The Technology-Driven Economic Security Agenda

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Globalization is changing in profound ways. Bilateral trade and investment between the United States and China declined over 15 percent in 2023, down significantly from record highs the previous year. The International Monetary Fund, meanwhile, forecasts slowed trade growth in 2024. The U.S. economic outlook is poised for a soft landing, but major partner economies, such as Germany, are now definitionally in recession. Geopolitical currents—once a background rhythm of the globalized economy—have moved to the forefront of trade and economic relationships. The concurrent three Cs—Covid-19 fallout, tensions with China, and mounting climate change pressure—have led countries and companies alike to reassess the resiliency and vulnerability of their supply chains. The proliferation of advanced technology promises further disruptions to trade as we know it.

In October 2022, the United States levied relatively broad export controls on advanced artificial intelligence (AI) chips to China, signaling a move away from an end user–based system of export controls that had characterized an era of economic détente in the 1990s toward a new era of technology-driven national security. In restraining chip flows to China, the United States moved semiconductors to the forefront of trade policy, securing buy-in from Japan and the Netherlands.

The United States is also considering screening outbound investment. In August 2023, the White House published an executive order directing the Department of Treasury to stand up an outbound investment screening system that functions as a notification regime. This regime will provide greater clarity on the volume and nature of U.S. capital and knowledge flows to China in AI, quantum technology, and semiconductors that could be used in military contexts.

Concurrent with an expanded national security trade tool kit, the United States and its close partners have sought to build more secure supply chains, particularly throughout the semiconductor sector. Building secure semiconductor supply chains presents...
considerable challenges. First, export control parity is critical for deeper cooperation since export controls function as a prerequisite to scaling up production. In short, in jurisdictions where the United States believes the risk of technology leakage to China is significant, the United States will not increase investments in sensitive technologies. Second, the United States and its partners must work together to offset some of the costs associated with expanded export controls. For now, the administration maintains the security benefits outweigh the associated economic costs.

Foreign technology producers such as the Netherlands have signaled a willingness—if not enthusiasm—to engage with the United States on export controls. Peter Wennink, outgoing CEO of Dutch chip champion ASML, has said that additional restrictions on exports to China will not significantly harm the company since it can find alternative buyers and maintain a sizable backlog. However, finding a country with a developed tech sector, a highly skilled workforce, and sufficiently strict trade controls could prove challenging. The U.S.-Japan bilateral efforts to accelerate two-nanometer chip production in a Rapidus-IBM joint effort underscores the alignment of several enabling factors, which include similar export control rules, a highly skilled labor force, and a stable business environment.

Traditional trade policy would typically assist in offsetting some of these costs by codifying trade facilitation measures and making the exchange of goods and services more efficient. However, the era of traditional trade has been supplanted by an era of “weaponized interdependence” and economic security, and this environment is unlikely to change in the short to medium term. Together with allies, the United States should work to craft rules for this new form of globalized interdependence in which supply chain security will increasingly drive economic policy. New rules must focus on export control and investment screening cooperation but must go a step further in institutionalizing cost offset mechanisms like the U.S.-Japan deal.

At the international level, these new rules could emanate from a new architecture that evolves out of an expanded G7 with a secretariat. An expanded G7 could include Australia and the Republic of Korea. This would grow the economic might of the bloc while identifying opportunities to follow through on building more resilient supply chains. This new architecture could also create clearer guidelines for the rules of engagement at the supply chain and national security nexus, which no other economic institution is currently capable of managing.

At the domestic level, the United States must ensure the effectiveness of its economic statecraft tools. The United States and its partners continue to move toward an environment dominated by geo-economics, and economic weapons have reemerged as a prominent feature of the U.S. strategic tool kit. However, unlike the use of kinetic warfare, for which there are clearly established guidelines—a targeting doctrine, a firehose policy, and collateral damage minimization efforts—the U.S. government lacks those tools for economic warfare.

A profound shift in trade, technology, and security policy is underway. This has resulted in an increasingly technology-driven economic security policy that has reshaped strategic competition and infused geopolitical risk into commercial considerations. This has manifested in expanded use of trade and investment controls alongside concurrent efforts to retool supply chains.

To better weather these systems-level changes, the United States and its partners must continue to deepen cooperation on export controls. Yet, controls are insufficient in bolstering security in the long run. As partners pursue industrial policies related to advanced technologies, identifying policy goals at the outset and working toward transparency in implementation will be critical. The United States and its allies have made tremendous progress in advancing a new agenda, and it now falls on partners to follow through.

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