Asian Journal of Peacebuilding Vol. 10 No. 2 (2022): 333-353
doi: 10.18588/202211.00a317 Special Issue – Research Article

Changes in Interdependence, US-China Strategic Competition, and the New Dynamics of the East Asian Regional Order

Seungjoo Lee

The immediate cause of the East Asian states' pursuit of new economic statecraft, which has led to changes in the regional order, was the rise of US-China strategic rivalry. However, one structural factor behind the adoption of this statecraft is the economic network formed in East Asia. The emergence of new economic statecraft has had systemic effects, such as the spread of network sanctions, the adoption of divergent strategies, and the dual dynamics of cooperation and competition between states.

Keywords United States, China, East Asia, economic statecraft, geoeconomics

Introduction

The strategic rivalry between the United States and China and the global spread of COVID-19 brought about the reemergence of geoeconomics. As East Asia has become the site of US-China strategic competition, the East Asian states, as well as the United States and China, have begun actively pursuing a new economic statecraft that links economics and security in their dealings with each other. In this study, I make a distinction between geoeconomics and economic statecraft. Geoeconomics is a system-level phenomenon in which the pattern of resolving conflicts and disputes between countries through economic means is reinforced. Economic statecraft refers to a state strategy in which individual countries link their economic and security policies to secure an advantage in geostrategic competition (Mattlin and Wigell 2016; Aggarwal and Reddie 2020).

This paper aims to identify the factors that have caused the East Asian states to practice new economic statecraft, which in turn has led to changes in the regional order in East Asia. While the US-China strategic rivalry is the immediate cause of the adoption of a new economic statecraft, one structural

ISSN 2288-2693 Print, ISSN 2288-2707 Online

factor that has prompted the East Asian nations, including the United States and China, to pursue this rather than the traditional form of economic statecraft is the economic network that has been formed in East Asia (Aggarwal and Reddie 2020). The US-China strategic competition and the networked nature of the global economy have combined to facilitate the rise of a new geoeconomics in East Asia at the regional level (Allison et al. 2021; Beeson 2018; Oatley 2019; Sun 2019). Responding to this regional trend, East Asian states are resorting to economic statecraft to maximize the damage inflicted on a target country while minimizing damage to themselves. This is in stark contrast to traditional economic statecraft that primarily relied on asymmetric interdependence. When it employed traditional economic statecraft, a state had no choice but to absorb a similar magnitude of damage as its economic sanctions inflicted on the target state. The greater the damage it inflicted on the target state, the greater the cost it had to bear.

However, by embarking on long-term strategic competition, the United States and China are faced with a daunting domestic political challenge in effectively managing the damage to their own countries. A country that has an advantage within the network will have the means to monitor interactions within the network as a whole and isolate another country from the network if necessary (Farrell and Newman 2019). A country holding a key position within the network can maximize damage to the target country without incurring damage to itself. Moreover, a country holding a hub position within the network can expect the additional benefit of being able to organize international cooperation to constrain target countries. It is against this backdrop that new economic statecraft has emerged.

The spread of new economic statecraft among the East Asian states has paved the way for the emergence of geoeconomics, and this is reflected in the changing dynamics of the East Asian regional order. As traditional geoeconomics is mainly focused on bilateral relations, studies on the effect of geoeconomics on regional order are scarce. In East Asia, the United States and China are not only engaged in fierce strategic competition, but they are also promoting new economic statecraft as a means to construct a regional order favorable to themselves (Foot and King 2019; Liu and Liu 2019). East Asian states have a common interest in alleviating the rising uncertainty caused by US-China strategic competition, and they are implementing different strategies in response to the United States and China. Also, at work are the dynamics of competition and cooperation between East Asian countries.

Theoretical Review

The spread of new economic statecraft in East Asia has revived discussion of why it is being pursued by East Asian states and what are its consequences. First, the

strategic competition between the United States and China is the core reason East Asian countries pursue economic statecraft. As this competition has expanded from the bilateral to the regional level, the East Asian region has become a site of geoeconomic competition (Li 2020). In these circumstances, it is inevitable that East Asian states would pursue economic statecraft (He and Li 2020; Zhao 2019). The United States and China are engaged in fierce competition to establish a regional economic order favorable to themselves in, among others, the military, security, economic, technological, and cultural fields (Lee 2016; Masujima 2021). In the process, the two powers are pursuing an economic statecraft that closely links the economic and security fields. To deal with the heightened uncertainty caused by the US-China strategic competition, the East Asian states have found it necessary to pursue economic statecraft.

While it is clear that the US-China strategic competition is having a significant impact on the East Asian regional order (Goh 2007; Goh 2016), this explanation overlooks the impact of the structural changes that took place during the first two decades of the 21st century. Since then, the trade imbalance between the United States and China has widened, while at the same time, a significant change has taken place in the regional economic order in that the link between the East Asian regional value chains (RVCs) and those of North America have been considerably weakened. Although the advent of the US-China strategic competition marked a turning point in the regional economic order, an exclusive focus on this cannot explain the effect of the gradual change that has occurred over the period 2000-2020.

From this perspective, the intensification of strategic competition between the United States and China is likely to narrow the range of strategic choices for East Asian states, because those two powers are pursuing an economic statecraft that prioritizes their own interests in their dealings with each other as well as with the East Asian states. International cooperation pursued by the United States and China is also a part of their economic statecraft in that it is used as a means of strategic competition. However, given that individual East Asian states are responding to US-China strategic competition in substantially different ways, it is necessary to analyze the impact of this strategic competition on East Asian states' strategic choices. The positions that East Asian countries occupy in the regional economic order could be a factor influencing their strategic choices. States occupying different positions within the RVC may pursue different strategies in the supply chain restructuring process and differ in their responses to US-China strategic competition.

Another explanation for the rise of geoeconomics in East Asia is the pursuit of hedging by East Asian countries (Pempel 2010). Hedging is a popular strategy among East Asian states faced with US-China strategic competition. It may be an effective strategy in times of high uncertainty because, unlike balancing or bandwagoning, it prioritizes risk management rather than profit maximization

(Lim and Cooper 2015). Hedging is an empirically valid explanation for the behavior of East Asian countries as few of them are explicitly engaged in balancing against or bandwagoning with the United States or China (Kuik 2016).

However, this explanation fails to capture the diversity of the economic statecraft practiced by the East Asian states. Even though East Asian states may be cautious about pursuing a realism-based foreign policy, a more systematic explanation is needed for whether this is the result of intentional hedging. In addition, it is necessary to examine the effectiveness and limitations of hedging by identifying the difference between diplomatic rhetoric and actual diplomatic strategy. Also, hedging cannot entirely explain the different strategies adopted by individual East Asian states. Given that hedging is mainly seen as an alternative to a realist strategy, it is necessary to expand our theoretical foundation to explain the differences between countries that are pursuing hedging.

We may also seek an explanation for the strategies adopted by East Asian from the perspective of traditional economic statecraft. Studies on geoeconomics in the immediate post-Cold War period focused on how new means could effectively replace military means (Luttwak 1990). It was assumed that as the cost of resolving conflicts by military means increased, controlling a target state through economic means would become more effective (Scholvin and Wigell 2018). However, as numerous debates over the effectiveness of economic sanctions have shown, traditional geoeconomics results in a significant gap between the goals and effectiveness of sanctions, and the sustainability of sanctions is dubious because the political and economic costs of imposing them are substantial. For this reason, not only the United States and China but also some East Asian states are looking for ways to minimize the cost of sanctions to themselves while maximizing the damage inflicted on the target state (Kim and Margalit 2021). It is in this context that the focus of analysis has shifted to weaponized interdependence differentiated from traditional economic governance (Farrell and Newman 2021).

Main Argument

I argue that changes in the regional order since 2000 combined with US-China strategic competition have promoted the rise of a new geoeconomics in East Asia, and both of these factors have spurred East Asian states to pursue new economic statecraft. The new economic statecraft is a combination of the traditional economic statecraft that primarily takes advantage of the asymmetric interdependence of hard power and a form of statecraft that utilizes a country's key position in the network. New economic statecraft emerges as states seek low-cost and effective means, such as network sanctions, because traditional economic statecraft is too costly to be sustained.

This study focuses on the gradual but substantial structural changes that

have taken place in East Asian RVCs since 2000, including their geographic expansion and verticalization. As the number of countries participating in RVCs increased, most East Asian countries inevitably became involved in the US-China trade imbalance. And the emergence of China as a hub for East Asian RVCs has encouraged further verticalization.

These structural changes have facilitated changes in economic statecraft. The United States has combined traditional economic statecraft, such as the imposition of high tariffs, with elements of the new economic statecraft, such as network sanctions that use networks to precisely sanction the target state. The United States uses this combination because the effectiveness of traditional economic statecraft is unclear and therefore difficult to sustain domestically. China also uses both types of economic statecraft, as it not only has a relationship of asymmetric interdependence with most countries in East Asia (Lai 2018) but also occupies a key position in the supply chain (Glaser 2021).

As a reflection of the growing need for a strategic response to US-China strategic competition, new economic statecraft is spreading to other East Asian states. Japan, which is a supplier of key materials and technologically advanced components, is also pursuing new economic statecraft—one example being its decision to drop Korea from the "white list" in 2019 (Sugihara 2019). Meanwhile, Korea and Taiwan, which form the secondary hub in the high-tech supply chain, are employing new economic statecraft in response to US-China strategic competition, as they see themselves as occupying a key position in the restructuring of the supply chain. These examples show how new economic statecraft that utilizes a state's position in the supply chain is spreading among the countries of East Asia.

This study also argues that US-China strategic competition and structural changes in the supply chain are affecting the dynamics of the East Asian regional order. The features of change in the regional order are the mobilization of network power, the adoption of divergent strategies, and competition among East Asian states. Since the East Asian regional network is densely formed, states occupy different positions within it. States occupying a key position in the network can convert that position into network power. This is the cause of strategic divergence and the competitive dynamics between East Asian states.

Asian Interdependence Old and New

Triangular Trade and Global Imbalances

Structural changes in the Asian supply chain have not only increased global imbalances but also changed the nature of interdependence among Asian countries. In 2005, China began to record a trade surplus which continued to increase until 2010. As the world economy gradually recovered from the global

financial crisis, China's trade surplus began to grow again, reaching US$421.9 billion in 2019 (Statista 2022).

Global imbalances are a decisive factor in continuity and systemic change in traditional trade networks (Feldstein 2008; Woo 2008). The trade imbalance between the United States and China, which increased from US$260 billion in 2008 to a record high of US$439.3 billion in 2018, prompted the Trump administration to launch a trade war (United States Census Bureau 2022). Indeed, the United States accounted for over 90 percent of China's total trade surplus of US$480 billion in 2018. The increase in the US-China trade imbalance reflected the fact that China, as the world's production center, was importing intermediate goods from Asian countries and exporting final goods to countries outside the region (Lee 2019).

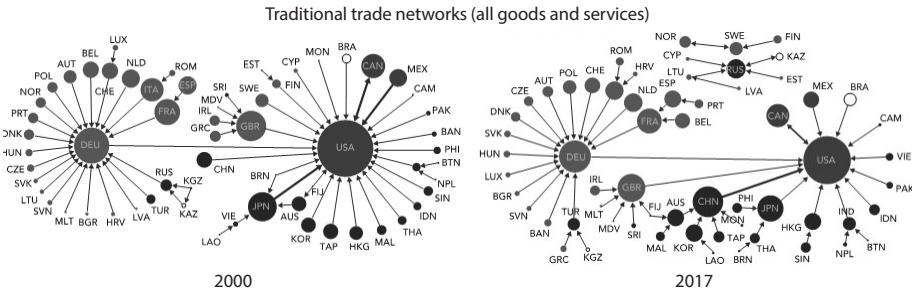
The trade imbalance is structured at the global level as the gradual expansion of China's imports of intermediate goods from Asian countries is intricately related to China's exports of final goods to countries outside the region. As a result, China maintains a trade surplus with countries that trade mainly in final consumer goods while it has a trade deficit with countries that trade mainly in energy and intermediate goods. In addition to the United States and Hong Kong, China maintains a trade surplus with European countries such as the Netherlands, the United Kingdom, and Spain, and Asian countries such as India, Vietnam, and Bangladesh, as they all import final consumer goods from China. By contrast, China has large trade deficits with suppliers of intermediate goods such as Taiwan, South Korea, Japan, and Germany.

Changes in the Asian Supply Chain

The Asian supply chain had been undergoing structural changes before the advent of US-China strategic competition. This involved not only changes in bilateral trade relations between the United States and China but also in China's trading relations with Asian countries at the regional level. The US-China trade imbalance is a result of structural changes in the RVCs in which Asian countries participate. Given that China holds a hub position in the supply chain, the global imbalance stems from China's trade pattern—that is, its trade surplus with countries to which it exports final consumer goods and trade deficit with those countries from which it imports mainly energy and intermediate goods (Lee 2019).

Meanwhile, the complex global value chain (GVC) trade network exhibits different characteristics from the traditional or simple GVC trade network. As the link between Asian RVCs and North American/European RVCs has weakened, Asian RVCs have become more concentrated. In 2000, when the United States was a technology supply hub for Asia, Asian RVCs were closely linked to the North American RVCs through Japan, or the Asian hub. Since 2017, as China emerged as the hub of the Asian RVCs, linkages between the two regions have substantially weakened ahead of US-China strategic competition (see Figure 1).

Figure 1. Changes in GVCs: Overall



Source: WTO (2019).

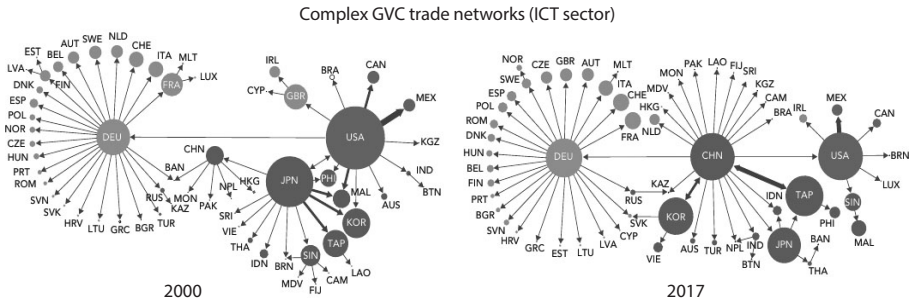
The decline of North America as a destination for Asian RVC exports is an indication of the increased regional concentration of RVCs in Asia. This is also demonstrated by the increase in the proportion of complex GVCs from 39.6 percent in 2000 to 46.2 percent in 2017 (WTO 2019). Linkages between Asian countries have expanded and deepened through China. China has established production links with most of the countries in the region, including Korea, Japan, and Taiwan, so that it now occupies a hub position in the RVC trade network. In short, the structural changes have caused Asian RVCs to become more concentrated, while linkages between regions have weakened.

The structural change is the result of China's upward movement to a high-value-added stage within the Asian RVCs. Although Chinese firms engage in the GVCs in diverse ways, China has emerged as a hub for RVCs as it has risen within the GVCs (Kee and Tang 2016). When the Xi Jinping government confirmed its commitment to reducing carbon emissions and improving the environment—for example, by basing corporate value on firms' non-financial performance such as environmental, social, and governance (ESG) standards—it was an indication that China intended to move away from being a center of production and to construct a supply chain centered on high-tech industries. In May 2020, China's State Council unveiled a plan for investing in high-tech infrastructure worth US$1.4 trillion over the following five years as part of its measures to support the upward movement of Chinese companies in the value chain (Bloomberg 2020).

The increased concentration of RVCs has resulted in two major changes in connectivity among the Asian countries: the horizontal expansion of the RVCs and changes in their vertical hierarchy. Expansion of the geographic scope of the Asian RVCs has occurred as a result of China upgrading its industrial structure and its role as a production base within the value chain being taken over by other developing countries in Asia.

China's upward movement in the value chain since the beginning of the 21st century has further reinforced the hierarchical nature of the Asian RVCs, allowing

Figure 2. Complex GVC Trade Networks in the ICT Sector



Source: WTO (2019).

developing countries in the region to enter the low-value-added production stages. These countries have formed a vertical relationship with China, which is particularly conspicuous in the ICT industry. In ICT, where dense networks of complex GVCs have been developed, China imports intermediate goods from Asian countries and some countries outside Asia such as Germany and Norway and exports final goods to the United States. While there has been no significant change in imports from Germany, which is a traditional supplier of components, China's imports of materials and intermediate goods from Asian countries such as Korea, Taiwan, and Japan have substantially increased. Since the 2010s, China has begun importing materials and intermediate goods from other Asian countries such as Vietnam and Singapore. These changes in China's trading patterns are signs of a massive increase in the complexity of the ICT industry supply chain. China could emerge as a hub in the Asian RVCs, while Korea, Japan, Taiwan, and Malaysia would act as secondary nodes, and Hong Kong, Thailand, Brunei, Laos, and the Philippines would be tertiary nodes (see Figure 2).

In the course of supply chain restructuring, on the supply side, the link between the United States and China continued to weaken, and this was further accelerated by the US-China trade war. The United States maintained its status as a supply hub for Asian countries until the early 2000s. However, its status in the supply chain has continued to deteriorate since the 2008 global financial crisis. The restructuring of the supply chain was precipitated by US-China strategic competition and the global spread of COVID-19.

From the point of view of economic statecraft, structural change in the RVCs had three effects. First, as it emerged as an RVC hub, China was able to take advantage of the network asymmetry that affected most Asian countries and practice new economic statecraft. Second, as the economic relations between Asian countries became more networked and the Asian RVCs became more hierarchical in nature, the United States had to seek cooperation with allies and partners that occupy key positions within the RVCs, namely Korea, Japan,

and Taiwan. And third, these three countries have also begun to practice new economic statecraft.

New Economic Statecraft in East Asia

New Economic Statecraft and US-China Strategic Competition

The tremendous costs associated with traditional economic statecraft—for example, in terms of tariffs—spurred the United States and China to move from a trade war to competition over technology. While both countries mobilized tariffs to wage a trade war, the trade imbalance became a source of asymmetric bargaining power for the United States. The Trump administration tried to reduce the trade imbalance by imposing prohibitively high tariffs on Chinese imports, and it resorted to asymmetric interdependence as a means not just to address the trade imbalance, but to deal with other structural problems built into the Chinese system such as technology hijacking, subsidies, state-owned enterprises, and industrial policy. The trade imbalance that was the cause of the trade war turned into a strategic asset for the United States (Lee 2019). In this regard, the United States relied on traditional economic statecraft that weaponizes asymmetric interdependence to apply pressure on China.

However, as the trade war proceeded, both the advantages and the limitations of a traditional economic statecraft that relied on tariffs became evident. In the short term, the trade imbalance gave the United States a structural advantage that allowed it to go on the offensive against China. In response to the US imposition of high tariffs in the early stages of the trade war, China adopted a hardline policy of retaliation. However, as the trade war of tariff imposition and retaliatory tariffs escalated, it turned out that it was not sustainable for China to overcome the structural disadvantage of the trade imbalance. Due to their relationship of asymmetrical interdependence, China was unable to respond to the US tariffs on the same magnitude and scale, and the US could not solely rely on tariffs to induce Chinese compliance in a situation of strategic competition.

Recognizing the limitations of traditional economic statecraft, the United States and China found new ways of sustaining their strategic competition. The United States went in two directions. First, it strengthened its defensive measures to prevent China from illegally acquiring or hijacking advanced US technology, which was reflected in the Trump administration's signing of a bill that strengthened the powers of the Committee on Foreign Investment in the United States (CFIUS) in August 2018. The aim of the bill was to prevent Chinese companies from taking advantage of the United States' open capital markets to acquire advanced technologies.

The Foreign Investment Risk Review Modernization Act (FIRRMA), also known as "CFIUS 2.0," is another new economic statecraft mechanism that

introduced detailed reviews of investments by Chinese companies to check whether they are linked with Chinese industrial policies, such as "Made in China 2025." It also requires a more thorough review of investments made by Chinese state-owned enterprises and state-owned funds (Khanapurkar 2020). The CFIUS reform has had the effect of blocking one of China's illegal technology acquisition channels, and it also seeks selective decoupling with China by encouraging the Western countries to unite in response to China's predatory investment in high technology. This action by the United States is likely to push China into a more active pursuit of technological self-reliance in the long term. In March 2019, the Chinese government passed the Foreign Investment Law which brought in corresponding measures against countries that restrict Chinese investment.

It is against this backdrop that the United States is turning toward a network-based approach. The sanctions the US government imposed on Huawei are economic statecraft in the form of network sanctions. In May 2019, the US government took steps to add Huawei and its sixty-eight affiliates to the Ministry of Commerce's Bureau of Industry and Security (BIS) Entity List. This allowed the US government to restrict the supply of key components to Huawei by US companies such as Intel and Qualcomm. Washington could do this because US companies occupy a hub position in the supply chain.

The dilemma for the United States is that because it is highly dependent on a China-centered supply chain in many industries such as pharmaceuticals, daily necessities, and batteries, it is susceptible to China's punitive measures such as export restrictions. To enhance the effectiveness of its economic statecraft, the United States had no choice but to reduce the vulnerability of the supply chain to threats from China. With this in mind, the US government has pushed for various measures such as reshoring, "friend shoring," and "ally shoring."

The spread of COVID-19 revealed the supply chain's fragility. When China imposed export restrictions on medical products such as masks and personal protective equipment in the early stages of the pandemic, this brought home to the United States the vulnerability of its supply chain. The US public realized the key role that China plays in the production of these items and the difficulty of sourcing them elsewhere at short notice (Eshoo and Schiff 2019). The United States, which was engaged in strategic competition with China, came to identify the vulnerability of the supply chain as a source of security threat. Thus, the COVID-19 pandemic dramatically increased awareness of supply chain vulnerabilities among both policymakers and the general public.

For the United States, the structural weakness of the supply chain and dependence on China acted as a constraint on strategic competition. This may be why the Biden administration pushed ahead with the restructuring of the supply chain for reasons of national security. Prior to COVID-19, US multinationals gave top priority to efficiency when they were forming and managing their supply chains, but since the pandemic, these companies have attempted to address supply

chain vulnerabilities by accelerating the adoption of automation and securing multiple suppliers (EY 2020). They have sought to limit their vulnerability despite the potential for efficiency degradation.

Another measure the US government has adopted to restructure the supply chain is reshoring. The US push to realign its supply chain for key strategic items such as semiconductors, electronic vehicle batteries, rare earths, and pharmaceuticals, including vaccines, is part of a strategy to alleviate supply chain vulnerabilities by reducing reliance on China (White House 2021a). Reshoring, which involves increased domestic production capacity and partial decoupling or partial disengagement, is aimed at alleviating supply chain vulnerability. Rather than completely decoupling, the United States is attempting partial decoupling to further refine its supply chain strategy in areas which are essential to maintaining its dominance in advanced technologies and industries.

New Economic Statecraft and the Securitization of the Supply Chain

The rise of US-China strategic competition and the global spread of COVID-19 caused Washington to recognize that the United States is reliant on an East Asian supply chain centered on China. In particular, the US government highlighted its dependence on primary products such as medical products, daily necessities, and high-tech items. When the pandemic revealed how dependent the United States was on a China-centric supply chain, the US government recognized that supply chain vulnerability is a national security issue. Defining China's technology takeover as an economic invasion, the Trump administration invoked the Defense Production Act (DPA) to help mitigate supply chain vulnerabilities, encouraging US companies to increase domestic production.

Beyond defensive measures that mitigated supply chain vulnerabilities, the United States has taken harsher measures to contain China by leveraging its hub position in the high-tech supply chain. Based on a supply chain review report, the Biden administration prepared countermeasures to strengthen supply chain resilience for key items such as semiconductors, batteries, pharmaceuticals, and scarce resources (White House 2021a). Specifically, the administration attempted to renovate the US innovation ecosystem to reinforce the resilience of the supply chain, strengthening innovation capability and pushing for the expansion of domestic production capacity. Reshoring has been promoted as a means of expanding domestic production capacity for key items. Although reshoring is primarily aimed at US companies, foreign companies have also been invited to participate, as can be seen from the invitations extended to overseas companies such as Samsung and TSMC to take part in the Biden administration's Semiconductor CEO Summit in May 2021 (White House 2021b).

As reshoring involves cooperation with allies and partners such as South Korea and Taiwan, it is a typical example of an economic-security linkage (Pempel 2012). Furthermore, US efforts to strengthen cooperation with its allies and

partners does not stop at expanding American production capacity; it also entails a restructuring of the supply chain centered on China in key advanced technologies. This means that the US government has the potential to use reshoring as an offensive tool in dealing with China. The new economic statecraft that involves using the supply chain has changed the nature of US-China strategic competition, and changes in the structure and density of networks of economic relations between states in the region have facilitated the emergence of new economic statecraft.

The emergence of new geoeconomics has had the secondary effect of pushing other East Asian countries to attempt the economy-security linkage. As strategic competition between the United States and China intensified and supply chain uncertainty rapidly increased due to the spread of COVID-19, Japan, Australia, and India promoted the Supply Chain Resilience Initiative (SCRI). As the TSMC case shows, Taiwan acceded to the Biden administration's request to produce semiconductors in the United States and at the same time has tried to restructure its supply chain centered on China by, for example, building semiconductor production facilities in Japan. Korea's Samsung Electronics announced that it would build a semiconductor plant in Texas, SK Innovation planned a plant in Georgia, and LG Energy Solution set up shop in Michigan, investing about US$27 billion in battery production. As demonstrated through SK Innovation's agreement to form a long-term cooperative relationship with Ford and LG Energy Solution's agreement with General Motors, Korea is seeking to form a stable and future-oriented relationship with the United States in the high-tech sector. As such, there has been a change in the regional economic order in that Asian states are realigning their relations with the United States and China.

The emergence of new economic statecraft has not only influenced the US-China strategic competition, it has also changed relations between countries within the region. As China rose to prominence in the first two decades of the 21st century, most Asian countries experienced a substantial change in their economic relations with China. This had two political and economic consequences. The increase in economic exchanges with China served as a new engine of economic growth for regional countries and also helped minimize the impact of changes in the external environment such as the 2008 global financial crisis. However, increased economic exchanges with China made most of these countries vulnerable to economic coercion, as they have relationships of asymmetric interdependence with China. This vulnerability spurred the rise of new economic statecraft in East Asia.

The new geoeconomics also affected relations between East Asian states. Similarities and differences are found in East Asian states' responses to the US-China strategic competition. Most East Asian states have a common interest in preventing the region from becoming an arena for US-China strategic competition and in avoiding taking sides between the United States and China. However, as

East Asian states have different threat perceptions concerning US-China strategic competition, they have sought different strategies for dealing with it. States such as Japan, Australia, and Taiwan have responded aggressively to Chinese economic coercion, despite their high level of dependence on trade with or investment in China (Govella 2021). South Korea and most Southeast Asian states are pursuing a strategy that is designed to gradually alleviate economic vulnerability to Chinese coercion while maintaining traditional security relations with the United States. Having emerged as major beneficiaries of the diversification of the supply chain promoted by the United States and other East Asian states, Vietnam and India have refrained from directly responding to the US-China strategic competition.

As mentioned above, East Asian states are also attempting an economy-security linkage (Aggarwal and Govella 2013; Goldstein and Mansfield 2012). As conflicts between Japan and Korea escalated due to differences over historical issues, Japan imposed export restrictions on Korea for key materials essential for semiconductor production (Sugihara 2019). This is a form of new economic statecraft that takes advantage of Korea's dependence on Japan for key materials in the semiconductor supply chain. The Japanese government believed these measures would inflict a heavy blow on Korea's largest export item, semiconductors, while minimizing the negative impact on Japanese companies (Y.-H. Kim 2021). These export restrictions have resulted in Korea intensifying efforts to reduce its dependence on Japan in its semiconductor supply chain and improve its self-sufficiency in key materials and components. So, it is not only the United States and China that have been reorganizing their supply chains, the East Asian states have become involved in that process too, thereby further promoting changes in the regional economic order.

The Systemic Effects of New Economic Statecraft in East Asia

Network Position and Network Power

Structural changes in the East Asian supply chain have not only increased global imbalances, but also changed the nature of interdependence among East Asian countries. At the individual country level, structural changes in the supply chain have altered positions within the network. As China replaced Japan as a supply chain hub, it became the center of trade in materials, intermediate goods, and final goods for most countries in Asia. As the largest trading partner of most Asian countries, China could pursue a two-track strategy. It could leverage its asymmetric interdependence and its hub position in the supply chain to engage in aggressive economic statecraft in relation to East Asian countries. First, in response to the Korean government's decision to deploy Terminal High Altitude Area Defense (THAAD) in 2016, the Chinese took all-around economic retaliatory measures in the fields of trade, investment, distribution, tourism, and

cultural content. The damage caused by economic retaliation over the first six months was estimated at 8.5 trillion won in Korea and 1.1 trillion won in China, which is equivalent to 0.5 percent of Korea's GDP and 0.01 percent of China's GDP, respectively (Hyundai Research Institute 2017). This is a typical example of the kind of economic statecraft that takes advantage of asymmetric interdependence.

Second, China engaged in new economic statecraft by taking advantage of its key position in the supply chain. In 2010, during the Senkaku/Diaoyu Islands dispute, the Chinese government banned the export of rare earths to Japan. China could resort to this measure because it holds a critical position in that supply chain as it accounts for 80 percent of the production of rare earth materials used in the production of most high-tech products such as semiconductors, electric vehicles, wind turbines, and military weapons systems. President Xi Jinping highlighted the importance of resources as well as cutting-edge technology in his response to the US offensive, which involved, among other measures, banning the export of rare earth materials to the United States (Mai and Lee 2019). Since then, Japan has reduced its dependence on China for rare earth materials from 91.3 percent to 58 percent, but there is a limit to its ability to alleviate its vulnerability to China's economic coercion (China Power 2020).

Meanwhile, structural changes in the supply chain, accelerated by US-China strategic competition and the global spread of COVID-19, have had two systemic consequences. First, the position of each individual country in the supply chain affects its China strategy. Most East Asian states, recognizing that asymmetric interdependence makes them vulnerable to Chinese economic coercion, try to maintain friendly relations with China. In parallel with this, they take a structural approach, including utilizing their position in the supply chain to diversify their sources of supplies. As they secure a two-way relationship with China in major industries where dense supply chain networks are formed—including the ICT industry—Korea, Taiwan, and Japan are in a good position to take such an approach. China, which accounts for only 4 percent of the global semiconductor market, is inevitably dependent on South Korea and Taiwan which occupy key positions in the ICT supply chain. Their network positions allow Korea and Taiwan to seek strategies different from other East Asian states in response to China's economic coercion—that is, they can pursue new economic statecraft. In other words, Korea and Taiwan can convert their network position into network power.

Differentiation of Strategies among the East Asian States

The establishment of a two-way economic relationship with China based on their key positions in the supply chain would be strategically advantageous for Korea and Taiwan. However, these two countries have adopted somewhat different strategies for dealing with China. Having experienced economic coercion by China, Korea has pursued gradual diversification to enhance the efficiency of

its supply chain and to prepare for another round of Chinese coercion. In this process, Korea has made it clear that the key to diversification is to embrace the universal trend toward mitigating structural weaknesses in the supply chain, not simply to "exit China" or exclude China. Korea's stance was reflected in the Moon Jae-in government's caution with regard to the US-led Indo-Pacific Strategy, although during the bilateral summit of May 2021, it agreed to expand and deepen bilateral cooperation with the United States in the fields of advanced technology and health. The Moon government pursued functional cooperation centered on individual issues rather than joining the Quad, the aim of which is to exclude China. In preparation for the spread of nationalism and economic coercion, Korea is promoting a strategy of securing its technological sovereignty by improving the competitiveness of individual technologies and strengthening its position in the supply chain.

Taiwan's economic statecraft is different from that of Korea (Shattuck 2021). Pursuing its own reshoring policy, Taiwan has deepened its bilateral cooperation with the Biden administration on reshoring, as demonstrated in its decision to increase investment in semiconductor manufacturing facilities in the United States. TSMC has been explicit in its cooperation with the United States against China. In June 2020, the company made it clear that it would actively cooperate with US export control measures against Huawei, and it promised that it would not take advantage of loopholes in those export controls (Hille and Stacey 2020). It is clear that Taiwan places the highest priority on cooperation with the United States in response to China's threats and challenges (Hass 2022).

Dual Dynamics of Cooperation and Competition

The third characteristic of structural change in the supply chain in the context of US-China strategic competition and the spread of COVID-19 is the development of dual dynamics of cooperation and competition among East Asian states. These states share an interest in avoiding intensification of the US-China strategic competition or being faced with choosing sides between the United States and China (M.-H. Kim 2021; Wilkins 2021). The East Asian states' common interests are apparent in the ASEAN Outlook on the Indo-Pacific, announced by the Association of Southeast Asian Nations (ASEAN) in 2019, which states that Southeast Asia should not be a site of US-China strategic competition.

Competition among East Asian states has also unfolded. While they agree on the need for cooperation at the regional level, they inevitably compete in pursuit of their own interests, something which is evident in the supply chain. The East Asian states have reached a consensus on enhancing the stability and resilience of the supply chain, but they differ significantly in their individual approaches. Korea, Taiwan, and Japan all have a common interest in maintaining and improving supply chain stability because they play a key role in the Asian supply chain. However, while they give high priority to bilateral cooperation with the United

States to strengthen the resilience of their supply chain, these three states are quite cautious about cooperating with each other.

The securitization of the supply chain is responsible for the dual dynamics. First, unlike traditional alliance politics, the weaponizing of interdependence using the supply chain is not limited to enemies in the 21st century, and this is vividly illustrated by the conflict between Korea and Japan over semiconductors. In response to Japan's new economic statecraft that was designed to minimize the impact on the Japanese economy while maximizing the impact on Korea's semiconductor industry, Korea removed Japan from its twenty-one-country "white list" (Reuters 2019). New economic statecraft as exercised by Korea and Japan had a paradoxical consequence, as it disrupted the supply chain despite Korea and Japan being major beneficiaries of supply chain stability (Haggard and Kim 2020). The securitization of the supply chain took place when Korea and Japan utilized it to deal with their conflicts over historical and diplomatic issues.

The dynamics of competition are at work between Korea and Taiwan, too. These two countries both have the means to respond to China's economic coercion by securing a key position in the supply chain based on the competitiveness of their advanced technologies. However, the fact that Korea and Taiwan occupy similar positions within the network means that rivalry between them may be inevitable. Korea's Samsung Electronics and Taiwan's TSMC are key partners in the Biden administration's reshoring effort. Samsung Electronics plans to invest US$17 billion in a semiconductor production facility in Texas, and TSMC announced a US$44 billion investment in a semiconductor plant in the US in 2022 (Kim 2022; Focus Taiwan 2022). Korea and Taiwan exhibit dual dynamics in that while actively cooperating with the United States' supply chain restructuring strategy, they are engaged in fierce competition with each other (Hwang 2021).

The dynamics of competition and cooperation among Asian states are also reflected in the trilateral relationship between Korea, Taiwan, and Japan. Korea is at the center of the dynamics of competition and cooperation. Conflicts between Korea and Japan that began with diplomatic and historical issues spread to the supply chain. Korea is also engaged in supply chain competition with Taiwan. The trilateral relationship has led to the strengthening of supply chain cooperation between Japan and Taiwan, particularly in the semiconductor sector, which is at the core of the ICT industry supply chain. TSMC has decided to invest US$8.6 billion—20 percent more than originally planned—to build a semiconductor plant in Kumamoto, Japan. In June 2022, the Japanese Ministry of Economy, Trade, and Industry (METI) agreed to provide a subsidy of 476 billion yen (US$3.5 billion) to TSMC, signifying that Japan has revised its industrial policy to adapt to the rapidly changing environment (Ministry Economy, Trade and Industry 2021; Nikkei Asia 2022). Korea-Japan relations and Korea-Taiwan relations involve the dual dynamics of competition and cooperation.

Conclusions

Thus far, I have examined the emergence of new economic statecraft in East Asia and its impact on the regional order. The continuous increase in interdependence between Asian countries, involving the growth of regional trade and investment and the expansion of RVCs, prompted Asian states to practice new economic statecraft. In particular, structural changes in the Asian RVCs triggered by China's economic rise have led to changes in the way East Asian states are closely linking their economies and security. A new geoeconomics has emerged, in which the US and China, as well as the East Asian states, link economy and security in a markedly different way.

While the East Asian states have much in common, they exhibit significant differences in the way they practice economic statecraft. This stems from differences in their perceptions of the threat from US-China strategic competition, their position in the supply chain, and the competitive dynamics between them. As the strategic competition between the US and China intensified, the differentiation of the East Asian states' strategies accelerated. While some states focus on managing the risks involved in choosing between the US and China, other states are actively balancing against China, while still others are seeking to maximize the profits they can reap from the US-China strategic competition. These divergences have resulted in a dramatic increase in the complexity of the regional order.

The East Asian states are employing new economic statecraft not just to address the US-China strategic competition, but to secure an advantageous position in their dealings with each other, still further complicating the regional order. East Asian states that are engaged in the dual dynamics of cooperation and competition do not rule out the possibility of weaponizing interdependence. These changes further increase uncertainty at the regional level and make it more difficult for states to cooperate in redesigning the regional order (Yeo 2019).

Acknowledgments

This work was supported by the Ministry of Education of the Republic of Korea and the National Research Foundation of Korea [NRF-2020S1A3A2A01095177]; and the Institute for Peace and Unification Studies (IPUS) at Seoul National University under the project of "Laying the Groundwork for Unification."

References

Aggarwal, Vinod K., and Andrew W. Reddie. 2020. "New Economic Statecraft: Industrial

Policy in an Era of Strategic Competition." *Issues and Studies* 56 (2): 204006-1-204006-29.

Aggarwal, Vinod K., and Kristi Govella. 2013. *Linking Trade and Security: Evolving Institutions and Strategies in Asia, Europe, and the United States*. New York: Springer.

Allison, Graham, Kevin Klyman, Karina Barbesino, and Hugo Yen. 2021. "The Great Tech Rivalry: China vs the US." Belfer Center for Science and International Affairs. December.

Beeson, Mark. 2018. "Geoeconomics with Chinese Characteristics: The BRI and China's Evolving Grand Strategy." *Economic and Political Studies* 6 (3): 240-56.

Bloomberg. 2020. "China's Got a New Plan to Overtake the US in Tech." May 21. https://www.bloomberg.com/news/articles/2020-05-20/china-has-a-new-1-4-trillion-plan-to-overtake-the-u-s-in-tech (accessed September 10, 2022).

China Power. 2020. "Does China Pose a Threat to Global Rare Earth Supply Chains?" https://chinapower.csis.org/china-rare-earths/ (accessed September 10, 2022).

Eshoo, Anna G., and Adam B. Schiff. 2019. "China's Grip on Pharmaceutical Drugs Is a National Security Issue." *Washington Post*. September 10.

EY. 2020. "How Do You Find Clarity in the Midst of a Crisis?" Global Capital Confidence Barometer, March.

Farrell, Henry, and Abraham L. Newman. 2019. "Weaponized Interdependence: How Global Economic Networks Shape State Coercion." *International Security* 44 (1): 42-79.

Farrell, Henry, and Abraham L. Newman. 2021. "Weaponized Interdependence: How Global Economic Networks Shape State Coercion." In *The Uses and Abuses of Weaponized Interdependence*, ed. Daniel Drezner, Henry Farrell, and Abraham L. Newman. Washington, DC: Brookings Institution Press.

Feldstein, Martin. 2008. "Resolving the Global Imbalance: The Dollar and the US Saving Rate." *Journal of Economic Perspectives* 22 (3): 113-25.

Focus Taiwan. 2022. "TSMC Plans to Spend up to US$44 billion for 2022." January 13. https://focustaiwan.tw/business/202201130014 (accessed September 10, 2022).

Foot, Rosemary, and Amy King. 2019. "Assessing the Deterioration in China-US Relations: US Governmental Perspectives on the Economic-Security Nexus." *China International Strategy Review* 1:39-50.

Glaser, Bonnie S. 2021. "How China Uses Economic Coercion to Silence Critics and Achieve Its Political Aims Globally." Statement before the Congressional-Executive Commission on China. December 7.

Goh, Evelyn. 2007. "Great Powers and Hierarchical Order in Southeast Asia: Analyzing Regional Security Strategies." *International Security* 32 (3): 113-57.

Goh, Evelyn. 2016. *The Struggle for Order: Hegemony, Hierarchy and Transition in Post-Cold War East Asia*. Oxford: Oxford University Press.

Goldstein, Avery, and Edward D. Mansfield. 2012. *The Nexus of Economics, Security, and International Relations in East Asia*. Stanford, CA: Stanford University Press.

Govella, Kristi. 2021. "The Adaptation of Japanese Economic Statecraft: Trade, Aid, and Technology." *World Trade Review* 20 (2): 186-202.

Haggard, Stephan, and Jeongsoo Kim. 2020. "Disrupting Supply Chains: Evidence on the Japan-Korea Conflict." https://keia.org/the-peninsula/disrupting-supply-chains-evidence-on-the-japan-korea-conflict/ (accessed September 10, 2022).

Hass, Ryan. 2022. "Focus on Interests, not Ideology, to Strengthen Taiwan's Standing." April 18. https://www.brookings.edu/blog/order-from-chaos/2022/04/18/focus-on-interests-not-ideology-to-strengthen-taiwans-standing/ (accessed September 10, 2022).

He, Kai, and Mingjiang Li. 2020. "Understanding the Dynamics of the Indo-Pacific: US-China Strategic Competition, Regional Actors, and Beyond." *International Affairs* 96 (1): 1-7.

Hille, Kathrin, and Kiran Stacey. 2020. "TSMC Falls into Line with US Export Controls on Huawei." *Financial Times*. June 9.

Hyundai Research Institute. 2017. "Choegeun hanjung sanghogan gyeongjesonsil jeomgeomgwa daeeungbangan" [Recent economic loss between Korea and China and countermeasures]. *Hyeonangwa gwaje* [Current Issues and Challenges] 17 (10): 1-12.

Hwang, Jeong-Soo. 2021. "Samsung, TSMC Up Ante in US Foundry Competition." *The Korean Economic Daily*. May 24.

Kee, Hiau Looi, and Heiwai Tang. 2016. "Domestic Value Added in Exports: Theory and Firm Evidence from China." *American Economic Review* 106 (6): 1402-36.

Khanapurkar, Uday. 2020. "CFIUS 2.0: An Instrument of American Economic Statecraft Targeting China." *Journal of Current Chinese Affairs* 48 (2): 226-40.

Kim, Jaewon. 2022. "Samsung Unveils $17bn Investment for Texas Chip Plant." Nikkei Asia. November 24. https://asia.nikkei.com/Business/Technology/Samsung-unveils-17bn-investment-for-Texas-chip-plant (accessed September 10, 2022).

Kim, Min-hyung. 2021. "Hedging between the United States and China? South Korea's Ideology-Driven Behavior and Its Implications for National Security." *International Relations of the Asia-Pacific*. lcab020, https://doi.org/10.1093/irap/lcab020 (accessed September 10, 2022).

Kim, Sung Eun, and Yotam Margalit. 2021. "Tariffs as Electoral Weapons: The Political Geography of the US-China Trade War." *International Organization* 75:1-38.

Kim, Yang-Hee. 2021. "Interactions between Japan's 'Weaponized Interdependence' and Korea's Responses: 'Decoupling from Japan' vs. 'Decoupling from Japanese Firms.'" *International Trade, Politics and Development* 5 (1): 19-31.

Kuik, Cheng-Chwee. 2016. "How Do Weaker States Hedge? Unpacking ASEAN States' Alignment Behavior Towards China." *Journal of Contemporary China* 25 (100): 500-14.

Lai, Christina. 2018. "Acting One Way and Talking Another: China's Coercive Economic Diplomacy in East Asia and Beyond." *The Pacific Review* 31 (2): 169-87.

Lee, Seungjoo. 2016. "Institutional Balancing and the Politics of Mega-FTAs in East Asia." *Asian Survey* 56 (6): 1055-76.

Lee, Seungjoo. 2019. "Mijung muyeong jeonjaeng: teureompeu haengjeongbuui dachawonjeong bokam geim" [The US-China Trade War: The Trump Administration's Multilayered Complex Game]. *Journal of International and Area Studies* 28 (4): 1-34.

Li, Mingjiang. 2020. "The Belt and Road Initiative: Geo-economics and Indo-Pacific Security Competition." *International Affairs* 96 (1): 169-87.

Lim, Darren J., and Zack Cooper. 2015. "Reassessing Hedging: The Logic of Alignment in East Asia." *Journal of Contemporary China* 25 (4): 696-727.

Liu, Feng, and Ruonan Liu. 2019. "China, the United States, and Order Transition in East Asia: An Economy-Security Nexus Approach." *The Pacific Review* 32 (6): 972-95.

Luttwak, Edward N. 1990. "From Geopolitics to Geo-Economics: Logic of Conflict, Grammar of Commerce." *The National Interest* 20:17-23.

Mai, Jun, and Amanda Lee. 2019. "Xi Jinping Calls for Self-Reliance as China Grapples with Long-Term US Challenge of Trade War and Ban on Huawei and Other Technology Manufacturers." *South China Morning Post*. May 22. https://www.scmp.com/news/china/politics/article/3011388/xi-jinping-calls-self-reliance-china-grapples-long-term-us (accessed September 10, 2022).

Masujima, Ken. 2021. "Development and Strategic Competition in Asia: Toward Polarization?" *International Relations of the Asia-Pacific* 21 (1): 91-120.

Mattlin, Mikael, and Mikael Wigell. 2016. "Geoeconomics in the Context of Restive Regional Powers." *Asia Europe Journal* 14:125-34.

Ministry of Economy, Trade and Industry. 2021. "keizai sangyō seisaku no shin kijiku aratana sangyō seisaku e no chosen" [Innovations in Economic and Industrial Policy ~ Challenge to New Industrial Policy]. June. https://www.meti.go.jp/shingikai/sankoshin/sokai/pdf/028_02_00.pdf (accessed September 10, 2022).

Nikkei Asia. 2022. "Japan to Subsidize TSMC's Kumamoto Plant by up to $3.5bn." https://asia.nikkei.com/Business/Tech/Semiconductors/Japan-to-subsidize-TSMC-s-Kumamoto-plant-by-up-to-3.5bn.

Oatley, Thomas. 2019. "Toward a Political Economy of Complex Interdependence." *European Journal of International Relations* 25 (4): 957-78.

Pempel, T. J. 2010. "Soft Balancing, Hedging, and pem Darwinism: The Economic-Security Nexus and East Asian Regionalism." *Journal of East Asian Studies* 10: 209-38.

Pempel, T. J., ed. 2012. *The Economy-Security Nexus in Northeast Asia*. London: Routledge.

Reuters. 2019. "South Korea Removes Japan from Fast-Track Trade 'White lLst." September 18. https://www.reuters.com/article/us-southkorea-japan-whitelist-idUSKBN1W21T2 (accessed September 10, 2022).

Shattuck, Thomas J. 2021. "Stuck in the Middle: Taiwan's Semiconductor Industry, the US-China Tech Fight, and Cross-Strait Stability." *Orbis* 65 (1): 101-17.

Scholvin, Sören, and Mikael Wigell. 2018. "Power Politics by Economic Means: Geoeconomics as an Analytical Approach and Foreign Policy Practice." *Comparative Strategy* 37 (1): 73-84.

Statista. 2022. "Merchandise Trade Balance in China from 2009 to 2019." https://www.statista.com/statistics/263632/trade-balance-of-china/ (accessed September 10, 2022).

Sugihara, Junichi. 2019. "Japan Officially Ousts South Korea from Export Whitelist." Nikkei Asia. August 28. https://asia.nikkei.com/Spotlight/Japan-South-Korea-rift/Japan-officially-ousts-South-Korea-from-export-whitelist (accessed September 10, 2022).

Sun, Haiyoung. 2019. "US-China Tech War: Impacts and Prospects." *China Quarterly of International Strategic Studies* 5 (2): 197-212.

United States Census Bureau. 2022. "Trade in Goods with China." https://www.census.gov/foreign-trade/balance/c5700.html (accessed September 10, 2022).

White House. 2021a. "Building Resilient Supply Chains, Revitalizing American Manufacturing, and Fostering Broad-Based Growth: 100-Day Reviews under Executive Order 14017." June. https://www.whitehouse.gov/wp-content/uploads/2021/06/100-day-supply-chain-review-report.pdf (accessed September 10, 2022).

White House. 2021b. "Remarks by President Biden at a Virtual CEO Summit on Semiconductor and Supply Chain Resilience." April 12. https://www.whitehouse.

gov/briefing-room/speeches-remarks/2021/04/12/remarks-by-president-biden-at-a-virtual-ceo-summit-on-semiconductor-and-supply-chain-resilience/ (accessed September 10, 2022).

Wilkins, Thomas. 2021. "Middle Power Hedging in the Era of Security/Economic Disconnect: Australia, Japan, and the 'Special Strategic Partnership'." *International Relations of the Asia-Pacific*. lcab023, https://doi.org/10.1093/irap/lcab023 (accessed September 10, 2022).

Woo, Wing Thye. 2008. "Understanding the Sources of Friction in US-China Trade Relations: The Exchange Rate Debate Diverts Attention from Optimum Adjustment." *Asian Economic Papers* 7 (3): 61-95.

WTO. 2019. "Technological Innovation, Supply Chain Trade, and Workers in a Globalized World." Global Value Chain Development Report.

Yeo, Andrew. 2019. *Asia's Regional Architecture: Alliances and Institutions in the Pacific Century*. Stanford, CA: Stanford University Press.

Zhao, Minghao. 2019. "Is a New Cold War Inevitable? Chinese Perspectives on US-China Strategic Competition." *The Chinese Journal of International Politics* 12 (3): 371-94.

Seungjoo Lee is a Professor of Political Science and International Relations at Chung-Ang University (Seoul, Korea). He was formerly a Professor at the National University of Singapore and Yonsei University. His publications have appeared in various journals such as *Comparative Political Studies*, *The Pacific Review*, *Asian Survey*, and *Korean Political Science Review*. Professor Lee received his Ph.D. in political science from the University of California at Berkeley.

Submitted: July 29, 2022; Revised: September 10, 2022; Accepted: September 16, 2022