Integration?》, “Trade Policy in the Asia-Pacific: The Role of Ideas, Interests, and Domestic Institutions》.”

■ **Barry Eichengreen** is the George C. Pardee and Helen N. Pardee Professor of Economics and Professor of Political Science at the University of California, Berkeley. He received his Ph. D from Yale University. He is a Research Associate of the National Bureau of Economic Research (Cambridge, Massachusetts) and Research Fellow of the Centre for Economic Policy Research (London, England). In 1997-98 he was Senior Policy Advisor at the International Monetary Fund. He is a fellow of the American Academy of Arts and Sciences (class of 1997). He is the convener of the Bellagio Group of academics and economic officials and chair of the Academic Advisory Committee of the Peterson Institute of International Economics. He is a regular monthly columnist for Project Syndicate, and his books include *The Populist Temptation: Economic Grievance and Political Reaction in the Modern Era* (2018); *How Global Currencies Work: Past, Present, and Future* (2017); *The Korean Economy: From a Miraculous Past to a Sustainable Future* (2015); and *Hall of Mirrors: The Great Depression, The Great Recession, and the Uses-and Misuses-of History* (2015). He was awarded the Economic History Association's Jonathan R.T. Hughes Prize for Excellence in Teaching in 2002 and the University of California at Berkeley Social Science Division's Distinguished Teaching Award in 2004. He is also the recipient of a *doctor honoris causa* from the American University in Paris, and he was named one of Foreign Policy Magazine's 100 Leading Global Thinkers in 2011.

■ **T.J.Pempel** is the Jack M. Forcey Professor of Political Science at University of California, Berkeley. He received his Ph.D. from Columbia University. He is a presidentially-appointed Commissioner on the Japan-U.S. Friendship Commission and also an active participant of the Northeast Asian Cooperation Dialogue. His current research is on Asian adjustments to the rise in global finance and the decline in security bipolarity. Previously, he has authored *Remapping East Asia: The Construction of a Region*; *Regime Shift: Comparative Dynamics of the*



Japanese Political Economy (both by Cornell University Press); Security Cooperation in Northeast Asia and The Economic-Security Nexus in Northeast Asia (both by Routledge). In 2015, he co-edited Two Crises; Different Outcomes (Cornell University Press) about the negative Asian experience in the 1997-98 crisis and the positive outcome in 2008-09. His newest book, Region of Regimes: Prosperity and Plunder in the Asia-Pacific is forthcoming in 2021. In addition, he has published over one hundred twenty scholarly articles and chapters in books. Previously, he served as director of the Institute of East Asian Studies and Il Han New Chair of Asian Studies from 2002 until 2006, and at the University of Washington in Seattle as the Boeing Professor of International Studies in the Jackson School of International Studies and an adjunct professor in Political Science.

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