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Geopolitical Risk in the Era of U.S.-China Strategic Competition and Economic Security

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I. Introduction: The Concept of Economic Security

The concept of economic security largely includes the elements of economic statecraft, economic resilience, and building mutual trust. Economic statecraft refers to the act of using economic means in fields such as trade, investment, and finance as a source of power in order to achieve one's national interest or to change the behavior of another country. Economic resilience, then, refers to measures used to preserve the national interest in the economic field from external threats, and signifies the ability to recover immediately even when physically threatened. This can be explained as the ability to respond to areas of sensitivity and vulnerability, which can be secured by reducing sensitivity by lowering dependence on the other party and reducing vulnerability by preparing alternatives for emergencies. Lastly, building mutual trust explains the psychological aspect of economic security, and in the end, it means that a stable economic security environment cannot be created without trust-building between countries.

II. Geopolitical Risk and Economic Security

Recently, the intensification of U.S.-China strategic competition, spread of COVID-19 infections, and the Russia-Ukraine war are disrupting the global supply chain and increasing instability in the global economy. The resulting instability in the supply of semiconductors, medicines, food, and energy is leading to an economic downturn, and the U.S., China, Japan, and EU are actively pursuing strategies to strengthen economic security.

However, ever since World War II, there has never been a time when economic security was not important. During the Cold War, the United States offered trade and aid to capitalist countries and imposed sanctions on socialist countries to contain the Soviet Union. There was a brief period after the 1980s when the economic-security link was somewhat relaxed, when neoliberalism emphasizing market mechanisms became popular, and as the socialist economy shifted to a capitalist economy after the dissolution of the Soviet Union in the 1990s. However, after the Trump administration, which took office in 2017, started a trade war with China, economic security began to receive attention again. In this sense, the key to recent economic security is the U.S.-China strategic competition. To counter China's economic rise, the United States is re-tightening economic-security links that were loosened in the post-Cold War era.

On the other hand, it can be said that the difference between the Cold War period and the post-Cold War period is China's share and influence in the global supply chain. China, which accelerated its industrialization through reform and opening up in the late 1970s, has grown as the world's factory after joining the World Trade Organization (WTO), resulting in a significant increase in its share and influence in the global economy and global supply chain. Although there is still a large gap with the U.S. in high-tech industries, China is increasing its dominance in the global market in non-high-tech industries. It is also worth paying attention to the trend that the realm of strategic competition between the U.S. and China is expanding to cyber and digital space. This is because China is rapidly developing its own ecosystem separately from the United States.

In this situation, the strength and scope of the means that the U.S. can employ in response are gradually decreasing. The U.S. is in a situation where it cannot respond to China just with the traditional means of economic statecraft. For this reason, the U.S. is contemplating new economic statecraft techniques. It is actively exploiting the vulnerability of interdependence in order to maximize its strengths while minimizing the damage it receives. However, unlike in the past, when economic statecraft was mainly used by economically advanced countries such as the U.S., the EU, and Japan, China and Russia have recently responded to the West through counter-sanctions, and the means are becoming more diverse, including both negative and positive sanctions and combining network-based means.

III. Global Supply Chain of Semiconductor and Battery Industry

The semiconductor industry supply chain is drawing keen attention as a shortage of semiconductors for automobiles occurred immediately after the outbreak of the COVID-19 pandemic. Although the United States maintains the world's highest level of design and equipment required for semiconductor production, it still lags behind Korea and Taiwan in its advanced semiconductor production capacity. To solve this problem, the U.S. wants to increase domestic production, and to that end, it has pushed for a semiconductor bill and demanded direct investment from Samsung Electronics and TSMC. China is also continuing its industrial policy to dramatically improve semiconductor self-sufficiency. However, China's semiconductor industry is facing serious difficulty because the U.S. strongly controls the export of key equipment necessary for the production of advanced semiconductors. Meanwhile, Japan also resumed industrial policy aimed at revitalizing the semiconductor industry. Because it is impossible for Japanese companies to manufacture advanced semiconductors alone, the Japanese government is promoting various support policies for cooperation with the U.S. and Taiwanese companies. And the EU, which has ASML, the leading producer of EUV exposure equipment essential for high-tech semiconductor production, is discussing a semiconductor law similar to that of the United States. Since it is impossible to build an independent ecosystem in the short term, the EU is also seeking to attract foreign investment.

Meanwhile, the battery industry is important not only for the 4th industrial revolution but also for the prevention of climate change. This is why the demand for electric vehicles is increasing to achieve carbon neutrality and the competition to dominate the battery supply chain is intensifying.

The country leading the battery supply chain is China. Chinese companies control about 60% of global production for rare metals essential for battery manufacturing. China's CATL has already become the world's largest company in terms of production scale. In view of the rapid increase in the supply of electric vehicles in China, the world's largest producer and consumer, it is expected that China's share and role in global battery production will increase. On the other hand, the United States, the home of Tesla, the world's top electric vehicle company, is a late follower in battery production. American automakers prefer joint ventures with overseas battery companies rather than independent development.

The U.S. and China, from the perspective of hegemonic competition, say that the country that dominates the electric vehicle and battery market will dominate the world, and characterize the expansion of battery factories and technology development as a 21st century-style “arms race.” However, the key to reorganizing the battery-related supply chain is securing raw materials for batteries. Even with the crisis of securing raw materials for batteries due to various geopolitical risks, it is predicted that the second semiconductor crisis will be repeated in the electric vehicle battery sector. Therefore, countries showing weakness in the supply and demand of raw materials for batteries will find it necessary to strengthen the triple safety net of “Secure-Stock-Circulation” of key raw materials for batteries.

IV. Economic Security Strategies of Major Countries

The positions of major countries to strengthen economic security are diverse. Due to different political and economic conditions and external environments, each country is pursuing strategies and policies to overcome the challenges it faces. Therefore, it can be said that there is no panacea for economic security.

First, the goal of economic security pursued by the U.S. is to contain China's economic rise and promote the growth of the U.S. economy. And the U.S. economic security strategy is currently leading the various global economic security issues.

On the other hand, the goals of Japan's economic security strategy can be broadly divided into two categories: risk management from external threats and economic growth. In other words, Japan is responding defensively to risks arising from interdependence with foreign countries, while actively responding to policies to foster strategic industries, especially semiconductor industries, that are both important in terms of security and growth.

The EU's economic security strategy is structured around strategic autonomy. The reason the EU seeks autonomy is because it has different interests and values from the U.S. and China. Unlike the U.S., the EU does not regard China as an enemy. In terms of security, the EU's biggest external threat comes from Russia, not China. Therefore, the EU is choosing a hedging strategy between the U.S. and China based on the balance of interests rather than band-wagoning with any one side.

Under the Xi Jinping regime, China has established and implemented policies and strategies related to economic security more systematically. First, based on its rapidly growing economic power, China is more actively using economic statecraft. In addition to the traditional negative economic sanctions that use economic power as a means of pressure on the opponent, it is actively using positive economic sanctions to entice counterparts through various economic benefits. Meanwhile, for economic resilience, China is actively strengthening its supply chain and industrial competitiveness. China is trying to diversify trade and secure a stable supply chain for energy and resources in order to respond to various U.S. sanctions. To this end, it is actively pursuing a dual cycle policy (双循环), such as seeking internalization of the supply chain by actively utilizing its huge domestic market, and is actively utilizing China's BRI (一带一路), a national-level external cooperation initiative. KIEP