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Economic Statecraft

The Need for an Integrated Approach

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Competition between the free world and authoritarian regimes will determine whether democracy and free-market economies prevail over authoritarianism and statist economic models. China and Russia have expanded their self-described "partnership with no limits" into an axis of aggressors that includes the dictatorships in North Korea and Iran, while advancing initiatives to displace US influence and power. Chinese President Xi Jinping boasted that he and Russian President Vladimir Putin are driving "changes not seen for one hundred years." If the United States and its allies do not prevail in this competition, the world will be less free, less prosperous, and less safe. The innovation ecosystems that produce and apply technology will prove decisive to achieving a favorable outcome.

Winning this competition and addressing other cross-border challenges and threats such as terrorism, climate change, and proliferation of weapons of mass destruction require a statecraft that draws on all sources of national power in an integrated manner. These sources of power include US military strength, its global diplomatic reach, the gravitational attraction of American ideals such as liberty and opportunity, and the economy.

US administrations consistently undervalue the degree to which strategic application of economic power is essential for advancing US vital interests. President Trump has a historic opportunity to correct this chronic shortcoming in US grand strategy with an integrated approach to economic statecraft oriented on securing the nation, reinforcing our technology-innovation ecosystems, defending against unfair and coercive trade practices, and shaping fair, reciprocal trade and commercial relationships.

Although the strategy should apply American economic power to advance US geopolitical objectives, it should enable rather than constrain free enterprise and exploit weakness in rather than attempt to replicate the Chinese Communist Party's statist mercantilist approach. The United States must act to counter Chinese economic aggression—nonmarket actions intended to harm American companies, impair US manufacturing, or coerce the United States and its allies. The US government must also foster market conditions that incentivize the

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private sector to fulfill critical national security needs in critical sectors such as semiconductors, critical minerals, and supply chains associated with the defense industrial base.

The Trump administration must recognize, however, that interventionist economic statecraft policies will result in trade-offs and risk inefficiencies, increased costs, less innovation, and other market distortions. Moreover, special interests can capture aspects of policies to advance protectionist or other parochial interests. An overarching framework of principles, objectives, and metrics—a strategy—is therefore essential to help policymakers decide among competing trade-offs and ensure that actions align with the president's agenda and vision.

The decision-support resources available to policymakers for economic statecraft are inadequate. The instruments of economic statecraft operate by triggering complex economic and geopolitical chains of events. Compounding this complexity is that many of the most important geopolitical challenges facing the United States involve an array of high technologies at various stages of maturity and intricate global supply chains. The Trump administration's initiative to elevate economic power as an instrument of American statecraft requires better data collection and analytic capabilities to anticipate consequences, assess results, and adapt to maximize effectiveness.

This report has three goals:

1. Define economic statecraft as the use of economic power in pursuit of geopolitical objectives.
2. Contextualize economic statecraft in US grand strategy, with a focus on prevailing in the multidimensional competition with China, Russia, and other members of the "axis of aggressors" (i.e., Iran and North Korea).
3. Identify principles to guide economic statecraft strategy and recommend how the US government should organize to employ the instruments of economic statecraft effectively.

This report's principal recommendation is that President Trump issue an executive order that implements the following:

1. Directs the national security advisor and the director of the National Economic Council to coordinate the development of an integrated economic statecraft strategy
2. Directs the director of the National Economic Council to make recommendations for improving the analytic resources available to practitioners of economic statecraft

In an appendix, the report also compiles an inventory of economic statecraft instruments and presents them as a menu of options for addressing the multidimensional challenge that China poses to US security, prosperity, and global leadership. The menu illustrates the breadth of the existing economic statecraft tool kit, but also its sprawl across dozens of agencies. The

menu serves as a guide for policymakers to navigate among economic statecraft options, and through its complexity reinforces the urgent need for an integrated economic statecraft strategy. It can also aid in identifying policy gaps.

DEFINING ECONOMIC STATECRAFT

All forms of statecraft require resources and, therefore, rest on a shared foundation of a nation's economic endowments. Economic statecraft, as the term is used in this report, is a country's pursuit of geopolitical objectives using economic power. Economic power, as used here, is a function of a country's attractive and coercive influence over domestic and international market participants in the context of its international relations.

This report proposes simple categories for organizing the policy instruments of economic statecraft (see text box). From a strictly economic perspective, these categories overlap.[1] The goal of this categorization, however, is to illustrate the breadth and diversity of the policy instruments that constitute the economic statecraft tool kit and present them in a manner that corresponds to how governments are organized to carry out economic statecraft.

When a country uses an instrument of economic statecraft, it aims to produce an economic effect within its domestic market or in global markets to achieve a geopolitical objective. Some instruments shape general market conditions, while others attempt to exert targeted impacts on specific sectors or market participants such as individual firms or countries.

One major focus of economic statecraft is addressing what economists call externalities, or the indirect costs or benefits to a third party that result from the actions of another party. When one party's actions impose indirect costs on a third party, it results in a negative externality. Pollution is an example: If the effluent from a factory's manufacturing operations poisons a community's groundwater, the factory has imposed a negative externality on the community. When a third party indirectly benefits from the actions of the first party, they are the beneficiary of a positive externality. If a self-interested first party does not perceive the cost/benefit trade-off as worth it, however, they will not act—even if the indirect benefits of acting for third parties are significant.

An investor in critical minerals mining and processing, for example, seeks a positive return on investment, which ordinarily means investing in a commercially viable business. Such a business could provide an indirect benefit to the nation's military by satisfying a national security need for an assured supply of minerals that an adversary controls but are essential for manufacturing weapons and munitions. This national security externality is irrelevant to the investor's motive to generate a positive return on their investment.

Many instruments of economic statecraft attempt to incentivize private actors to factor those indirect costs or benefits into their decision making to advance a geopolitical objective. For example, without export controls, private actors motivated by purely commercial

Instruments of Economic Statecraft

Import policies **relating to the entry of goods (including raw materials, components, and finished goods), services, financial capital, and people into the country**

Examples of import policy instruments include lowering or raising import duties, tariffs, and quotas; removing or erecting nontariff trade barriers; loosening or tightening certification, licensing, and permitting requirements; relaxing or reinforcing inbound foreign investment controls; and recruiting or shunning foreign scientific and engineering talent.

Export policies **relating to the exit of goods, services, financial capital, and people from the country**

Examples of export policy instruments include lowering or raising export duties, tariffs, and quotas; loosening or tightening certification, licensing, and permitting requirements; reducing or expanding export controls and economic sanctions; relaxing or reinforcing outbound investment and capital controls; cutting or increasing foreign assistance; and curtailing or expanding export financing.

Industrial incentives policies **relating to inducements, mandates, or the elimination of restrictions on firms originating primarily in the domestic market, such as domestic tax, subsidy, and regulatory policies**

Examples of industrial incentives policy instruments include streamlining or tightening environmental standards for strategically important extractive, processing, and manufacturing industries; adding to, withdrawing from, or eliminating stockpiles of strategically important commodities; withdrawing, reducing, or granting preferential tax, financing, or subsidy treatment to strategically important industries; and cutting or increasing support for basic and applied research and development.

Financial infrastructure policies **relating to global payments systems, including SWIFT, ACH, Fedwire, ACI, and CHIPS**

Examples of financial infrastructure policy instruments include financial sanctions and related measures.

considerations are unlikely to weigh national security or other geopolitical factors in their business decisions as strongly as policymakers would prefer them to and might otherwise sell sensitive technologies to adversaries (or at least not perform adequate due diligence on customers to make sure they are not adversaries). Export controls aim to address the negative externalities to a country's geopolitical interests that private transactions can impose.

Certain industrial incentives policies attempt to incentivize provision of public goods. In the minerals example above, the military's national government could attempt to attract investment in domestic rare earth mining and processing by compensating the investor for the indirect national security benefits the government would receive. The compensation could take many forms, including tax incentives, financing on preferential terms, a guaranteed market in the form of long-term purchase and price guarantees for a certain quantity of production, and direct subsidies.

Other industrial incentives policies aim to reduce market frictions so that profit motives drive industry to meet policymakers' geopolitical objectives. For example, deregulation and permitting reform could make extractive, processing, and manufacturing industries more cost-competitive, while relaxed antitrust enforcement could facilitate mergers and acquisitions that enable companies to achieve better economies of scale and scope, improved synergies and market share, and other potential benefits that improve competitive advantage.

The dollar's status as world reserve currency gives the United States a power that no other country possesses: gatekeeper for the dollar-denominated global payments system. In this role, it has leverage to demand that financial institutions and even other countries that want to use this system fulfill anti–money laundering, sanctions compliance, and other US policy requirements or face banishment. It can also use the power in attempts to deter, disrupt, or punish objectionable actions by state or nonstate actors.

Regardless of the goal, market participants serve as intermediaries for these influence attempts. Economic sanctions and export controls, for example, operate primarily by deterring intermediaries from transacting business with sanctioned persons or exporting controlled items without a license. The intermediaries experience the first-order effects, and the sum of their decisions coalesces into an overall market response to the measure.

That market response, in turn, potentially affects geopolitics. If those effects achieve the country's intended geopolitical objective (for example, by obstructing an adversary's military modernization efforts) at an acceptable cost, then the country's use of the instrument was a success. The signature role that market participants play as intermediaries for economic statecraft means that policy analysis for economic statecraft will often involve two interrelated, complementary disciplines: economics and geopolitics.

STRATEGIC CONTEXT FOR ECONOMIC STATECRAFT

THE IMPORTANCE OF US ECONOMIC AND FINANCIAL POWER

The US economy is the source of power for US economic statecraft. That power derives from a set of attributes about the US economy including the following:

- The US economy is open, dynamic, and the largest in the world, with a commitment to property rights and the rule of law.

- The US system of higher education is a source of basic and applied research, ensuring a steady flow of emerging and foundational technologies for US industry and defense needs, and trains the next generation of science, technology, engineering, and mathematics (STEM) practitioners.[2]

- The US innovation ecosystem rewards risk-taking and entrepreneurship, attracting the best and brightest talent from around the world and incentivizing investment in technologies and new businesses.

- The US innovation ecosystem produces many technologies that have essential applications in various domains, making the United States a critical node in global supply chains.

- The dollar is the predominant currency of the global economy in international reserves, as a currency anchor, and in transactions,[3] and there is no practical alternative to it for the foreseeable future.[4]

- The United States is an energy superpower, with energy production exceeding consumption since 2019[5] and 2023 marking the widest gap yet.[6]

The United States complements these economic and financial qualities with military and diplomatic power. For example, it has a standing network of alliances composed of market-oriented democracies committed to peaceful resolution of conflicts, free and fair trade, respect for citizens' fundamental rights, and rule of law. It marshaled this alliance to build the Russia sanctions coalition following Russia's full-scale invasion of Ukraine in 2022.

THE CRITICAL ROLE OF TECHNOLOGY INNOVATION TO SUSTAINING US ECONOMIC AND MILITARY ADVANTAGE

At the same time, advancements in artificial intelligence, advanced computing, and other critical and emerging technologies have the potential to unleash new waves of productivity, growth, and innovation in the US economy,[7] and to contribute to US national security and military capabilities. The United States has a leadership advantage in many of these areas, with American companies, universities, and laboratories producing research and products at the cutting edge. Sustaining these leadership advantages is a national security imperative.

VULNERABILITIES EXIST IN THE US ECONOMY

Although the US economy is strong, history includes hard lessons about misguided policies and complacency about vulnerabilities. For example, tariff conflicts in the 1920s that culminated in the Smoot–Hawley Tariff Act of 1930 exacerbated the Great Depression. In October 1973, the Organization of Petroleum Exporting Countries (OPEC) imposed an oil embargo on the United States and other countries that had supported Israel during the 1973 Yom Kippur War. The United States was highly exposed to the embargo due to its

reliance on OPEC for oil imports—a development that US energy policies had encouraged over the preceding decade. The embargo triggered gasoline shortages in the United States, price increases worldwide, and eventually a global recession.

China's industrial policies pose national security and economic challenges to the United States, as described in further detail below, but the policies have also fueled corruption and waste within China—an important reminder about the potential costs of industrial policies and their vulnerability to capture by special interests.[8]

The growth rate of the US economy has slowed over the past several decades, while the proportion of US GDP devoted to mandatory government spending and interest payments on the federal debt has grown. As a result, the proportion of national resources left over for spending on defense needs and other national security–related public goods has declined over the same period.[9]

More recently, the COVID-19 pandemic exposed fragilities in global supply chains for many critical products, and not only for those with public health applications. The pandemic coincided with accidents and weather events affecting semiconductor manufacturing facilities, resulting in a global shortage of chips that had a cascading limiting effect on the availability of downstream products that require chips, such as automobiles and consumer appliances. Regulatory barriers and fiscal overreach loom over investor confidence, along with lingering concerns over inflation, while a new economic populism challenges the traditional bipartisan consensus on the value of free and open trade.

America's innovative capacity ultimately rests on the ingenuity of its inventors and entrepreneurs, but the pipelines for these talent sources—the US education and immigration systems—are in disrepair.[10] For example, American fifteen-year-olds ranked thirty-fourth in the world on the Program for International Student Assessment in math proficiency, and federal spending on basic research as a share of GDP has declined by nearly 65 percent since its peak in 1964,[11] while companies across high-technology sectors report critical shortages of skilled talent.[12]

Many of these vulnerabilities in the fundamentals of the US economy are self-inflicted. Addressing them must be the first order of business for the Trump administration and Congress.

CHINA'S CHALLENGE TO AMERICAN LEADERSHIP

Meanwhile, China is waging a comprehensive challenge to American leadership by integrating its economic and military power. Beijing has cultivated a world-class innovation and manufacturing ecosystem by drawing on comparative advantages in areas such as labor and natural resources costs. But favored firms in strategic or politically favored sectors also benefit from massive subsidies from the Chinese state, a protected domestic market of 1.4 billion people, and rampant theft of US and allied intellectual property.

These anticompetitive industrial policies threaten to erode American and allied manufacturing and innovation ecosystems. For many of the technologies that have the most transformative potential for future economic and military competitiveness, China is ahead of the United States or rapidly catching up.[13] The technology competition between China and the United States is asymmetric, with China playing by "a different set of rules that allow it to benefit from corporate espionage, illiberal surveillance, and a blurry line between its public and private sector," as summarized by an influential study from 2020.[14]

This technology ecosystem is also the foundation for China's military modernization. Under a policy known as Military-Civil Fusion, the Chinese Communist Party expects Chinese companies to facilitate the transfer of technologies from its civilian economy to the People's Liberation Army (PLA).[15]

BEIJING'S EXPOSURE TO US ECONOMIC POWER

China's ability to sustain its anticompetitive innovation and manufacturing ecosystem and achieve its military modernization objectives depends, in part, on retaining ready access to US and allied technologies, financial capital, and markets. In addition to a sustained campaign of industrial espionage, China invests in foreign companies to gain access to their technology, siphon intellectual property, and circumvent export controls.[16] It solicits financing from US investors not only for their capital, but for their knowledge about how to grow competitive, innovative businesses as well. And it uses the attractiveness of its domestic market as a hook for requiring foreign companies to transfer technology as a condition of market access.

BEIJING'S COERCIVE ECONOMIC STATECRAFT

China's factories, assembly plants, mines, and materials processing facilities are critical links and thus choke points in multiple supply chains for strategically important technologies such as semiconductors, batteries, and pharmaceuticals. China is also the biggest market for many of our closest allies as either the overall destination for exports (e.g., Australia, Japan, South Korea, and Taiwan) or exports of an economically important good or service (e.g., Germany and autos). Since 2010, China has used this economic power to impose economic costs on many countries, including US allies such as Australia, Japan, Lithuania, Norway, the Philippines, South Korea, and Taiwan.[17]

China's manipulation of the supply chain for rare earth elements and the evolution of its policy framework are an important case study of China's behavior and the risks it portends for US and allied economic and national security interests. Rare earth elements are required for an astonishing array of modern technologies, including smartphones, computer hard drives, electric vehicles, guidance systems, and catalytic converters, to name a few.[18] China is a choke point for acquiring them: It processes nearly 90 percent of rare earths, and 60 percent of global supply is mined there.[19] It has sustained this market position by combining strong support for applied research and education for the rare earths industry[20] with production quotas for domestic producers that keep global prices artificially low and would-be global

competitors unable to compete.[21] And it has wielded this market position to impose economic costs on its neighbors: In 2010, China restricted exports of rare earths to Japan during a maritime standoff over the contested Senkaku/Diaoyu islands.

In December 2024, China announced bans on the export of gallium, germanium, and antimony to the United States, in apparent retaliation for the US imposing an additional round of export controls on semiconductor equipment exports to China.[22] For several years prior, China had been strengthening its export controls on rare earths, rare earth processing and manufacturing technologies, and other critical minerals by adopting policies and licensing requirements that enabled it to improve the quality of information it could collect about global supply chains and to expand its options for manipulating those supply chains. In December 2023, it banned the export of rare earth magnet manufacturing technologies.[23] In June 2024, it introduced an export control regime for rare earths[24] after previously subjecting exports of gallium and germanium[25] (used in semiconductors) and high-grade graphite (used in batteries, fuel cells, and nuclear reactors) to export licensing requirements.[26] In August 2024, China announced limits on exports of antimony, a mineral with notable uses in semiconductors and explosives. The timing of these actions is noteworthy, in that they often come soon after the United States or its allies impose export controls against China or Chinese companies.[27]

Beijing can use the licensing process to collect data on global market conditions and trade flows from exporters. Meanwhile, it has curtailed the quality of information available to public markets by deeming rare earth mining and refining as state secrets (and has already jailed two employees in the rare earth industry for revealing secrets to foreigners), reinforcing an information advantage for itself.[28]

In October 2024, China also issued new rules consolidating its dual-use export control regime. The rules contain provisions analogous to the Foreign Direct Product Rule and De Minimis Rule under the US Export Administration Regulations that would extend the reach of Chinese export control law to cover dual-use items manufactured outside China if they contain dual-use items originating from China or were manufactured outside China using technologies that originated in China. Beijing has provided little detail as to how it intends to use this potentially powerful new authority.

China's efforts to extend its geopolitical influence, especially in the developing world, have drawn primarily on economic power. Developing countries need infrastructure, and China is meeting this need. China has become the world's largest official creditor, surpassing the World Bank and the International Monetary Fund (IMF), and the largest bilateral official lender to developing countries. It is also willing to finance higher-risk projects, with faster approval timelines, than the established infrastructure development agencies and institutions.[29] Many countries are eventually unable to afford their debt, putting China in a position of political and economic leverage over them.[30] In 2015, for example, Sri Lanka relinquished a port financed and built by China, along with fifteen thousand acres of land, to China after falling short on debt payments.[31]

China distributes this capital in multiple ways, such as through its Belt and Road Initiative (BRI) or via international financial institutions—including institutions that it helped set up as more nimble alternatives to the World Bank and other established infrastructure investment banks. These investments often meet developing countries' infrastructure needs while yielding significant strategic benefits for China. They typically include "buy China" requirements that provide Chinese firms with an outlet for excess industrial capacity and allow Chinese technology providers such as Huawei to gain a foothold in new markets and box out competitors from the United States and elsewhere. These investments also come with political expectations, such as reversing diplomatic recognition of Taiwan or supporting China in international institutions.[32] The Solomon Islands are an especially noteworthy example: In 2022, the country signed an open-ended security pact with China that could allow Beijing to station troops and ships there months before accepting a $66 million loan to build a mobile telecommunications network.[33]

THE NEW AXIS POWERS

China, Iran, and Russia have banded together to pursue their common interests in sustaining their respective dictatorships; asserting hegemony within their regions through a combination of violence, political subterfuge, and opportunistic diplomacy; and reducing US influence globally. They have other willing partners from North Korea to Venezuela.

Economic ties built around energy bind this axis. China buys over 90 percent of Iran's oil, which accounts for at least 5 percent of Iran's total economic output.[34] Russia relies on sales of natural gas to finance its military operations, and it must import a range of foreign-produced materials and components to manufacture military equipment. Its principal partner is China: Russia imports 70 percent of the machine tools and 90 percent of the microelectronics it needs for its war effort in Ukraine from China,[35] and is China's biggest supplier of oil, which China purchases above the price cap set by the Group of Seven (G7) to limit Russia's oil revenues. China accounts for nearly all of North Korea's energy imports. Venezuela provides oil at below market prices in exchange for Chinese loans, Russian military assistance, and Iranian refined petroleum products.

GUIDING PRINCIPLES FOR ECONOMIC STATECRAFT

Principles provide a framework for ensuring that decisions align with goals and values, even in complex or ambiguous situations. They also foster cohesion and adaptability, which are especially important in economic statecraft, which, as this report explains further below, lacks a shared identity as a discipline of statecraft.

The practice of economic statecraft should achieve these goals:

- **Reinforce the rule of law.** American economic statecraft should support freedom and advance the rule of law. It should spurn corruption and debt diplomacy and reinforce human security.

- **Pursue realistic and clear goals.** Goals should determine the course of action. In addition, policymakers should identify and regularly test assumptions that proposed courses of action make about the world to ascertain whether their goals are—and continue to be—realistic.

- **Unleash market forces.** US employment of economic statecraft policies should unencumber market forces and incentivize the allocation of capital, rather than direct it.

- **Reflect data-driven decisions.** Economic statecraft requires a fusion of economic and geopolitical data, as well as the expertise to understand and apply it.

- **Foster multinational cooperation.** Most instruments of economic statecraft work best when other countries join the United States in carrying them out, such as when the instruments are intended to impose costs on a target, deny access to technologies or capital, or signal allied resolve. In addition, US allies should shoulder their fair share of the burden to counter Chinese, Russian, and other malign forces. There will be times when the United States must act alone, however, out of principle or as a first step to rally allies.

- **Communicate strategic intent.** Whenever the United States acts, it is sending a message to the world about its values, interests, and motivations. Economic statecraft has many stakeholders, including domestic industry, international businesses and organizations, allied governments, bystander governments, and adversaries. These stakeholders have varying relationships with and perceptions of the United States, which color their interpretations of US actions. The United States must ensure that the messages received by these diverse stakeholders are the messages that the United States intends for them to receive, or it risks confusing or alienating allies and partners and emboldening adversaries.

- **Adapt to changing circumstances.** Federal institutions with economic statecraft responsibilities should have the analytic and governance infrastructure to adapt policy to new goals or shifts in the economic or geopolitical landscapes.

FROM FRAGMENTATION TO INTEGRATION: RECOMMENDATIONS

US economic statecraft is a fragmented collection of disparate policy instruments, wielded tactically in pursuit of military, diplomatic, humanitarian, or economic objectives. The practice and parlance of economic statecraft reflects this fragmentation: Professionals in areas such as trade, immigration, and export controls identify as trade, immigration, or export control specialists, not as practitioners or strategists of economic statecraft. They do not share a common identity.

Compounding the problem is the breadth of policy instruments relevant to economic statecraft. As documented in this report, the economic statecraft tool kit is impressive in the breadth of instruments available to policymakers but sprawling at the same time.

That sprawl obscures the synergies, interdependencies, and trade-offs that many instruments of economic statecraft share. While there is an enduring need for people with deep expertise in each of the organizational silos into which the tools fit, the fragmentation of the practice of economic statecraft among so many agencies and professional communities is a barrier to strategic thinking about the role of economic statecraft in US grand strategy.

Military statecraft is a useful analogy. No one person, or even a small group of people, can claim expertise in every facet of military statecraft. Submariners are not expected to be experts in tank warfare, and vice versa. Practitioners of military statecraft, however, are expected to acquire knowledge and experience about facets of military statecraft beyond their native specialty, and to develop shared understandings within their practitioner community about military tactics, strategy, and purpose. The chairman of the Joint Chiefs of Staff will always hail from a particular military service and have a finite range of specialized expertise in particular facets of warfare, but their span of knowledge and professional experience position them to be a strategist and advisor about the overall discipline of military statecraft. Professional silos do exist within the military, but jointness is grounded in US law (reflected in the Goldwater–Nichols Act of 1986), reflected in US military culture, and channeled in the development of military statecraft strategies such as quadrennial defense reviews. Jointness in military statecraft took time to mature, and it remains a work in progress. But gradual improvements in jointness have been occurring since its first test in major combat operations in the 1991 Desert Storm campaign.

Jointness in military statecraft is enabled by a unified and clear chain of command, from geographical and functional combatant commands through the secretary of defense to the president. Officer training embraces jointness. Economic statecraft, with its sprawling tool kit distributed among multiple cabinet-level departments, is not conducive to a unified organizational structure within a single department. But the practice of economic statecraft could draw inspiration from organizational changes made at the Pentagon and elsewhere in government to foster unity of effort among the departments and agencies engaged in economic statecraft.

As noted earlier, policy analysis for economic statecraft will often involve economic and geopolitical analysis. Data and analytics at the intersection of these two disciplines are scarce within the government. Foreign economic intelligence collection and analysis is not a strength of the US intelligence community (IC), and US law generally prohibits the IC from studying US firm behavior and domestic market conditions. US statistical agencies and other agencies have rich economic data (such as the International Trade Administration). These agencies tend to focus on international economic issues and trends, however, and do not view it as their mission to provide strategic decision support for economic statecraft. These agencies could share data with other agencies that may be better equipped to provide such

decision support, but the agencies would first have to overcome a daunting array of statutory and other restrictions on the ability of statistical agencies to share information with third parties, even inside the government.[36] Finally, the Defense Production Act gives the government broad authority to collect data from the private sector, but using it requires significant overhead compared to the more routinized collection and analysis performed by the IC and statistical agencies, making it challenging to scale.

RECOMMENDATIONS

The next president should elevate the practice of economic statecraft as a core tool of US power, direct development of an integrated economic statecraft strategy, and build the institutional infrastructure needed to carry it out.

The president should accomplish these aims with an executive order on economic statecraft within the first 180 days that has the following principal components:

- **Elevates economic statecraft as a core tool of US power.** The order should elevate economic statecraft as a peer discipline to military statecraft, diplomacy, and the statecraft of soft power. It should define economic statecraft as an instrument for pursuing the full range of US geopolitical interests—economic, security, and humanitarian. It should contextualize economic statecraft in American history and its growing importance in US grand strategy.

- **Establishes general principles for economic statecraft.** These principles should guide economic statecraft strategy development and execution and help explain US actions and intentions in a principled manner to domestic and international stakeholders.

- **Directs the national security advisor and the director of the National Economic Council (NEC) to coordinate the president's first national economic statecraft strategy.** Building on the general principles for economic statecraft established in the executive order, the strategy would define US doctrine for economic statecraft and articulate how economic statecraft supports US national security strategy.

- **Designates agencies with an economic statecraft mission and requires them to provide the national security advisor with an inventory and overview of their authorities and responsibilities for carrying out economic statecraft within thirty days.** This inventory would support the national security advisor and director of the NEC's effort to develop an integrated strategy and engage with agencies—some of which may not self-identify as having expertise or policy instruments relevant to economic statecraft.

- **Directs the director of the NEC to make recommendations for improving the analytic resources available to practitioners of economic statecraft.** Economic statecraft involves influencing market conditions to achieve geopolitical objectives,

yet practitioners of economic statecraft have limited resources for evaluating the efficacy of economic statecraft and its collateral impacts on innovation, competitiveness, and other economic interests. Key partners for the director in pursuing this effort should include the director of national intelligence, the secretary of the treasury, the secretary of commerce, the research and private sector communities, and such other departments, agencies, or nongovernmental stakeholders as the director may determine.

- **Directs the Office of Personnel Management to make recommendations for the professional development of the federal economic statecraft workforce.** Key goals of the recommendations, which could include joint duty assignments, would be to improve mutual awareness of the economic statecraft tool kit among agencies and to pursue a more integrated and institutionalized practice of economic statecraft.

APPENDIX

ECONOMIC STATECRAFT OPTIONS FOR REINFORCING US ECONOMIC COMPETITIVENESS AND COUNTERING CHINA'S MERCANTILIST, MILITARY, AND REVISIONIST POLITICAL AMBITIONS

The United States must compete with China, drawing on all sources of national power in an integrated manner. Presented below is a menu of economic statecraft instruments applicable to this competition. The menu illustrates the breadth of the existing economic statecraft tool kit, but also its sprawl across dozens of agencies. The menu serves as a guide for policymakers to navigate among economic statecraft options, and through its complexity reinforces the urgent need for an integrated economic statecraft strategy. It can also aid in identifying policy gaps.

The menu organizes economic statecraft instruments under four overarching strategic objectives for prevailing in the competition with China:

1. Reinforce US economic competitiveness and technology leadership
2. Counter China's unfair economic policies
3. Deter and prevent Chinese aggression
4. Defend freedom and human rights

An instrument's inclusion under an objective strictly reflects the statutory or nominal goal of the instrument, and not a judgment on whether the instrument is suited to the goal. *The menu is a list of economic statecraft options, not a China strategy or a list of recommendations*. It does not include policy instruments from other domains of statecraft, such as military or diplomatic options. Some instruments attempt to serve multiple goals and appear more than once on the menu for the sake of completeness.

1. REINFORCE US ECONOMIC COMPETITIVENESS AND TECHNOLOGY LEADERSHIP

Minimize barriers to business creation and growth to support American economic power.

Review and eliminate unnecessary regulations.[37]	Office of Information and Regulatory Affairs (OIRA) @ Office of Management and Budget (OMB)

Preserve market confidence in fiscal and monetary policies to support American economic power.

Enforce discipline over nondiscretionary spending.[38]	OMB
Support the continued independence of the Federal Reserve Board of Governors.[39]	President

Expand global market access for US businesses and investors to support American economic power and ensure a level playing field in the economic competition with China.

Exercise trade policy leadership and negotiate bilateral, regional, and multilateral trade agreements and other trade-related accords.[40]	United States Trade Representative (USTR)
Assist and advocate for US businesses in international markets.[41]	International Trade Administration (ITA) @ Department of Commerce (Commerce)
Provide advisory and advocacy services to firms seeking overseas customers.[42]	US Export Assistance Centers @ Small Business Administration (SBA)

Incentivize investment in critical (primarily civilian) technologies to outcompete China.

Provide R&D financing for small businesses pursuing projects with the potential for commercialization (Small Business Innovation Research program).[43]	SBA
Provide R&D financing to support collaborations between research institutions and small businesses on projects with the potential for commercialization (Small Business Technology Transfer program).[44]	SBA
"Stimulate and supplement the flow of private equity capital and long-term debt financing that American small businesses need to operate, expand and modernize their businesses . . . by licensing and providing capital to professionally managed equity and debt investment funds" (Small Business Investment Companies).[45]	SBA

Enable universities, nonprofit research institutions, and small businesses to own, patent, and commercialize inventions developed under federally funded research programs (Bayh–Dole Act).[46]	Patent and Trademark Office (PTO) @ Commerce
Enhance the productivity and technological performance of US manufacturing (Manufacturing Extension Partnership).[47]	National Institute of Standards and Technology (NIST) @ Commerce

Attract and retain skilled scientists, engineers, technicians, and managers to support the US innovation ecosystem.

Support STEM education.	National Science Foundation (NSF);[48] multiple additional agencies[49]
Increase the talent pool of skilled labor for manufacturing (Manufacturing Extension Partnership).[50]	NIST @ Commerce
Increase the talent pool of skilled labor for semiconductor-related jobs (CHIPS and Science Act).	CHIPS Program Office @ Commerce
Facilitate entry into the United States by nonimmigrant aliens with specialized skills (H-1B visa).[51]	United States Citizenship and Immigration Services (USCIS) @ Department of Homeland Security (DHS)
Facilitate entry into the United States by nonimmigrant aliens with extraordinary ability or achievement in science, business, and other fields (O-1 visa).[52]	USCIS @ DHS
Facilitate entry into the United States by nonimmigrant aliens in certain occupations for which the Department of Labor has predetermined that there are insufficient US workers who are able, willing, qualified, and available to meet demand (Schedule A).[53]	USCIS @ DHS; Department of Labor

Support basic research and education to sustain innovation.

Fund proposals for research and education (federal grants and related programs).	Multiple agencies[54]
Provide tax incentives for research and development (federal research & development tax credit).	Internal Revenue Service (IRS) @ Treasury Department (Treasury)
Provide financing for semiconductor-related research (CHIPS and Science Act).[55]	CHIPS Research and Development Office @ Commerce; NSF

Reduce barriers to domestic energy production.

Review and eliminate unnecessary regulations.	OIRA @ OMB; Department of Energy (Energy); Environmental Protection Agency (EPA); Department of the Interior (Interior); Bureau of Industry and Security (BIS) @ Commerce

2. COUNTER CHINA'S UNFAIR ECONOMIC POLICIES

Level the playing field for US companies facing Chinese unfair trade practices.

Exercise broad discretion to intervene in the economy to address a threat emanating from overseas, upon declaration of a national emergency (International Emergency Economic Powers Act).[56]	President
Investigate and address currency manipulation (Section 3004 investigation; Section 301 investigation).	Treasury
Pressure the International Monetary Fund (IMF) to determine whether China is manipulating its currency (upon a finding that it is, it could lose access to IMF financing and its voting rights at the IMF, and, in theory, face expulsion).[57]	Treasury
Impose trade remedies in response to subsidies (countervailing duties), sales at less than fair value (antidumping), and import surges (safeguards).	ITA @ Commerce

Impose tariffs or quotas, or withdraw or suspend trade agreement concessions, in response to unfair trade practices (Section 301 investigation).	USTR
Impose tariffs of up to 50 percent on any country that discriminates against US products or potentially ban their import (Section 338 investigation).	USTR
Impose tariffs or quotas on imports to protect national security (Section 232 investigation).	USTR
Take "all appropriate and feasible action" to protect domestic industry, upon a finding from the US International Trade Commission that domestic industry has suffered "serious injury" (Section 201 investigation).	USTR
Impose tariffs of up to 15 percent for up to 150 days "[w]henever fundamental international payments problems require special import measures to restrict imports (1) to deal with large and serious United States balance-of-payments deficits [and] (2) to prevent an imminent and significant depreciation of the dollar in foreign exchange markets" (Section 122 balance-of-payments authority).[58]	President
Help US exporters facing competition from China secure export financing for certain high-technology exports (China and Transformational Exports Program).[59]	Export-Import Bank of the United States (EXIM Bank)

Strengthen supply chain resilience against Chinese economic coercion and other hazards.

Exercise broad discretion to intervene in the economy to address a threat emanating from overseas, upon declaration of a national emergency (International Emergency Economic Powers Act).[60]	President

Streamline regulatory permitting approvals.[61]	OIRA @ OMB; various agencies[62]
Provide tax incentives for building new semiconductor fabs (CHIPS and Science Act).[63]	CHIPS Program Office @ Commerce
Provide direct subsidies and preferential loans to finance new semiconductor fabs (CHIPS and Science Act).[64]	CHIPS Program Office @ Commerce
Provide financing for critical materials mining, extraction, and processing projects.[65]	Loan Programs Office @ Energy
Streamline certain critical mineral transactions between US and Australian firms (Single Point of Entry program).[66]	EXIM Bank
Limit the export of certain goods to ensure adequate US supply (Short Supply Controls).[67]	BIS @ Commerce
Stockpile crude oil to reduce the impact of disruptions in supplies of petroleum products (Strategic Petroleum Reserve).[68]	Energy

Disrupt Chinese IP theft.

Exercise broad discretion to intervene in the economy to address a threat emanating from overseas, upon declaration of a national emergency (International Emergency Economic Powers Act).[69]	President
Sanction Chinese cyber threat actors as "specially designated nationals."	Office of Foreign Assets Control (OFAC) @ Treasury Department
Add Chinese cyber threat actors to the Entity List.	BIS @ Commerce

Help US allies and partners fend off Chinese unfair trade practices.

Improve information sharing and market surveillance about unfair Chinese trade practices.	USTR; Commerce
Develop partnerships and joint ventures on "friend-shoring" supply chains (Quad; G7).[70]	State Department (State)
Build coalitions with allies to finance infrastructure projects in developing countries to provide an alternative to China's debt trap diplomacy (Quad; G7 Partnership for Global Infrastructure and Investment; Organisation for Economic Co-operation and Development [OECD] Blue Dot Network).[71]	State; United States Agency for International Development (USAID); US International Development Finance Corporation (DFC)
Work with allies and multilateral development banks to help developing countries reduce or avoid their exposure to debt trap diplomacy.	State; Treasury; DFC
Engage allies and the multilateral development banks on reforms to better meet developing country infrastructure needs, such as greater lending capacity and faster timelines for project decisions.	Treasury; State; DFC

Support development of alternative supply chains to China (domestic or friend-shored) for clean and renewable energy technologies.

Exercise broad discretion to intervene in the economy to address a threat emanating from overseas, upon declaration of a national emergency (International Emergency Economic Powers Act).[72]	President
Streamline regulatory permitting approvals.[73]	OIRA @ OMB
Incentivize consumer purchase and domestic manufacturing of renewable energy technologies (Inflation Reduction Act and Bipartisan Infrastructure Law).[74]	Various agencies
Provide financing for "high-impact, large-scale energy infrastructure projects in the United States."[75]	Loan Programs Office @ Energy

"Accelerate the development of diverse and sustainable critical energy minerals supply chains through working with host governments and industry to facilitate targeted financial and diplomatic support for strategic projects along the value chain" (Minerals Security Partnership).[76]	State

3. DETER AND PREVENT CHINESE AGGRESSION

Strengthen national resilience against Chinese threats to the homeland.

Exercise broad discretion to intervene in the economy to address a threat emanating from overseas, upon declaration of a national emergency (International Emergency Economic Powers Act).[77]	President
Share threat information with and facilitate operational collaboration among critical infrastructure providers and other stakeholders on Chinese cyber threats.[78]	Cybersecurity and Infrastructure Security Agency (CISA) @ DHS
Develop voluntary, industry-driven frameworks to address coordination problems and information asymmetries that impede market-driven investments in resilience (NIST Cybersecurity Framework; CISA Secure by Design initiative).[79]	NIST @ Commerce; CISA @ DHS
Mandate baseline cybersecurity resilience requirements for critical infrastructure providers to mitigate risk of Chinese cyber espionage or attack using preexisting regulatory authorities (bulk power distribution; cranes in ports).[80]	Regulator or Sector Risk Management Agency[81]
Screen Chinese foreign investment in facilities adjacent to critical infrastructure, military installations, or other sensitive sites for national security risk and prohibit, reverse, or impose conditions on it (Committee on Foreign Investment in the United States [CFIUS]).	OFAC @ Treasury

Prevent Chinese telecommunications carriers from offering international telecommunications services in the United States (Executive Order 13913).[82]	Federal Communications Commission (FCC); Committee for the Assessment of Foreign Participation in the United States Telecommunications Services Sector (Team Telecom)
Disincentivize the introduction and use in the United States of "untrusted" communications equipment manufactured by Chinese state-owned or -controlled entities (Secure and Trusted Communications Networks Act).[83]	FCC
Deny authorization to import untrusted communications equipment (Secure Equipment Act).[84]	FCC
Establish reporting and security requirements for broadband providers to prevent foreign manipulation of internet traffic (internet routing security rules).[85]	FCC
Prohibit certain transactions that involve information and communications technology or services designed, developed, manufactured, or supplied by persons owned by, controlled by, or subject to the jurisdiction or direction of China if it poses an undue risk of sabotage or of catastrophic effects on the security or resiliency of critical infrastructure or the digital economy, or otherwise poses an unacceptable risk to US national security or the safety of Americans (ICT Supply Chain rule).[86]	BIS @ Commerce
Ban specified information technology providers from civilian federal networks (Binding Operational Directive authority).[87]	CISA @ DHS
Limit or ban products containing certain hardware or software with a sufficient nexus to China (Connected Vehicles rule).[88]	Various agencies

Reinforce the US defense industrial base to meet defense production needs.

Exercise broad discretion to intervene in the economy to address a threat emanating from overseas, upon declaration of a national emergency (International Emergency Economic Powers Act).[89]	President
Incentivize investment in domestic productive capacity to satisfy unmet national defense needs or unique technological requirements (Defense Production Act).[90]	Defense Production Act Title III office @ Department of Defense (DOD)
Increase the defense industrial base workforce to meet recapitalization and modernization objectives (Submarine Industrial Base program).	DOD; service components

Support national security–related research and development.

Fund proposals for national security–related research and development (DARPA; IARPA; FFRDCs; national labs).	Multiple agencies

Ensure the civilian innovation economy meets defense needs.

Exercise broad discretion to intervene in the economy to address a threat emanating from overseas, upon declaration of a national emergency (International Emergency Economic Powers Act).[91]	President
Incentivize investment in domestic productive capacity to satisfy unmet national defense needs or unique technological requirements (Defense Production Act).[92]	Defense Production Act Title III office @ DOD
Make venture investments in commercial technologies for use by the US national security community and US allies (IQT, previously In-Q-Tel).[93]	Central Intelligence Agency (CIA)

Mobilize private capital to "accelerate commercialization and scale production" for thirty-one covered technology categories identified by Congress (FY2024 National Defense Authorization Act [NDAA]).[94]	Office of Strategic Capital @ DOD
Accelerate adoption of commercial and dual-use technology by the Department of Defense to solve operational challenges (Defense Innovation Unit [DIU]).[95]	Defense Innovation Unit @ DOD

Strengthen defense industrial base supply chain resilience against Chinese economic coercion and other hazards.

Exercise broad discretion to intervene in the economy to address a threat emanating from overseas, upon declaration of a national emergency (International Emergency Economic Powers Act).[96]	President
Incentivize investment in domestic productive capacity to satisfy unmet national defense needs or unique technological requirements (Defense Production Act).[97]	Defense Production Act Title III office @ DOD

Obstruct China's military modernization.

Exercise broad discretion to intervene in the economy to address a threat emanating from overseas, upon declaration of a national emergency (International Emergency Economic Powers Act).[98]	President
Control exports of dual-use technologies to China.	BIS @ Commerce
Prohibit or require notification of US foreign investment transactions in sensitive technologies.[99]	Office of Investment Security @ Treasury
Screen foreign investment for national security risk and ban or impose conditions on it (CFIUS).	OFAC @ Treasury

Impose "know your customer" requirements on cloud computing providers to block efforts by China to purchase infrastructure as a service in order to circumvent US export controls on advanced-node semiconductors (proposed Taking Additional Steps to Address the National Emergency with Respect to Significant Malicious Cyber-Enabled Activities).[100]	BIS @ Commerce

Bolster allied defenses.

Address barriers in export control policy to exporting defense articles and services (US Munitions List).	Directorate of Defense Trade Controls @ State
Provide military aid and assistance (Taiwan military aid; Foreign Military Financing).[101]	State; DOD

Disrupt Chinese IP theft.

Exercise broad discretion to intervene in the economy to address a threat emanating from overseas, upon declaration of a national emergency (International Emergency Economic Powers Act).[102]	President
Sanction Chinese cyber threat actors as "specially designated nationals."	OFAC @ Treasury
Add Chinese cyber threat actors to the Entity List.	BIS @ Commerce

4. DEFEND FREEDOM AND HUMAN RIGHTS

Counter Chinese Communist Party propaganda and influence attempts.

Exercise broad discretion to intervene in the economy to address a threat emanating from overseas, upon declaration of a national emergency (International Emergency Economic Powers Act).[103]	President

Monitor and enforce ban of Chinese social media platforms on federal networks and networks of federally funded contractors and certain subcontractors.	CISA @ DHS; Defense Information Systems Agency @ DOD; National Security Agency @ DOD

Block Chinese police and intelligence services from access to technologies that can be used for repression.

Control exports of dual-use technologies to China.	BIS @ Commerce

Punish human rights violations.

Sanction Chinese human rights violators as "specially designated nationals."	OFAC @ Treasury
Add Chinese human rights violators to the Entity List.	BIS @ Commerce

Strengthen ties with the developing world.

Build coalitions with allies to finance infrastructure projects in developing countries to provide an alternative to China's debt trap diplomacy (Quad; G7 Partnership for Global Infrastructure and Investment; OECD Blue Dot Network).[104]	State; USAID; DFC
Work with allies and multilateral development banks to help developing countries reduce or avoid their exposure to debt trap diplomacy.	State; Treasury; DFC
Engage allies and the multilateral development banks on reforms to better meet developing country infrastructure needs, such as greater lending capacity and faster timelines for project decisions.	Treasury; State; DFC
Support good governance and anti-corruption initiatives.	USAID; State; Treasury; DFC

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NOTES

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Synopsis

The competition between democracies and authoritarian regimes will shape the future of global power. China and Russia, alongside North Korea and Iran, aim to weaken US influence. To prevail, the United States must integrate economic power into its strategy, counter unfair trade practices, and support key industries. This report urges President Trump to issue an executive order for a coordinated economic statecraft strategy and improved analytic capabilities to enhance decision making.

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