

Emergence of Indo-Pacific Digital Economic Order: US Strategy and Economic Statecraft toward China

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Why has the United States (US) changed its stance toward China and kept it in the digital economy domain, despite the change in its government? The extant literature finds causes from China yet barely addresses perceptual factors. This study, however, argues that the strategy and policy of the US have undergone a process whereby the US has securitized the domain by designating China as a threat instead of a risk. Furthermore, the US has internationalized securitization to include its allies and close partners among the Indo-Pacific countries. Analytical narratives examine the US' economic statecraft, including commercial, industrial, and investment policies. A close examination reveals that the US-China technology competition has been undergoing partial decoupling in global supply chains of critical technologies.

Keywords digital economic order, digital technology, economic security, economic statecraft, decoupling, global supply chains

Introduction

Why has the United States (US) recently changed its stance toward China in the digital economy domain and kept it that way, despite the change from a Republican-led government to a Democratic-led one? Traditionally, Democratic presidents have engaged with China and taken a dovish approach, whereas Republican presidents have preferred a confrontational stance against non-liberal-democratic regimes, at least in principle. This common sense in US foreign policy/strategy may explain why, in 2017, the Republican administration of Donald Trump changed America's long-held engagement posture toward China, which lasted for over two decades after the Cold War. However, it does not adequately explain why the US has maintained a confrontational stance toward China, even after the government was transferred to the Democratic administration of Joe Biden in January 2021.

Moreover, although most works across different theoretical schools of international relations (IR) on the US-China relationship now describe and predict that conflicts between the two countries originate from structural causes and, will thus, be prolonged (Ikenberry 2018; Kupchan 2021; Mearsheimer 2019; Medeiros 2019; Nye 2020; Wang and Zeng 2020), they fail to explain why that strategic consistency is demonstrated more strongly in the digital domain than in other fields. The fierce strategic competition between the US and China, especially since the Trump administration, has sparked intense scholarly debates on various aspects of the relationship. However, the US has demonstrated a willingness to lift tariffs on certain Chinese goods (Liptak 2022) while preserving or hammering out economic statecraft for a significant degree of technological decoupling from China.

This study provides a theoretical framework to address the two challenging situations mentioned above while offering an analytical description of how the US-China relationship is shaping the digital economic order in the Indo-Pacific region. The two situations—strategic consistency despite two opposing administrations, and strategic inconsistency across different issues in the same administration—are becoming the basis of the American grand strategy. The US seems to have settled its strategy toward China, especially in relation to the digital realm (defined as physical and virtual spaces supported or enabled by high-tech digital technologies), and to critical industries and sectors (defined as market actors that are part of a supply chain of cutting-edge technologies, which are substrates for all aspects of modern economic, social, and political life).

This study argues that a perceptual shift from seeing China as a risk to viewing it as a threat is key to the securitization process of the policy domain, which is followed by a set of domestic and international strategies and policies established by multiple government agencies as observed in their official publications. National strategies and policies on the securitized domain emphasize relative gains more than absolute gains in interdependence with a country perceived as a threat, whereas absolute gains are highlighted more with a country that is seen as a risk. When interdependence is complex involving various aspects of a country, a certain domain is specified, especially one that is deemed closest to (economic) security interests. Further, because such an emphasis is inherently associated with national security concerns, and thus, with a zero-sum game perspective, decoupling becomes a natural policy choice. When the initiating country successfully shares its threat perception with its allies and partners, then strategic and policy alignment may be achieved, thereby potentially leading to restructuring supply chains to the country (as well as to like-minded countries) in collaboration with like-minded countries.

Instead of testing all these hypotheses, this study expounds the former part of the causal argument: the process of securitizing a certain domain domestically and internationally, and its association with economic statecraft to ensure

national (economic) security, mostly in the form of decoupling critical supply chains from a designated threat. To do this, I provide analytical narratives of American government documents and actions in search of perceptual changes, and the subsequent strategies and policies of the US government.

The following section reviews extant studies on US-China strategic competition and differentiates this study from prior research by highlighting the limitations and gaps in the literature. The next section delineates theoretical arguments that illuminate the process of domestic and international securitization and its implications for international strategy and policy. The section after that, which consists of three subsections, provides evidence to substantiate the arguments with cases from the Trump and Biden administrations. The conclusion sums up the study findings.

Reasons for the Intensifying Great Power Competition

Scholars have shown considerable interest in the intensifying US-China strategic competition as it is not only a rare case of a power shift/transition but could also affect countries that are involved with either of the two, especially those in the Indo-Pacific region. Many who observe the US-China strategic competition from a macro-perspective have discussed the current liberal international order and its future. A myriad of works has attempted to explain changes in the international order resulting from the US-China power shift or potential power transition and tends to highlight changes in China's material capabilities or its international status as a significant cause impacting the current international order (Acharya 2014; Allison 2017; Boyle 2016; Deudney and Ikenberry 2018; Kagan 2013; Mearsheimer 2019; Speck 2016; Wright 2017). In particular, the causal process of a shifting American perception as the reason for modifications to the US strategy toward China is often understated.

Some investigations have centered on reasons originating in the US for the intensifying strategic competition between the two nations and address the perceptual factor (Haiyong 2019; Wang and Zeng 2020; Wu 2020). However, even these studies, which have identified reasons inside the US, neither draw analytical connections between the alleged causes and phenomena of interest nor scrutinize the perceptual factor. In terms of striking a balance, the perceptual shift in the US has largely been ignored by almost all the aforementioned works in understanding the recent changes observed in the US-China relationship.

Given that the importance of the perceptual aspect in international affairs has long been discussed in IR literature, this overlooked element underlines a significant gap in extant studies on the intensifying US-China competition, which this study seeks to fill. For instance, scholars who have investigated power transitions have suggested looking at two conditions simultaneously to predict

a systemic war: the fairly even distribution of material capabilities between the status quo power and the challenger, and the degree to which the challenger is dissatisfied with the status quo system (Organski 1958; Organski and Kugler 1980). When it comes to international alignment, scholars have also pointed out perceived threats as a crucial factor for external balancing, i.e., military alliances (Leeds and Savun 2007; Walt 1987; Waltz 1979). Likewise, the theoretical framework of willingness and opportunity affirms that the willingness part (which includes perceptual causes) is a necessary condition and constitutes a jointly sufficient condition in conjunction with the opportunity part in explaining the outcome of interest (Cioffi-Revilla and Starr 1995; Goertz and Starr 2003).

This study focuses on strategies and policies (e.g., unilateral, bilateral, and mini-lateral initiatives and arrangements) to demonstrate the intensifying strategic competition between the US and China. Such government documents and actions are instrumental materials to infer whether the relationship has intensified with concrete indicators. Furthermore, I scrutinize US strategies and policies that pertain not only to critical digital technology but also to vital industries and sectors. Different technologies may be designated as important depending on the political, social, and economic contexts, but recent emerging and foundational technologies identified by the US Congress include semiconductors, quantum computing, and artificial intelligence (AI) (President's Council of Advisors on Science and Technology 2017; Subcommittee on Quantum Information Science 2018).¹ Thus, both the digital domain and critical industries/sectors share many crucial high-tech digital technologies.

With the abovementioned definitions, I examine why the US seeks to decouple critical sectors in the digital domain from China, thus highlighting perceptual causes. The extant literature certainly mentions the US' decoupling from China in the context of the strategic competition. However, this study is distinct in that it addresses two specific gaps in the literature. First, existing studies do not question why technologies—pertaining particularly to the digital domain—are the main topic of decoupling. Strategic competition is underway in almost every aspect of the great power relationship between the US and China, such as the military and development (He and Li 2020; Masujima 2021; Medeiros 2019; Nye 2020). Nevertheless, only a few components are seriously considered to be decoupled. This aspect has not yet received proper scholarly attention.

Second, although research has attempted to capture the changing relationship between the US and China through the term “decoupling,” and phrases such as “New Cold War,” “partial disengagement,” “competition through entanglement,” “hot peace,” “soft war,” and “New Iron Curtain” (Friedberg and Boustany 2020; Nye 2020; Wyne 2020; Zhang and Xu 2021), they do not necessarily provide a theoretical argument that allows readers to understand the matter of interest analytically. However, this study is not so much interested in developing a new conceptual term to describe the new relationship between the two countries.

Rather, in focusing on the changing nature of the US strategy and policy toward China, I am interested in identifying causal mechanisms to uncover the process toward partial decoupling. Therefore, the following section explores how a perceptual shift is associated with changes in international strategy and policy.

Perceptual Foundation of Change in International Strategy

Perceptual factors are crucial in explaining changes in behavior in IR. Drawing on securitization literature, this section describes how a risk perception may morph into a threat perception; then, more importantly, it outlines how such a perceptual change is associated with various concepts in cooperation and confrontation in IR literature, thereby leading ultimately to shifts in international strategy and policy. In doing so, this study makes theoretical progress, first by highlighting the internationalizing aspect of securitization, and second, by associating perceptual changes with transformations in global strategy and policy.

Risk perception is a perceptual foundation that scholars often associate with hedging strategies in mixing confrontation/balancing and engagement (Haacke 2019; Kuik 2008; Medeiros 2005/2006). However, when a risk perception becomes a threat perception, such strategies are no longer tenable (Walt 1987, 21–29; Waltz 1979, 12–16). While the hedging literature mostly agrees on that point, prior research has barely expounded upon the theoretical process from such a perceptual change to a strategy or policy shift. The securitization literature reveals certain processes, though, thereby revealing that the dynamics of securitization is determined primarily by political leaders, bureaucracies, governments, lobbyists, and pressure groups. These influential actors designate referent objects, which “are seen to be existentially threatened and have a legitimate claim to survival,” such as the state, ideology, national economies, collective identities, and species or habitats (Buzan, Waever, and Wilde 1998, 36).

In addition, while a traditional understanding of security in IR is centered on survival logic (either power maximization in offensive realism or national security in defensive realism), securitization articulates a security concern as an existential threat at the individual level as well. Cultural contexts often add more details on what is meant by the individual level. For instance, in the context of the US, the “speech act,” which turns referent objects into existential issues, has often cited one’s way of life as an existential matter (Buzan, Waever, and Wilde 1998, 41).² In other words, US political leaders and policymakers often equate the physical lives of American citizens with their way of life, and whoever forces a change in it is regarded as a threat to their existence. In the same vein, liberal values consist of the core referent for people to defend. By extension, in the context of international politics, the value/ideological fault line between democratic and authoritarian countries is often translated into a national security

issue. As a corollary, a revisionist country and its ambition/attempt to compel a change in people's way of life or to replace their values and norms in the current international order is seen as a threat to the hegemon, i.e., the US.

This article is more interested in how such a change is associated with a certain set of foreign policies than what causes such a perceptual change. In other words, this theoretical section highlights the foreign policy that the threat perception is more likely to be associated with. When a threat takes hold of the policy community, policies (developed prior to the formation of the threat perception) vis-à-vis a threat country have to change accordingly. Now that the counterpart is a threat, security concerns tend to predominate over other (e.g., economic and social) issues. The relationship with the counterpart is likely to be viewed through a zero-sum lens rather than a non-zero-sum one. Further, relative gains matter more than absolute ones as gains accrued in transactions may be used against their own interests according to the fungibility assumption under anarchy (Grieco 1988). Consequently, the country would be urged to adopt foreign policies that either decrease or sever interdependence with the counterpart for fear that gains would be misused.

On the contrary, prior to the threat perception, a country would view other nations either as friends or as risks.³ Its relations with other countries are still perceived as non-zero-sum issues, and it is more likely to focus on absolute gains from the relationship (Axelrod and Keohane 1985). In fact, this preference is the baseline in most of the IR literature, which assumes that states try to maximize their absolute gains, although under certain conditions accompanying anarchy, they are inclined toward the pursuit of relative gains (Powell 1991, 1304; Waltz 1979, 34-36).

There are two dilemmas, or costs to address, when it comes to the securitization, especially under complex interdependence because two countries in this scenario are intertwined in ways that could involve numerous sectors and industries, not only between the two countries themselves but also across third countries. The first dilemma is concerned with situations where policymakers are required to choose which domain among many should be decreased or severed as securitization proceeds. It is because the decision affects not only the overall economy of the nation but also the costs and benefits of vested groups in the domain that may be critical constituencies for the incumbent. When a certain domain is designated to be securitized by securitizing actors, securitizing actors have to make trade-offs between security and economic interests, and thus, potentially experience backlash from the interest group of the domain. As political leaders and policymakers often come up with subsidies or other policies to make up for the losers who have been concerned with economic interests, they make a calculated strategic choice. The same is true for cases that this study offers on critical digital technologies.

A more relevant question to ask is how we know whether a certain issue area

is securitized or not. On account of the versatility of technologies on which both critical security and economic interests are hinged, countries vary as to whether digital technology-related matters should be viewed from the perspective of national security or that of the economy. In general, for economic actors to remain cost-efficient and thus competitive, they would be the least concerning for (national) security. However, in the case of coping with (national) security threats, economic actors have to take actions that are not necessarily cost-efficient, such as moving their production sites or incorporating additional security aspects into their product design.

Counterfactual thinking hence suggests that countries without a threat perception are likely to deal with matters in the digital domain as ones belonging to economic issue-areas and to non-zero-sum interactions. Consequently, they would continue to gain economic benefits from transactions with a risk country. In contrast, those with a threat perception would approach digital issues from a national security perspective and regard the relationship with a threatening partner as a zero-sum game. As a corollary, a country with a threat perception would securitize the digital domain and critical industries and sectors, and attempt to manage the relationship with the threatening partner differently in those particular issue-areas compared to others. Such an attempt may involve various policies, such as a decoupling policy that is intended to exclude or reduce the presence of economic actors of a particular country on its global value chains.

The second dilemma has to do with the international aspect of securitization and is more difficult to deal with than the first one because it relates to cooperation with other countries. This element has not necessarily been articulated in the original work on securitization by Buzan et al. (1998). Given that the economies of the US and China are under complex interdependence, managing interdependence between the two alone might not be effective to influence the other; economic actors would merely find other channels to maintain transactions with the other, typically through third parties in global supply networks. Thus, for the management of interdependence to have significant effects on the target, a country would need to simultaneously align with the policies of third countries in global supply chains.

Therefore, when it comes to managing interdependence in the era of complex interdependence, it is necessary to manage interdependence with third parties as well as the dyad in global value chains. In other words, policy alignment should be accompanied for management to be effective. To align with the policies of third parties in the trade network, the initiator would share the threat perception of the target country with them. A dilemma arises when third parties are hesitant to align their policies with that of the initiator. As such, the initiator would typically attempt to internationalize securitization toward allies and partners along with policies to collectively manage interdependence and to enforce, induce, or penalize and/or to persuade them to take certain actions.

As mentioned earlier, instead of testing these full hypotheses, this study examines the former part of the causal arguments—the association of a securitized domain both domestically and internationally with economic statecraft to ensure economic security from a threat country. Future research will benefit from looking into the entire process, which involves the effect of internationalizing securitization on third countries and the likelihood of aligning their policies with that of the securitizing initiator. This study focuses on the perceptual shift and associated strategic and policy changes, and the attempt to internationalize the threat perception to manage interdependence.

Empirical Probes

This section consists of three parts. The first provides evidence of the US' perceptual change regarding China and explains the US' corresponding behavior, as shown in the following subsections. The second part outlines shifts in commercial, investment, and industry policies associated with the threat perception. The concluding part accounts for not only the internationalization of securitization but also related policies to restructure global supply chains to the US.

The US Perception of China: From a Risk to a Threat

The strategic characteristic of the relationship between the US and China prior to the Trump administration was strongly imbued with engagement. As the American strategy had involved not only engagement but also realist-style balancing or strategic competition, it was often described by various concepts, such as hedging (Medeiros 2005/2006) and co-opetition (Shambaugh 2017), that attempt to combine both strategic aspects. Although they are termed differently, these two strategic approaches share the engagement component in their meaning. This engagement was included in part because China was perceived as a risk, rather than a threat, for the US to manage. In other words, China was expected to become a responsible stakeholder in the US-led liberal international order at some point in time, despite the authoritarian characteristics of the political regime, as economic interdependence with the US increased and deepened.

However, that hope was clearly abandoned, and accordingly, the previous engagement component in the American strategy toward China was no longer taken for granted during the Trump administration. This change by the Trump administration was based on the fact that the US' view of China changed from a risk perception (the fundamental assumption of the US' previous hedging strategy toward China) to a threat perception. The shift in perception was clearly stated when the *National Security Strategy* (NSS) was published in 2017. The document defines China as a “revisionist power” attempting to “shape a world antithetical to US values and interests” (White House 2017). It further declares that China's

“integration into the post-war international order” failed. Subsequent to the NSS publication, the *Summary of the 2018 National Defense Strategy*, issued by the US Department of Defense, reaffirms China as a revisionist country that seeks “to shape a world consistent with their authoritarian model,” (US Department of Defense 2018, 2) thus threatening the American way of life.

The 2017 NSS and the *Summary of the 2018 National Defense Strategy* mark the end of the reluctance on the part of previous governments to make a definitive conclusion about China’s aggressive intent. These two strategies stipulate that the US will continue to seek Indo-Pacific regional hegemony in the short-term, which would displace China from achieving global pre-eminence in the future. The two strategic documents thus explicitly indicate that China is no longer perceived as a potential responsible stakeholder in the US-led system but as a grave threat to US interests and norms.

Once a consensus was formed across the wide spectrum of American policymakers, it lasted across different administrations that shared this view. When President Biden gave his first major foreign policy speech at the US Department of State on February 4, 2021, he claimed that “American leadership must meet this new moment of advancing authoritarianism, including the growing ambitions of China to rival the US and the determination of Russia to damage and disrupt our democracy” (White House 2021a). Additionally, he vowed to “confront China’s economic abuses; counter its aggressive, coercive action; to push back on China’s attack on human rights, intellectual property, and global governance.” His remarks clearly retain the threat perception of the previous administration, thus implying an ideological and values-based confrontation with China. This point is more apparent in the comment of Secretary of State Antony Blinken (2021): “China is the only country with the economic, diplomatic, military, and technological power to *seriously challenge the stable and open international system*—all the rules, values, and relationships [...] because it ultimately serves *the interests and reflects the values of the American people*” (emphasis added). The Biden administration’s *Interim National Security Strategic Guidance* (White House 2021b), published in March 2021, expresses the exact same view.

In the same vein, the *2021 Annual Threat Assessment of the US Intelligence Community* published in April of that year by the Office of the Director of National Intelligence defines China as a near-peer competitor that challenges the US in multiple arenas. The report embodies the standpoint of top policymakers in the US intelligence community and was sent to the US Congress. The threat perception continues to be shared across the country, as demonstrated in a recently passed industrial policy in the Senate as well, titled the *United States Innovation and Competition Act of 2021*. In June 2021, the Senate passed this bipartisan bill, according to which China pursues policies that “threaten the future character of the international order and are shaping the rules, norms, and institutions that govern relations among states” (US Congress 2021, 648). The bill also claims that

although the US had actively worked to advance China's economic and social development, and contributed to the welfare of the Chinese people, "[i]t is now clear that [China] has chosen to pursue state-led, mercantilist economic policies, an increasingly authoritarian governance model at home through increased restrictions on personal freedoms, and an aggressive and assertive foreign policy. These policies frequently and deliberately undermine [US] interests and are contrary to core [US] values" (649). Furthermore, Congress defines China as a country pursuing offensive realism, stating that China's "objectives are to first establish regional hegemony over the Indo-Pacific and then to use that dominant position to propel the PRC [People's Republic of China] to become the 'leading world power'" (651). Thus, Congress has urged the Biden administration to "adopt a policy of strategic competition with the PRC to protect and promote our vital interests and values [...] as part of a broader strategic approach to the Indo-Pacific and the world" (660).

Likewise, the US-China Economic and Security Review Commission (2021) published the *2021 Annual Report to the Congress* in November 2021. The report conveys the same perception, stating that "China's strengths and the threats it presents to US interests are considerable" (26). Given that the report was released after receiving briefings from a number of executive branch agencies, the intelligence community, foreign diplomatic officials, and non-governmental experts, it is safe to assume that the threat perception has been maintained across different administrations and remains predominant across the country, at least among government actors.⁴

US Economic Statecraft on Critical Digital Technologies

Although the emphasis on supply-chain security was emboldened only recently with the start of the Biden administration, the perception change (that started during the Trump administration) has introduced economic statecraft initiatives to manage interdependence with China, but mostly to reduce sources of vulnerability to the US economic statecraft has unfolded in three ways: commercial, investment, and industrial policies.

Regarding commercial policies, aside from trade agreements (addressed later), export controls have been actively implemented since the Trump administration and were instigated by the threat perception of China. After coming to power in 2017, President Trump ordered the Office of the US Trade Representative (USTR) to investigate the country's commercial relationship with China. Consequently, a report, *Findings of the Investigation into China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation Under Section 301 of the Trade Act of 1974*, came out in March 2018. The report demonstrates the US concern about China's technological rise and aspirations, which are evident in an industrial policy called Made in China 2025. The report concludes that because China has been involved in unfair practices, such as

intellectual property theft and harming American economic interests, the US should impose additional tariffs.

Moreover, the Trump administration amended the Export Administration Regulations (EAR) in May 2019. Accordingly, US products subjected to the EAR, such as semiconductors, or products produced by third countries that incorporate American technologies or software, must receive US authorization before being exported. The Entity List, formed according to the EAR of the Bureau of Industry and Security under the Department of Commerce, includes Huawei and its overseas affiliates. This policy was developed to prevent American private corporations from having transactions with Huawei without authorization. Subsequent to the EAR, the 2019 *National Defense Authorization Act* prohibits the federal government from purchasing Huawei products for security concerns.

A further amendment to the EAR was made in May 2020, known as the Foreign-Produced Direct Product Rule Amendment. It was particularly effective in convincing some countries, notably the UK, to change from allowing Huawei products to banning them. The amendment was implemented to control re-exports and even transfers of foreign-produced items when a Huawei-related company is involved. Thus, semiconductors, for instance, using US technologies in the production or development of any part, component, or equipment, became subject to the rule. In short, the new rule raises costs for countries that do not align with the US policy toward Huawei. The Biden administration has not only continued to keep the Entity List in place but also expanded the List with Executive Order No. 14032 in June 2021, which includes more China-based (surveillance technology-related) companies due to human rights violations in Hong Kong and Xinjiang.

Investment policies have been another part of the US' economic statecraft vis-à-vis China. Following up on the perceptual change, the Trump administration strengthened the role of the Committee on Foreign Investment in the US (CFIUS) to monitor and regulate China's outbound mergers and acquisitions (M&A) transactions, especially in the US. Therefore, the *Foreign Investment Risk Review Modernization Act* (FIRRMA) was passed in August 2018. The FIRRMA-amended CFIUS process is now able to block or suspend, with the President's authority, proposed or pending foreign mergers, acquisitions, or takeovers of US entities that threaten to harm national security. The new rule was clearly introduced due to concerns about China's threat to US technological leadership to support national defense and economic security (Jackson and Cimino-Issacs 2020).

The FIRRMA of 2018 took effect in February 2020. Prior to its enactment, the scope of the CFIUS was limited to controlling investments. However, FIRMMA not only allowed CFIUS to potentially discriminate against foreign investors by country of origin and transactions tied to certain countries but also broadened its role to include reviewing any non-controlling investment, including

investment in US businesses involved in critical technology, vital infrastructure, or collecting sensitive personal data on US citizens. In other words, the regulations pertain not only to industries related to national security (e.g., those of military, high-tech, energy) but also to sectors that deal with private information on US citizens (e.g., software, e-commerce, financial services, social media). This substantial change in CFIUS' role signifies that the US threat perception of China extends the concept of national security to include online privacy.

The Biden administration has continued this approach to address threats posed by foreign-backed M&A, especially Chinese ones. CFIUS still has bipartisan support, and the idea of what is relevant to national security remains broad and encompasses deals involving semiconductors, software, cybersecurity, finance, healthcare, and social media alongside traditional interests in defense, technology, and critical infrastructure. This fact was explicitly set forth when President Biden rolled out his Build Back Better strategy by signing the Executive Order on Securing America's Critical Supply Chains. This executive order designates a broad spectrum of the most vulnerable supply chains, but prioritizes semiconductors and advanced packaging, large capacity batteries, critical minerals, and pharmaceuticals for a more rigorous one-year review, rather than the 100-day risk assessment for other products. The goal is to reduce reliance on foreign-made inputs needed by crucial industries and to bolster supply chains and prevent future shortages. Thus, the administration intends to prevent any foreign monopolization or asset ownership in a US supply chain, especially by China.

Unlike the abovementioned commercial and investment policies, which were oriented toward decoupling from China, development investment frameworks proposed and implemented respectively by the US and China are in competition but do not appear to have decoupled from each other yet. In countering China's Belt and Road Initiative (BRI), the US and its Quad partners, notably Japan and Australia, launched the Blue Dot Network initiative in November 2019 as a multilateral effort not only to promote the principles of sustainable infrastructure development around the world but also to counter China's export of authoritarian digital technologies and institutions for surveillance and control of data, and its expanding influence on developing countries. China's news media, supported by the Chinese Communist Party (CCP), were alerted to say that if the Blue Dot Network was intended to counter China's BRI, the attempt would be doomed to fail, thereby signifying another flaring competitive front between the US and China (Global Times 2021).

In fact, the Trump administration was the first to openly criticize Chinese investment behavior. It denounced the BRI as a debt-trap diplomacy, which caused negative environmental and social impacts, thus bringing about a lack of transparency and corruption in recipient countries. Through the Better Utilization of Investments Leading to Development (BUILD) Act, which received bipartisan support in Congress in 2018, the administration established the US

International Development Finance Corporation (DFC) in December 2019. The DFC, along with Australia's Department of Foreign Affairs and Trade and the Japan Bank for International Cooperation, spearheaded the Blue Dot Network. The DFC also indicated that in an attempt to counter China's state-led investments, such as the BRI, investment in the private sector could complement government-led foreign aid. The DFC launched several initiatives such as the Central Asia Investment Partnership, but it was not received well as an effective alternative to the BRI because the Trump administration tended to use it for short-term geopolitical purposes such as for an incentive for Middle Eastern countries to sign the Abraham Accords.

Building on the Blue Dot Network, the Biden administration announced its Build Back Better World (B3W) initiative at the 2021 G7 summit, thus highlighting its values-driven and climate-friendly nature, and its emphasis on good governance and high standards, and strong strategic partnerships (White House 2021c). However, compared to other initiatives, the details of the B3W are still thin, thus showing neither specific funding commitments nor any multilateral project management coordinating mechanisms.

Importantly, unlike other decoupling issues, the B3W initiative does not require decoupling from China in the field of international development cooperation. The B3W initiative designates four pillars—climate, health, digital, and gender—where the US and its G7 partners have comparative advantages over China. In addition, as the vision of the B3W is to work with partners that share the US' democratic values, Chinese investments are still appealing to countries with poor human rights records and high levels of corruption because their terms are more flexible and less constrained by regulations. In terms of striking a balance, the competition between the two development investment frameworks proposed respectively by the US and China are limited to countries in the gray zone. However, this does not imply decoupling or a zero-sum game because recipient countries may receive investments from both frameworks or shift from one to the other.

Finally, with regard to industrial policy, the *United States Innovation and Competition Act of 2021* was introduced in April 2021 by the Biden administration, thus aiming clearly to compete with China and address the US' fear of losing its leadership, especially in emerging and foundational technologies. As for this rare bipartisan bill on countering China, Beijing denounced it as an example of the US' exaggeration of "the so-called China threat" and deemed it "full of cold war zero-sum thinking" (Ni 2021). The centerpiece of the bill was a \$50 billion emergency allotment to the US Department of Commerce to boost semiconductor development and manufacturing through research and incentive programs. The legislation was intended to deliver historic federal investments in US research and development, supply chains, and domestic manufacturing to make US supply chains more resilient, to protect against costly disruptions, and

to advance American technological leadership.

The same bill was mentioned when President Biden visited a Samsung semiconductor plant in South Korea as part of the summit meeting in May 2022. His first stop during his travels in Asia was the Samsung Electronics Pyeongtaek Campus, where he urged Congress to quickly pass the *Bipartisan Innovation Act* (White House 2022a). The speech he gave there captures the essence of the US strategic goal regarding global supply chains. The Biden administration intended to restructure critical supply chains based on networks of allies and trusted partners while decoupling or reducing reliance on assets owned by China.

Restructuring Supply Chains of Digital Technologies

Scholars' and policymakers' attention to global supply chains has been heightened by the COVID-19 pandemic, broad sanctions against Russia, and the rise of China as a strategic threat, especially in the US. This is because these phenomena have raised concerns about the possibility of weaponizing global supply chains, particularly critical technologies and strategic industries. Accompanying the perception change that started during the Trump administration, the US has increased its zero-sum view of interdependence rather than a non-zero-sum game view.

The Trump administration certainly tapped into policies of economic statecraft, but it did not necessarily work on restructuring or building critical supply chains. It is true that the first time the US started to address security concerns for American supply chains was during the Trump administration when it suffered from widespread shortages for critical medicines, personal protective equipment, and other vital supplies related to the pandemic. With regard to the digital domain, as shown above, the Trump administration employed commercial, investment, and industrial policies to reduce and manage interdependence with China. However, the Trump administration tended to target only a small number of Chinese companies or industries such as Huawei and ZTE. Rather, it was during the next administration that the US explicitly mentioned the importance of supply chains as part of national security. This fact was vividly demonstrated when President Biden signed the Executive Order on Securing America's Critical Supply Chains the month after he was inaugurated in 2021 as part of his Build Back Better strategy. Moreover, he strategically aimed to rebuild the US' relationship with its allies and partners through strategic, diplomatic, and security networks on which crucial supply chains depend.

As argued above, all of the US' actions had to do with the fundamental perception shift as shown in the 2017 *National Security Strategy* and the 2018 *National Defense Strategy*. A prominent example of internationalizing securitization in the digital domain vis-à-vis China is the banning of products made by Huawei and its participation in next generation (i.e., 5G) infrastructure projects, not only across the country but globally as well.

The US perception of China is not limited to the White House or the Department of Defense. As early as 2012, the US House of Representatives' intelligence committee indicated that China's leading technology firms, such as Huawei and ZTE, posed a national security threat to the US due to their connection to the CCP and the involvement of spying and espionage, and thus, warned American companies and the US government to avoid doing business with them (Yoo 2021).

The threat perception of emerging Chinese tech companies was pervasive beyond the abovementioned agencies. After the Trump administration stepped into office, government agencies such as the US International Trade Commission (USITC), CFIUS, the USTR, the Department of Commerce, the Department of Justice, and the Department of the Treasury became aligned with the 2017 NSS and joined the Huawei ban. Moreover, in February 2018, the heads of six US intelligence agencies—including the Central Intelligence Agency, the Federal Bureau of Investigation, the National Security Agency, and the Office of the Director of National Intelligence—warned that Huawei was closely associated with the CCP (Salinas 2018). What had been mostly regarded as economic and purely technological matters turned into salient national security concerns. Thus, a consensus on who was a threat in what domain was formed, and the threat perception of Huawei, which had a connection to the CCP, was widely shared across the country.

Moreover, the US started to internationalize the threat perception among its allies and partners in order to make their policies aligned with those of the US. While the trade war that began in June 2018 between the US and China was ongoing, the first international securitization endeavor of the digital domain emerged along with the American initiative to call for the Huawei ban among the members of the intelligence alliance, known as the Five Eyes, which includes Australia, Canada, New Zealand, and the UK. The heaviest pressure to get their policies aligned with the US was placed on the Five Eyes members. However, military allies such as Germany, Japan, and South Korea were not exceptional, and other US partners around the world were also included. Although these countries' responses to the American call for participation in the sanctions were not necessarily aligned (Yoo 2021), the US continued to share information about Huawei and security threats that Huawei's products could pose to consumers and countries that use them. In doing so, the US attempted to internationalize its threat perception in order to facilitate policy coordination among its allies and partners, and heightened the security aspect of digital technologies more than the economic and technological aspects, such as the effectiveness or efficiency of certain technologies.

Notwithstanding, the unilateralism of the Trump administration, often represented in the catchphrase "America First," had limitations, especially in mobilizing allies and partners and in restructuring the supply chains of critical

digital technologies. By extension of the Huawei ban, the administration proposed the Economic Prosperity Network initiative, which was later replaced by the Clean Network initiative in August 2020. The Clean Network initiative focuses largely on imposing export controls on a few Chinese firms or certain Chinese digital infrastructure industries while emphasizing threats posed by their association with the CCP, rather than aiming to decouple China from global supply chains of digital technologies. Moreover, some countries that joined the Huawei ban, such as Japan, refused to join the initiative because it targeted a specific country (i.e., China) and they were afraid of provoking China by joining a framework that excludes it. Importantly, however, the Clean Network initiative was not merely an attempt to form an economic grouping, but also an endeavor to internationalize securitization by emphasizing ideological and values-based agendas to protect data privacy, human rights, and democracy embedded in ostensibly neutral digital technologies.

Whereas the US economic statecraft during the Trump administration had to focus on a small number of companies in the digital sector, the Biden administration has shifted to restructuring global supply chains in strategically confronting China while emphasizing alliances and multilateralism and incentivizing those who join the policy. Along the lines of the strategic shift from “America First” to recommitting to allies and a coalition of like-minded countries, the US has aimed to deal with China first militarily through the new Australia-UK-US (AUKUS) security partnership and the Quad (mentioned earlier) among Australia, India, Japan, and the US, and later economically through the Indo-Pacific Economic Framework for Prosperity (IPEF) proposed in May 2022.

The Biden administration has proposed several initiatives to restructure existing global supply chains, especially those related to fundamental and emerging technologies by strengthening relationships with military allies and strategic partners. The connection between geopolitical strategic objectives and commercial policies as part of economic statecraft was clear when President Biden dispatched Commerce Secretary Gina Raimondo and Katherine Tai of the Office of the USTR to Japan, Malaysia, and South Korea to hold discussions on a major trade and economic framework in the region in November 2021. It happened right after President Biden explicitly publicized the American strategic plan for an Indo-Pacific Economic Framework (IPEF) at the East Asia Summit in October 2021. The Secretary of Commerce reaffirmed that the US was committed to rebuilding coalitions with like-minded nations during her visit to countries in the Indo-Pacific region (US Department of Commerce 2021).

When the statement of the IPEF was released in May 2022 (White House 2022b), the members were the US, Australia, Brunei, India, Indonesia, Japan, South Korea, Malaysia, New Zealand, the Philippines, Singapore, Thailand, and Vietnam. It was clear that the IPEF was formed around China with US allies and partners in the region, and the security-trade nexus was strongly connoted. The

four pillars of the *economic* framework are (1) trade; (2) supply chains; (3) clean energy, decarbonization, and infrastructure; and (4) tax and anti-corruption. Meanwhile, the *strategic and security* framework, known as the Quad, also announced common objectives similar to those of the IPEF. Both initiatives stress the importance of supply-chain security, including for semiconductors and their vital components. Furthermore, in March 2022, the US proposed a new alliance in the semiconductor industry called the Chip 4 alliance, which is a similar but more domain-specific initiative consisting of the US, Japan, South Korea, and Taiwan in an attempt to build up a global chip supply chain that excludes China.

Not only multilaterally but also bilaterally, the Biden administration has sought to build up patches of a broader network of supply chains. When the summit between the US and Japan was held in May 2022, Japan agreed with the US to establish a taskforce that would develop the next generation of semiconductors. Although South Korea remained ambivalent when the Chip 4 alliance was announced in March 2022 because its semiconductor companies, such as Samsung Electronics Co. and SK Hynix Inc., run substantial business operations in China, the US has been keen to deepen its partnership with South Korea on supply chains of critical technologies. When South Korea's previous president from the progressive party traveled to Washington in 2021, the US released an announcement with South Korea of "mutual and complementary investments" in semiconductors and batteries for electric cars (Groppe and Chambers 2022). Moreover, after the president from the conservative party of South Korea took office, President Biden went to South Korea prior to visiting Japan in 2022. His first stop was a semiconductor plant of Samsung, signifying the importance of bolstering supply chain resilience among value-sharing countries (*ibid.*). The intent of both cases was to expand the production of key products and to strengthen supply chains to be less dependent on China.

The directional shift toward restructuring supply chains of critical and emerging digital technologies throughout the network of US allies and partners is also explicitly stated in the bipartisan bill *United States Innovation and Competition Act of 2021*, which was raised during President Biden's 2022 visit to South Korea. To "ensure that the [US] leads in the innovation of critical and emerging technologies, such as next-generation telecommunications, [AI], quantum computing, semiconductors, and biotechnology," (US Congress 2021, 668) it should reduce barriers and increase incentives for collaboration with its allies and partners "by crafting multilateral export control measures, building capacity for defense technology security, safeguarding chokepoints in supply chains, and ensuring diversification" (*ibid.*, 669). Elsewhere in its text, the bill also explicitly urges the US to work with its allies and partners to facilitate the development of secure supply chains for digital technologies to maintain security in cyberspace.

Conclusion

This study explores why the US has altered its stance and maintained it across different governments. In addition, it has addressed another puzzle of why and how the new Biden administration has taken a confrontational approach, particularly with regard to digital technology issues, impacting the digital economy domain. Although the extant literature addresses the former question to some extent, it attributes such causes to China's behavior (Mearsheimer 2019; Ikenberry 2018). Some studies have pointed to reasons within the US and have mentioned perceptual factors (Haiyong 2019; Wang and Zeng 2020; Wu 2020), but they do not provide a theory of how such a perceptual factor leads to policy changes in particular issues in a certain direction.

This study propounds a theory that explicitly links the perceptual change of political leaders and policymakers with international strategic/policy changes. It argues that the shift from the risk perception to the threat perception is associated with a strategic change from hedging to confrontation/balancing. Drawing on securitization theory, this article specified actors that utilize "speech acts" and rhetoric according to the cultural context. It makes theoretical progress by explicitly associating the threat perception with foreign policy and highlighting the internationalization of securitization, neither of which are closely examined by existing studies.

When a certain issue is securitized, it is viewed from the angle of a zero-sum game, where relative gains matter more than absolute gains from the standpoint of interdependence. Moreover, as an issue is securitized, it is likely that international supply/value chains, or the network of production, could be weaponized to damage the counterpart (Farrell and Newman 2019). As such, policies for reducing or severing interdependence are likely to be suggested. As digital technology and the digital economy/trade are regarded as "emerging and foundational" technologies, and infrastructure for state competitiveness and hegemonic competition in the foreseeable future, the domain is more likely to be securitized.

The Trump administration clearly modified its perception of China, demonstrating the perceptual shift from a risk to a threat. This perceptual change has been maintained, even under the current Biden administration. Evidence has been provided from multiple government and congressional documents to support the perceptual change in the first subsection of the empirical portion of the paper. Accordingly, US policies toward China, especially ones related to economic statecraft, have been formulated in ways that either reduce or sever interdependence with China. The other two empirical sections of this article investigate US commercial, investment, and industrial policies and how they have been employed with efforts to internationalize the threat perception. It seems that strategies and/or policies of the Biden administration to form coalitions with allies and

partners have been more effective than those of the previous administration, and endeavors to restructure supply chains of critical digital technologies have been better realized.

The findings of this article have important implications for policymakers and academics. The findings illustrate that the American perception of China as a threat has been widely shared and is taking root across multiple agencies and even Congress. This consensus means that the US' strategic stance toward China is likely to persist and be confrontational, especially regarding issues where emerging and foundational technologies are involved. For most countries that have employed hedging as a strategy, this change is one of the fundamental and structural transformations occurring in their environment. As such, South Korea needs to determine whether its international strategy is based on a (bipartisan/national) consensus, and whether the country has to share the same perception as the US. Without such a consensus, international strategies/policies are mostly likely to vacillate, thus increasing costs to pay not only to realign strategies every single time the administration changes but also to persuade the public and allies/partners as to its strategic choices.

The first policy suggestion is, therefore, intended not only to pay keen attention to perceptions and the corresponding dynamics of allies and partners but also to circumstances in which South Korea is situated. South Korea's circumstances and its perception are not necessarily shared by great powers but could be closer to those of other middle powers. The second suggestion is to figure out and work on factors that affect perceptions of allies and partners, so that the associated strategies/policies do not contradict the interests of South Korea.

The limitations of the research present numerous avenues for future research. First, although a perceptual cause of partial decoupling in the digital domain was highlighted, such a perceptual change was centered on government actors, especially their securitization rhetoric and action. However, the government comprises only a diminutive portion of the entities that purchase semiconductors, whereas the role of private actors is substantial in restructuring global supply chains for semiconductors. Further examination is warranted regarding how decisions made by private actors will affect the success of government efforts.

Second, this study taps into the internationalization of securitization as an effort for a great power to align the policies of its allies/partners with its own. While sharing the threat perception is certainly conducive to forming a coalition/alliance, other accompanying policy efforts to successfully share the threat perception merit close attention. In a similar vein, finally, although this study has illuminated how the threat perception brings about economic statecraft, future research would benefit by examining the circumstances that would bring about such a perceptual change.

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Notes

1. The 2018 report by the Subcommittee on Quantum Information Science is based on a bipartisan consensus supporting government funding and public-private partnerships to strengthen those industries and sectors, moving beyond past partisan debates over the wisdom of industrial policy between Republicans and Democrats in Congress. For more details on such technologies, see Manyika, McRaven, and Segal (2019). For an overview of the definitions of “supply chain” and “critical technologies” from the perspective of the US government, refer to the testimony given by John VerWey at the 2022 the US-China Economic and Security Review Commission.
2. For instance, facing the scourge of 9/11 terrorism, in his address to a joint session of Congress and the nation President Bush pledged to defend the American way of life (Washington Post 2001). Another example is the 1950 National Security Council (NSC) report, NSC 68, which laid out America’s Cold War blueprint to confront the Soviet Union, and designated the American way of life as an object to defend against the Soviet Union’s aggressive expansion.
3. For a summary of the distinction between threats and risks, see Wallander and Keohane (2002).
4. However, private actors and the public might not necessarily be monolithic in terms of the American threat perception of China (Wyne 2020). As a result, the business sector might behave differently from what was dictated by strategic and policy documents published by government actors. Although their actions are doubtlessly of importance in understanding the changing interdependence between the US and China, I focus on government actions in the context of the US’ heightened threat perception of China.

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