RESEARCH ARTICLE

US economic statecraft and great power competition

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Abstract
This article develops a conceptual framework for explaining variation in the United States’ economic statecraft in the Cold War and the present day, focusing on how US officials perceived the type of geoeconomic capability that its rivals possessed and the type of national security challenge that they posed. This framework specifies four ideal-type strategies on the part of the United States: economic containment, national economic competition, technological containment, and national technological competition. Analyses of U.S. strategy toward the Soviet Union, China, and Japan support the theory. These ideal types explain why, in the rivalry with Japan in the 1980s, the United States openly engaged in competition but did not adopt containment, relying on Voluntary Export Restraints, currency devaluation agreements, and bilateral semiconductor agreements rather than placing Japan on something historically analogous to the Commerce Department’s contemporary Entity List or targeting Japan with comprehensive export controls through an institution like CoCom. These ideal types (and the theory behind them) also explain why the United States has implemented containment measures against specific Chinese companies but has not pursued a systematic “decoupling” of the US and Chinese economies.

Keywords: geoeconomics; US–China relations; great power competition; Cold War; economic statecraft

Introduction
In discussions of the ongoing tensions in US–China relations, scholars, policy makers, and policy analysts have referred to “great power competition,” “containment,” and “a new Cold War.”1 Even among researchers who acknowledge the limitations of these concepts for describing the policies that the United States has adopted, the terms have become part of the accepted range of concepts for describing alternative policies. Deborah Welch Larson, for example, has argued that “before putting containment back on the bookshelf, there are elements of the policy that could be tailored to today’s great-power competition.”2 Economic statecraft has become one of the areas in which the United States has competed with China most vigorously, and a distinctive aspect of contemporary great power politics is the blurring of the distinction between economics and security, and between dual-use and civilian technology.3 The strongest signs of a “new Cold War” in US–China relations are in the issue areas of technology and trade, where there is the greatest risk that the liberal international order will fragment into competing blocs.4

Yet the causes of variation in US policies—both within and across historical periods—are not well understood. Why has the United States taken more assertive actions against China on technology than on trade in recent years, launching an extensive campaign against companies like Huawei and ZTE without attempting a systematic “decoupling” of the US and Chinese economies? Why have none of these US actions been as stringent as what the United States (and its allies) practiced during the Cold War? And why, during the Cold War, was the United States much more stringent in implementing economic containment against China than against the Soviet Union? Since World War II, the

1Brands and Gaddis (2021); Westad (2019); Doshi (2021).
3Blackwill and Harris (2017), Cheung (2022).
4Inkster (2020); Huang (2021); Aggarwal and Reddie (2021).

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United States has responded to the varying challenges of great power competition by adopting varying strategies of economic statecraft, but theoretical explanations of this variation have been limited in previous research. David Baldwin’s classic *Economic Statecraft* (issued in a new edition in 2020) focuses on specific instruments like trade and foreign aid rather than the determinants of economic statecraft, inviting further research how economic statecraft relates to broader issues of grand strategy.5

By focusing on the US–Soviet rivalry, comparisons with the Cold War obscure two other major rivalries that the United States was engaged in during that era: the US rivalry with the PRC prior to *rapprochement* in the 1970s and the US rivalry with Japan from the late 1970s to the end of the Cold War. When Charles Krauthammer famously announced the coming of the “unipolar moment” after the fall of the Berlin Wall, he dismissed the notion that Japan would use its economic power to gain geopolitical influence as a “materialist illusion”; but the United States was engaged in an economic and technological competition with Japan that only dissipated with the stagnation of the Japanese economy in the 1990s.6 The history of the Cold War presents not one, but three rivalries with which to compare the United States’ strategy in the contemporary competition with the PRC. Previous works, such as Mahnken (2012) and Cheung (2022), have situated contemporary great power competition in historical perspective, but they have left the door open to a theoretical explanation of the variation in US economic statecraft—both within and across historical periods and within and across rivalries. This article develops a conceptual framework for explaining variation in the United States’ economic statecraft toward its rivals during the Cold War and in the present day, focusing on how US officials perceived the type of capability that its rivals possessed and the type of national security challenge that they posed.

**Theory**

The theoretical framework in this article focuses on two great power competitors (a State and its Rival), and it distinguishes between four ideal-type strategies of economic statecraft that the State can employ: national economic competition, economic containment, national technological competition, and technological containment. Which strategy the State chooses to employ depends (in a causal sense) on the type of geoeconomic capability that the Rival possesses and the type of national security challenge that the capability represents for the security of the State and its allies. This theoretical framework places a strong emphasis on technology because technology has come to the fore of the contemporary great power competition between the United States and China, and emerging technologies like 5G and AI exemplify the intersection between economics and security.7

There are two types of geoeconomic capabilities: aggregate and specific. An aggregate capability is an indicator of wealth and resources that measures power in an abstract sense (such as GDP, market size, and industrialization), while a specific capability is an instrument, platform, or system that can serve as a coercive instrument or have dual-use applications (such as 5G, quantum computing, and AI). As the term suggests, an aggregate capability combines the output and resources of many industries even though they may not be substantively related to each other (such as petrochemicals and chip design), while a specific capability measures the ability of the Rival to produce a particular good that creates coercive power.

The Rival may use its geoeconomic capabilities to achieve its interests or objectives in various ways. Using its aggregate capabilities, it may use trade to coerce or gain leverage over other states, such as conditioning market access on political or economic concessions. It may also seek to export, for ideological or instrumental reasons, its development model to other states. The Rival may also convert its aggregate geoeconomic capability into other kinds of capabilities to enhance its ability to project power or to shape political and economic outcomes in line with its underlying preferences. For instance, a large GDP can finance the buildup of military capabilities, and a high level of industrialization can support the development of advanced military technologies. Using its specific capabilities, the rival

5Baldwin (2020).
6Krauthammer (1990); Schaller (1997).
7Alderman and Ray (2018); Segal (2021).
may gain a strategic advantage within a network, industry, or economic sector that impinges on the sovereignty of other states or is dual use in nature. For instance, a central position in global information and communications networks creates opportunities for surveillance, espionage, or sabotage; and emerging technologies such as AI, quantum computing, and big data have both commercial and military applications. Aggregate and specific geoeconomic capabilities both have security externalities.  

There are also two types of national security challenges: direct and indirect. Direct challenges pose a threat to national security in themselves, while indirect challenges threaten national security through the consequences or effects that they generate. If coercion is based on the “threat of damage,” as Schelling proposed, then the place of wealth and technology in coercion must be to either pose a threat of inflicting damage or to purchase and enable the capabilities for doing so. In other words, indirect challenges represent a means to coercive power, while direct challenges represent coercive power. This distinction between direct and indirect challenges is based on how causally proximate the challenge is to a form of coercion, rather than the target of the challenge; a challenge from the Rival that concretely and immediately manifests itself against the State’s allies would be considered direct under this framework. At the time when the United States began implementing economic containment against the Soviet Union and the PRC at the beginning of the Cold War, neither Moscow nor Beijing was capable of using geoeconomic capabilities to cause damage to the United States, but they had the ability to cause damage to the United States’ allies and security partners, so they represented a direct challenge—and the United States responded accordingly. Along with the type of geoeconomic capability the Rival possesses, the type of national security challenge that the Rival poses affects the State’s choice of strategy.

The interaction between the type of geoeconomic capability and the type of national security challenge yields four possible combinations:

1. **Aggregate capability, direct type of challenge;**
2. **Aggregate capability, indirect type of challenge;**
3. **Specific capability, direct type of challenge;** and
4. **Specific capability, indirect type of challenge.**

Each combination causes the State to pursue a distinct strategy toward the Rival. But before explaining which strategy results from which combination, it is necessary to clarify the distinction between competition and containment. When the State has a zero-sum relationship with the Rival (defined as the joint pursuit of an excludable and rivalrous good), it can seek to obtain that good by marshalling its own resources (a strategy of competition), and it can also go beyond that and seek to limit or undermine the Rival’s ability to obtain that good (a strategy of containment); one strategy is defensive, while the other is offensive. Containment strategies are generally more costly because they lead relations with the Rival to deteriorate sharply and require much more coordination with allies. COCOM, for example, involved an elaborate—and often contentious—system of multilateral export-control policies for restricting the supply of technology and resources to the Communist bloc. One might argue that...

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8For the original formulation of the concept of security externalities and its application to international trade, see Gowa (1994).
9Schelling (1966, 4).
10On the United States’ concern for economic security in Europe and Asia during the Cold War, see Leffler (1992) and Pollard (1985).
11This definition of a “zero-sum relationship” is derived from the distinction between public and private goods in economics (e.g., Cornes and Sandler 1996, 8–10). The definition of containment used here is similar to the definition of economic warfare in Michael Mastanduno’s study of CoCom (Mastanduno 1992), but there are differences in terms of what these terms are contrasted with. Mastanduno (1992) contrasts economic warfare (weakening a target state’s military capabilities by weakening its economy) with a strategic embargo, which “seeks to prohibit only the trade that makes a direct and significant contribution to an adversary’s military capabilities” (13). The definition of containment used here, however, is contrasted with an alternative strategy of competition: both of these strategies focus on the issue areas of economics and technology, but containment is primarily offensive while competition is primarily defensive.
the limited scope of containment in contemporary great power competition is the result of higher eco-
nomic interdependence, which makes containment too costly to pursue; but US and allied sanctions
against Russia following the invasion of Ukraine show that containment is still feasible if there is an
immediate security challenge.13

Given that containment is more costly, the State will generally refrain from pursuing containment
unless the threat is severe enough to justify it; and direct national security challenges are more threat-
ening than indirect national security challenges. Therefore, direct national security challenges lead to
containment strategies, while indirect national security challenges lead to competitive strategies.
Whether these strategies are applied to economics or technology depends on whether the Rival’s ca-
pabilities are aggregate or specific because aggregate capabilities require a response at the level of mac-
roeconomic policy, while specific capabilities can be addressed using technology- or industry-specific
responses. Therefore, the four combinations of the type of geoeconomic capability and the type of
national security challenge yield the following four hypotheses:

Hypothesis 1: When the Rival possesses an aggregate geoeconomic capability that represents a direct
national security challenge, the State will pursue economic containment.

Hypotheses 2: When the Rival possesses an aggregate geoeconomic capability that represents an indirect
national security challenge, the State will pursue national economic competition.

Hypothesis 3: When the Rival possesses a specific geoeconomic capability that represents a direct
national security challenge, the State will pursue technological containment.

Hypothesis 4: When the Rival possesses a specific geoeconomic capability that represents an indirect
national security challenge, the State will pursue national technological competition.

These hypotheses can also be represented with a matrix (Table 1).

Although these are four distinct strategies, the State does not need to choose only one strategy to the
exclusion of the others, because the Rival may possess more than one type of capability that can pose a
challenge to the security of the State or its allies. If the rival possesses both an aggregate capability and
a specific capability that represent a national security challenge, the State will pursue both an economic
strategy and a technological strategy. Moreover, the State’s choice to pursue a particular strategy in the
economic realm does not constrain the State to choose a parallel strategy in the technological realm;
those strategies may well move on separate tracks, depending on how the State assesses the challenge. It
is possible, for example, that the State may choose to simultaneously pursue economic competition and
technological containment. That is the combination of strategies that the United States is currently
pursuing toward China; indeed, it is partly because of that strategic asymmetry that some scholars
have drawn parallels with the Cold War, while many other scholars have expressed skepticism
about those parallels.14 The current US approach to great power competition exhibits many areas of
similarity and many areas of contrast with the US approach to the Cold War, and this article provides
a theoretical explanation for why those similarities and contrasts exist.

Economic containment

Hypothesis 1 finds support in the history of the United States’ economic statecraft toward the Soviet
Union (1947–91) and the PRC (1949–70). In those periods, Washington regarded Moscow and Beijing
as rivals that posed a threat to national security through the size of their markets and the pace of their
industrialization. One major concern was how economic performance in the Communist bloc would
strengthen the ideological appeal of Communism among developing countries. During a discussion at
the National Security Council in 1958, President Eisenhower noted that “the achievements of the

13Norrlöf (2022). We thank an anonymous reviewer for raising this counterargument.
14Brands and Gaddis (2021); Westad (2019); Christensen (2021).
Soviet Union obviously have a tremendous appeal” for developing countries.\(^\text{15}\) Earlier that year, a joint report by the CIA and the State Department to the Council on Foreign Economic Policy stated:

…with new boldness, the Sino-Soviet bloc attempted, during the quarter ending 31 December 1957, to exploit its prestige in the underdeveloped [sic] countries, a prestige heightened by recent Soviet scientific achievements. These attempts were climaxsed in late December at the unofficial Asian-African Solidarity Conference held in Cairo, where the USSR made a dramatic offer of economic assistance to underdeveloped [sic] countries. This offer was as much a challenge to the economic superiority of the US as it was a proposal that economic development in Asia and Africa should be supported by the USSR.\(^\text{16}\)

Although Khrushchev declared a policy of “peaceful coexistence” after the death of Stalin, US officials were still concerned that the Communist bloc would seek to continue expanding at the expense of the United States, albeit with economic rather than military instruments. The best-known example of this was the “Sputnik moment,” but the launch of the Sputnik satellite was only one in a long series of alarming Communist achievements.\(^\text{17}\)

A source of Communist power was based on its appeal as an economic model. Reflecting on the Soviet Union’s economic development, Jeffry Frieden writes that “to the developing world, Soviet socialism seemed to produce rates of growth and development that no capitalist economy had ever equaled” and that “for millions of people around the world, Soviet socialism offered a serious alternative” to capitalism.\(^\text{18}\) The prominence of this alternative only grew in the 1950s, when the PRC’s First Five-Year Plan (which was based on the Soviet model) achieved similarly high rates of growth.\(^\text{19}\) At a time when Communism had not yet produced a disaster like the Great Leap Forward, US officials were concerned that the Communist bloc would project power and influence through the sheer force of ideas.\(^\text{20}\)

In addition to projecting power by promoting Communism as a model of development, the Communist bloc had the potential to use trade to gain leverage over other countries—both within and outside the US alliance system. The American Embassy in India warned in 1959 that “Soviet capabilities for effective economic warfare against the West in India have been evident for some time” and that ongoing developments had demonstrated “a Soviet economic warfare program of broad scope and considerable magnitude.” One of the main features of this program was trade. The embassy warned that “the objective of the Soviet trade offensive in India is, in their own words, to ‘inextricably involve’ the Indian economy with that of the Soviet Bloc, and thus to enable the Soviets to exercise an increasing influence over India’s economic and political development.”\(^\text{21}\)

For Japan, US officials feared that trade with the Communist bloc would make Japan more vulnerable to coercion, which would raise pressure on the Japanese government both externally and

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\(^{15}\)Gleason (1992).

\(^{16}\)Central Intelligence Agency and Department of State (1992).

\(^{17}\)Rostow (1985, 13–22).


\(^{19}\)Spence (1990, 543); Naughton (2018, 76–77).


internally. NSC 6008/1 stated that “the chief opposition to the conservative Liberal Democratic Party in the Diet has come from the Socialists, who are dominated by extreme left-wing elements advocating a Communist-oriented neutralism.” The National Security Council concluded that this opposition party would serve the interests of the Communist bloc; it linked trade coercion with subversion:

Japan will be under constant pressures to disengage from its alignment with the Free World. Neutralization or disengagement of Japan is given very high priority by the Sino-Soviet Bloc which must be expected to continue its present intensive efforts to accomplish his objective. The Sino-Soviet campaign will employ every tactic from threats and encouragement of conservative factionalism, to such inducements as trade, territorial concessions, easing of existing fishing restrictions and access to Siberian and Mainland China development. There is already a vocal minority in Japan supporting disengagement from the Free World.

The evidence from US assessments of Japan and India shows that US officials considered Communist economic capabilities to be a direct type of national security challenge: If those countries expanded trade with the Communist bloc, they would become subject to growing Communist influence.

Accordingly, the United States implemented a strategy of economic containment against the Soviet Union and the PRC, as Michael Mastanduno has examined in his magisterial study of CoCom. With the formation of CoCom in 1949, the United States and its Western European allies began to coordinate their export control policies against the Communist bloc. The CoCom lists were revised in 1954 to reduce the restrictions that had previously targeted Soviet industry, but the United States continued to implement those restrictions on a unilateral basis. There may be some dispute about whether or not Western European allies implemented economic containment against the Communist bloc as consistently and comprehensively as the United States did, but it is clear that the United States was implementing economic containment.

US officials were particularly concerned about the PRC. The Chinese Communists had, after all, openly fought against UN forces during the Korean War, and the radicalism of the Great Leap Forward and the Cultural Revolution shocked even the Soviets. Secretary of State John Foster Dulles publicly stated in 1957 that “trade with Communist China is not a free trade … trade with Communist China is wholly controlled by an official apparatus and its limited amounts of foreign exchange are used to develop as rapidly as possible a formidable military establishment and a heavy industry to support it.” US officials also believed that there was a natural economic interdependence between China and Japan that could make Japan vulnerable to coercion. Acting on this heightened threat perception, the United States pushed for particularly severe controls on trade with the PRC, which proved to be controversial among US allies. In what was known as the “China Differential,” the export control policies against the PRC were more stringent than those directed toward the Soviet Union. Japan was under pressure from the United States to adhere to particularly severe restrictions. The two allies signed a bilateral agreement in 1952 in which Japan agreed to include 400 goods on its export control list for the PRC, many of which were not on the export control lists of the United States’ allies in Western Europe. This proved to be a costly policy for the United States as well because US officials believed that the United States had to compensate Japan for the loss of the Chinese market by granting Japan preferential access to the US market and by providing aid and military procurement orders. The national security imperative, as it was understood by US officials, seemed to justify these costs.

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22 Lay (1994).
23 Ibid.
24 Mastanduno (1992, 84, 89, 97).
26 Dulles (1986).
Economic containment declined with the end of the Cold War. Since the collapse of the Soviet Union, the United States has only employed this strategy against rogue states such as Iran and North Korea through the use of both primary and secondary sanctions.\textsuperscript{31} CoCom as an institution was dissolved in 1994 and replaced with the Wassenaar Arrangement, an organization that now includes many members of the former Soviet Union (including the Russian Federation, though notably not the PRC).\textsuperscript{32} During the Trump administration, the Wassenaar Arrangement reportedly played a role when the United States pressured the Dutch government to prohibit ASML from exporting extreme ultraviolet lithography machines to China because those are considered dual-use technology.\textsuperscript{33} But that classification was not designed with China in mind, so the Wassenaar Arrangement does not serve the same role as CoCom in US grand strategy even though it is CoCom’s institutional successor and illustrates the “stickiness” of Cold War institutions. Despite the prominent references to a “new Cold War,” the United States has not, to date, implemented a strategy of economic containment against China. Beijing has not leveraged its economic power to export its Leninist party-state system to other countries, or otherwise seek to topple democratic governments, so the challenge stemming from the ideological rivalry with China is less direct than the challenge of the ideological competition with Moscow and Beijing during the Cold War. Accordingly, the United States has pursued a trade strategy toward China that should be classified as national economic competition, as the following section will argue.

National economic competition

Although competition is an inherent feature of a market economy, economic competition between nation-states is a distinctive and intentional strategic posture. In the sense that it is used in this article, national economic competition refers to the competition between nation-states for wealth, prosperity, and status. It is both a strategy and a view of the world, and it has found support among those whom Robert Gilpin described as “economic nationalists”: theorists and policy makers who view economics and technology through the lens of the rivalry between nation-states.\textsuperscript{34} National economic competition involves government intervention to enhance the State’s competitive position, but it is distinct from economic containment in that it does not involve using policy instruments to restrict or undermine the Rival’s economic potential. National economic competition best characterizes US economic statecraft toward Japan in the 1980s and US economic statecraft toward China today. The United States has not attempted to undermine China’s economic growth, nor did it do so toward Japan in the 1980s.

In the 1980s, there was protectionist pressure from Congress and US companies, but the Reagan administration resisted that pressure because it still considered Japan to be an ally of the United States and not a national security threat. Japan did not have the ability or the interest in using trade to coerce other countries, and it did not try to export its model of development at the expense of the United States’ strategic interests.\textsuperscript{35} The form of national security challenge that Japan represented was indirect: its economic growth enhanced its overall capabilities, but it did not have the ability or the desire to use its economic power to jeopardize the national security of the United States or its allies. Writing in 1987, Robert Gilpin warned that “the most serious threat in this situation is that the competitiveness and industrial base of the American economy may erode to such a point that the process of economic decline cannot be reversed,” a view that was echoed on Capitol Hill.\textsuperscript{36} This was an indirect challenge because economic power was held to be a determinant of military power, and unfavorable trends in military power posed a challenge to US national security; but declining economic

\textsuperscript{31}On the distinction between primary and secondary sanctions, see Bartlett and Ophel (2021).
\textsuperscript{32}The Wassenaar Arrangement (2021); Cupitt and Grillot (1997).
\textsuperscript{35}Japan did challenge the Washington Consensus in the 1980s, but that was a criticism of the universal claims of free-market economics and not an attempt to export revolution and totalitarianism (Taniguchi and Babb 2009).
\textsuperscript{36}Gilpin (1987, 337). For the view from Capitol Hill, see Subcommittee on International Trade (1991, 1).
power did not threaten US national security because Japan was not using trade to coerce the United States or subvert American democracy. The United States responded by pursuing national economic competition, which was influenced by domestic politics: US firms had lobbied against Japanese textiles as early as the 1950s, but it was only in the 1980s, when there were concerns about Japan displacing the United States, that the US government took action to address structural imbalances in the bilateral economic relationship (such as the value of the yen).37

In the case of contemporary US–China trade relations, there have been similar concerns about the United States’ relative decline, and the direct national security risks have also not been clearly defined. China is the United States’ main strategic competitor, but China has not demonstrated a capacity for using trade to directly threaten US national security. Instead, the most concrete arguments have centered on how China’s trade practices and economic growth have created an indirect form of power by augmenting its overall capabilities. For example, Christopher Wray, the Director of the FBI, said in February 2022 that (in the FBI’s paraphrase of his remarks) “China has pulled no punches about capitalizing on this interconnectedness to chase economic superiority.” While there are legitimate concerns about the methods that China is using to achieve that economic superiority (such as commercial espionage), Wray did not clearly specify how China’s economic superiority would give it coercive power, except for the indirect channel in which the US economy would decline in relative terms and the resulting power balances would be unfavorable.38 Consistent with the theory in this article, the United States’ contemporary economic strategy toward China bears a closer resemblance to the United States’ historic strategy toward Japan than it does to the United States’ historic strategy toward the PRC and the Soviet Union during the Cold War. Technology, however, is a different story, which will be left to the section on technological containment later in this article.

Trade tensions between the United States and Japan ran high in the 1980s, but the United States’ economic statecraft did not move from competition to containment. President Reagan’s trade agenda was closely aligned with the principles of laissez-faire economics, and during his administration the United States provided what David Deese calls “structural leadership” in advancing trade liberalization, which culminated in the start of the Uruguay Round in 1986.39 There were high-profile cases of the United States imposing economic sanctions against Japan, but they were a response to alleged violations of specific agreements and regulatory regimes, or a concession to domestic pressure, rather than a systematic effort to isolate and weaken Japan’s economy. To punish Japan for supposedly breaching a semiconductor agreement, President Reagan issued an executive order in April 1987 that imposed tariffs on imports of semiconductors from Japan.40 A few months later, Congress imposed sanctions on Toshiba after it was discovered that Toshiba had been evading COCOM restrictions on the sale of software and machine tools.41 Although Reagan signed the Trade Bill that included those sanctions, the administration was generally reluctant to adopt punitive measures against Japan. An anonymous CIA study from 1990 stated that the Reagan administration was relatively sympathetic to Toshiba and “argued that trade sanctions against the companies were counterproductive”; it characterized the debate about trade sanctions as “the debate with the administration, Tokyo, Toshiba, and its lobbyists on one side and the Congress on the other.”42 There was hyperbolic rhetoric in the press and theatrics on Capitol Hill, with journalists accusing Japan of pursuing economic warfare and members of Congress using sledgehammers to destroy a Toshiba radio for a televised press conference.43 But the

38Wray (2022). He also referred to how “China also ultimately seeks to undermine and infiltrate the US government and silence dissent whenever possible,” which would be a national security threat if true, but that is not a direct result of China’s economic power.
42(b)(3)(c) (1990, 37). This CIA study has been marked as “approved for release,” but the author has only been identified with the declassification marker “(b)(3)(c).”
Reagan administration did not share in the assessment that Japan posed a direct challenge to the national security of the United States.

The United States responded to national economic competition with Japan by finding ways to stave off or mollify domestic pressure and securing agreements to address structural imbalances in the bilateral relationship. Japan had agreed to adopt Voluntary Export Restraints (VERs) periodically since the 1950s, when its exports of textiles created a backlash from domestic textile producers in the United States.44 Although Japan adopted VERs in response to US pressure, the Executive Branch of the US government saw these measures not as a way of isolating or containing Japan, but as a way of warding off pressure from Congress to adopt more extreme measures, such as quotas. The historian Michael Schaller writes that "the Japanese preferred VERs to formal quotas, while the Eisenhower administration considered them a method to assure Japan’s access to the American market without provoking a protectionist backlash."45 This did not fundamentally change in the 1980s. Although by then the Reagan administration had no need for concern about Japan’s access to the US market (the United States had reached a glaring trade deficit with Japan by then), the United States responded to competitive pressure by focusing on structural imbalances in the bilateral economic relationship rather than by implementing containment. The Plaza Accord secured an appreciation of the yen against the dollar, and US criticism of Japan centered on lack of reciprocal access to the Japanese market.46 This was an irony of history: in the 1950s, the United States had been the country to grant Japan asymmetric market access and pressure allies to admit Japan to GATT in spite of its artificially low exchange rates (which were designed to promote Japanese exports at a time when economic recovery was very much in doubt).47

Investment is one area in which it might seem that the Reagan administration considered Japan to be a national security threat. The Committee on Foreign Investment in the United States (CFIUS) had been established under President Carter, and in 1988 Congress created an additional authority (the “Exon-Florio” provision) that allowed the president to prohibit inbound foreign investments that would threaten national security on the basis of “credible evidence.”48 The approval of the Exon-Florio provision in response to US–Japan trade tension does support the argument of this article, however, for three reasons. As a congressional initiative, it fits the general picture of the period in which the backlash against Japan mostly came from domestic politics. Moreover, the fact that it gave the president legislative authority to block an acquisition did not mean that that authority was always exercised; CFIUS was designed as a screening mechanism and not as a list of prohibitions. Finally, the requirement for “credible evidence” shows that the United States would only act on national security concerns when investment represented a direct form of power. Some investments were blocked on a case-by-case basis, but they were the exception rather than the rule in the overall economic relationship.49

Although recent discussions of US–China relations have invoked the analogy of a “new Cold War,” the United States’ strategy should be classified as a strategy of national economic competition rather than a strategy of economic containment. Because China is not exporting revolution today the way it did in the 1950s and 1960s, its challenge to the national security of other countries is not direct as it was during the Cold War.50 China is using its formidable economic heft to engage in economic coercion, especially toward Australia, South Korea (during the THAAD dispute), and Lithuania (during the ongoing dispute over the opening of the Taiwanese Representative Office).51 The Belt and Road

44Schaller (1997, 110).
45Ibid., 111.
47Pempel (1999, 137–81); Davis and Wilf (2017); Cumings (1984, 19).
48Jackson (2006, 4).
49For a list of illustrative cases in which CFIUS invoked the Exon-Florio provision between 1990 and the early 2000s, see ibid., 10–13.
50Christensen (2021).
51Wong (2021); Norris (2018); Pak (2020); Andy Bounds, 3 December 2021, “Lithuania Complains of Trade ‘Sanctions’ by China after Taiwan Dispute,” Financial Times, https://www.ft.com/content/0ebaa7c7-761d-445e-b3e4-f5d2c9b4768f
Initiative has also been met with criticism as “debt trap diplomacy,” though many analysts have argued that those concerns are exaggerated. But China is not using economic statecraft to topple foreign governments and replace them with governments modeled on its own system. Even Taiwan, which faces the greatest threat from Beijing, has not been the target of PRC economic warfare. As of the time of writing, the 2010 Economic Cooperation Framework Agreement is still in effect despite heightened cross-strait tensions. Moreover, the sanctions that Beijing has imposed against Taiwan in the wake of Pelosi’s visit in August 2022 have been limited to PRC exports of sand to Taiwan and Taiwan’s exports of select food products, leaving Taiwan’s semiconductor industry—a lifeline of its economy and one of its greatest strategic assets—untouched.

As a result, the United States has implemented a strategy of national economic competition and not a strategy of economic containment. During the Trump administration, the United States’ “trade war” with China involved significantly raising tariffs on Chinese imports. The US–China trade deal, which was concluded under the Trump administration and that the Biden administration reportedly intends to keep in place, involved a reduction in tariffs but included a Chinese pledge to purchase more US exports. From a strategic perspective, the recent US–China trade war resembles the US–Japan trade tensions in the 1980s more closely than the United States’ economic containment against the PRC and the Soviet Union during the Cold War. As Thomas Christensen explains, containment “was designed to limit economic contact with those countries and cripple their economies at home while frustrating their diplomacy abroad.” It involved a sweeping export control list of several hundred prohibited goods that was coordinated with US allies on a multilateral basis. The US–China trade war, however, was an attempt to use economic statecraft to coerce China into abandoning the policies that were perceived to have given China an unfair advantage over the United States. The concerns about China’s state capitalism and limited market access also echo the concerns about Japan in the 1980s. On the basis of its scope and its intent, the trade war reflected a US strategy of national economic competition rather than a strategy of economic containment. And in keeping with the theory in this article, it was a response to a perception of an indirect challenge to US national security. China’s trade practices did not threaten the United States’ sovereignty or its democracy, but they were believed to weaken the competitiveness of the US economy and, indirectly, US power, prosperity, and influence.

**Technological containment**

Technology is an area where there are the closest parallels to the Cold War strategy of containment. The controversy surrounding Huawei’s 5 G equipment is well known, and the direct nature of this national security challenge is what explains the aggressive measures that the United States has taken to exclude Huawei from its own 5 G networks as well as the 5 G networks of its allies. In June 2020, the Federal Communications Commission (FCC) designated Huawei and ZTE as national security threats.

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52Dollar (2020); Jones and Hameiri (2020); Reilly (2013); Edward White, 28 September 2021, “’Hidden Debt’ on China’s Belt and Road Tops $385bn, Says New Study,” Financial Times, https://www.ft.com/content/297baea8-7243-4d93-9fac-09e515e82972
57Hass and Denmark (2020).
58On US criticism of Japan’s trade practices (as well as defense burden-sharing) in the 1980s, see Mason (1991, 1–6).
security threats, with FCC Chairman Ajit Pai stating that “both companies have close ties to the Chinese Communist Party and China’s military apparatus,... we cannot and will not allow the Chinese Communist Party to exploit network vulnerabilities and compromise our critical communications infrastructure.”60 US efforts to weaken Huawei started under the Trump administration and have continued under the Biden administration.61 These actions mirror the Cold War era in the severity of the restrictions that they impose, and they differ from the trade war in that they are not aimed at pressuring China to make policy changes; they are aimed at disrupting a perceived national security challenge that is direct in nature.

US officials have been suspicious of Huawei and ZTE since the early 2000s.62 The company’s founder, Ren Zhengfei, previously served as an engineer in the PLA, and US officials have accused Huawei of acting at the behest of the Chinese government.63 These suspicions led to increasingly assertive US actions starting in the late 2010s, when the United States began to implement a strategy of technological containment that sought to weaken these companies. Unlike in trade, where Beijing’s economic policies provided it with a means to coercive power, China’s rise to prominence in the global telecommunications industry have been regarded as coercive power in itself, and hence a direct challenge to US national security.

This direct challenge became apparent over the course of the 2010s, when Huawei’s global expansion accelerated. Assisted by state financing (including preferential loans), it was able to surpass its main European competitors, Ericsson and Nokia, to become the world’s leading vendor of telecommunications equipment.64 US officials became concerned that China might become the leading power in global telecommunications platforms, potentially providing Huawei—and the Chinese government, by extension—with access to the communications and even the devices of the United States and its allies. As Adam Segal has written, “once economies became dependent on these networks for the internet of Things (IoT), self-driving cars, and other data-dependent next-generation internet services, Beijing would wield leverage by threatening to disrupt them.”65 The United States responded by trying to limit or reverse Huawei’s global expansion.66 In May 2019, the Trump administration placed Huawei on the Entity List.67 In the following year, the administration announced that companies around the world (including TSMC) would be blocked from using US technology or software to manufacture chips for Huawei.68 The Justice Department issued a number of charges against Huawei and its CFO Meng Wanzhou, including intellectual property theft and engaging in fraud to bypass sanctions against Iran.69 Finally, the United States pressed allies and partners to ban or remove Huawei’s equipment from their 5 G networks. Former US Secretary of State Mike Pompeo invoked national security concerns to champion what the Trump administration called a “clean network” initiative, which aimed to exclude Huawei and other untrustworthy suppliers from 5 G networks.70 US officials have come to view Huawei and ZTE not just as Chinese companies but also as strategic assets of the Chinese government. As a result, the United States has come to see Huawei and ZTE as a direct challenge to its national security interests, and it has accordingly implemented a strategy of technological containment.

60Quoted in Veigle (2020).
61Sherman (2021); Sutter (2021).
64Pongratz (2019); Johnson and Groll (2019).
65Segal (2021, 150–51).
67Maizland and Chatzky (2020).
70US Department of State (2020); Pompeo (2020).
The theoretical significance of these developments consists in how they marked a shift from national technological competition to technological containment over the course of the 2010s. The US government had been concerned about Huawei’s ties to the Chinese Communist Party for several years, but it was only with the looming build-out of 5G that there came to be a more direct connection between telecommunications and US national security. Former Australian Prime Minister Malcolm Turnbull privately began warning US officials in 2018 about the risks of using Huawei’s technology in the United States’ 5G infrastructure, and a UK government report from 2018 on the risks of using Huawei’s equipment was reportedly interpreted by US officials as a “bombshell.”71 From a theoretical perspective, this meant that the United States shifted from viewing China’s telecommunications companies as an indirect national security challenge to a direct national security challenge. Accordingly, the United States subsequently began implementing a strategy of technological containment that targeted Huawei and ZTE. A similar development has unfolded in quantum computing, where the potential for an exponential growth of computing power with national security applications led the United States to tighten restrictions on trade in this sensitive technology.72 In November 2021, the Commerce Department announced that eight Chinese quantum computing companies had been placed on the Entity List.73 This falls under a general pattern where strategic emerging technologies have been more heavily regulated than trade, indicating that the United States is currently adopting a blend of national economic competition and technological containment.

National technological competition

In the history of the US–Japan relationship, the semiconductor agreements of 1986 (renewed in 1991) and 1996 exemplify national technological competition. Unlike Huawei since the mid-2010s, semiconductor companies in Japan were not considered a direct threat to US national security: They were not believed to be capable of infringing on the United States’ democracy or sovereignty. The threat, as it was perceived at the time, was indirect. At a hearing of the Senate Subcommittee on International Trade in 1991, subcommittee chair Max Baucus (D, Montana) argued that “in the last several years it has become clear that the United States’ national security depends on US economic strength” and that “our economic national security, therefore, is in serious question” because of the relative decline of the US semiconductor industry.74 Accordingly, the United States adopted a strategy of national technological competition, with the government intervening to protect the interests of US firms. In a memorandum for the USTR in 1986, President Reagan argued that “the satisfactory resolution of this problem demonstrates our ability to help US industries.”75

The substance of the semiconductor agreements focused on dumping and market access. The Semiconductor Industry Association claimed that the weakened position of the US semiconductor industry was the result of a combination of alleged dumping by Japan and the alleged barriers that Japan raised to protect its domestic market.76 In 1991, Max Baucus pointed to “predatory Japanese trade practices that drove US semiconductor companies out of business.”77 Irwin (1996) suggests that the evidence for these claims was not particularly strong, but SIA was successful in convincing the US government to take action.78 The 1986 agreement included antidumping provisions as well as a commitment on the part of the Japanese government to assist foreign semiconductor companies in achieving 20 percent market share in Japan. The antidumping provisions were removed in the 1991

72On the national security applications of quantum computing, see Kitchen (2021).
75Reagan (1986).
76Irwin (1996, 8–10).
78Irwin (1996, 8–9).
renewal of the agreement as a result of lobbying by US computer companies (which used Japanese semiconductors). Setting a quantitative target for foreign market share in Japan proved to be controversial, and a specific provision for the US government to regulate the price of Japanese semiconductors was ruled to be illegal under GATT as an example of price fixing. These agreements involved an extraordinary degree of intervention and planning on the part of the US government— inconsistent with the United States’ broader agenda of supporting free trade, but consistent with a strategic posture of national technological competition.

What is most important for our purposes is that the United States’ semiconductor agreements with Japan were substantially different from the actions that the United States has taken toward Huawei since the mid-2010s, exemplifying the difference between national technological competition and technological containment (which, in turn, is the result of a different assessment of the nature of the security challenge). The US government did not place Japanese semiconductor companies on anything equivalent to the Entity List, nor did the United States attempt to weaken those companies by cutting them off from key components. The United States’ actions toward Japan were aimed at enhancing the competitive position of the US semiconductor industry—and, by implication, the relative position of the US economy—rather than systematically weakening the Japanese semiconductor industry.

One might argue that this was simply a case of protectionism, but it was more than that because the semiconductor agreements fed into a profound concern about the United States’ decline vis-à-vis Japan that began in the 1980s. It may be that the 1996 agreement was more of a case of straightforward protectionism, given that the stagnation of the Japanese economy had already set in by that point. But the 1986 agreement (and its renewal in 1991) preceded the stagnation that resulted from the collapse of the asset price bubble, which means that they were negotiated at the height of the United States’ concerns about relative decline. They were more than a case of protectionism aimed at protecting US firms; they were also a case of protecting the United States’ technological competitiveness from Japan as a rising power.

Conclusion

This article has advanced a theoretical framework that connects two factors—the type of geoeconomic capability that a Rival possesses and the type of national security challenge that that capability represents—to explain a State’s choice of economic statecraft in the pursuit of great power competition. It has supported this theory using examples from the United States’ great power rivalries in the postwar era: with the Soviet Union throughout the Cold War, the PRC in the first half of the Cold War, Japan at the end of the Cold War, and the PRC from the mid-2010s to the present. This framework presents an opportunity to not only examine how economic statecraft relates to grand strategy, but also to explain why the United States’ contemporary competition with China resembles the Cold War in some ways but not in others. While there has been considerable interest in the analogy of the “new Cold War,” scholars have not developed a theoretical framework for explaining why there are both similarities and differences between the Cold War and the present day. This article has addressed that need by focusing on economics and technology, explaining postwar US economic statecraft in great power competition using four concepts: economic containment, national economic competition, technological containment, and national technological competition.

Conflicts of interest. None.

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79 Ibid., 5.


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