

Deepening World Division and Economic Security

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One of the most important keywords for understanding today's international politics, security and geopolitics is the division of the world. It is widely known that U.S.-China confrontation as a real existing issue represents the most fundamental division. The United States still maintains the position of a superpower or hegemon. However, its power has relatively declined due to China's rapid catch-up. With the second-largest gross domestic product in the world, China has grown closer to the United States in economic size. Although its recent economic deceleration makes its future development uncertain, there is a view that China is going to surpass the United States in GDP. In line with its economic expansion, China has remarkably increased its external presence. Its presence in and influence on diplomatic and security affairs has expanded remarkably.

The United States had maintained a policy of engagement with China as a key stakeholder, while seeing China's rapid catch-up. In the face of China's rapidly increasing influence and presence, however, the United States has grown vigilant against China. In the first half of the Trump administration period, the U.S.-China trade war attracted global attention. In the second half, the United States and China entered into full-blown confrontation and rivalry. Disputes over Hong Kong, Taiwan, the Xinjiang Uyghur issue and China's maritime expansion were combined with criticisms against China's response to the COVID-19 outbreak and subsequent huge U.S. human and economic losses to lead the United States to become more critical of China. More essentially, however, the United States' perception of China as a full-fledged challenger to the U.S. global power position might have been the key to the escalation of U.S.-China confrontation.

While deepening confrontation with China, the United States attempted to collaborate and cooperate with Japan, Europe, Australia, India and others to counter China. On the other hand, China enhanced its cooperation with Russia. The division of the world thus escalated, focusing on U.S.-China confrontation. Then, Russia launched its military invasion of Ukraine. North America, Europe and Japan refused to admit Russia's use of force to change the status quo and imposed unprecedentedly tough sanctions on Russia. In this way, Russia's confrontation with the Western bloc deepened rapidly. To counter the Western bloc, Russia enhanced cooperation with China. Structural confrontations between the Western and China-Russia blocs have thus taken root. At the same time, the two blocs' tug-of-war to woo major third-pole countries has become a central global geopolitical issue. These countries include India, the members of the Association of Southeast Asian Nations and Middle Eastern oil-producing countries such as Saudi Arabia.

The escalating division of the world has exerted various deep impacts on international politics, security and the world economy. One important impact is a growing interest in economic security. Before the emergence and escalation of the division of the world, economic efficiency

had been the most important principle to govern the world economy and international business operations. The international development of supply chains and logistics to maximize efficiency and minimize costs had been the key to success and prosperity. Preconditions for the development had included the maximum use of free trade and the international division of labor and the full performance of market functions.

However, the escalating division of the world has turned around the situation. As a matter of course, the pursuit of efficiency and the minimization of costs are still important. In today's world, economic security has been given greater priority. Countries now prioritize national security and seek to promote domestic production or import from allies or strategic cooperation partners for strategically important resources, materials, goods and technologies even if the promotion runs counter to the maximization of efficiency or the minimization of costs. At least, they seek to refrain from depending on potentially hostile countries for strategic material supplies, reduce any such dependence and diversify supply sources for such materials. Such dependence has been understood as a serious risk since Europe plunged into difficulties amid the Ukraine crisis due to its heavy dependence on Russia for supply of energy as a strategically important good.

From this viewpoint, Western countries' attempt to phase out their dependence on Russian energy supply by increasing energy self-sufficiency and diversifying energy sources and import sources for traditional energy security can be seen as a response to the division of the world. On the other hand, it is important that countries prioritize energy transition to structurally reform energy supply and demand, and energy infrastructure and supply chains from the medium to long-term perspective at a time when priority is given to striking a balance between the enhancement of energy security and decarbonization.

While energy sources and technologies are selected for the promotion of energy transition in the future, the demand for the critical minerals to support the transition will be influenced by the selection. The promotion of renewable energy, electric vehicles and storage batteries will have a great impact on critical mineral demand. The U.S. Geological Survey designated 50 minerals as critical minerals in February 2022. Given that these minerals are expected to support future energy transition, demand for such minerals will be influenced variously depending on details and the speed of energy transition. (For future critical mineral supply and demand, see "IEEJ Outlook 2023" (October 2022))

The problem is that these minerals include those for which the tighter supply-demand balance and price spikes could come due to rapid demand expansion as early as 2030 (or earlier). Another problem is that the world's dependence on a limited range of supply sources is very high for some critical minerals. For instance, the Democratic Republic of Congo accounted for 71% of global cobalt production in 2021, Australia for 52% of global lithium production and China for 59% of global rare earth production. While the above are mineral production shares, China commands dominant shares for refining and processing many minerals. Given the strategic importance of critical minerals, initiatives will be promoted to expand supply capacity and diversify supply sources in regard to mineral production and refining/processing. The enhancement of recycling and the development of alternative technologies and materials will also be given priority. The development of storage arrangements for critical minerals will attract interest. Nevertheless, it will be unavoidable that a stable supply of critical minerals as strategic materials and the security of their supply chains will become a matter of global concern.

Given the division of the world, priority may naturally be placed on a stable supply of critical minerals and responses to relevant potential security risks. In this case, the selection and speed of energy transition options will exert a decisive influence on the expansion of demand and the tighter supply-demand balance for critical minerals and dependence on their supply sources, triggering new security problems accompanying the energy transition. In this way, countries will be required to strategically consider the critical mineral issue as a new factor in designing energy transition amid the division of the world.

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