Industrial Policy and the US-China Economic Security Dilemma

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Economic Security as a Global Policy Priority…

China vows to beef up supply chains in 2024 for economic security

Key meeting also focuses on dealing with property crisis, local debt

President von der Leyen presents the European economic security strategy and the revised multiannual EU budget

For Modi, economic security is priority with China, not profit for Indian business

Trump Mixes Economic and National Security, Plunging the U.S. Into Multiple Fights - The New York Times

Visit ›

Economic Security as a Global Policy Priority… that’s poorly understood

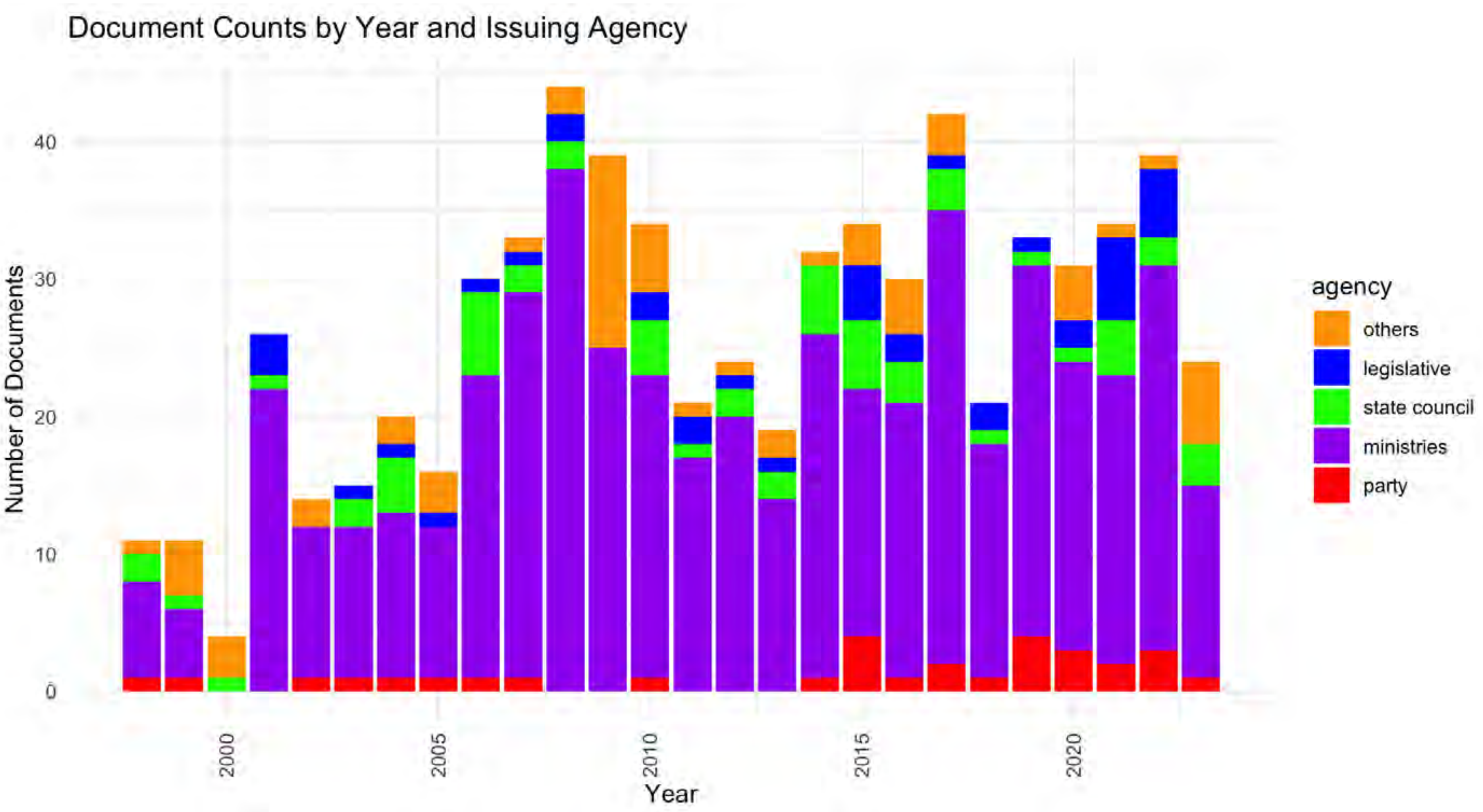
- Ambiguity over meaning
- Greater probability of misunderstanding
- States enter into an economic security dilemma
- US-China action-reaction cycle
- Heightened risk of unintended conflict

Tackling the US-China Economic Security Dilemma

- Examine from one side of the security dilemma (China)
- What types of policy strategies fall under economic security?
- Which of these strategies trigger a policy escalation vs de-escalation

Data & Methods

- Original corpus of 685 documents from China's central party-state mentioning the term "economic security"
- 1998-2023



Economic Security Strategies: A Typology

		Purpose	
		Market-Building	Market-Curbing
Posture	Defensive		
	Offensive		

Economic Security Strategies: A Typology

Purpose

Posture		Market-Building	Market-Curbing
	Defensive		
	Offensive		

Market-building:

- Strong markets → strong economy → strong nation
- Security spillovers from liberalization can threaten market liberalization
- State intervention needed to address security threats, so as to enhance market functions

Economic Security Strategies: A Typology

Purpose

Posture		Market-Building	Market-Curbing
	Defensive		
	Offensive		

Market-curbing:

- Market liberalization threatens control over economic lifelines
- Loss of state control → vulnerability
- Foreign or private firms may not operate in nation’s best interest
- State intervention needed to curb reach of markets

Economic Security Strategies: A Typology

Purpose

Posture

	Market-Building	Market-Curbing
Defensive		
Offensive		

Defensive:

- Intercept, defuse and block perceived economic security threats either as they arise or in anticipation of such threats occurring

Economic Security Strategies: A Typology

Purpose

Posture

	Market-Building	Market-Curbing
Defensive		
Offensive		

Offensive:

- Actively overcome perceived security threats by repressive, prosecutorial or expansive methods

Economic Security Strategies: A Typology

		Purpose	
		Market-Building	Market-Curbing
Posture	Defensive	*Inspector*	*Planner*
	Offensive	*Prosecutor*	*Warrior*

State as Inspector
(Defensive Market-Building)

- Surveillance to screen out harmful elements, enforce health, safety, accounting standards
- Cooperate <u>internationally</u> to share information and set benchmarks
- Customs, inspection & quarantine:
  - "safeguarding national economic security" to strengthen trade liberalization (SAQSIQ 2006)
- Audit:
  - "immune system" to "ensure the healthy development of the national economy and society" (National Audit Office 2010)
- Risk prevention & early warning:
  - "deepen international law enforcement cooperation and administrative mutual assistance" (State Council 2012)

State as Prosecutor
(Offensive Market-Building)

- Proactively go after threats that might undermine market functions

  "Various social conflicts may increase as reforms advance. The overall volume of criminal cases is on the rise, with increases in violent crime, serious economic crime, and organized crime, making the security situation still severe. The task of maintaining social and political stability and national economic security remains very heavy." (Supreme People's Procuratorate 1999)

- E.g. smuggling, financial crime

  "unauthorized fundraising, unauthorized establishment of financial institutions, and unauthorized financial operations" (Ministry of Foreign Trade and Economic Cooperation 1998)

State as Planner
(Defensive Market-Curbing)

- State intervention to control capital flows
  - Maintain fixed exchange rate
  - Foreign investment guiding catalogue
  - Ensure state ownership in “economic lifelines”

When our country joins the World Trade Organization, it can only join as a developing country and adhere to the principles of balancing rights and obligations and **gradually opening up the market to ensure that the country controls the lifeline of the national economy and safeguards national economic security and national sovereignty.**

National People’s Congress 2001

State as Warrior
(Offensive Market-Curbing)

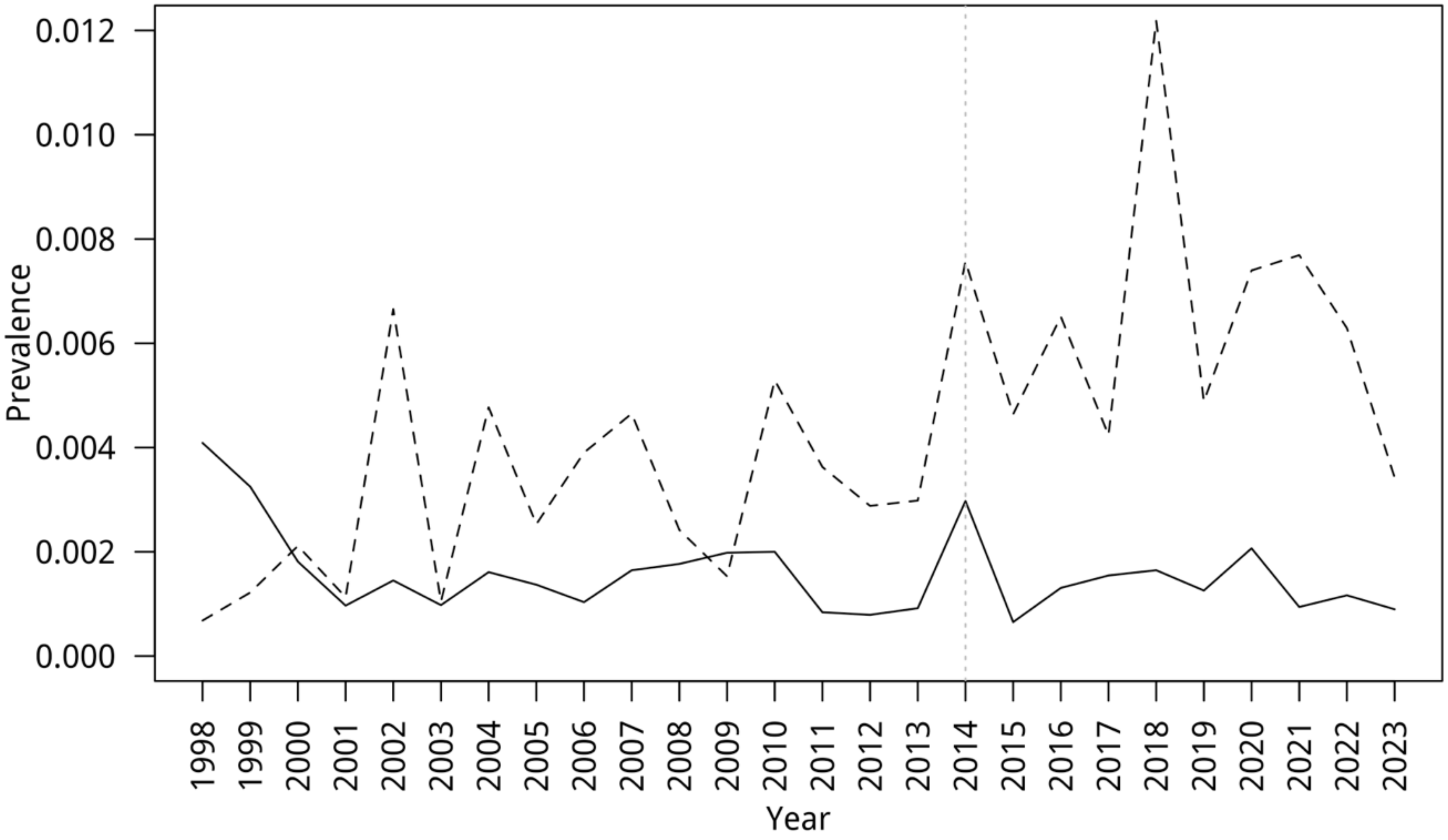
- Expand capabilities in strategic sectors

  "elevate the strategic position of international shipping in the national development strategy to ensure economic security and defense needs. The country should … improve the structure of its fleet, attract the return of ships flying flags of convenience, expand the fleet size, and enhance China's standing in international maritime shipping" (Ministry of Transport 2001)

- Build linkages across different security arenas

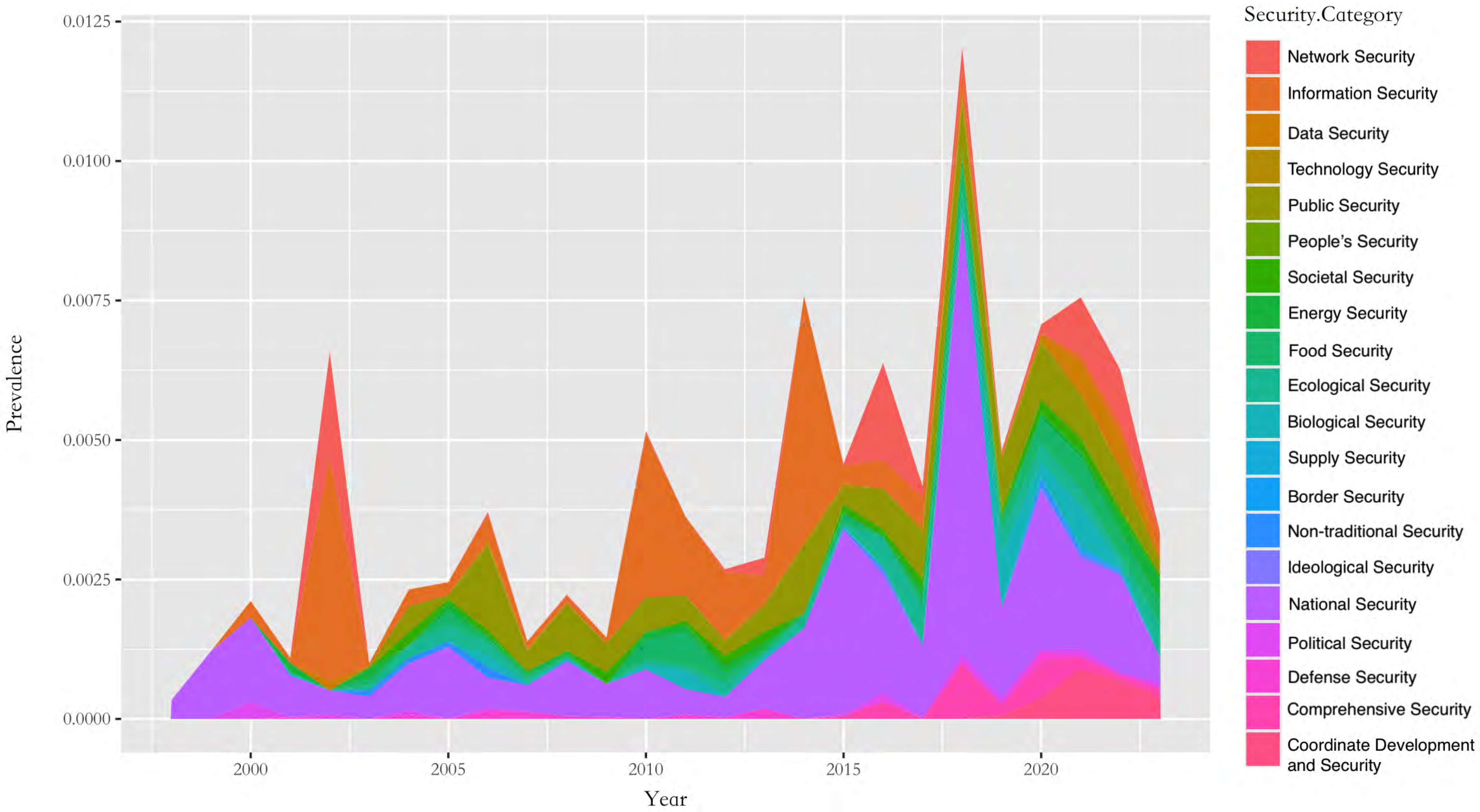
  Comprehensive national security concept: "the aim of ensuring people's safety, **political security** as the fundamental aspect, **economic security** as the foundation, and **military, cultural, and social security** as the safeguards, while relying on promoting international security" (National Security Law 2015)

Emergence of the Warrior State



Prevalence of “economic security” (solid line) versus comprehensive security terms (dashed line)

Emergence of the Warrior State

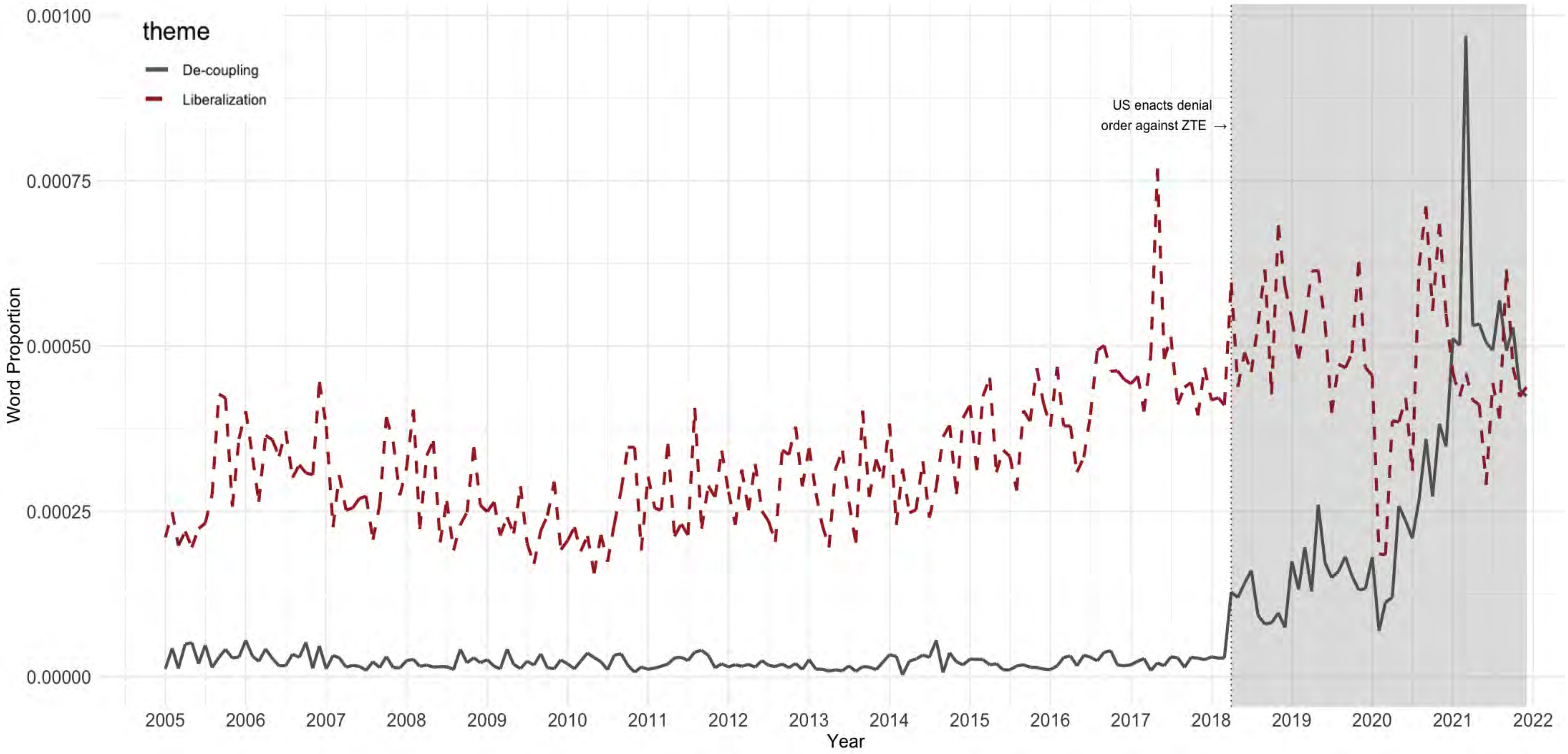


Technology & Economic Security

- Shift to warrior strategy in late 2010s:
- Elevation of technology in comprehensive security concept
  - "military, technological, cultural, and social security as the safeguards" (Central Committee 2019)
- Focus on "control" as high priority
  - "independent and **controllable**"
  - "achieve security and **control** in critical areas such as important industries, infrastructure, strategic resources, and major technologies" (Central Committee 2021)
  - "(a)dhere to and strengthen the Party's comprehensive leadership over scientific and technological work" (Ministry of Science and Technology 2019)

Technology & Economic Security

Decline in emphasis on external liberalization



Prevalence of terms related to technology liberalization versus de-coupling across >488,000 official newspapers
Forthcoming, *International Studies Quarterly* (with Mark Dallas, Abraham Newman, and Henry Farrell)

Implications for the Economic Security Dilemma

- Economic security as a multi-dimensional concept in China
  - Not all policies have escalatory consequences
- Foreign policy reactions don’t fall along defensive-offensive divide
  - E.g. offensive prosecutor function → cross-border stability, cooperation
- More likely to enter economic security dilemma with market-curbing policies
  - Defensive planner policies are seen as discriminatory for foreign capital denied market access
- To escape economic security dilemma, accurate signaling of posture is insufficient

Thank you!

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