NATIONAL ECONOMIC SECURITY, ADVANCING U.S. INTERESTS ABROAD

HEARING

OF THE

SUBCOMMITTEE ON EAST ASIA AND PACIFIC

BEFORE THE

COMMITTEE ON FOREIGN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED NINETEENTH CONGRESS

FIRST SESSION

May 14, 2025

Serial No. 119–18

Printed for the use of the Committee on Foreign Affairs

Available: *http://www.foreignaffairs.house.gov/*, *http://docs.house.gov* or *http://www.govinfo.gov*

U.S. GOVERNMENT PUBLISHING OFFICE
60–912PDF WASHINGTON : 2025

COMMITTEE ON FOREIGN AFFAIRS

BRIAN J. MAST, Florida, *Chairman*

MICHAEL T. McCAUL, Texas
CHRISTOPHER H. SMITH, New Jersey
JOE WILSON,, South Carolina
SCOTT PERRY, Pennsylvania
DARRELL ISSA, California
TIM BURCHETT, Tennessee
MARK E. GREEN, Tennessee
ANDY BARR, Kentucky
RONNY JACKSON, Texas
YOUNG KIM, California
MARIA ELVIRA SALAZAR, Florida
BILL HUIZENGA, Michigan
AUMUA AMATA COLEMAN RADEWAGEN, American Samoa
WARREN DAVIDSON, Ohio
JAMES R. BAIRD, Indiana
THOMAS H. KEAN, JR, New Jersey
MICHAEL LAWLER, New York
CORY MILLS, Florida
KEITH SELF, Texas
RYAN K. ZINKE, Montana
JAMES C. MOYLAN, Guam
ANNA PAULINA LUNA, Florida
JEFFERSON SHREVE, Indiana
SHERI BIGGS, South Carolina
MICHAEL BAUMGARTNER, Washington
RYAN MACKENZIE, Pennsylvania

GREGORY W. MEEKS, New York, *Ranking Member*
BRAD SHERMAN, California
GERALD E. CONNOLLY, Virginia
WILLIAM R. KEATING, Massachusetts
AMI BERA, California
JOAQUIN CASTRO, Texas
DINA TITUS, Nevada
TED LIEU, California
SARA JACOBS, California
SHEILA CHERFILUS-McCORMICK, Florida
GREG STANTON, Arizona
JARED MOSKOWITZ, Florida
JONATHAN L. JACKSON, Illinois
SYDNEY KAMLAGER-DOVE, California
JIM COSTA, California
GABE AMO, Rhode Island
KWEISI MFUME, Maryland
PRAMILA JAYAPAL, Washington
GEORGE LATIMER, New York
JOHNNY OLSZEWSKI JR, Maryland
JULIE JOHNSON, Texas
SARAH McBRIDE, Delaware
BRADLEY SCOTT SCHNEIDER, Illinois
MADELEINE DEAN, Pennsylvania

James Langenderfer, *Majority Staff Director*
Sajit Gandhi, *Minority Staff Director*

SUBCOMMITTEE ON EAST ASIA AND PACIFIC

YOUNG KIM, California, *Chairwoman*

MICHAEL T. McCAUL, Texas
ANDY BARR, Kentucky
AUMUA AMATA COLEMAN RADEWAGEN, American Samoa
RYAN ZINKE, Montana
JAMES MOYLAN, Guam
SHERI BIGGS, South Carolina
RYAN MACKENZIE, Pennsylvania

AMI BERA, California, *Ranking Member*
BRAD SHERMAN, California
JOAQUIN CASTRO, Texas
JARED MOSKOWITZ, Florida
GABE AMO, Rhode Island
JOHNNY OLSZEWSKI, Maryland

Tom Hill, *Subcommittee Staff Director*

C O N T E N T S

NATIONAL ECONOMIC SECURITY, ADVANCING U.S. INTERESTS ABROAD

Wednesday, May 14, 2025

House of Representatives,
Subcommittee on East Asia and Pacific,
Committee on Foreign Affairs,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10 a.m., in room 2172, Rayburn House Office Building, Hon. Young Kim (chair of the subcommittee) presiding.

Ms. Kim. Good morning, everyone. The Subcommittee on East Asia and the Pacific will come to order. The purpose of this hearing is to discuss how the United States could prioritize economic statecraft more effectively and efficiently, taking special notice of the role of the Department of State. So let me now recognize myself for an opening statement.

OPENING STATEMENT OF CHAIRWOMAN YOUNG KIM

Ms. Kim. Good morning and welcome to the East Asia and the Pacific Subcommittee's National Economic Security, Advancing U.S. Interests Abroad. In 2019, Ambassador William Burns, one of our most decorated diplomats and former CIA director, described the Department of State as adrift. Over the years, the department has had trouble finding its purpose, as functions and authorities have been stripped away or absorbed by the National Security Council, Department of Defense, and even agencies traditionally focused on domestic issues.

For more than 170 years, economic statecraft was led by the Department of State. This changed in 1961, when President Kennedy sought to expand the administrative State, pulling functions and authorities out of the department to create new agencies and organizations, including the United States Trade Representative, which would be responsible for conducting all U.S. trade and investment diplomacy.

The justification for pulling these trade and investment functions out of the department was to improve the government's capacity to prioritize and support U.S. businesses, strengthen the export performance of U.S. industry, and assure fair international trade practices. However, it has, effectively, split our economic interests from our diplomatic priorities, which has resulted in several challenges.

The first challenge is that it has not helped increase the ability of U.S. businesses to access foreign markets. In practice, the Foreign Commercial Service and Foreign Agriculture Service officers are few in number and often positioned at U.S. embassies without alignment to ourpriorities. When I travel abroad, I routinely meet with FCS personnel who explain that they spend most of their time engaged in trade shows and organizing events with minimal direct work on increasing and securing market access for American businesses. Because they are siloed off from our diplomatic efforts of the Department of State, they are restricted in leveraging the other tools in our diplomatic toolkit to assist American companies.

The second challenge is that the American market has been left susceptible to predatory foreign competition. Our ability to protect American businesses and workers has been severely hampered, leading to calls from across the country for the executive to act and repatriate entire industries and sectors. President Trump, like his predecessors, has repeatedly said that economic security, economic policy is. Unfortunately, we have not implemented the structural reforms needed to mobilize that sentiment.

Even President Obama asked Congress for the authority to consolidate six agencies with trade and investment functions in 2012. This request was not supported by Congress. Bipartisan administrations have independently come to the same conclusion: the current alignment of functions and agencies charged with leading our economic statecraft effort is in need of structural reform.

I agree that economic security is national security, and the key question we will be asking today is what structural reforms are necessary to reflect this prioritization? So we intend to answer that question in our committee's first comprehensive State authorization legislation that we will be doing in more than 20 years.

Let me now recognize Ranking Member Ami Bera for your opening remarks.

OPENING STATEMENT OF RANKING MEMBER AMI BERA

Mr. BERA. Thank you, Madam Chairwoman. And I also just want to recognize and appreciate that, in our conversations setting up this hearing, that we set up a bipartisan panel, so I do appreciate that because, again, market access, you know, helping our companies be successful around the world is not a Democratic or a Republican agenda item. It is something that I think we all care about.

I appreciate the witnesses. You know, I obviously have gotten to know Wendy Cutler and Matt Goodman over the years and have had the pleasure of working with them and certainly looking forward to hearing from the Republican witnesses. I have said this a lot, you know: had I had a magic wand, we would go back to 2014 and we would have had TPP in place and, you know, we would have had a framework for the movement of goods and services. We are not there yet, so we are where we are.

I do think it is incredibly important for us, as we go through a State Department authorization process, this is not exactly how I would have gone about reorganizing the State Department. I would have done it in a slightly different way than President Trump has chosen to do it, but we find ourselves with an opportunity to think about what a 21st century State Department would look like, what 21st century tools of economic engagement, economic development, of trade, of tariffs would look like and where that's best housed.

I know, in our analysis, as we have talked to others, I do think it is incredibly important to have economics as part of the State Department, to have representatives around the world within our embassies out there promoting U.S. goods, products, working with our companies to help them navigate, you know, foreign markets and so forth. I also think it is very important, you know, as we watch these tariff conversations unfold, that we take it as an opportunity perhaps to remove tariff barriers. You know, again, this isn't exactly how I would have gone about doing it. I certainly would not have targeted, you know, countries like Australia where we actually have a trade surplus, you know, close allies, like Japan and Korea. But I am happy that the president is prioritizing some of the Indo-Pacific nations as first places to enter into negotiations and, you know, having just returned from Korea, having some real interesting conversations. The U.S. Trade Representative is in Korea right now engaging in some of those, have had conversations with the Japanese and others.

Also, I think there is a unique opportunity with the ASEAN nations. We had dinner a few weeks ago with the ASEAN Ambassadors, and they are looking for guidance here in terms of how to approach this. But there is a very real recognition from the Southeast Asia nations that they don't want the United States to leave these markets, so I do think there is an opportunity there.

I think some of the important things that were accomplished under the Biden administration were programs like the Mineral Security Partnership. These are important programs in the sense that, you know, as we look for redundant supply chains, so we're not solely dependent on a single source, in this case on Beijing and the PRC. It is an opportunity for us to work with like-valued allies, like Japan, Korea, Australia, to build redundant supply chains for these rare earth elements and critical minerals. I think you need State Department diplomacy to help negotiate a lot of these deals and so forth. So I think we should be very careful in dismantling some of this expertise.

Last, I would say, you know, while IPEF was not exactly how I would approach trade, I think digital trade is incredibly important to what we do economically. I think getting a digital trade, digital services deal done that doesn't disadvantage U.S. companies, U.S. technology companies where we're dominant is incredibly important. I think, again, in these trade tariff negotiations and conversations, I think there is strong bipartisan support for us to get a context and some digital services trade framework done.

So, again, I look forward to hearing from the witnesses and from your expertise. Thank you, and I will yield back.

Ms. KIM. Thank you, ranking member. The other members of the committee are reminded that opening statements may be submitted for the record.

We are pleased to have a distinguished panel of witnesses before us today on this very important topic. First, Ms. Elaine Dezenski. She is a Senior Director and head of the Center on Economic and Financial Power at the Foundation for Defense of Democracies. The center produces actionable research and policy proposals to address global economic threats, illicit finance and supply chain vulnerabilities, while promoting the forceful use of economic power to advance American interests. She has more than two decades of experience in government, industry, academia, and international organizations, building an expertise in economic statecraft, supply chain resilience, illicit finance, anti-corruption, and national security. Thank you for joining us.

Dr. William Norris is an Associate Professor of Chinese Foreign and Security Policy at the George Bush School of Government and Public Service at Texas A&M University. He is also the director of the Economic Statecraft Program where he focuses on the strategic relationship between economics and national security. He is a recipient of the World Politics and Statecraft Fellowship by the Smith Richardson Foundation. Thank you for joining us.

Ms. Wendy Cutler, Vice President at the Asia Society Policy Institute and the managing director of the Washington D.C. office. In these roles, she focuses on leading initiatives that address challenges related to trade, investment, and innovation. Previously, she spent nearly three decades as a diplomat and negotiator in the office of the USTR working on a range of bilateral, regional, and multilateral trade negotiations and initiatives. Thank you for joining us.

Last, Mr. Matthew Goodman is a distinguished fellow and director of the Greenberg Center for Geoeconomic Studies at the Council of Foreign Relations. He leads the RealEcon: Reimagining American Economic Leadership initiative, exploring the U.S. role in the international economy. Prior to joining the council, he served as the senior vice president for economics and Simon chair in political economy at the Center for Strategic and International Studies. He was also the Director for International Economics on the National Security Council staff during the second administration under President Obama. Thank you so much for joining us.

Now, the committee recognizes the importance of the issues before us and we are so grateful to have you here to speak with us today. Your full statements will be made part of the record, and I will ask each of you to keep your spoken remarks to 5 minutes in order to allow time for member questions.

Let me now recognize Ms. Dezenski for your opening remark.

STATEMENT OF ELAINE DEZENSKI

Ms. DEZENSKI. Chairwoman Kim, Ranking Member Bera, members of the subcommittee, thank you so much for the opportunity to testify. It is an honor to be here today.

The United States has too often responded to serious geopolitical challenges in an unserious way, failing to prepare for either crises or opportunities and poorly employing one of America's most potent weapons: our economic power. In 2008, Russia invaded Georgia. America was unprepared. In 2014, Russia invaded Ukraine and illegally annexed Crimea. Again, America was unprepared. In 2022, Russia, again, invaded Ukraine and started a war that killed hundreds of thousands of soldiers and civilians. Somehow, once again, we were unprepared.

In each case, our economic power was either underutilized or disregarded. Sanctions, when they came, were ad hoc, incremental, and did more to push the war into a stalemate than to bring peace.

Poorly enforced export controls led to blatant evasion, and leaky oil caps gave rise to a shadow fleet flotilla.

Russia is not the exception. The Arab Spring blossomed and died without meaningful U.S. economic support. Venezuelan elections were stolen, and a handful of officials are sanctioned. A coup overthrows democracy in Myanmar, and America's enormous economic power sits idle. Over and over, the U.S. responds to global crises with a fragmented toolkit: a sanction here, an export control there. Disconnected, delayed, and diluted.

Still, we have unmatched strengths: the world's reserve currency, deep capital markets, innovative companies. And, yet, we spread our economic power across dozens of siloed agencies without a central strategy or command structure. Technology isn't maximized, enforcement isn't prioritized, intelligence isn't operationalized.

Now is the ideal time to change this. We are in an economic moment of opportunity that we haven't seen in 80 years. We need to seize this period of trade awakening to elevate economic statecraft as a key tenet of U.S. foreign policy and driver of national security. We can no longer treat adversaries and chaos agents the same as allies and rule followers. To push back, we must use the power of our markets to defend our markets by creating a Near-Global Economy. American capital and consumers should not be open to every rogue nation or evil empire. Access to our markets must be reserved for those who accept market principles, and access to our currency must be granted to those who don't manipulate their own.

The status quo must change and quickly. As my written testimony lays out, the State Department is well placed to meet the new global moment of economic engagement by reinforcing foreign policy strengths and developing new economic policy capabilities.

We must begin, however, with a recognition that we may have launched an economic war without an economic pentagon. To address our organizational deficiencies will require dedicated new leadership, such as establishing a Deputy Secretary of State for Economic Security, that could lead a new Interagency Economic Command Center. It will require new specialists on economic security within the diplomatic corps to translate strategies into country-level action and feed local intelligence back into policy.

It will require new planning capacities to proactively war game risk scenarios and develop pre-planned economic strike packages and reserve staff to call up in times of crisis. It will require innovative new tools, like an Economic Strike Force, to provide a conditional support package when a regime is toppled or a reformer comes to power to support banking, trade, and sustain jobs for potential new allies during periods of upheaval. And it will require modernizing our economic statecraft efforts with new technology, real-time data, and innovative intelligence tools.

New capacities, better training, and leading-edge technology are all essential. But there must also be an institutional shift of culture and mindset. Economic security must go beyond isolated sanctions and export controls to a coordinated strategy that deploys tariffs, investment screening, supply chain initiatives, transparency mechanisms, and foreign development in a more integrated way.

As I show in a graphic on the final page of my written testimony, the wide variety of statecraft tools are integrated gears that drive the engine of America's economic power projection. With the right leadership, the right tools, and the right strategy, we can unleash the full potential of that engine. We can bring American economic power to bear faster, smarter, and with purpose. We can deter aggression, support allies, and help anchor a Near-Global Economy that is stable, free, open, and fair.

Thank you. I look forward to your questions.

[The prepared statement of Ms. Dezenski follows:]

CONGRESSIONAL TESTIMONY: FOUNDATION FOR DEFENSE OF DEMOCRACIES

House Foreign Affairs Committee
Subcommittee on East Asia and the Pacific

Economic Statecraft and Advancing US Interests Abroad:
Modernizing U.S. Economic Statecraft

ELAINE K. DEZENSKI

Senior Director and Head
Center on Economic and Financial Power
Foundation for Defense of Democracies

Washington, DC
May 14th, 2025

FDD
FOUNDATION FOR
DEFENSE OF DEMOCRACIES

www.fdd.org

Elaine K. Dezenski May 14, 2025

Chairwoman Kim, Ranking Member Bera, and distinguished members of the subcommittee, thank you for the opportunity to testify on the imperative of modernizing America's economic statecraft.

I. A Near-Global Economy for the New Geoeconomic Moment

We stand at a pivotal moment. The world's economic cold war is turning hot, driven by rising geopolitical threats, systemic economic risks, aggressive adversaries, and a dramatic reorientation of global trade.

We are, now more than ever, in an economic moment.

The contests shaping our future are playing out not just on traditional battlefields but also in banks and bond markets, semiconductor supply chains, shipping lanes, and across currencies — from dollars and rubles to yuan and crypto. The recent wave of Chinese dumping, steep U.S. tariffs, and retaliatory trade countermeasures has sparked significant economic disruption — but it has also ushered in a new era of strategic competition, one that is actively reshaping global trade relations and international economic systems.

These shocks, while destabilizing, offer a rare opportunity: a chance to reorder the global economy for stability, prosperity, fairness, and growth — opportunities unseen since Bretton Woods in 1944. We must acknowledge that:

1) *Economic security is national security; and,*
2) *Economic policy is foreign policy.*

Meeting this challenge demands urgency from our leaders and the weight of allied markets to strengthen our economy and exclude bad actors. We must correct non-market practices and trade imbalances that threaten democracies, constrain economic adversaries that act as parasites on our consumer markets, and eliminate corrosive supply chains reliant on forced labor and state repression.

In essence, **we must use the power of our markets to defend our markets**. This requires building and defending a *Near-Global Economy* that is stable, free, open, and fair — one in which America can compete, lead, prosper, and win. The Near-Global Economy should be constituted as a U.S.-led economic union where respect for the United States' economic and trade guardrails is rewarded with preferential access to our trade, capital, and technology. The system will be open to those who play by the rules and closed to those who undermine them. The Near-Global Economy should, above all else, create leverage for the application of America's vast economic statecraft toolkit and force alignment with U.S. national security objectives. While this economic union would be open to all who follow market rules and guardrails, it would be closed off to adversarial nations that distort fair competition by stealing, cheating, bribing, and bullying their way to unfair advantages.

With the deepest capital markets, the world's de facto currency, a dynamic private sector, and the largest consumer market, the United States has the requisite leverage to meet this moment. But our government's ability to act on these strengths is fragmented across dozens of agencies, each with components of a broader arsenal, lacking a unifying command structure or long-term strategy. Our economic power is therefore too often underutilized, applied reactively, in isolation, and without sustained enforcement.

We would never deploy U.S. forces abroad without joint doctrine, a common operational picture, or surge capacity. Yet that is how we conduct economic warfare today. The result is predictable: episodic sanctions and export controls, lagging enforcement, inconsistent messaging, and missed opportunities to deter aggression or respond effectively.

But with decisive action — enforcing rules, building coalitions, and rewarding alignment — we can shape a Near-Global Economy that benefits American workers, strengthens our allies, and leaves our adversaries boxed out and boxed in. Clear incentives and consequences will reduce ambiguity and raise the cost of malign behavior. Access to American markets and capital will be seen as a privilege, not a right.

II. Who Should Lead

The United States must lead this new Near-Global Economy with focus, countering China's model of intellectual property theft, state-backed monopolistic pricing, and coercive economic practices that have distorted global trade for years.

To prevail, we need a government structure built for purpose: one capable of collecting and analyzing comprehensive data on trade flows, sanctions evasion networks, supply chain dependencies, and export control risks — and acting on them decisively. We would never enter a kinetic war without commanders, planners, and integrated control, yet we fight an economic war without an Economic Pentagon. That must change.

As economic security serves national security, the National Security Council — or a new Economic Security Coordination Office within the executive branch — should set a strategic framework for economic statecraft that clarifies why, how, and to what end we must act. This will require a complete review of existing economic security functions across government and a forward-looking approach to unify these tools under a coherent set of foundational operating principles.

With a large-scale reorganization already underway at the Department of State, the moment is ripe to anchor a broader transformation of U.S. economic statecraft within its evolving structure. With support from the president and Congress, the Department of State could serve as the nation's key operational hub for economic security, translating strategy into action, coordinating across agencies, integrating intelligence, and using diplomacy to signal opportunities or consequences to other nations. To support this reorientation, several institutional innovations should be considered:

- **Establish and Empower a Deputy Secretary of State for Economic Security.** In line with legislative initiatives such as the Economic Security and Diplomacy Act of 2024, Congress should work with the executive branch to establish and empower a new deputy secretary of state for economic security who will function as the primary State Department official responsible for matters related to sanctions, export controls, supply chain security, investment screening, and other elements of economic statecraft. This will require significant reorganization within the State Department's vast economic security bureaucracy, redesignating key offices and personnel within the new deputy secretary for economic security's purview and responsibility.

- **Establish an Interagency Economic Command Center.** Modeled on the Joint Chiefs of Staff, this interagency body would be a principals-level engine for strategic economic security planning and coordination. The command center would be chaired by the deputy national security advisor for international economics and the proposed deputy secretary of state for economic security, with designees from the Departments of Defense, Commerce, Treasury, Justice, Homeland Security, and Agriculture and the Intelligence Community. Offices represented should include but not be limited to DoD's Office of Strategic Capital, Treasury's Office of Foreign Assets Control and Financial Crimes Enforcement Network, Commerce's Bureau of Industry and Security, the U.S. Trade and Development Agency, the U.S. Trade Representative, the International Trade Administration, the Committee on Foreign Investment in the United States, Customs and Border Protection, and the Development Finance Corporation. The command center would coordinate America's economic security objectives, set enforcement priorities, and align actions to support a stable, free, open, and fair Near-Global Economy. Congress can authorize and fund this command center, ensuring it has the budget, staffing, and statutory authority to coordinate interagency efforts effectively.

- **Create an Economic Security Vanguard.** This initiative would recruit and train a cohort of economic statecraft and resilience specialists within the diplomatic corps to translate Washington's strategies into country-level action and feed local intelligence back into policy, creating a cycle of implementation and refinement. A prestigious track for dedicated economic security officers could also establish a leadership pathway within the State Department that prioritizes economic security. Congress can revise the State Department Basic Authorities Act to establish and fund the training of this vanguard, allocating resources to expand the State Department's capacity for economic statecraft expertise.

- **Assemble a Professional Planning Cadre.** This permanent team of sanctions strategists and economic warfare experts would wargame options continuously, updating playbooks as adversaries adapt or new threats emerge and preparing ready-made rapid response support packages in the event of a Chinese blockade of Taiwan or of an allied economy being hit by disaster. Situated within the Interagency Economic Command Center, this team would work with allies and partners to prepare for flashpoints, draft options packages, and build trusted communication lines to relay relevant trade and targeting information. They would also establish emergency supply chain channels for critical goods like food, pharmaceuticals, and essential industrial materials. Congress can support the establishment of and provide funding for this cadre. Congress should also mandate regular reporting on its preparedness and wargaming outcomes to ensure readiness.

- **Deploy Congressionally Approved Special Envoys.** For specialized challenges like counternarcotics financing or emerging terrorist threats, these envoys would operate with clear mandates and metrics for success, sunsetting once objectives are met. Congress can pass legislation to streamline the appointment and oversight of these envoys, ensuring they have clear mandates and adequate resources.

- **Establish Joint Economic Operations Centers With Allies**. These centers, established with key allies such as the Five Eyes, the European Union, Japan, South Korea, and others, would facilitate real-time coordination on trade enforcement, sanctions implementation, and supply chain resilience, ensuring aligned economic strategies and rapid response to adversarial actions. Congress can authorize and fund these centers, directing the State Department to negotiate agreements with allies to establish and operate them.

III. What Belongs in the Toolkit

For too long, America's economic statecraft has been narrowly defined and unduly constrained — focused primarily on inelegantly applied sanctions and export controls. While these remain vital, they are not sufficient on their own. A modern economic security toolkit must also encompass tariffs, investment screening, supply chain initiatives, transparency mechanisms, and more (see Annex for a visual overview of available tools). The State Department already plays a role in deploying many of these instruments, but key authorities still reside in other parts of the government. A reimagined State Department should not only deepen its involvement in the design and execution of these tools but also lead in coordinating their use across the interagency — ensuring alignment with allies, engagement with partners, and integration with actors on the ground abroad, where appropriate. This includes developing:

- **Conditional Trade, Investment, and Financial Offerings.** Clear guardrails and pathways should expedite access to U.S. markets and financial infrastructure for countries that adhere to free and fair trade standards and participate in an alliance-based customs union. Tariffs and other trade barriers should protect against those who seek to distort trade. Access to U.S. markets, investments, and financial systems must be conditioned on supporting a stable, free, open, and fair Near-Global Economy.

- **Positive Inducements.** America's economic gravity should be used to pull allies closer through free trade agreements with trusted partners, expanding the Development Finance Corporation to de-risk strategic projects and unlock American private capital, and tax incentives for ally-shoring supply chains. Development finance should focus on growth, building technical skills that global industries demand, supporting entrepreneurs, and financing infrastructure like roads, railways, and energy systems for long-term, market-driven growth.

- **Transparency as a National Security Imperative.** If we can't see illicit funds, we can't stop them. Financial secrecy enables adversaries to move weapons, launder profits, and fund operations that threaten America. Anonymous shell companies, offshore havens, and opaque intermediaries allow fentanyl profits to flow to China, sanctioned oil to reach global markets, and stolen technologies to be purchased through front companies. Transparency ensures visibility to enforce laws, protect markets, and disrupt adversarial strategies. Congress can shore up vulnerabilities with respect to transparency by supporting full implementation and enforcement of the Corporate Transparency Act.

- **Private Sector Empowerment.** The private sector is the driver of our economy and is a key instrument of positive economic power. Enhancing the role of U.S. companies and citizens in advancing economic statecraft can help extend the government's reach, particularly in the face of growing resource constraints. This includes better coordination with American chambers of commerce and more strategic deployment of economic support funds to catalyze private sector-led growth abroad. Beyond that, granting the private sector and citizenry greater legal authorities to assist with enforcement could significantly bolster U.S. efforts. Options include expanding private rights of action through *qui tam* provisions, enabling lawsuits on behalf of victims of forced labor, or even revisiting historical instruments such as letters of marque and reprisal to authorize private enforcement of sanctions. These mechanisms would allow Washington to better align its strategic ambitions with the tools and capacity required to enforce them.

- **Innovative Economic Statecraft.** A rapid-deployment Economic Strike Force — comprising diplomats, development experts, sanctions practitioners, export control agents, and transactional lawyers — could deliver conditional investment packages and infrastructure deals within days of strategic opportunities emerging. This force would offer tools like anti-corruption courts, emergency liquidity, provisional free trade agreements or tariff reductions tied to governance reforms, logistical support, independent election monitoring, coordinated debt relief, targeted development aid, infrastructure financing, and entrepreneurial support to stabilize markets, counter malign actors, and build resilience in partner states. They would also provide allies and partners with ready-made economic support packages in the event of a disaster or geopolitical threat.

IV. How We Organize for Speed and Endurance

To shift from patchwork responses to purposeful action, five operational shifts are needed:

- **Resource the Routine.** We must maximize our economic power through highly trained personnel and advanced technology. Licensing, enforcement, and economic intelligence shops at the Departments of Treasury, State, Commerce, and Defense must be staffed and equipped so that backlogs and blind spots do not erode deterrence, constrain flexibility, or prevent rapid response.

- **Build Surge and Reserve Capacity.** A Geoeconomic Surge Force of career U.S. government sanctions lawyers, trade investigators, forensic accountants, and infrastructure deal teams should be authorized to mobilize within days of a presidentially declared international economic emergency. These experts should be required to engage in regular training throughout the year, consistent with potential economic flashpoints or wargame scenarios established by the Interagency Economic Command Center's professional planning cadre. The Geoeconomic Surge Force should likewise be complemented by a reserve corps of private sector experts akin to an economic National Guard, drawing on specialized talent ranging from financial intelligence to supply chain logistics.

- **Break Down Silos.** State and supporting agencies need authorities to coordinate in an impact-driven manner, elevating economic security functions to a new deputy secretary of state for economic security, creating a dedicated bureau with real institutional weight, and providing the interagency structures so that America's deep arsenal of economic tools amplifies one another and further economic security.

- **Modernize Infrastructure.** Adversaries exploit financial networks and trade loopholes at digital speed, while America's fragmented, outdated systems lag. Economic security demands cutting-edge technology. Real-time data fusion — linking trade, finance, and enforcement information — must flow seamlessly to analysts and investigators to drive complex cases and expose adversarial lifelines, not get buried in bureaucratic pipelines or delayed by manual processes. Advanced early-warning indicators would also help us spot coercive economic moves before they mature, allowing us to disrupt them in their formative stages. Modernizing is how we move from reacting late to striking first — decisively, with precision, and at the pace that today's threats demand.

These steps develop for the United States the ability to bring integrated power to bear faster than adversaries can adapt.

V. Conclusion — From Latent Power to Organized Action

Our adversaries operate from a simple premise: The United States will respond slowly, argue internally, and settle for half-measures. Too often, they are right. The Near-Global Economy we lack is precisely the system our rivals are counting on us never to build. But with your oversight and investment, we can turn isolated tools into integrated campaigns — marrying diplomacy, sanctions, export controls, foreign investment screening, and strategic investment into a unified strategy.

A well-coordinated economic statecraft architecture — anchored by a revitalized State Department and an empowered Economic Security Coordination Office — can more credibly deter our adversaries, offer compelling alternatives to coercive capital, and anchor a Near-Global Economy that is stable, free, open, and fair.

To build such an economy is not utopian; it is strategic:

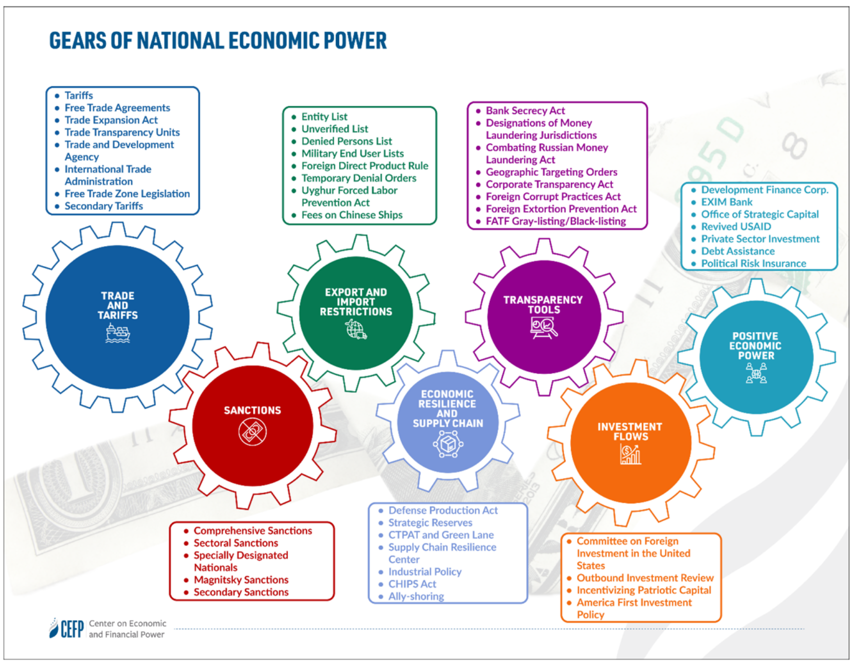
- **Stability** matters because instability — from wars and coups to cartels and nuclear threats — drives up costs, breaks supply chains, and punishes American workers and consumers.

- **Freedom**, both political and economic, is essential. Regimes that rely on forced labor, censorship, and economic coercion distort global markets and tilt the playing field against us.
- **Openness** protects us. Transparency is a weapon in this fight — without it, we cannot enforce sanctions, uncover illicit networks, or defend against dirty money.
- **Fairness** is how we win. American firms and workers thrive when rules are enforced. We lose not because we're weaker but because others cheat with impunity.

Building a system that promotes and defends these principles is how we will win the economic war already underway — and how we can secure the foundation of our national power for generations to come. Our most potent foreign policy and national security tool is America's economic power. It's time we started to treat it as such.

Annex: Visual Overview of America's Economic Statecraft Toolkit

As Treasury Secretary Bessent recently argued, "the primary components of the Trump economic agenda — trade, tax cuts, and deregulation — are … interlocking parts of an engine designed to drive long-term investment in the American economy." The same applies to America's economic statecraft toolkit. Sanctions, tariffs, export controls, investment screening, transparency tools, and supply chain resiliency measures are not standalone levers — they are gears in a single engine of national economic power. To be effective, they must move in concert: coordinated across agencies and aligned with allies to defend U.S. interests, deter adversaries, and power a stable, free, open, and fair Near-Global Economy.



Ms. KIM. Thank you. I now recognize Dr. Norris for your opening statement.

STATEMENT OF WILLIAM NORRIS

Mr. NORRIS. Thank you, Chairwoman Kim, Ranking Member Bera, members of the subcommittee. I thank you for the opportunity to speak today. My comments are my own. I am not representing my employer, Texas A&M University, nor the Bush School of Government and Public Service. This testimony represents my own views and does not reflect the endorsement or perspective of any other organization with which I am or have been affiliated.

I would like to cover three topics in my oral testimony today. First, I am going to provide an innovative definition of economic statecraft itself, which I hope will be constructive. Then I will briefly suggest a simple way to improve how we approach economic statecraft strategy. I will be suggesting that we shift our way of thinking away from a tools-based approach oriented exclusively around the authorities that exist in the U.S. Government and toward more of an end-State approach of desired effects and what we are trying to accomplish with that. I will end with some general principles that I hope will help guide our path forward as we endeavor to do economic statecraft better.

Economic statecraft itself can be something of a Rorschach test. What you see when you look at it depends heavily on where you sit. For example, if you're at OFAC and you are an analyst at Treasury, you think of economic statecraft primarily as sanctions. If you are in the Commerce Department, economic statecraft is about promoting U.S. businesses abroad or perhaps it is about economic export controls if you are at the Bureau of Industry and Security. The point is many people now care about economic statecraft, but we don't really have a common definition or lexicon on this important topic yet.

My work at the Economic Statecraft Program at Texas A&M University has thought long and hard about this, and we have come up with what I think might be a useful way for thinking about the phenomenon of economic statecraft. It starts with commercial actors themselves. Most of economics is not done by countries, although we report macroeconomic data at the national level. Most of the actual work being done in economic domains is done by firms. I call them commercial actors because they also want to include things like state-owned enterprises or sovereign wealth funds. These entities will make decisions primarily based on their own self-interests, and, from time to time, those decisions about where to locate a factory, how to design a supply chain, are going to have implications for national security that matter for countries.

When countries decide that they care about these externalities or these kinds of strategic effects and they decide they want to shape the incentives facing those commercial actors, that is economic statecraft. And that definition, I think, allows us to have a much wider aperture about what is inbounds, and I think a lot of the comments already have kind of listed through a number of different tools that we have used in the recent past, but what is lacking is a sense of coherence of strategy, of integration, and of coordination across those tools.

So the typology that I included in the slides in the written testimony provides a little bit of a framework for thinking about the different ways that economic activity can read down to an impact on national security.

We are a rules-based society; and, currently, we are organized on the basis of legal authorities that the U.S. Government has to do economic statecraft. But these authorities are scattered across more than 1,400 different offices that are spread across 13 departments and 10 agencies with very little coordinating capacity across those silos. Most parts of the U.S. Government lack the ability to do any kind of economic statecraft campaign planning, contingency modeling, strategic forecasting, any kind of meaningful economic analysis from a statecraft perspective or an evaluation of impact. So there is very little capability to kind of do that coherently and in a strategic fashion today.

Instead of this tools-based approach, I suggest organizing ourselves around the desired strategic effects is a better way to do economic statecraft. Those are those six externalities I kind of walk through in the written testimony.

In conclusion, I would like to suggest a few key principles that I think might be constructed to help guide us as we endeavor to more effectively design mechanisms by which to do economic statecraft. In many ways, we are embarking on unchartered territory for the United States. As we proceed, I think you will be well served to keep efforts grounded in longstanding values and principles that have been a key part of the U.S. success story. Here is a couple of them as I see them:

The first one is we have to work with the American private sector, not against it. A lot of the sanctions paradigm inherently pits interests that the commercial sector are going to have against the wishes of government, and that is just fundamentally a conflictual kind of relationship.

The second, our national power ultimately derives from U.S. economic growth and innovation. Increasing long-run productivity gains is really the key to succeeding in any international competition of duration.

Third, we need to be very careful about industrial policy, protectionism, or other sorts of market-distorting measures, as these can easily become politically ingrained and they can lead to inefficiencies and a failure to innovate in the long run.

Fourth, government initiatives are most effective when they are focused simply and directly on addressing market failures.

And, last, I think it is important for us to be humble. We are going to try out a lot of things. The stakes are just too high for us to simply do nothing in the face of the challenges that you have already heard about this morning. As you proceed, I would suggest building in the capacity to reevaluate and explicitly take stock of whether things are working or not.

In my written testimony, I have also included a number of specific ideas and recommendations for how we might think about enhancing the USG abilities in this domain of economic statecraft.

These involve organizational ideas, ways to improve our human capital, and processes to enhance effectiveness.

I would now like to respond to any questions that the committee may have.

[The prepared statement of Mr. Norris follows:]

Empowering U.S. Economic Statecraft

Testimony of William Norris[1]
Associate Professor, Texas A&M University
before the
One Hundred Nineteenth Congress
U.S. House of Representatives
Committee on Foreign Affairs

For the House Foreign Affairs Subcommittee on East Asia and the Pacific Hearing Entitled: "Economic Statecraft and Advancing US Interests Abroad"

Held on May 14, 2025

Introduction

Chairman Mast, Ranking Member Meeks, Subcommittee Chairwoman Kim, Subcommittee Ranking Member Bera, and members of the committee & subcommittee, I thank you for the opportunity to speak today on the topic of "Economic Statecraft and Advancing US Interests Abroad." My comments today are my own; I am not representing my employer, Texas A&M University, nor the Bush School of Government & Public Service. This testimony represents my own views and does not reflect the endorsement or perspective of any other organization with which I am (or have been) affiliated.

In an age of Great Power competition, economics will be determinative, and America's key comparative advantage is our dynamic and innovative private sector. We need to design national economic policies, institutions, and processes that strengthen and enhance that capability, building off that source of strength without hampering it. My testimony today explores considerations to guide U.S. efforts for exercising our economic tools of national power. I hope to share with the Committee some of the concepts and insights I have developed through the Economic Statecraft Program at the Bush School of Government and Public Service (an academic research program that I direct) at Texas A&M University.

Any effort to use economic power to advance our national interests fundamentally depends on government's ability to shape the incentives facing the private sector. America's rise to prominence in international affairs has been abetted by the dynamism of American enterprise and our government's ability to harness this to advance our foreign interests. As we seek to enhance and leverage American economic power, we must do so in a way that is politically and economically durable and redounds to our considerable natural strengths.

Road Map

This testimony begins with a few big picture ideas related to the general competitive dynamic that the US finds itself in. Next, I look at the where the US government is today in terms of economic statecraft. Then, I would like to share a few concepts and frameworks from the Economic Statecraft Program that might be constructive for the Committee as we consider how to best proceed in this emerging domain of 21st century economic statecraft. That discussion starts with an innovative way of thinking about economic statecraft, itself. Then, we will look at the various ways that economic activity can impact national security before highlighting some of the current needs of the country as I view them. This testimony concludes by suggesting principles to guide the practice of American economic statecraft and the appendices provide some specific recommendations for policymakers to consider.

Harnessing the Private Sector to Empower U.S. Economic Statecraft

American economic statecraft fundamentally depends on the dynamism and innovation of our private sector. Firms—not the government—conduct the vast majority of international economic activity, including cross-border trade and investment. These private sector interactions can have important implications for U.S. strategic and foreign interests.[2] The government can structure the incentives facing private firms in order to encourage or discourage particular effects or patterns of economic behavior that generate outcomes that are conducive to our foreign interests.

Any effort to use economics to advance our foreign policy goals fundamentally relies on the government's ability to shape the incentives facing the private sector.

Across history, however, the United States has rarely been strategic and systematic about how we develop and wield our tools of national economic power. Instead, the U.S. (and Delaware case law) has generally preferred to leave commerce in the hands of private corporations—purpose-built institutions whose explicit goal is to maximize share-holder value through profit-seeking, market expansion, returns on investment, etc. The role of government vis-à-vis the U.S. economy has been principally at the macroeconomic level—for example, by ensuring a stable monetary supply, regulating in the public interest, addressing market failures, and taxation/fiscal policy, etc.

In the twenty-first century, the United States faces a host of new international economic challenges. Our competitors and adversaries use state-owned and directed firms to manipulate international markets and tilt competitive landscapes in favor of their interests. They have further studied our economic, educational, and political systems and now seek to exploit some of the very qualities of openness, transparency, and collaboration that have made America so successful.

We need to innovate in government, but our economic statecraft (for example, our efforts to "derisk" in the aftermath of the post-COVID supply chain shocks, and the intensifying economic competition with China) has thus far remained principally reactive to international dynamics. The USG has been leveraging authorities, institutions, legislation, and capacities which were often built in a different era and for a different purpose (e.g., the 1950 Defense Production Act, the International Emergency Economic Powers Act of 1977, Trading with the Enemy Act of 1917). The U.S.'s export control regime is another good example of this. Export controls were initially designed during the Cold War to prevent the transfer of military technology to adversary nations.[3] The expanded application of export controls in the semiconductor realm as part of a larger effort to hamstring China's technological prowess and maintain U.S. leadership over key “dual use” technologies of the future has resulted in an over-extension of institutions like the Export Control Review Committee.

Economics will be determinative in the Great Power competition to come. The U.S. now faces a formidable competitive global environment that requires innovation in government doctrine, tools, and capacity. Critical national objectives—from securing supply chains, to coordinating with allies to foster innovation and grow new markets, from facilitating trading capacity in new partners, to maintaining a competitive innovation engine at home that produces the world’s industry-leading companies—all demand that we take a hard look and undertake to reinvent our economic statecraft tools. In all this, the American private sector will almost *always* be three steps ahead of government, and private enterprise remains our key comparative advantage in any long-term competition. *To harness this potential, we need to design governing arrangements that shape the incentives such that private firms (when they optimize for their own self-interests) will end up behaving in a way that redounds to the national interest.*

Today’s State Capacity

The U.S. Government’s ability to upgrade our economic statecraft toolkit faces some daunting obstacles. The various authorities used to conduct economic statecraft are scattered across more than 1,400 different offices in 10 agencies and 13 departments with no single integrating lead organization other than the National Security Council. These individuals are typically too busy putting out fires in their in-boxes to have the space to think proactively and strategically. Many across the interagency lack the information and ability to do economic statecraft campaign planning, contingency modelling, strategic forecasting, or meaningful economic statecraft analysis. Most critically, the government has very little by way of organizational mechanisms for working collaboratively and constructively with private enterprise—despite the fact that the private sector is *the* way that the United States “does” economics internationally.

There is very little institutional capacity in the USG to deliberately design and sustain strategically coherent, coordinated economic statecraft. No single federal department or agency is tasked as the USG’s lead for exercising the economic tools of national power, despite clear agency leads for the other elements of power. The Department of State handles diplomacy and the Department of Defense is in charge of our armed forces. But there is no definitive lead agency or department to exercise America’s economic tools of national power. The Department of Commerce has a largely domestically focused, commercial mission and Treasury’s center of gravity is squarely focused on macroeconomic management and regulatory tasks. The State Department has an Economic Bureau, but commercial diplomacy is only one dimension of economic statecraft. Few of the government (or quasi-government) agencies that house the various economic statecraft authorities are regularly coordinated for a comprehensive, sustained, strategic effect that advances U.S. foreign and security goals.

The United States simply has no Department of Economic Statecraft. Instead, we rely on *ad hoc* authorities and interagency implementation that is frequently poorly coordinated by an overstretched White House team which is often—appropriately—focused on the crisis of the day.

Most of the interagency offices responsible for some aspect of U.S. economic statecraft will wait for clear direction from above before exercising their authorities. Although this is somewhat understandable, the aggregate result is a tendency toward inertia and siloed economic statecraft in the face of myriad and complex challenges.

There is, moreover, a lack of common economic statecraft doctrine and literacy across the executive and legislative branches of government. Despite its rising importance, there is no single, interagency doctrine of economic statecraft—a collection of distilled wisdom (grounded empirically) about what does or does not work in the domain of economic statecraft. Instead, economic statecraft is understood to be different things to different people. For example, some might consider economic statecraft and sanctions to be the same thing. Others might think of economic statecraft as being inherently coercive. Still others would include sanctions, export controls, development aid, and commercial diplomacy as all being specific instantiations of a broader, holistic concept of economic statecraft. Often, these conceptions are deeply shaped by where one finds oneself in the bureaucracy. Where you sit (and what authorities your particular office controls) determines how you think about economic statecraft. If your authorities are all hammers, then everything looks like a nail.

To begin to address this need, I would like to share a few concepts that my academic research program at Texas A&M University has been working on.

The first contribution is to define how we conceptualize economic statecraft, itself.

An Innovative, Useful, & Accurate Definition of Economic Statecraft

Private sector actors are at the heart of exercising economic tools of national power. Unlike other forms of national power, exercising economic power requires working *through* commercial actors. Their interests are fundamentally more narrowly self-serving than the national interest. These commercial actors cannot be expected to act in any way other than to maximize their own (e.g. profit, returns on investment, fiduciary responsibilities to shareholders, etc.) interests. Although the aggregate macro-level results of this narrow pursuit of firms' self-interests fuels the wealth of nations, you cannot count on firms or sectors to "look out for the national interest," "do the right thing," or "to be patriotic." It is simply not a part of what they do. While individual CEOs or some board members may wish to "do what's right for the country," their job is to maximize returns for shareholders. This is a feature (not a bug) of our system. We should *not* try to change it or wish it were otherwise. Instead, we need to design effective US economic statecraft with this divergence of interests in mind. Rather than fighting uphill against these self-interested proclivities, it is the responsibility of policy makers to design innovative systems and strategies that harness these incentives and identify creative ways to have them work to advance the national interests.

In order to properly understand economic statecraft, we must first understand how and under what conditions "economics" occurs. States, strictly speaking, do not actually conduct the vast majority of today's international economic interaction — this role is occupied by the firm. Companies are the entities that decide what and how much to buy and sell internationally.

Portfolio managers fluidly allocate capital across time zones. Chief Financial Officers evaluate the feasibility of building a new factory abroad. Of course, nation-states engage in some international economic activity directly, but this direct participation in the global economy represents a small fraction of the commercial activity that comprises most international economic activity.[4] In some instances, states may directly engage in economic transactions (foreign aid, procurement, etc.); but for the most part, states merely write the rules of the game and define the conditions under which firms operate.[5]

There are three parts to my definition of economic statecraft. First, one must recognize that commercial actors (not states) conduct most of the interactions in international economics. Commercial actors–not states themselves–are the chief agents in the realm of international economics. It is these entities that actually carry out international economic transactions (e.g., buying and selling commodities, establishing supply chains, making investments, selling products, building factories, purchasing assets, employing workers, etc.).

Second, these interactions may generate security consequences for states. I call these security consequences stemming from economic activity 'security externalities' and they constitute the second conceptual part of the definition. In the next section below, I will expand on what these security externalities are and how they can be used to more precisely understand how various economic activities relate back to national security.

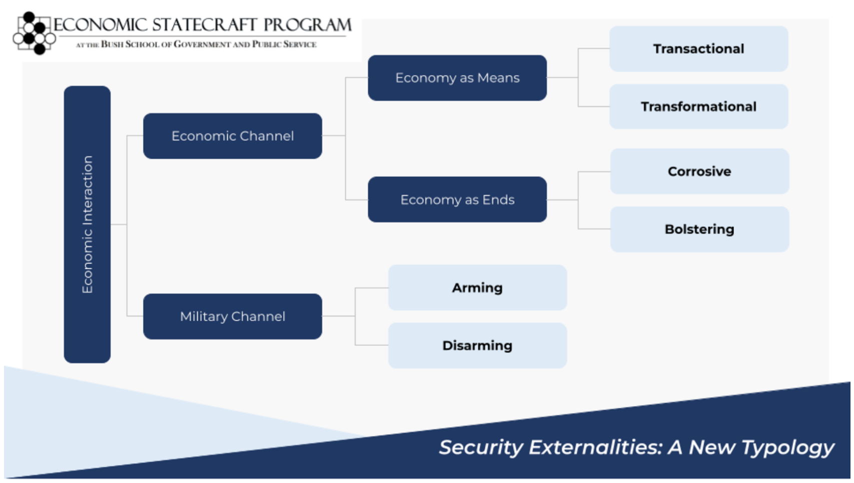
Finally, states can manipulate the incentives facing commercial actors so as to encourage (or discourage) patterns of behavior that generate security externalities conducive to a state's strategic interests. This state manipulation of incentives facing commercial actors is the third part of a bottom-up approach to defining precisely what economic statecraft is. **Economic statecraft is thus defined as the intentional attempt of a state to deliberately incentivize commercial actors to act in a manner that generates security externalities conducive to the state's strategic interests**. Framing the relationship between economic interaction and national security as one of "security externalities" highlights the importance of commercial actors and calls attention to the strategic ramifications of their activities. Under this paradigm, I will stress the necessity of working through commercial actors to do *anything* in the domain of economic statecraft. This incentives-based approach provides an empirically accurate understanding of the role of the USG *vis a vis* the private sector when it comes to the exercise of economic power. It should also infuse some humility into our sense of the proper role of the state in matters of economic statecraft.

From Tools to Effects: Re-orienting Our Strategic Approach

The second concept from the Economic Statecraft Program that I would like to share is to convert the US from a "tools"-based approach to economic statecraft toward a more strategic, effects-based approach.[6] This approach connects economic activity back to national security and is reflected in the typology below. This typology maps out the range of possible ways economics can affect security, highlighting the causal pathways that connect the micro-economic, firm-level behavior of autonomous commercial actors with macro-level strategic security effects for nations. Framing the relationship between economic interaction and national security as one of "security externalities" highlights the importance of commercial actors and calls attention to the strategic ramifications of their activities. Taken together, the typology answers the question 'In what manner does economics affect security?'

Organizing the intellectual space of economic statecraft along the lines of security externalities categorized on the basis of their effects on a target (rather than by the particular tools such as sanctions or export controls) allows us to be mutually exclusive in our categories (which are based on distinctive causal logics linking the economic activity back to its security effects) and collectively exhaustive across the categories—the two key features of a good typology; although it should be noted that any given policy or act of economic statecraft might entail more than one of these logics in practice. This framework also provides a specific vocabulary clarifying precisely what a state is worried about and/or how a sender is thinking about its strategy to achieve its objectives using economic tools of national power.

Figure 1.1 Typology of Security Externalities



Broadly speaking, there are two channels via which economic interaction can impact a nation's security: Military and Economic. In this typology, there are six types of security externalities which map onto these two broad categories: those acting through primarily economic channels and those externalities with direct military effects.

Those externalities acting via the Military Channel share the common causal logic that a nation's direct war-fighting capacity can be directly strengthened or weakened by economic statecraft. Similarly, we can think about strengthening or weakening a nation's economy more broadly (rather than just its military-industrial base specifically). These effects reside on the other main branch of the typology that houses those externalities that affect a state's security primarily by way of economic channels. For this family of externalities, security ramifications are often the second-order consequences of the economic interaction (as opposed to the military effects branch of the typology in which the economic interaction directly contributes or detracts from a state's ability to wage war).

The economic branch is subdivided into two groups: 1) the types of externalities that affect the overall health of the target economy as an end in itself and 2) those security externalities in which the economic interaction plays an instrumental rather than teleological role. In this first group, there is one category of externalities that weaken the target's economy (for example, through measures like the US embargo of Cuba) and there is another type of externalities that strengthen the target's economy (for example, the Marshall Plan).

In the "Economy as Means" group there are two distinct strategic logics. The economic interaction may generate externalities that are primarily transactional (e.g. sanctions, freezing bank accounts, etc.). This strategic logic is one that merely seeks to alter a target's behavior. Another type of security externalities are those designed to actually transform the interests of the target. Engagement strategies often reflect this type of logic.

By focusing on the terminal nodes of the typology, we are left with six distinct types of security externalities which cover the full range of possible security externality categories.

Conclusion

We have our work cut out for us. The United States faces unprecedented challenges in the form of a long term competition with a near-peer great power that is deeply integrated into the global economic system. To meet this challenge, we need to both put forward a vision for a new, durable international economic order and to rebuild our own domestic institutional capacity to do economic statecraft more effectively. This ought to be done bearing in mind the central role played by the private sector as the primary agents for any American economic tools of national power. My work suggests the need for a set of recommendations to more effectively coordinate the economic statecraft authorities currently scattered across the more than 1,400 different offices spread among 13 departments and 10 federal agencies.

Appendix 1: Principles to Guide American Economic Statecraft

As we proceed forward and navigate these reform efforts in the architecture of American economic statecraft, there are a few principles that we might wish to consider to guide our efforts. In many ways, this will be uncharted territory for the United States. As we proceed, we will be well-served to keep efforts grounded in long-standing values and principles that have been a key part of the U.S. success story.

All strategies rest on principles or assumptions that guide them. Below are several principles derived from our unique strengths and assets as a nation. These have been suggested as helpful jumping off points for crafting U.S. economic statecraft doctrine and tools. They are based on discussions over the past five years between the private sector, academia, and former and current U.S. government officials.

1) As general rule, we ought to design economic statecraft in light of the commercial incentives that drive the private sector. Use government policy to work with and harness these interests by incentivizing them—rather than trying to fight against this grain or trying to wish them away. Successful economic statecraft *must operate through incentives* to shape and leverage the scale, ingenuity, and vibrancy of American enterprise. Work with the American private sector, not against it.
2) Our national power ultimately derives from U.S. economic growth and innovation. Increasing long-run productivity gains is key to succeeding in any international competition. Real gains in productivity come from innovation. The sustained capacity for radical innovation is *the* key competitive advantage for the U.S. Such innovation can completely change the "rules of the game" with a new way of doing things, novel technologies, or sometimes entire industries that result. This kind of creative destruction is a hallmark of our adaptable, entrepreneurial, free market system. The pillars of our innovation system—including world-class higher education, our research ecosystem, legal infrastructure, markets, data, human capital—ought to be explicitly fostered, preserved, sustained, and shielded from deliberate efforts to undermine them.
3) When it comes to designing industrial policy, we must be constantly on guard against "capture." Our political system (especially when it interacts with business) is prone to what social scientists call "capture" which means that groups with fairly narrow agendas and preferences will tend to dedicate resources and efforts to lobby Congress to advance their particular interests whether or not that is actually in the nation's best interest.[7] We need, therefore, to be very careful about industrial policy, protectionism, or other sorts of market-distorting measures as these can easily become politically in-grained and lead to inefficiencies and a failure to innovate.
4) The U.S. should have a preference to rely on market-oriented solutions since those tend to be most efficient and sustainable over the long term. Government initiatives are most effective when they are focused simply and directly on addressing market failures.
5) U.S. economic statecraft should maximize scale and legitimacy by coordinating and leveraging the power of allies and partners. Such aggregation would provide scale for markets that would help drive innovation and offset the draw of China's large internal

market. But such international economic statecraft coordination provides an additional benefit. It would also include legitimacy that comes from coalitions and multilateral support for U.S. actions. This strategic aggregation of leading nations is an unmatched, and sustainable comparative advantage for the United States—especially *vis a vis* China.

6) The U.S. enjoys a big "incumbency advantage" in any long-term competition. The United States wrote the rules of today's voluntary, open, transparent, and improvable global economic order. We are, as a consequence, the dominant nation in global affairs. Although we face rising challengers, we should force those challengers to make the case for why things would be better when they get to write new rules for international commerce. Fear of the unknown can help tip nations that might be sitting on the fence toward that to which they are already accustomed. This inertial tendency to go along with what is already widely known and accepted can work to the U.S. advantage. We should preserve and take advantage of our dominant influence. By deliberately forcing challengers to justify any changes, we also call attention to the inherent benefits of the current order and its improvability.

7) As we move forward in the economic statecraft domain, it is crucial to focus on the various ways that government and diplomacy can support different kinds of business, investment, and trade to help create jobs for fellow Americans and new opportunities for American businesses. We need to grow the U.S. economy in ways that are not just reflected in the stock market, but also in terms of jobs and wages. America has always stood for the advancement of equality and liberty, but it will be impossible to realize these noble aims at home or internationally if the underpinning economic success is not in place to support them.

Appendix 2: Mechanisms for Better Public-Private Integration

One of the areas in which academia can provide a useful catalytic capacity for economic statecraft is in convening public-private partnerships that creatively tap into the knowledge and expertise resident outside of government. My Economic Statecraft Program is willing to host tabletop exercises that engage corporate board members and C-suite leaders of companies with significant operational or revenue risk exposure to geopolitical shocks in Asia. We have found such business-government exercises to be very helpful in prompting firm-level de-risking evaluations. If funding is forthcoming, would like to host about half dozen of such exercises around the country (in the cities where these firms are headquartered). As a nation, we have outstanding talent in our private sector, but it can be mechanistically difficult for the government to access and leverage that skillset.

Another concept is to create advisory bodies that draw from the private sector to help inform and weigh-in on possible USG moves and strategies in the economic statecraft domain space. Building this public-private partnership capacity is not something that would need to be invented whole cloth. There are several archetypes of relatively successful public-private cooperation. Some possible models to consider for inspiration are the President's Foreign Intelligence Advisory Board (PFIAB), the Defense Science Board, the National Academies of Science, Office of Strategic Capital, DARPA program managers, In-Q-Tel, the JASONs, and the Defense Innovation Unit. A PFIAB-like advisory body could be attached to OFAC (the Office of Foreign Asset Control) at Treasury to help keep USG personnel apprised of the most recent financial innovations and current trends in family offices and the private equity world. Financial engineering and forensic accounting expertise could be similarly associated to the Bureau of Industry and Security at Commerce. Technical knowledge from Silicon Valley and academics doing work at the cutting edge in emerging fields can keep the End-use Review Committee apprised of basic research and novel breakthroughs that might have national security implications. Appropriate insights from hedge fund and asset managers may also feed into the CFIUS detection capacity.

The key to all of this would be to create the ability for private sector expertise to serve in the national interest. It would be great to be able to better inform the USG about the state of the art more easily observed from the private sector. Such exchanges could help anticipate and detect emerging threats to national security. The specific modalities of such mechanisms can vary depending on the context and it might be necessary to try something for a period of time with the expectations to adjust as needed. Under these kinds of conditions of uncertainty it is a good idea to build in an explicit capacity to objectively evaluate a new structure after two or three years, at which point adjustments could be made. The challenges our nation faces are too important to wait for a perfect solution. Better to build in the capacity to experiment and gracefully fail than spin our wheels.

One natural partner in drawing on private sector expertise is likely to be industry associations and firms themselves. While these can be excellent reservoirs of market data and a wealth of insight, any such partnering would need to give serious consideration for how to best insulate these advisory relationships from a natural inclination for firms and associations to lobby or to seek to advocate for policies that might redound to their narrow interests. It is very important to think through potential conflicts of interest and leverage naturally-occurring incentive structures to check any untoward activity that might spring from closer business-government collaboration. The institutional challenge is to design mechanisms to tap into the expertise and talent that resides in the private sector without providing an avenue for untoward influence, pursuit of narrow interests, or an inside track for lobbying.

To mitigate these negative possibilities, we need some mechanisms that would ensure the integrity of this effort. For example, should this activity be subject to congressional oversight or IG supervision? What about the possibility of future FOIA requests? It might be a good idea to require private sector participants to sign Non-Disclosure Agreements and perhaps some would need to hold clearances for some of these envisioned advisory capacities. Ensuring that such private sector contributions are properly sanitized can include common-sense, traditional ideas as well as more creative ones. For example, participating individuals should take an oath clarifying their duties in an advisory capacity. Like the Aggie Honor Code at Texas A&M University, this should come with a requirement to report suspected violations or conflicts of interest. Another, innovative concept is to leverage "competitive transparency"—a system that empowers vested interests who would directly stand to lose as a result of untoward behaviors. These stakeholders (e.g. competitor firms or rivals) should be able to monitor and perhaps even audit the leveraging of the private sector in national service. This would harness the naturally-occurring incentives in the system to help ensure integrity and sustainability. Another idea could be to limit participation in some of these advisory bodies to retired private sector leaders rather than current CEOs. These individuals would still possess relevant industry knowledge but would be one level removed from direct conflicts of interest as they bring their knowledge to bear in government service. There should be a standard expectation of recusal if there are any possible conflicts or potential for self-gain. Ideally, we would want to find ways to align private sector's narrow self-interests with the needs of the USG (e.g. national security) whenever possible (e.g. bilateral investment treaties). For instances when this is not possible, the integrity of any public-private partnership effort needs to be protected. Once public trust is lost, it would be very difficult to regain.

Appendix 3: Some Specific Recommendations for U.S. Economic Statecraft

Much work needs to be done to enhance the way in which the United States wields its economic tools of national power. One of our key challenges is to maximize private sector opportunities at a time when the economic landscape is more contested and markets are less stable. It is critical for policymakers to ask how best we can maintain the world-class strength of the U.S. business community while also advancing our other security and foreign interests. Such efforts should include and aim to optimize the full panoply of capabilities rather than relying on coercive measures like sanctions alone.

Economic statecraft fundamentally depends on the private sector. It will be important to keep American business sharp—in a way that it remains globally competitive for decades to come. It will be critical to conscientiously incorporate the important role of the private sector in American economic statecraft. The vast majority of trade, investment, and human capital flows are the result of microeconomic decisions made by firms. The government's unique economic statecraft capacity is to shape the incentive structures facing those firms. This is how economic statecraft is actually done in practice. Our current governmental institutions are poorly suited to coherently conducting twenty-first century economic statecraft. The nation needs specific solutions to these problems.

1. Improve information flows in the domain of economic statecraft.

A first step for improving coordination between the USG and private sector around issues of economic statecraft is to get both sides to better appreciate the depth, heterogeneity and complexity of the other. The private sector tends to view the government through its narrow, particular lens largely driven by how that sector of the business world interacts with or conceptualizes "the government." For example, some industries view government as a regulator, or "the tax man," or a slow-moving bureaucratic obstacle to be avoided, or as a compliance issue or a legal responsibility. Often it is a novel idea to think about the USG pursuing the national interest on behalf of Americans—let alone the idea that the private sector might play an integral role in advancing national security interests! On the other side, the USG all too frequently compresses the wide range of commercial actors into a thin, monochromatic abstraction called "THE Private Sector." This glosses over important heterogeneity and eschews the wide range of differences between mom-and-pop small businesses and the oil and gas industry majors or how either of those contrast with Silicon Valley tech giants or Wall Street banking as opposed to biotech start-ups and Instagram influencers.

Improving the flows of information across the USG and between the USG and the variety of private sector actors would go a long way toward improving our economic statecraft. There may be a need for a less balkanized information sharing system across the interagency. Shared information could facilitate more accurate forecasting, economic statecraft campaign design and execution, as well as better understanding of tradeoffs involved in taking one course of action over another.

We also need better information sharing between government and private sector industries. Policymakers need to appreciate how their decisions affect the private sector so as to avoid unintended harmful consequences. The White House and Congress need to make decisions, but in many cases, they have no reliable way of knowing how those decisions will influence the private sector. What might be some better ways to facilitate the exchange of information and how can the USG best harness the latent capacity of the U.S. private sector?

One practical idea would be to design "private sector testbeds" that could create a venue for possible economic statecraft modelling and experimentation/gaming. Such public-private partnerships could provide ways to check whether specific USG economic statecraft actions and possible activities would actually be likely to result in the sort of behaviors and responses that they are designed to induce from the private sector. Such testbeds could be organized on a sectoral basis and would provide yet another way to improve the flow of information between the commercial actors and economic statecraft policy makers. Improved situational awareness would also help both sides to more proactively identify positive instances to advance U.S. foreign interests (including business opportunities).

2. Invest in building up our economic statecraft professionals.

Far too few career civil servants have direct professional experience in the private sector. At the same time, rising talent from the private sector rarely gets an opportunity to serve in government and to see how foreign economic policy is made from the inside. There is a need to devise employment and hiring procedures that allow greater movement between private sector and government. We also need creative public-private partnership mechanisms that facilitate the flow of people and information between the private sector and the USG. This will help drive innovation and ensure that government expertise stays current and maintains American leadership in the key industries of the future.

One tactical idea for consideration is whether the creation of a "Fellows of Excellence" program at places like the Department of Commerce's field offices might help the USG to tap into human capital excellence resident locally in the private sector. This kind of a program can provide a sabbatical experience to help augment the Department of Commerce's ability to stay abreast of a broad range of fast-moving, strategically consequential industries like artificial intelligence and biotechnology. Such an experience ought to be flexible (in terms of duration, frequency, compensation, etc.) to maximize the USG's ability to access the best people from the private sector. A similar kind of program could bring private sector expertise into the regional bureaus of the State Department.

3. Bring procedural rigor—doctrine, planning, and analysis—to the economic statecraft domain.

In addition to these efforts to improve the flows of information and human capital, we should consider formally adopting a doctrine of economic statecraft—one that focuses on "security externalities." We lack a coherent, scalable, consistent approach to economic statecraft both across government agencies and between government and the private sector. Common definitions, language and understanding are a pre-requisite to any meaningful effort to design strategy and doctrine around economic statecraft. Momentum is growing across the aisle both on the Hill and in the executive branch. There is growing recognition of a need to more strategically employ our economic tools of national power. This effort needs to begin by officially establishing a common foundation of terms and definitions. These would be fairly easily adopted and are important pre-requisites for establishing a common operating picture.

There is also a need to complementarily develop sophisticated modeling and campaign planning tools in the economic statecraft domain. Just as the use of our military or diplomatic tools of power depends on deliberate planning and exercises, we should generate operational plans for likely economic statecraft contingencies and concerted economic statecraft campaigns. Again, as is the case with their military or diplomatic equivalents, such plans might be classified or made public and available to Congress so leaders can be informed. Such mechanisms can help educate both public officials and private sector leaders as they plan for the future.

Perhaps it would also be worthwhile to write a classified and a public economic statecraft strategy. This could draw on a dynamically evolving empirical understanding of what does and does not "work" in economic statecraft. Today, American economic statecraft is organized primarily around the multitude of authorities and specific policy tools that exist. This colors how we see the phenomenon and how economic statecraft is understood—where you stand depends on where you sit. But this is not good for designing coherent strategy. Instead, we may wish to consider focusing less on the specific economic statecraft tools being used and more on the ends being sought. An outcomes or effects-based approach would facilitate coordination and bring several different kinds of economic and other statecraft tools to bear on achieving the common, desired outcome. In this way, the symphony of economic power (the multitude of positive and negative measures, trade, monetary, and financial tools, etc.) could be made a bit more harmonious and strategically coherent. The organizational exercise of writing something like the National Security Strategy often helps a presidential administration crystalize its strategic logic and signals its priorities to the various implementing departments and agencies. The development and writing of a national economic statecraft strategy could be nested into that NSS effort to ensure complementarity.

As part of this strategic shift toward a deliberate and coherent economic statecraft policy process, there are several follow-up activities that might be worth considering. For one, it would be helpful to establish a Task Force to conduct an explicit review (modelled on Treasury's 2021 formal review effort) of all the tools of economic statecraft currently available to the USG. Then, based on this snapshot of USG capabilities, it may be productive to conduct a systematic gaps analysis to determine what new instruments might be desirable in the USG economic statecraft toolkit.

4. <u>Leverage the talents and capacity of academia in the nation's service.</u>

All of this work will require the concerted help of the considerable talent and resources in America's universities. Such an effort will naturally be focused on providing the intellectual capital necessary for enhancing the U.S. economic toolkit. This research effort should be galvanized by public and philanthropic support around important questions and lines of inquiry driven by real-world challenges. Supporting basic research in the national interest has long been an effective use of federal dollars. But in this effort, the academy should also remain true to its teaching and service obligations as well. We will need to design programs to educate future generations of public servants to ensure that they have the necessary skills to operate effectively across business and government in the dynamic geopolitical context. At the undergraduate and graduate levels, the U.S. academy has a large role to play in designing a thoughtful curriculum that imparts valuable skills bridging economics, security studies, business, international relations, and other fields to properly equip graduates for the future. Initially, we can rapidly achieve scale by leveraging technology to coordinate class offerings to a select group of economic statecraft students across various pockets of expertise that are currently scattered across a number of scholarly institutions. Such a curriculum would need to be coordinated nationally and could be supported by a professional academic membership consortium. This would be a cost-effective way to stand-up a talent pipeline and quickly scale up our national capacity to conduct effective economic statecraft.

5. Get supply chains right.

Another important area that still requires additional work is in the supply chain security arena. One relatively easy recommendation would be to identify supply chain vulnerabilities and find ways to match those vulnerabilities with market opportunities. For example, the United States might not consider fertilizer as something that is all that strategic or directly critical for American national security. But in 2022 Japan identified fertilizer as one of 11 critical materials.[8] By identifying elements that trusted partners and allies worry about from an economic security standpoint, we might uncover some items that American businesses can easily provide. Facilitating reliable, secure supplier relations between American companies and Japanese customers not only creates an economic opportunity for American firms, but also serves to strengthen U.S.-Japan alliance relations even as it helps assuage an ally's supply chain vulnerability. There are likely a host of other products that we might not consider as all that strategically significant (e.g. agricultural exports, energy, industrial equipment, electronics, bio-medical products) but would help partners and allies feel more secure knowing that they could rely on American sources for these goods that they categorize as a matter of economic security. Across another broad range of goods, the United States *and* our partners and allies might both share supply chain concerns. While we might not be able to meet each others' needs, improved economic diplomacy and allied coordination might still allow us to achieve common economies of scale. Such pooling and coordinating of demand can make stockpiling, redundancy, and resiliency commercially viable. This joint approach is already being piloted in areas like critical minerals and semiconductors. Similar efforts might yield beneficial economic statecraft results across other industries as well. Oil, AI, renewable energy, and a number of emerging technology frontiers could benefit from smart governmental initiatives to catalyze commercial actions and enhance American competitiveness for decades to come.

What kinds of public-private partnerships have been shown to unleash private sector dynamism? What would be required to advance our national security interests through the actions of the private sector? For example, should the USG subsidize the creation of a strategic stockpile for specific critical minerals?

6. Integrate economic statecraft more effectively into our diplomacy.

We need to be more creative and innovative with how we orchestrate our diplomatic tools toward a desired strategic and economic effect. For example, joint US-EU, "5 Eyes," AUKUS, or US-Japan-ROK innovation funds could be established to support collaborative basic research in key emerging technologies. Such government underwriting can serve to incentivize and crowd-in private capital while also reinforcing our critical diplomatic alliances. These kinds of mechanisms create sustainable partnerships with nations who share our values. They also enhance our collective ability to conduct cutting edge research and develop technologies even as it facilitates the comparative advantages of our free and open system.

Critical minerals, energy, or other key materials may not always be located in nations that have the institutional capacity that OECD countries have. What can the USG do to better support American competitiveness in areas of the globe where we might not have trusted relationships? How can the USG better catalyze U.S. private sector engagement in the developing world in ways that benefit American workers even while improving lives in those partner nations? What tools can the USG use to promote U.S. business interests internationally while strengthening U.S. industries at home?

The State Department's "Deal Teams" were country team-led efforts to coordinate across the USG to identify, source, and help land commercial opportunities for U.S. businesses in key markets worldwide. It would be useful to conduct a systematic review of what has been working (or what did not work & why) from this tactical effort at the host-nation level. This knowledge can then be used to expand the best elements and improve the integration of Deal Teams with our other tools of economic statecraft.

Commercial diplomacy and the strategic use of American business interests are an underutilized element of national power. There is important work to be done on educating corporate leaders on how their business endeavors can impact national security even as we seek to build an appreciation for how geopolitical dynamics can shape their commercial decisions.

All of this diplomatic work ought to take place under a broader strategic communications refrain that forces would-be challengers to make the case for why things would be better if they were to re-write the rules of international relations. Many nations have benefitted (and are likely to continue to reap self-interested rewards) from the stability, openness, transparency, fairness, and adaptive nature of the global system that has been built and cooperatively led by the United States. One of our big advantages is that what is in U.S. best interests is often also in the best interests of many of our partners and allies. We should deliberately harness and leverage this significant "incumbency advantage" as we improve our diplomatic outreach.

7. Innovate our USG institutional design to facilitate more effective economic statecraft.

A larger set of issues for policymakers to consider is whether we have the right institutional design, funding, and human capital to "do" economic statecraft effectively. The authorities for conducting economic statecraft are scattered throughout more than 1,400 offices spread across

10 federal departments and 13 agencies. This makes the coordination of our economic statecraft difficult.

We also need to improve interagency coordination and leadership on matters of economic statecraft. This will likely require imaginative thinking and a willingness to experiment with innovative institutional designs and processes. The system currently looks to the National Security Council as the ultimate interagency coordinating body. While the NSC policy processes and mechanisms can be made to work for economic statecraft, the reality of the necessity of prioritizing "the urgent" at the White House level of our system often means "the important" must take a back seat. The result is a largely *ad hoc* set of efforts that lurches American economic statecraft in a reactive fashion from one crisis to the next. The whiplash is felt by private sector firms as they struggle to keep up and maintain compliance.

A dedicated institutional body that is properly resourced and with the appropriate authorities could design and implement a more sustainable and enduring U.S. economic statecraft strategy and toolkit. Such a body would also serve as a repository of institutional memory for exercising economic tools of national power. Eventually, the USG could even cultivate a professional corps with the appropriate skillset for pursuing our strategic objectives via economic tools of power.

8. As we reorganize, build in the capacity to deliberately evaluate & adjust as needed

This effort to more effectively "do" economic statecraft is going to plunge us into relatively uncharted territory for the United States. We should proceed with a strong dose of humility as we retool for this long run competition. The stakes are too high for us to simply continue with business as usual. We must (and we will) try a variety of new things. Some of these ideas will work well and others will need to be adjusted, tweaked, or stopped all together. Under these circumstances of high stakes uncertainty, it is a good idea for Congress to build in an explicit capacity to objectively evaluate new structures, efforts, and initiatives after two or three years, at which point adjustments could be made. The challenges our nation faces are too important to wait for a perfect solution. It is better to build in the capacity for the United States to experiment and gracefully fail than to spin our wheels.

9. First, do no harm: Innovation and how not to kill the private sector geese that lay the golden eggs.

Perhaps the most important challenge for U.S. economic statecraft is the preservation and sustainment of the decades-long track record of American innovation. We sit astride a $30 trillion dollar economy! This success and continued growth is fundamentally driven by sustained innovation. The United States has demonstrated a remarkable capacity for innovation that reshapes entire industries. The innovation ecosystem that the United States has built is the envy of the world. Our world-class research universities attract the brightest minds from across the globe even as our dynamic venture capital community nurtures creative new companies. How can the USG best strengthen the U.S. innovation ecosystem? This is our key comparative advantage: the ability to radically innovate and the entrepreneurship to commercialize and scale that innovation. Ensuring its continued global leadership will be a central economic statecraft challenge in years to come.

Policymakers should also consider the talent dimension of economic statecraft. How will the U.S. win the longer-term competition for the world's best and brightest? We need to improve the American human capital base, both by cultivating our own skills domestically as well as remaining the preferred destination for so many smart, ambitious risk-takers who choose to emigrate to the U.S. We should seek to build the structure to re-invest and renew our human capital on an ongoing basis. The future global economic landscape will bring significant changes to productivity, and it would be wise to plan for ways to re-cultivate America's human capital base on an ongoing basis.

Our competitive advantage lies in the American private sector and any economic statecraft reforms ought to build off that base without hampering it. As we seek to enhance our ability to leverage American economic power, we should strive to do so in a way that is politically and economically durable and redounds to our considerable natural strengths. For all U.S. economic statecraft, our principles of equality and liberty should continue to serve as our bedrock. These principles are a key source of strength for the U.S. at home and internationally. Historically, they have been a source of our international legitimacy and leadership, and they can continue to serve as a common ground for allies and partners to gravitate toward and coalesce around shared security and economic priorities.

End Notes

[1] Director of the Economic Statecraft Program at the Bush School of Government and Public Service at Texas A&M University

[2] William Norris, "Typology of Security Externalities" *Economic Statecraft Occasional Paper* No. 1. available on-line at: https://bush.tamu.edu/wp-content/uploads/2021/07/ESP-Occasional-Paper-No.-1.pdf

[3] Aaron Karp. "Controlling weapons proliferation: The role of export controls." *The Journal of Strategic Studies* 16, no. 1 (1993): 18-45; Cindy Whang. "Undermining the consensus-building and list-based standards in export controls: what the US export controls act means to the global export control regime." *Journal of International Economic Law* 22, no. 4 (2019): 579-599; Moyer Jr, Homer E., and Linda A. Mabry. "Export controls as instruments of foreign policy: the history, legal issues, and policy lessons of three recent cases." *Law & Policy International Business* Vol 15 Number 1 (1983): 1-172.

[4] For example, direct government purchases from abroad are estimated at less than 1% of GDP for most developed nations. In 2019, the US spent $7.8 billion on foreign procurement (Lee 2021), about 0.04% of total GDP. Japan's imported share of government procurement was 0.25% of GDP. The EU's share was less than a quarter of one percent, based on 2014 data. See databank.worldbank.org for annual GDP reports (accessed 26 April 2023); see May 2019 Report, GAO, "International Trade: Foreign Sourcing in Government Procurement"; World Bank figures for imports of goods and services (current US$) 2014, and GDP (current US$), for 2014 "World Bank Open Data." World Bank. https://data.worldbank.org/ (accessed 1 September 2020); EU Import Data from Eurostat, given World Bank data does not appear to filter out intra-EU Trade in Goods/Services: Eurostat. https://ec.europa.eu/eurostat/web/main/home (accessed 1 September 2020).

[5] For countries like China, the opportunities for direct state control over economic activity would seem to be much greater given its domestic political economic conditions. For more on Chinese economic statecraft, see Norris, William J. *Chinese Economic Statecraft: Commercial Actors, Grand Strategy, and State Control* (Cornell University Press 2016).

[6] The purpose of this effort to create a typology is to provide a useful theoretic tool for categorizing and more precisely specifying the various security-related consequences of economic interaction. Much of the current US government economic statecraft policy apparatus is largely organized on the basis of legal authorities and the specific types of tools that can be used. This tool-oriented approach results in at least three drawbacks: 1. Economic policy and stakeholders are rarely or poorly integrated into national security strategy since portfolios are drawn along economic or security lines; few institutions actively seek to integrate security and economics. 2. It is difficult to coordinate strategically across the interagency since various stakeholders view economic statecraft largely through the lens of their specific toolkit. For example, the Bureau of Industry and Security in the Commerce Department tends to see economic statecraft through the lens of export controls. As I mentioned earlier, if all an organization has is a hammer, then everything looks like a nail. 3.Tool & authority-based organizational design may not be an ideal approach for thinking strategically and proactively about questions of economic statecraft. Siloed paradigms make it difficult to design and implement integrated strategy that is able to leverage and draw on a number of potentially reinforcing policy approaches.

[7] Laffont, Jean-Jacques, and Jean Tirole. "The politics of government decision-making: A theory of regulatory capture." *The quarterly journal of economics* 106, no. 4 (1991): 1089-1127; Dal Bó, Ernesto. "Regulatory capture: A review." *Oxford review of economic policy* 22, no. 2 (2006): 203-225; Bawn, Kathleen, Martin Cohen, David Karol, Seth Masket, Hans Noel, and John Zaller. "A theory of political parties: Groups, policy demands and nominations in American politics." *Perspectives on Politics* 10, no. 3 (2012): 571-597; Levine, Michael E., and Jennifer L. Forrence. "Regulatory capture, public interest, and the public agenda: Toward a synthesis." *Journal of Law Economics & Organizations.* 6 (1990): 167.

[8] Asahina, Hiroshi, "Japan seeks to release rare earths, 10 other critical items from China's grip," Nikkei Asia 21 Dec 2022 available online at: https://asia.nikkei.com/Spotlight/Supply-Chain/Japan-seeks-to-release-rare-earths-10-other-critical-items-from-China-s-grip. See also: *Act on the Promotion of Ensuring National Security through Integrated Implementation of Economic Measures* English text available online at: https://www.japaneselawtranslation.go.jp/en/laws/view/4523/en

Ms. KIM. Thank you, Dr. Norris. I now recognize Ms. Cutler for your opening statement.

STATEMENT OF WENDY CUTLER

Ms. CUTLER. Thank you, Chairwoman Kim, Ranking Member Bera, and distinguished members of the subcommittee. Thank you so much for inviting me to testify before you today. Having worked on trade policy in the U.S. Government for over 30 years, mainly at USTR, but also Commerce, I have seen firsthand what has worked and what could stand improvement. And I wholeheartedly agree with the committee's premise for this hearing: namely, that in today's environment, economic policy is, indeed, foreign policy and economic security is national security.

Over the past few months, I have traveled to Asia extensively and have conversed with many delegations in Washington negotiating trade agreements. My Asian colleagues have shared with me their deep concerns about the direction of U.S. trade and economic policy and the atmosphere of uncertainty it has created. They do not understand the U.S. end game, particularly if we seek their cooperation to counter China. Some have gone so far as to say they no longer know the United States, which looks increasingly unreliable and inward-looking. And though encouraged by the recent deescalation of U.S.—China trade tensions, Asian partners are concerned that their window for navigating between American and Chinese pressure is closing.

As a result, diversification efforts are underway away from the United States. These efforts have taken on a new urgency. Asian partners are launching new trade and economic initiatives, updating existing trade pacts, and seeking new members to join these arrangements. And as we continue to retreat from leadership, Chinese officials are stepping up their so-called charm offensive, trying to woo countries by offering to build new railways and bridges, lift sanctions, and portraying Beijing as the defender of the multilateral rules-based system.

While Beijing is extending carrots, the U.S. is favoring a stick approach in the form of high tariffs as we dismantle many U.S. foreign aid and assistance programs. The contrast could not be starker. Successful economic statecraft cannot be achieved solely by thinking how we should reorganize or restructure at home. It must be anchored in a coherent, fair, and sustainable economic and trade policy framework.

The global economic landscape has changed dramatically in recent years but our economic policy frameworks have not kept pace. And based on my decades of working with State Department officials, I offer a few personal observations:

First, I believe that the personnel rotational system at State works against State officials playing a more central role on economic matters. Trade negotiations often require technical expertise and take multiple years to negotiate, while State Department assignments typically last two or 3 years.

Second, economic jobs are generally viewed more as backwater assignments at State with ambitious Foreign Service officers preferring to stay in the foreign policy and security lanes. Regarding how the U.S. Government should organize itself to address economic statecraft, economic security, and trade more effectively, it's safe to say that, if we could start from scratch, our current model whereby key functions are scattered among many agencies would not be the first choice.

If we look to centralize all of these functions under one roof, in my view, none of the existing agencies are fit for purpose. At a time when the United States is trying to rebuild a bipartisan consensus supportive of trade, I believe moving the trade policy functions to State would send the absolutely wrong signal, namely that broader geopolitical objectives would be given more weight than the views of U.S. workers, businesses, and communities.

Moreover, creating a new agency that brings all of these functions under one roof, I believe, would be fraught with bureaucratic and cost challenges. Thus, I contend that the best way to proceed is to implement a set of specific reforms and, in my testimony, offer four proposals for your consideration, including elevating the importance of economic matters at the State Department; having State clearly in the lead on specified international economic matters; establishing a new U.S. governmentwide fast-track program to recruit and promote and retain international economic officers; and, finally, as Chairman Kim suggested, folding the Foreign Commercial Service back into the State Department.

But, in conclusion, let's keep in mind that government reorganization, while a worthy exercise, will not succeed if we don't get our policies right. Thank you.

[The prepared statement of Ms. Cutler follows:]

"National Economic Security, Advancing US Interests Abroad"

House Foreign Affairs Committee
Subcommittee on East Asia and the Pacific

May 12, 2025

Statement for the Record

Wendy Cutler
Vice President, Asia Society Policy Institute

Chairwoman Kim, Ranking Member Bera, and distinguished Members of the Committee, thank you for inviting me to appear before you today. I am honored to share with you my views on recent trade developments and suggestions on how to improve and streamline the international economic functions of the U.S. Government. Having worked on trade policy for over 30 years at the Office of the United States Trade Representative and before that at the Department of Commerce, I have seen firsthand what has worked and where things could benefit from improvements. I wholeheartedly agree with the Committee's premise for this hearing — namely that in today's environment, economic policy is indeed foreign policy.

As we discuss these pressing matters, it is important to keep in mind what is happening on the ground in the Indo-Pacific today, particularly as our partners and allies are being hit with steep reciprocal and sectoral tariff increases.

Over the past few months, I have travelled to Asia multiple times and have conversed with the many delegations visiting Washington to negotiate trade deals. My Asian colleagues have shared with me their deep concerns about the direction of U.S. trade and tariff policy and the umbrella of uncertainty it is bringing to the region and the global economy. They do not understand our end game, particularly if we are also seeking their cooperation to counter China, one of the major challenges of the century. Some have gone so far as to say they no longer know the United States, which has shifted from a leader and stabilizing force on the international scene to an unreliable and inward-looking partner.

As a result, efforts to diversify away from the United States have taken on a new urgency — new trade and economic integration initiatives are being launched, existing trade pacts are being updated, and new members are looking to join these arrangements. In recent weeks, the United Kingdom and India concluded a trade pact, the European Union expressed an interest in aligning itself more closely with the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), and China and Southeast Asian countries are putting the finishing touches on an upgraded FTA.

And let's not overlook the elephant in the room — as we continue to alienate our allies and trusted partners, we are opening the door for Beijing to step in and curry favor. And that's exactly what Chinese officials are doing. China has been on a so-called "charm offensive", leading Xi Jinping, his Foreign Minister, and others to trot around the globe and hold high-profile meetings in Beijing offering to build new railways and bridges, lifting sanctions, and portraying Beijing as the defender of the multilateral rules-based system — the very system that the U.S. designed. While Beijing is extending carrots to many of these countries, the U.S. is favoring the stick approach in the form of high tariffs, even as it dismantles many U.S. foreign aid and assistance programs.

Successful economic statecraft cannot be achieved solely through rethinking how we are organized at home to do so. It must be anchored in a coherent, fair, and sustainable economic and trade policy framework, something which, according to our trading partners, is now seriously lacking.

The global economic landscape has changed

Much of my career in the U.S. Government was at a time when trade liberalization was a driving force of our international economic policy. Free and fair trade was seen as both beneficial economically to the U.S. — creating jobs, promoting innovation, and increasing U.S. competitiveness — but also as a policy that contributed to global peace and prosperity. While geo-political considerations were taken into account as we charted our economic and trade policy, they were not paramount. One area where geo-political considerations were particularly visible was in the selection of our free trade agreement (FTA) partners. For example, in the initial work evaluating South Korea as a potential FTA partner, we looked to further solidify and update our alliance with a strong economic foundation. Our five FTA partners in the Middle East and North Africa were prioritized largely due to foreign policy, rather than market access and economic integration reasons. Although the bilateral relationship elements were important in setting up many FTA negotiations, the substance of the trade negotiations mostly stayed in the trade lane, ably led by USTR, with input from a range of U.S. Government agencies.

The world has changed dramatically since that time, particularly with the rise of China. But our economic and trade policy institutional frameworks have not kept pace. As we face increasing challenges from geopolitical tensions in critical shipping routes, unfair trading practices, supply chains, rapid technological change, and climate-related disruptions, greater resilience is needed to be able to weather the headwinds. The U.S. is increasingly turning away from multilateral fora, such as the WTO, to address these challenges, putting a greater focus on working with like-minded partners.

The economic security agenda has also moved to the forefront. This includes a push to build greater supply chain resilience, especially for strategic and essential sectors. It also features implementing effective export controls to ensure sensitive products do not get into the wrong hands, screening incoming investment, and combating economic coercion.

While economic security matters have grown in importance, they have not yet been fully integrated into U.S. trade agreements. We have seen some moves in this direction, such as in the recently announced U.S.–UK trade deal, and reportedly in other agreements being pursued during the 90-day tariff pause period. Looking ahead, it will be essential that our trade agreements include more robust economic security provisions. This will require more substantial roles for other agencies, including the State Department, at the negotiating table.

What can we learn from other governments?

We are not alone in grappling with the best ways to update our institutional frameworks to meet today's economic challenges. Our partners and allies are also trying to address this question, and no one seems to have found a magic formula thus far.

A number of our close allies — including Australia and New Zealand — have incorporated the trade policy function into their foreign ministries. As a result, their diplomats abroad are able to engage more effectively on these matters, right up to and including at the Ambassador-level, as they have had routine exposure to trade issues throughout their careers. This makes sense for these two countries which are heavily export dependent.

In the United Kingdom and South Korea, on the other hand, they house their trade functions in their trade ministries, separate from their foreign affairs ministries. Japan has split the trade functions between its foreign ministry and its trade/industry ministry. Tokyo has also shown agility in its approach by setting up a new structure in its Prime Minister's office to deal with priority trade negotiations like the Trans-Pacific Partnership (TPP), and a new high-level task force to lead its current tariff negotiations with the United States.

Of particular note, is that the UK, Japan, and the European Commission have all been quick to adapt to the evolving environment by creating a new ministerial-level position with specific responsibility for economic security. This has not only highlighted the strategic importance of these matters but ensures a whole-of government approach.

Key considerations when sketching out possible institutional changes

Based on my decades of experience working with State Department officials on a series of trade negotiations and initiatives, I would like to offer a few personal observations for your consideration. First, I believe the personnel rotational system works against State officials playing a more central role on economic matters. This is because trade negotiations require technical expertise that takes years to build up. Moreover, given that trade agreements often take multiple years to negotiate, the officer at State often does not see the negotiations through to the end, and his or her replacement can be at a disadvantage joining talks mid-stream.

Second, economic jobs are generally viewed more as "backwater" assignments at State with ambitious foreign service officers preferring to stay in the foreign policy and security lanes. This complicates State's ability to attract people looking for a career in economic and trade policy — they are more inclined to seek a career at USTR, Treasury, or Commerce.

That said, the economic cone at State has made some important strides in recent years, particularly in the economic security space. For example, State has led the work on economic coercion, critical minerals supply chains, and elevating relationships with key partners like Indonesia and Vietnam to provide a pathway for deeper economic integration.

The Office of the U.S. Trade Representative, where I spent close to thirty years, is a small and hard-charging agency which has traditionally punched above its weight. It was set up to be an 'honest broker' in trade policy in 1963, with the mandate to better balance competing domestic and international interests in the development of trade policy, as well as to lead trade negotiations. As we look to focus more and more on economic security issues, USTR brings valuable expertise on supply chain issues. However, it would probably be the first to admit that many aspects of our economic security agenda are beyond its institutional strength.

The Department of Commerce, for its part, has played an increasingly important role in recent years, in particular on technology policy, industrial policy, and supply chain connectivity. Its work has expanded way beyond its traditional role leading trade promotion, administering trade remedy laws, and implementing export controls.

The Treasury Department rounds out the core agencies in this space, with responsibilities in such areas as currency, investment screening, financial services, and global economic developments. Other agencies and departments, including Agriculture, Customs and Border Protection, and Health and Human Services, also play important roles.

Reorganizing USG Functions

Allow me to turn to the question of how the U.S. government should organize itself to address trade, economic security, and economic statecraft matters most effectively. It's safe to say that if we could start from scratch, the current model whereby key functions are scattered among a host of different agencies would not be the first choice.

If one were looking to centralize all of these functions under one roof, in my view none of the existing agencies are fit for purpose. At a time when the United States is trying to rebuild a bipartisan consensus in favor of trade, for example, moving the trade policy functions to State would send the absolutely wrong signal – namely that broader geopolitical objectives would be given more weight than the views of U.S. workers and businesses.

On the other hand, the idea of setting up a new agency that brings together all of the trade policy and international economic responsibilities under one roof is also fraught with difficulties. There are lessons to be learned from the creation of the Department of Homeland Security in the aftermath of 9/11. Many existing agencies and bureaus were folded under this new Department which presented many bureaucratic challenges that have played out over years. The merging of functions into one agency is also costly, at a time when we are cutting government expenditures. It could also be an unhelpful distraction at a time when all available resources need to be expended on the critical and substantive economic challenges we face, rather than on administrative set up.

In light of these considerations, I believe the better way to proceed is to pursue reforms that will be impactful and relatively easier to implement, without losing precious time incurred during a massive reorganization of government functions.

Recommendations

Allow me to conclude with a number of concrete ways to reshape the U.S. Government structure for the Committee's consideration.

1. ***Elevate the importance of economic matters at the State Department***
   A clear message should come from the Secretary of State about the central importance of the economic function to U.S. foreign policy. Incentives to work on economic issues at State should be introduced, such as leadership positions across State requiring staff to have completed a rotation in the economic area. In addition, specialized training on economic matters should be given higher priority. We spend considerable resources training our diplomats in languages, for example, and we should similarly invest in their economic skills too. Officers with significant economic experience should more often be promoted to the roles of Ambassador and DCM overseas, a move that would be noted by up-and-coming officers.

2. ***Clearly articulate economic areas where the State Department has the lead***
   Having State clearly in the lead on specified international economic matters would also help to bolster its role in this space and attract ambitious foreign service officers to this portfolio. This should build on the areas where State has been developing expertise recently, such as countering economic coercion and supply chain security for critical minerals, and focus initially on those areas where there is a significant international component. While these areas would be a logical starting point, as experience and expertise develop and the resources for this work increase, they could expand to further lift the role of State in international economic policy. Taking a leadership role in key aspects of the economic security portfolio would allow State to spearhead inter-agency coordination, develop a cohesive economic security strategy, and work with international partners and the private sector. It would also signal the importance of this issue to both a domestic and international audience, and help ensure that the direction of our effort is aligned and not fragmented.

3. ***Develop a core group of 'international economic professionals' for the civil service***
   Consideration should be given to the establishment of a new "fast track" program to recruit, promote, and retain international economic and trade professionals. Such a cadre of officials would have the opportunity to complete rotational assignments in different Departments working on these matters. This would assist with sharing expertise among the departments and ensuring there was international economic expertise government-wide, developing critical economic skills from a wide range of angles, as well as building valuable contacts between Departments.

4. ***Move the U.S. Foreign Commercial Service to the State Department***
   The work of the U.S. Foreign Commercial Service (FCS) has played an important role in helping U.S. firms actively engage in international markets. Yet, in U.S. Embassies, there is often overlap between the functions of the FCS and the economic officers. By folding the FCS into State, our government could avoid duplication and build synergies to do even more for U.S. businesses active on the global scene.

In conclusion, even with the best organizational structure, little of this will matter if we don't get our policies right. In order to meet the critical challenges of today — including the all-important China challenge — while advancing U.S. economic prosperity, security and innovation, we need to pursue clear policies that promote our interests in the Indo-Pacific and all around the world. These policies should focus on keeping us engaged, expanding and deepening cooperation with our friends and allies, providing carrots to our partners, and cementing the United States as the partner of choice.

Thank you for the opportunity to share my views. I welcome your comments and questions.

Ms. KIM. Thank you, Ms. Cutler. I now recognize Mr. Goodman for your opening statement.

STATEMENT OF MATTHEW P. GOODMAN

Mr. GOODMAN. Thank you, Madam Chairwoman, ranking member, members of the committee, for this opportunity to testify today. I would like to make three points, and I might sneak in a fourth one based on what Wendy just said if I have time.

First, at a tumultuous time, we need to keep our eye on enduring U.S. interests. In my written submission, I said we are going through a kind of historical hurricane in which the global economic order that the United States, effectively, created and championed for decades was being upended. The Trump administration's tariffs and disruption of the institutions and norms of that order are clearly the latest phase of that storm, but you could argue the order has been teetering since the first decade of this century, buffeted by the so-called China shock, the inflows of cheap manufactured goods before and after China joined the WTO in 2001, that devastated certain sectors and geographies in the United States and the global financial crisis later that decade. And, of course, we have had the emergence of other risks, from global pandemics to climate change to technological developments that have given rise to a new area of policy in Washington: economic security or managing economic-related risks to the threat in national security or the foundations of the economy.

When you are in a hurricane, naturally, your focus is on protecting your family and property, on battening down the hatches, on ducking and covering; and it is hard to see past the storm to the landscape beyond. But for the United States, we have other enduring interests that go beyond just protecting ourselves. To advance our economic and strategic interests, we need to engage affirmatively in the global economy. Economically, we need trade and investment, fair and resilient trade and investment, to tap into the three-quarters of the global economy and 95 percent of consumers located outside the United States.

Strategically, we need to complement our military presence around the world with economic engagement. Our allies and partners want us to do both. And we have what I call strategic economic interests, namely the need to continue championing our preferred rules, norms, and standards around the world, while others are seeking to champion theirs.

As this committee knows well, all of these interests, economic, strategic, and strategic economic are especially important in the Asia-Pacific region where most of our big challenges and opportunities lie. I am very concerned that we have no Asian economic strategy to speak of at the moment and, arguably, haven't for a number of years, leaving others to move ahead with their own arrangements to advance their economic and strategic interests and spread their own preferred rules.

Against this backdrop, my second point is that the United States needs a smart economic statecraft to advance our interests. Economic statecraft is a two-sided coin: using U.S. economic power and leverage to advance our strategic and foreign policy interests and using our diplomacy to advance our economic interests. Smart economic statecraft needs to be balanced, especially between defensive and offensive efforts. We need to both promote and protect—sorry—protect and promote our economic interests through policies ranging from export controls to affirmative trade negotiations. We also need to balance costs and benefits and balance international and domestic policies to make sure that we are maximizing our economic position and our strategic benefits and to win the support of Americans, which is very important.

Strategic economic statecraft also needs to be leveraged in the sense that the U.S. Government alone doesn't have the resources and capabilities to do everything we need to do. We need to crowd in both the private sector and our allies and partners to reinforce our statecraft on both the offensive and defensive sides.

My third and final point is that all of this requires a capable State Department that puts a priority on economic diplomacy. State's comparative advantage among U.S. Government agencies is its reach, its presence in 175 countries around the world and ability to operate across government and society in those countries. The so-called E-line at State where the economic bureaus are housed is one of the few parts of the U.S. Government that works on both promote and protect sides of economic statecraft, everything from commercial advocacy to economic security, such as the Minerals Security Partnership that Congressman Bera mentioned and pushing back on economic coercion, for example. They have done a lot of great work there.

What the State Department needs is a culture that values economic work more highly, and this, in turns, requires leadership and signaling from the top and resources to do the job. And I fear that the cuts to State's budget that have been proposed will come disproportionately at the expense of the department's economic functions.

Thank you for your attention. I have more to say about government reorganization and happy to talk about that if you would like to ask questions——

Ms. KIM. We can do that during Q&A, I'm sure. So thank you, Mr. Goodman.

[The prepared statement of Mr. Goodman follows:]

COUNCIL *on* FOREIGN RELATIONS

May 14, 2025

Reimagining U.S. Economic Statecraft

Prepared statement by

Matthew P. Goodman

Director of the Greenberg Center for Geoeconomic Studies

Council on Foreign Relations

Before the

House Foreign Affairs Subcommittee on East Asia and Pacific

United States House of Representatives

1st Session, 119th Congress

Hearing on "National Economic Security, Advancing U.S. Interests Abroad"

Madam Chairwoman, Mr. Ranking Member, Members of the Subcommittee, thank you for this opportunity to offer my thoughts on national economic security, economic statecraft, and advancing U.S. interests abroad, particularly in the vital Indo-Pacific region.

Let me start with my bottom line: The global economic order created and championed by the United States for decades has been turned on its head—and not only because of the Trump administration's tariffs. To protect U.S. economic security and advance other U.S. interests in this new era, we need—more than ever—smart economic statecraft and a State Department empowered to carry it out.

Today's Global Economic Landscape and U.S. Interests

Today's global economy is marked by growing risk and uncertainty. For all its benefits of efficiency and lower cost, the globalization of the past several decades created new vulnerabilities. These were exposed most vividly by COVID-related supply chain disruptions and clear signs of overdependency on our chief global competitor, China. Other risks loom larger as well. Climate change is putting severe strains on economies and societies. Technology and national security are intertwined in new, complex ways.

In a world of greater risk, there is a new premium on resilience and policies that promote it. This has given rise to a term gaining currency in Washington and other Group of Seven (G7) capitals: "economic security"—or as used in the title of this hearing, “national economic security” (presumably to differentiate it from the personal economic security that comes from having a job with a good wage, savings for retirement, and so on). In the context here, the term broadly refers to managing economic-related risks to national security or to the foundations of the economy. I will come back to economic security later, but let me just note here that the Council on Foreign Relations (CFR) is currently convening a high-level task force to explore this topic and propose ways to sharpen the tools of economic security—including export controls, investment screening, and supply-chain resilience measures—while trying to define reasonable, limiting principles for their use.

Other important features of today’s unsettled economic landscape include the fact that the multilateral institutions historically championed by the United States, notably the World Trade Organization (WTO), as well as the rules they oversee, are no longer fit for purpose. And the domestic consensus within the United States for constructive American leadership of the global order is gone. The Trump administration has seized on these new realities to further disrupt the old order through broad-based, on-again-off-again tariffs and radical cutting back of U.S. capabilities to engage in traditional international economic policymaking.

In the face of all these risks and disruptions, it is easy to forget that the United States still has enduring interests in engaging affirmatively in the global economy. These interests fall in three main categories: economic, strategic, and what I call “strategic economic.” Economically, U.S. interaction with other countries through two-way flows of trade and investment supports growth and opportunity for U.S. companies, workers, and consumers. Three-quarters of the world’s gross domestic product (GDP) and 95 percent of its people lie outside the United States, offering enormous opportunities for U.S. exporters and related companies and workers. (As this committee knows well, these opportunities are especially rich in Asia.) Imports, meanwhile, give American consumers access to a wider array of affordable goods and services and can create healthy competitive pressure in the United States. And foreign investment supports growth and American jobs.

There are three important caveats about the economic benefits of trade and investment. First, as the new concerns about economic security highlight, global economic integration can create overdependencies and risks. Second, the competitive playing field internationally is uneven, as countries use subsidies, regulations, and other policies to favor domestic producers and exporters. And third, the gains from trade are not always evenly distributed across the domestic economy. However, these market failures are not an argument for stopping trade and investment—thereby giving up their substantially positive benefits—but rather for targeted government interventions to protect economic security, promote fair competition, and ensure more even distribution of the gains.

The second category of interests advanced by international economic engagement is strategic. The United States is the world’s leading military power, and the security and stability this provides is vital to our allies and partners. But these countries are uncomfortable with a United States that only engages in the world through force or threat of force; they want us to participate constructively in global economic affairs. Our large consumer market, our high-quality products and services, and our innovative technologies are all enormous sources of leverage for the United States. Again, as this committee knows well, nowhere is this truer than in Asia, where U.S. economic engagement through trade and investment has complemented our security presence in the region and made us a more credible regional player.

Finally, what I call “strategic economic” interests are the benefits that come from championing our preferred economic rules, norms, and standards in the world. That was the logic that lay behind the Marshall Plan and establishment of the Bretton Woods institutions after World War II and later inspired initiatives like the Trans-Pacific Partnership (TPP) and the Asia-Pacific Economic Cooperation (APEC) forum. Using the economic leverage mentioned in the previous paragraph, the United States has historically been able to incentivize others to adopt our preferred rules, norms, and standards—to our enormous economic and strategic advantage.

Other countries—China primarily but not exclusively—are now challenging U.S. leadership of global economic rulemaking and norm-setting. Yet rather than stepping up our game in the face of this challenge, we are withdrawing from the fight—and even turning against our closest allies and partners. The result is likely to be a global economy governed by rules that are written by others and do not maximize U.S. interests.

The Importance of Smart Economic Statecraft

To manage the risks and seize the opportunities discussed above—to advance U.S. interests—the United States needs smart economic statecraft. In its simplest definition, "economic statecraft" is the use of both offensive and defensive policy tools to advance a country's economic, strategic, and strategic economic interests. I think of economic statecraft as a two-sided coin: on one side, using diplomacy to promote exports, investment, and other economic activity that contributes to a country's prosperity; on the other, using economic tools—from sanctions to trade negotiations—to shape the behavior of other countries in support of a nation's security and other foreign policy goals.

To be "smart," economic statecraft needs to be both balanced and leveraged. Balance is needed in three respects. First, between defensive and offensive efforts. The defensive side of the ledger involves protecting (national) economic security. As it is being interpreted across G7 capitals, economic security covers a broad range of activities where the government sees a market failure or risk and feels compelled to intervene. Relevant risks include but are not limited to ones clearly related to national security, such as the transfer of sensitive technologies to adversaries or inability to procure items essential to a country's defense capabilities (critical minerals, for example). The term is also used to apply to other risks—from pandemics, climate change, or broader supply-chain vulnerabilities—that may not be directly related to national security but that threaten citizens' livelihoods or the country's economic competitiveness.

The problem with this broad interpretation of economic security is that it can easily become an excuse for the unwarranted protection or weaponization of economic activity. While tariffs can be justified to provide temporary relief to domestic companies and workers or to counter unfair foreign practices, they do not give governments license to protect any favored industry from normal market competition. Similarly, it is reasonable for governments to try to keep certain dual-use technologies out of the hands of adversaries; but where the link to national security is more tenuous, policymakers should be careful not to restrict benign commercial activity based on theoretical or exaggerated risks.

Moreover, economic statecraft cannot only be about playing defense. As suggested above, the United States also needs to play offense in the global economy to promote its commercial interests and shape the rules in our favor. This involves a range of capabilities, from effective commercial advocacy to affirmative trade policies that include incentives to persuade our trading partners to give us what we need. In sum, balance is needed in U.S. economic statecraft between protection and promotion of our interests.

Second, smart economic statecraft requires balancing costs and benefits. No international policy worth pursuing is free. But in recent years, we have tended to act first—particularly in taking defensive measures like sanctions and export controls—before fully weighing the costs and benefits of those actions. In addition to the uncertainty they have created, the Trump administration's broad-based tariffs are likely to impose a substantial cost on U.S. growth, prices, and diplomatic ties, with limited benefits in terms of rebuilding the U.S. manufacturing sector, reducing U.S. trade deficits, or addressing foreign unfair practices.

That said, the Trump administration's approach, like that of the Biden administration before it, highlights the third important element of needed balance in economic statecraft: between international and domestic policies. Although their mix of tools has been very different, both administrations have rightly stressed the need to invest more in economic strength at home, which is a necessary foundation for effective economic statecraft abroad. However, both the Trump and Biden approaches have swung the balance too far toward the domestic—frankly, protectionist—side of the ledger, at the expense of affirmative trade and other international policies that are needed to advance U.S. interests.

In addition to being balanced, U.S. economic statecraft needs to be leveraged. The proposed deep cuts to U.S. agencies, programs, and personnel will do significant damage to U.S. capabilities in foreign policy, including economic statecraft. But even if some of these capabilities are restored, the United States cannot compete with the raw financial firepower that China brings to its foreign economic policy, such as investments under the Belt and Road Initiative. We need to leverage other assets, including the trillions of dollars of U.S. private-sector funds looking for long-term returns. This will require the U.S. government to put some skin in the game, for example through an empowered U.S. International Development Finance Corporation (DFC). Again, CFR is doing work on how reauthorization of the DFC later this year could enhance this leverage and crowd in more private-sector support for government statecraft initiatives.

Another critical form of leverage in U.S. economic statecraft is our ability to work with allies and partners. In a recent *Foreign Affairs* article with former Deputy Secretary of State Kurt Campbell, my CFR colleague Rush Doshi argues that China has important advantages of scale, which the United States can only match by leveraging the support of allies. The combined population of the G7 (including the European Union) is less than 1 billion, compared with China's 1.4 billion, but the G7's collective GDP of around $60 trillion dwarfs China's $19 trillion. More important is the alignment of many critical interests among G7 countries—not least in responding to the challenges that China poses to collective economic security. A smart U.S. economic statecraft would be seeking to leverage these common concerns, rather than pushing allies away through broad tariffs.

The Role of the State Department

Smart U.S. economic statecraft requires a State Department that is mandated and resourced to carry it out. While other agencies of the U.S. government also play important parts in economic statecraft, the State Department has a vital role on both sides of the economic coin: using diplomacy to advance U.S. economic interests and using economic tools to support U.S. foreign policy interests.

The link between economics and U.S. diplomacy is not new—in fact, it arguably predates the founding of the State Department. In February 1784, a ship named the *Empress of China* sailed from New York to Canton carrying a cargo of furs, ginseng, and other American products that was overseen by the man who went on to become effectively the first U.S. envoy to China. Economic statecraft has been an important function of the State Department in the 250 years since. The high-water mark of U.S. economic statecraft—the Marshall Plan to rebuild Europe after World War II—was the brainchild of the first Under Secretary of State for Economic Affairs, William Clayton.

Today, there is arguably an even stronger case for a State Department empowered to contribute to smart economic statecraft. As discussed above, risks and uncertainties have grown in the global economy. Economics is at the center of great power competition, and there are many more countries with the economic clout and ambition to shape international economic affairs—often in ways inimical to U.S. interests. We need more nimble diplomacy to manage this more challenging landscape, and that diplomacy needs to be supported by a full range of economic policy tools and resources.

In addition to its expertise in diplomacy, the State Department brings one other important strength to the U.S. government's economic statecraft: "reach." With embassies and consulates in about 175 countries and an ability to operate across government and society in those countries, the State Department has a breadth of perspective that—when applied effectively—can enrich U.S. international economic policymaking. For example, in a bilateral trade negotiation, State Department officers with local knowledge of the counterpart country might help trade negotiators understand what incentives would persuade the other government to comply with U.S. requests or which local actors to target for public diplomacy efforts.

The "E" line at the State Department—led by the under secretary for economic growth, energy, and the environment and including three relevant bureaus—is one of the few components of the U.S. government focused on both the "promote" and "protect" sides of economic statecraft. The E line has long been engaged in affirmative efforts to promote U.S. exports, foreign direct investment, and U.S.-preferred economic rules. Over the past two administrations, the E line has put a new focus on economic security, launching the Clean Network initiative in the first Trump administration and the Minerals Security Partnership in the Biden administration. The E line also oversees the International Technology Security and Innovation (ITSI) Fund created as part of the CHIPS and Science Act.

To be sure, the State Department does not always bring its best game to the practice of economic statecraft. It can be unfocused, reactive, and bureaucratic. In my experience—which includes five years working at a U.S. embassy and a stint in the E front office—I think this has less to do with structural factors—which boxes go where—than with institutional culture and resources.

The State Department culture has historically prized regional over functional expertise, and Foreign Service Officers tend to view work on traditional diplomatic issues as a faster track to promotion than work on economic statecraft. Institutional culture is hard to change and requires leadership. There have been secretaries of state who have taken a particular interest in economic statecraft and empowered their senior officials to build out the department's capabilities in this area. George Marshall, supported by Will Clayton, is one obvious example. George Schulz, a PhD economist and former treasury secretary, also took a particular interest in economic statecraft. In my own experience, Colin Powell, while understandably preoccupied with the aftermath of 9/11, gave his E under secretary, Alan Larson (also a PhD economist and career Foreign Service Officer), great latitude to pursue creative economic statecraft in the first term of George W. Bush. And President Obama's first secretary of state, Hillary Clinton, put a priority on economic statecraft, among other things creating the first office of the chief economist at the department.

Resources are also critical to the department's ability to play an effective role in economic statecraft. While every administration has a right to set priorities and find savings in government operations, the 84 percent cut to international programs in the budget proposal presented by the White House earlier this month would cut deeply into the bone of the department's work on economic statecraft. Even the 15 percent staffing cuts announced by Secretary Marco Rubio last month are likely to have a disproportionately negative impact on the economic capabilities of the department.

More specifically, as the State Department absorbs the previous functions of the U.S. Agency for International Development (USAID), there is an argument for the E line to assume more responsibility for development funding. Historically, Economic Support Funds (ESF) were directed by the department's economic bureaus, but in recent years, much of this authority has shifted to the office of U.S. foreign assistance (F) and USAID. Where these funds are housed is less important than ensuring they are sufficient and deployed in coordination with the department's other statecraft tools, and the E line is arguably best suited to play that strategic coordination role.

While I do think the E line has a central role to play in coordinating economic work across the State Department and should be a more capable participant in interagency work in this area, I do not believe that all the economic statecraft functions of the U.S. government should be concentrated at the State Department. In my experience, there is a useful creative tension in having multiple agencies contribute their respective comparative advantage to interagency work in this area: for example, the office of the U.S. trade representative (USTR) for trade negotiations, the Treasury Department for financial diplomacy, and the Commerce Department for export control policy. Responsibility for coordinating all these efforts across the U.S. government should reside in the White House, in the international economics directorate of the National Security Council staff. That said, U.S. economic statecraft without a capable, resourced State Department and E line will fail to advance broad national interests.

Final Thoughts

Offering proposals on smart economic statecraft in the current environment feels a little like discussing a home renovation in the middle of a hurricane. But for all the disruptions and uncertainty we are seeing in the global economic order today, U.S. national interests endure, and we need to be discussing the best approaches to protecting and promoting those interests after the hurricane has passed. A smarter economic statecraft, supported by a State Department E line with adequate capabilities and resources, is critical to that endeavor.

Thank you for your attention. I look forward to your comments and questions.

Ms. KIM. I now recognize myself for the 5-minutes of questioning.

I want to start by saying there has been a lot of suggestions about ways to elevate our economic statecraft regime. You may know Dr. Henry Farrell and Dr. Abraham Newman, they wrote in their article for Foreign Affairs in October 2023 that the U.S. needs a comprehensive economic security strategy to outline how the U.S. could implement its de-risking strategy.

Dr. Norris, I know the working group that you led has done a lot of outside-the-box thinking on how to align economic and national security resources. So can you share your thoughts on the idea advocated by some to create an economic security intelligence apparatus aligned with other intelligence arms of the U.S. government?

Mr. NORRIS. Sure. I think that the suggestion is probably coming into a space that has, for a long time, been relatively under-resourced and under-provisioned. A lot of intelligence focuses around military or strategic intelligence. Economic intelligence is done widely in the private sector but not nearly to the same scale or breadth in government, and so I think that there is potentially a positive contribution to be made around building out our capacity of being able to do economic security intelligence.

The comment about Farrell and Newman's work, I think it is pretty emblematic in political science because it tends to conceive of economic tools of national power through a relatively coercive lens. And I agree that is an important part of how these things work, but it is not the only part. And it may not necessarily be the thing that the United States is best at, so I would encourage the committee to think more broadly and holistically about economic tools of national power. Thank you.

Ms. KIM. Thank you. You know, should Congress consider reviving the Office of Technology Assessment, that provided legislative branch with scientific advice? What is your thinking on that?

Mr. NORRIS. I am not a technical specialist, so I always find technical advice to be very constructive in a policy domain. I think that it is useful in terms of informing good policy. It provides that kind of information flow back and forth.

Ms. KIM. Let me go to Ms. Dezenski. In April 2024, you wrote an article published in the FDD website. I think the title was Economic Security is National Security in which you seem to support the idea of creating a new Economic Security Council to be used as a referee to mitigate the disputes between the NSC and NEC. Is that still your view, and how do you feel about the Economic Security Council idea today?

Ms. DEZENSKI. I do think it is still a good idea to have that strong interagency engagement and the ability to close the gap across the siloed organizations and regulatory authorities and policies that are being used right now. So I think we need that more than ever.

Ms. KIM. Thank you. The department has struggled to find its purpose as its most important authorities and functions have been absorbed by other agencies, as I mentioned in my opening remarks. This is especially true when it comes to our economic statecraft. Presidents Obama, Trump, both made efforts to move USTR. And President Obama proposed to consolidate it with five other agencies, and President Trump said it should be absorbed by Commerce. So there is bipartisan belief that USAR's current independent status is undesirable.

Dr. Norris, where should USTR reside? And I would like to ask Ms. Dezenski to also answer the question. Should international economic statecraft be led by single agency? And if so, which agency should lead it? Can you both tackle that?

Mr. NORRIS. Sure. So USTR plays a very important role in spearheading trade efforts on the part of the U.S. Government. I think what is missing has been the ability to integrate that into a larger strategy and security strategy. At various times, we have integrated it. And so I think that, when we think about where it ought to live and what functions it performs, I think it needs to be considered under the larger umbrella of strategy and how that role feeds into U.S. strategy. Whether it is to expand free trade agreements or to constrict them, all those things kind of matter from a strategy perspective.

Ms. KIM. Thank you. Yes, I am going to give some time.

Ms. DEZENSKI. Thank you. With respect to who should lead on economic statecraft, I think there's a leadership role across a variety of organizations and tools and authorities, as I mentioned in the testimony; but I do think there is an opportunity for State Department to take a lead coordination role. It just feels like the time is right for this. It has to reside somewhere. The interagency process is valuable and meaningful, but there needs to be leadership that connects strategy to operational implementation and coordination. And because we are now in what I think is a full-scale pivot to an economic security power projection era, that [economic security] is foreign policy now. So I believe it makes sense to create a leadership function within State Department.

Ms. KIM. Thank you. Let me now recognize the ranking member for your 5 minutes of questioning.

Mr. BERA. Thank you, Madam Chairwoman. Just kind of listening to the opening statements of the four witnesses, I actually think you guys agree on a lot more than you disagree upon, and I think that is going to be incredibly important because we are at a pivotal moment where we are rethinking what national security, global security, economic security looks like in the 21st century.

It's a simplistic view, but the 75 years post World War II, I do think the United States put together an economic framework that benefited the entire world, you know, created relative peace and prosperity and, at times, disadvantaged us. But, again, being the dominant economy in the world, I think we could do that in those 75 years, rebuilding Japan, creating a natural competitor but also a stable democracy, you know, watching South Korea go from one of the poorest countries in the world to the tenth largest economy in the world and a natural ally, a stable democracy, rebuilding Europe, you know, through the Marshall Plan but also creating relative stability on the peninsula.

I'd argue, you know, two decades ago, three decades ago with China, the approach was the same, thinking that, Okay, if we normalize trading relations, you know, China would create a middle class, an entrepreneur class. And you could argue in 2010 that they were on that path, but, today, it is very different. I mean, Xi Jinping has, you know, taken China into a very different direction.

I think some of that is rethinking where we are, but I also think the internal politics of the United States have changed where the basis of the Democrat Party was the working class union workers in the middle of the country. That formed the base of a lot of Donald Trump's victory right now, and, you know, it is interesting to hear me, as a Democrat, sometimes, be more of a free trade person than some of my Republican colleagues. Again, there's just a recasting.

So a couple of things. You know, I do think it will be incredibly important in these next, you know, 2 years, 4 years, 10 years, as we try to think what is a 21st century global economic order, it is going to be different than the past. And I think this is a worthwhile exercise, but it can't be a partisan exercise because, if all it is is Republican policy for 2 years or 4 years, then Democratic policy for 2 years or 4 years, that will really disadvantage us as a Nation. And what served us well in the 20th century was we had an American policy, an American strategy, whether you agreed with that or didn't.

I have a couple of things that do cause me some worry, though. One is where the private sector and shareholder activism sits here, and what I mean by that is, you know, when I was in Shanghai a decade ago visiting a GM plant, the Chinese owned 51 percent of that plant and GM owned 49 percent of that plant, and they very much knew the Chinese were learning how to build cars. And as soon as they figured out how to build those cars and sold that technology, they would kick them out. Yet, they continued to do that because they were so concerned about quarter-over-quarter profits because of what their shareholders and the pressure that CEOs were under.

I think that is a bad way to drive economic strategy because I think, you know, there is short-term profits but long-term disadvantages. I don't know exactly how to solve that, but I have raised that with many of the American leading CEOs. And they would love for us to solve that issue because they don't want to deal with those shareholders and that activism. They would rather build companies for long-term and long-term profits. I think that is incredibly important.

I do think, you know, Ms. Cutler and Mr. Goodman, both of you, I think, Wendy, you said the economic policy jobs were backwater jobs at State. We have heard that repeatedly. And, in this framework, I think we have to elevate and make those jobs more significant. What that looks like across an interagency process, I don't exactly know. I think it is components of diplomacy. It is components of market access, promotion, et cetera, and how that looks, if it's a single agency, if it is an interagency task force. Again, you guys are smarter than I am on this.

Mr. Goodman, you talked a little bit about, you weren't able to get to government re-framework, so let me give you the last 30 seconds to touch on that.

Mr. GOODMAN. Thank you, Congressman. And I agree with everything you've just said. And the point I wanted to make is to foot stomp what Wendy said, which is that it is really less about organization than it is about strategy and policy. I mean, we have to get that right.

I actually, having worked twice in the National Security Council staff under very powerful deputy national security advisors for international economics, respectively in the Bush and Obama White Houses, they ran a pretty good process of pulling agencies together and getting them to coordinate. I actually think you could do it that way. You still need a very empowered State Department, but I would keep the agencies with their individual comparative advantages doing what they do best and then have a really tight White House process to coordinate it.

Mr. BARR. The gentleman's time is expired. I recognize myself now for 5 minutes. And as I reflect on the insightful testimony of all of our witnesses, I want to make an initial observation. I wholeheartedly agree with Mr. Goodman's observation that sound smart foreign policy involves economic statecraft, involves economic engagement. And there is a narrative, I think, communicated by some that the America First strategy of the current administration is disengagement and that allows China to fill a vacuum. I actually see it the opposite way. As Secretary Bessent rightly pointed out, America First is not America alone. And while the tariff strategy has created some uncertainties and turbulence, what it has done is actually deepened engagement, not disengagement but deepened negotiations with partners, allies, and adversaries, like China, to actually get us to a point where there is more American leadership and engagement in the world on the economic front.

I think this has the enormous potential to achieve greater, more bilateral, more reciprocal trade deals that give American exporters more market access and, therefore, more leverage and economic influence in the world. And look just to yesterday to see the $600 billion commitment from Saudi Arabia of more foreign direct investment in the United States to see that there is massive economic engagement like we have never seen with this America First strategy.

Let me ask Dr. Norris a question about what Mr. Goodman says is smart economic statecraft. In February, President Trump issued a national security memorandum entitled America First Investment Policy directing Federal agencies to address outbound investments into China. I think this is smart economic statecraft. I think it is very smart to stop financing Chinese military industrial complex companies.

I also would say, though, I very much appreciate, Dr. Norris, your pointing out that we should not try to fight the American private sector, that our national power ultimately derives from U.S. economic growth and innovation, and so we need to be careful about mimicking Chinese industrial policy. We should counter China not by becoming more like China but by being the best version of ourselves. Our advantage, I always say, is that we are capitalists and they are communists, and so they misallocate capital and their industrial mercantilist policy is not what we want to emulate.

So can you speak about what is the right way to screen and stop investments and capital flows into China that threaten our national security while, at the same time, adhering to our free market cross-border capital flow ethos?

Mr. NORRIS. So I think this idea of outbound investments is an important topic. I think that you are exactly right when you say we need to do us better and not try to copy what they are doing or try to mimic exactly what they are doing. The way I think about this is these kind of investment flows are going to generate things that matter for national security, so what can we do better on this? We have to be specific and precise in saying here is why this is bad for national security. It doesn't have to be public, but somebody needs to know, they need to be able to do that analysis. And then they need to be able to have mechanisms that allows us to put a stop to that kind of behavior because it is going to be detrimental to U.S. national security.

I think this dovetails with something that Ranking Member Bera also talked about in terms of the key to U.S. success for most of the 20th century was that we found a system that was able to have other countries' pursuit of their self-interests read down to America's best interests. That is the secret sauce. That is what we are after today, I think.

As we start thinking about strategies and ways to design systems, we want to capture and harness these naturally incurring incentive structures. So companies want to make money. They want to manage their quarterly profits. That is a feature, not a bug, in my opinion; but you also have the importance of long-term capital. Warren Buffett has achieved a lot of success with a very long-term vision. There is a space for that, but we have to be smart about harnessing these incentives. That is where the policymakers come into play. That is our jobs. We have to think creatively, and we have to think about what are those incentives. If everybody looks out for their best interests, what is going to be the macro result of that?

That is kind of the framework that I am trying to suggest to you all is, as you think about these security externalities, that is the thing that is not going to be endogenized into the transaction.

Mr. BARR. I wanted to talk about DFC as an important tool for economic statecraft. I don't have time. Let me just ask this final simple question. Dr. Norris, can you speak to the importance of fiscal responsibility and lowering our deficits to protect strong demand for U.S. Treasury securities and the dollar's dominance? Why is that important to national security?

Mr. NORRIS. Yes. As all of you will appreciate, the U.S. serving as the world's reserve currency gives us a lot of privileges. We are unique in this regard. The United States is a $30 trillion economy, and we, as government stewards of public capital, always have to think about being prudent with how we allocate and use those resources.

In my opinion, our real strength resides in the private sector. What we have to do is find a way to harness those proclivities and naturally occurring tendencies to read down to the national security interests.

Mr. BARR. My time is expired. Growth, growth, growth. Thank you very much. And, at this point, I recognize the gentleman from Texas, Mr. Castro, for 5 minutes.

Mr. CASTRO. Thank you, Chair. Thank you all, each of you, for your expertise and testimony today. We started the year as the most powerful, most prosperous nation on Earth, and the way I approach it is, when you're going to make changes to that, those changes better be such that they make us even stronger. That is not to say that there aren't deep challenges that we face, particularly domestically, issues that we need to address for workers and so forth and even in trade policy. But I think it is fair to say that the last few months, in terms of economics around the world and trade policy, it has been chaotic.

I remember, when President Obama was in office, one of the critiques of the American business community of his presidency was the uncertainty. Everybody was using that word, the uncertainty. Well, if that was uncertainty, this is chaos with tariffs changing from day to day, a million different negotiations supposedly going on with different countries. And one of the effects, as I have had meetings with embassies and with foreign leaders, is that the world is starting to move around us.

Ms. Cutler, you mentioned diversification, and I imagine you meant diversification, countries are diversifying their own economics and their trading partners. And I wanted to see if you would speak to that a little bit with respect to Asia and the fact that, as to them, from their perspective, not our perspective, but, to them, as we become a less reliable trading partner and economic partner, what do they do?

Ms. CUTLER. Well, it is not only that they are viewing us as unreliable, but they are also viewing us as no longer as interested in the rules-based trading system. And so I think both of those factors are motivating other countries to become less reliant on us and work with countries where they have common interests and, frankly, for many small and medium-sized countries, a strong WTO, for example, is in their interest.

What we are seeing now, though, is countries forging new agreements and expediting negotiations that seemed impossible just years ago. So, for example, the U.K. and India, just 2 weeks, concluded an agreement that was under negotiation for many years. We have seen now the European Union express interest in somehow aligning itself with the CPTPP, something that, for years, they said they would never do. And we are also seeing other countries express interest in either joining the Regional Comprehensive Economic Partnership or CPTPP or different digital agreements. And, ultimately, as all of these agreements are being forced without us, we are disadvantaged. We do not get those benefits.

I think this trend is very concerning, and I hope that we can work together to find a way to convince our partners that we want to engage with them, we want to seek win/win agreements, and that we still see merit in a rules-based international order.

Mr. CASTRO. No, absolutely. And I think it is fair to say that this has been a kind of shakeup, but the world is not a snow globe. Things don't just go back to exactly where they were once everything settles down, right?

I'm the ranking member on the Western Hemispheres Subcommittee and was meeting with folks from Mexico who said they are pursuing a free trade agreement with Brazil, for example. And so you see different regions of the world trying to come together in their own ways. Mr. Goodman.

Mr. GOODMAN. Yes. I totally agree that this is really the problem, that we used to write rules, get others to agree with our approach to rules, standards, norms, of international economic behavior, and that was very much in our interest. Frankly, it was in their interest, too; but it was, ultimately, in our interest. And we are giving up that by not having some kind of more affirmative offering of our preferred rules, including, by the way, I meant to say earlier, to Congressman Bera's point in the digital space, I think that is really critical where we pulled out of an effort to try to get people to agree to our preferred digital rules. So we need to do more of that, or others are going to make other arrangements.

Mr. CASTRO. In my 20 seconds, other witness, quick comments?

Ms. DEZENSKI. I will just say that, from my perspective, the rules-based system is broken. The global trade order is no longer something that we have been able to manage, and the problem behind this is China. And this requires a reset of significant magnitude. Why? Not only because we need to rebalance trade but because we need to free our defense industrial base from dependency on Chinese supply chains, and we need to move toward real wage growth and productivity in this country. And we won't get there if we continue to be in this deficit orientation without a rebalancing of trade.

Mr. CASTRO. My time is up. I apologize.

Ms. KIM. Thank you, Mr. Castro. You know, during my travels and visit with our embassies abroad, we always, in a bipartisan way, express our appreciation for the work that they do to represent our U.S. interests. But I have also been unimpressed with the efforts made to assist American businesses in gaining market access and competing on an international level.

So I want to ask all panel what inhibits our current export promotion regime from producing the results that our companies and constituents desire? Let's start with you, Ms. Dezenski.

Ms. DEZENSKI. Sure. Thank you. Well, first and foremost is the ability to be competitive. So I think we need to do a better job at providing some incentives through EXIM, for example, and export financing. We need to be better cheerleaders for U.S. companies abroad. We need better terms of engagement, which is what at least some of this tariff negotiation is about: opening up foreign markets in ways that were not open previously.

So we need to do a much better job in terms of setting the conditions for American companies to be successful abroad and to be able to compete in what is a fair and open market. That is not what we have now.

Ms. KIM. Thank you. Mr. Norris. Dr. Norris.

Mr. NORRIS. Yes, I agree. I think there is a lot of variation by country teams. In my experience, I think that some countries do this really well and others don't; and so studying that variation, why is it working somewhere, why is it not working somewhere else, would be a useful way to proceed.

The thing that I would suggest is you might find in those places where the country teams are really killing it is going to be a very close working relationship with the major industries and sectors and private sector players that have opportunities in their host nations. That is probably not coincidental. In formal mechanisms, a lot of what we are doing today, I think a number of other panels have talked about this, we are using these workarounds to get past some of the institutional design failures that we are currently enmeshed in, so that would be something else to kind of pay attention to.

Ms. KIM. Thank you. Ms. Cutler.

Ms. CUTLER. With respect to export promotion, I think this is an area where State Department could play a more effective role, particularly in our embassies abroad. And I think this gets back to the whole notion of looking at the Foreign Commercial Service and the State Department's economic offices. I think, if they were merged, then there would be a lot of synergies to help promote exports.

But, also, look, we need an infrastructure to help us promote exports. It is one thing just to advise companies; but, you know, our companies are competing against financing that other governments are giving their private companies. And, again, that puts our companies who are incredibly innovative and competitive at a disadvantage. So I would urge the committee to look at those structures, as well.

Ms. KIM. Thank you.

Mr. GOODMAN. And just very quickly to agree with all of that and just say that I think, you know, the problem has really been we haven't had a commitment at the highest levels, that this is really important for our interests. Frankly, in the last couple of administrations. So I think that is the first thing: you need a real commitment from the top, I mean from the president, to why this is important.

And then you need finance and you need other removal of legal constraints, like other countries can just go and advocate for a particular company. We can't do that, and, you know, there is an argument about that because we don't want to pick winners. But I think there is a way between our approach and the French or Chinese approach that would be more helpful to getting our products and services forward.

Ms. KIM. Ms. Cutler mentioned and then you also, Mr. Goodman, financing is another way, and our committee is also charged with authorizing or reauthorizing DFC, so we will addressing that issue. But, in addition to that, what suggestions do you have to improve our export promotion regime? I want to ask the two, Mr. Norris and Dezenski, to also address that, as well.

Mr. NORRIS. Yes. I think that capital provision is an important dynamic here, not least because we're dealing with an unfair playing field often. There is either a different risk appetite or a different cost of capital.

One of the things, again, I don't want to sound like a broken record, but I think it is really important to think about how we can be good stewards of public resources and crown in private capital. So things like EXIM, when they think about being able to take some of the riskiest tranches off the table and then the rest of it looks commercially viable, that is the way to kind of get good leverage and good maximization when we think about those resources.

Ms. DEZENSKI. I would just add that I think we need to focus on the U.S. ground game abroad, and that is about bringing together all of the capacities that we have in key markets of interest to us, where we see the big opportunities to expand our manufacturing and export opportunity. There are a lot of them, but we don't really have a game plan.

Ms. KIM. Thank you. Let me now give the podium to Mr. Olszewski for your 5 minutes of questioning.

Mr. OLSZEWSKI. Thank you, Chair Kim, to our Ranking Member Bera for holding this hearing. It is actually a good followup to an outstanding roundtable discussion we had just last week with some of our Pacific Island Ambassadors discussing partnerships and strengthening those in the region.

My takeaway was the overwhelming consensus was that that region wants the U.S. to show up. They want us to be there, even as they see what I think is a global retreat. And, again, they were concerned about the on again, off again tariffs from the administration. In some ways, it reinforced the point made by my colleague, Representative Castro, about the world is still moving. So, appreciate all of your testimony today on that front.

That roundtable specifically touched on two issues I hope to focus on with my time. One is the mounting debt crisis being driven partly by Chinese lending practices, as well as strengthening economic growth through a pact modeled on something like AGOA, the African Growth and Opportunity Act.

We know that China's extensive lending policies on Pacific Islands has resulted in unsustainable debt burdens. Tonga, for example, relies heavily on international loans and is currently saddled with more than $100 million in debt to China. That is about 20 percent of its GDP. Not a one-off story. Over the past 20 years, China has become one of the largest lenders in the region, and, often, governments then face an impossible choice: do we cut spending on critical services or do we default on our loans and risk access to future financing.

So we know that this is possible. We need to show up and support our businesses, to the chair's point. Actually, there is a great company in my home State of Maryland doing great work. It is a company called InventWood. It is a supplier of climate-resilient building materials in Frederick, Maryland. It signed a landmark partnership with Tonga to advance climate-resilient construction across the Pacific. So we want to be incentivizing more partnerships like that for a model for sustainable development.

We will start on the debt crisis, and we will start with you, Mr. Goodman, and if others want to jump in. From your perspective, how has Chinese lending contributed to the current debt crisis in the Pacific Island countries and what are the key risks for U.S. interests resulting from that?

Mr. GOODMAN. Yes. It is a huge problem globally, and the Pacific Islands are very vulnerable to this model of Chinese lending that is nontransparent and has hidden conditions attached to it. This is something that there has been great work done on this by a group in Williamsburg, AidData, and also the Center for Global Development here in Washington have done some great work on trying to expose the contracts and the terms on which China is making this lending. I think that is one thing that more transparency would be helpful.

I think we also need to find a way through diplomacy to try to pull China into some of the international arrangements, like the Paris Club, even if we have to rename it because China doesn't want a club that was set up without them in it originally. But we need to get them at the table to help with some of the resolution of these debts, and it is an absolutely critical issue.

But the final thing is the U.S. also has to offer some alternative, and I haven't said the word DFC myself but just, since others have mentioned, I should have said it is really important that we reauthorize the DFC, give it more muscle, power, let it fix the equity scoring problem, and make it a more capable organization because, at the end of the day, that is what the Pacific Islanders want: they want us to have a better offer.

Mr. OLSZEWSKI. Yes. And I think we all agree on the reauthorization. Any other points on that one? I have a second question, a trade question, on the AGOA-like trade pact that could signal, I think, a new commitment to the region and its growth. What would—and we can start with Ms. Cutler and, again, we will open it up if there is time. What will the economic benefits be for the Pacific Islands and U.S. businesses from a trade agreement modeled on AGOA? And what sectors hold the most promise for expanding trade, and how can we better incentivize more public-private partnerships like we mentioned with InventWood back in Maryland?

Ms. CUTLER. Well, I think you raised an excellent suggestion, some kind of AGOA program for the Pacific Islands because countries like this, as Matt said, then you said, they very much want us to show up, they want to work with us, but they need some benefits, right? And so even though these programs provide unilateral benefits, they also very much provide an opportunity for continued connectivity and cooperation between the United States and these countries. So I think that's a model that's worth looking at.

Mr. OLSZEWSKI. I have 20 seconds if any of the witnesses wanted to chime in.

Mr. NORRIS. I was going to say I think that your comments raise some awareness around making sure you understand what the partners need, what are they looking for. So listening to what is going to be resonant for them. And, also, this idea of building capacity, being able to have that transparency around these dead agreements, these are all things that are going to reinforce good governance and I think are going to play to our strengths. The key really is the commercial viability, particularly with the Pacific Island nations. And some of them struggle with that.

Mr. OLSZEWSKI. Thank you all. Madam Chair, I yield back. Thank you.

Ms. KIM. Thank you. Let me recognize Rep. Moylan for his 5 minutes of questioning.

Mr. MOYLAN. Thank you, Miss Chairwoman. While national security is often dominated by military sectors, the economic domain has historically been the strongest tool in shaping international affairs. So sitting on this committee and Armed Services, I fully understand the importance of national economic security's role along-side traditional military power, but economic tools don't often get the bureaucratic limelight. By advancing our cutting-edge technologies and building more resilient supply chains, the United States continues to build peace through trade deals and deter bad actors through sanctions and tariffs.

As the U.S.—China trade negotiations become increasingly high profile, we can't talk about national economic security without addressing the relationship with the People's Republic of China. While we have already implemented export controls on PRC, the U.S. must do more to maintain our leadership in key industries, like cyber, quantum technology, and AI.

Ultimately, the PRC's unilateral decisionmaking structure makes many of its economic policies expedited and reliable, making it hard for democracies like the U.S. to compete. So the United States is faced with unique problems: how can the U.S. economy diplomacy outcompete the PRC while maintaining our values?

And as Guam sits closer to Asia than North America, I can certainly tell you my appreciation for working with our foreign partner nations. Large partnerships with organizations like ASEAN or smaller free trade agreements have continued to demonstrate the willingness and success that comes with less constraint economic policies. In the State Department's reauthorization, I think it is clear that we must combine greater domestic investments while collaborating with our allies in areas where the United States has comparative disadvantages.

So, Ms. Dezenski, the Department of Commerce has published The Dire Nature of U.S. Critical Mineral Supply Chains. With regard to our supply chain reliance on foreign sources, what diplomatic tools and instructional changes do you think could properly address our dependency issues?

Ms. DEZENSKI. Thank you. I will just highlight that we have a report coming out on this very issue in the next few weeks, which is very specific to looking at dependencies in the advanced battery supply chain and the role of critical minerals. But let me just highlight a couple of the key elements from that report because it applies across the board for the challenge we face.

No. 1, we have to get control on processing of critical minerals. We need to break that choke hold. China is not necessarily controlling all critical minerals, but they are definitely controlling the processing, and that has to stop. We need to look at controlling for price volatility around core commodities. It is making it really difficult for Western manufacturers and processors to get into the critical mineral space because of that. We also need to look at much deeper partnerships with allies and partners who have the very same problems about access to markets.

More broadly, I would say that we have a host of problems with nonmarket practices coming out of China, and now is the time to put that on the table, whether we are talking about currency controls; capital controls; dumping, which is a massive enforcement issue now for us; rules of origin questions; you name it, these all contribute to why it becomes so, so difficult for U.S. manufacturers and others to compete in this global trade order.

Mr. MOYLAN. Thank you. Ms. Cutler, based on your experience at the Office of U.S. Trade Representative, how should the U.S. approach known adversaries in the competitive economic realm? Additionally, is there a point where the U.S. should consider revoking items, like the permanent normal trade relations?

Ms. CUTLER. I think the key to addressing the China challenge is working closely with our allies and partners. I don't think we can effectively do this on our own, and so I am concerned that, with our current trade policy, when we are hitting our allies and partners with tariffs, they are busy negotiating with us and I think time would be better spent, frankly, working with them to address many of the practices that my colleagues have expressed concern with with respect to China.

Mr. MOYLAN. Thank you very much. I am out of time. I thank the panel for your testimoneys. Thank you, Madam Chairwoman.

Ms. KIM. Let me now recognize Representative Sherman for your 5 minutes of questioning.

Mr. SHERMAN. Comment on Mr. Barr's statement that we need to deal with the deficit: that is why we need to avoid the tax cuts that are being proposed in the Ways and Means Committee at the present time. We did balance our budget in the 90's because we locked in Clinton's tax policies, and then, in 1995, we started spending like Republicans.

Mr. Barr also talks about how important it is that we have the U.S. dollar be reserve currency. The crypto advocates have made it very plain they want to take that away from us. When somebody says what they are going to do to you, you should listen.

Our chair asks us where should USTR be. I think it should be in the State Department, but my fear is that then State will make trade concessions in order to achieve other foreign policy objectives because the people we have hired at the State Department are people who dream of a Nobel Prize and study how Metternich dealt with the Congress of Vienna.

We have got a distinguished panel here. You all have spent a lot of time with State Department people. Putting aside the political appointees, just on Civil Service and Foreign Service, do any of you know any CPAs who are employed by the State Department? No hands go up. Do any of you know any MBAs personally who work—I see one. You are nodding, sir. Do you actually know somebody well enough to name, an MBA? No. So we have no MBAs. And do any of you, please raise your hands if this applies, do you know anyone with 15 years international business experience who is a civil servant with the Civil Service or the Foreign Service of the State Department? I assure you that, if this was the House of Commons, lots of hands would have gone up. In every other country, business is important.

But there is no way in which the State Department has the greater flaw than their process of issuing visas. Nobody becomes a Foreign Service officer to issue visas. We don't hire people who want to issue visas. And so I have got to send an apology letter to my cable company because I was, well, the cable company, I was on the phone with them for an hour and flipping it around and around, and I thought that was the worst experience possible until last night when I tried to deal with the consulate in Karachi. The process that we put people through to get a tourist visa or a visa to come here and buy our products shows that we don't care about tourism, we don't care about products.

Ms. Dezenski points out that we have perhaps started an economic war without a Pentagon. There is only one thing worse, and that is if you have your general being bought off the way Benedict Arnold was bought off. We have got this $400 million plane. Not since the Greeks left a gift outside the walls of Troy have we seen such a bad gift acceptance. We are going to have to disassemble the plane looking for bugs. Then we are going to have to outfit the plane with the most advanced communications device, and then we, as a government, don't own the plane. It is owned by Qatar, and they are going to transfer it over to the Trump Foundation.

But more important perhaps is the $2 billion Abu Dhabi has announced they are going to put in the Trump stablecoin. That is, at minimum, a $2 billion interest-free loan to the Trump Organization.

And then, finally, we have Trump coin. We can put up the chart. Some 96 percent of this coin is owned by 40 wallets. The press report says they are all owned by the Trump family, so anybody who buys the Trump coin is putting 96 percent of their money into those wallets. Everyone on this subcommittee, I believe, voted to limit TikTok. We know how important that is. We gave him 75 days. And now I would like to put in the record an article from yesterday's New York Times, a tiny company with China ties announce big purchase of Trump cryptocurrency and an announcement that $300 million is going to be put into those 40 wallets by an entity with ties to TikTok that has, the entity itself has eight employees and no revenue, but they have been able to raise $300 billion from mysterious sources in a tax haven country. And I want to quote Charlie Dent who served here with distinction, a Republican member, a former chair of the House Ethics Committee, when he said: Make no mistake, these foreign entities and government obviously want to curry favor with the president.

So the only thing worse than not having a Pentagon is having a leading general who has been bought off. And with that, I think my time is expired.

Ms. KIM. Thank you, Rep. Sherman. I think we are going for another round of questioning, so let me first ask the next 2 minutes, I mean the next few minutes if Ms. Dezenski and Dr. Norris could answer the question of if you can assess the economic vulnerabilities of the United States to China, and what should the United States do to take more active steps to limit those vulnerabilities? And if so, what policies can you recommend?

Ms. DEZENSKI. Thank you. I would point out a couple of major vulnerabilities, one which I mentioned which is the dependency of the U.S. defense industrial base on Chinese parts and Chinese technology. I think that is something that is untenable for us and needs to get rectified. How do we do that? We have to look deep within those supply chains to understand where to pull out that vulnerability and either bring production home or transfer that to allies and partners through some sort of ally-shoring.

There are critical dependencies on Chinese magnets, certainly on critical minerals coming from China. These are harder to solve, but we need a game plan and that also needs to include some very targeted innovation.

The defense industrial base and we'll call it the U.S. industrial base writ large is beginning to merge. A lot of the advanced technologies are the same, whether we are talking about manufacturing drones or manufacturing computers, et cetera. A lot of the inputs are the same. So we also need to think differently about these dependencies and how to get to that.

In terms of, you know, what else we can be doing to highlight those vulnerabilities, this is where we need a lot more of that trade analysis and economic analysis that I highlight in the testimony. We need to have an all-of-government understanding of where these vulnerabilities are and then start applying the tools to call out where, for example, Chinese economic coercion may be stealing innovation from the U.S. and forcing us to fall further behind.

Mr. NORRIS. Yes. I think I would classify the U.S. vulnerabilities to China in this domain of economic statecraft as being there are some that are acute that are sort of in the near term, the next 6 to 12 to 18 months. And there is another set that are longer term, this idea of creating alternative orders that exclude the United States or have an alternative center of gravity.

So I think those acute ones have gotten quite a bit of attention, items like when China is the unique source of key inputs, things like for some pharmaceutical precursors. The list, I think, is well known to this committee. And what to do about that, I think the thing I like to do about this is stockpile if your competitor is subsidizing. I like buying it below market prices, and I would like to buy a lot of it if it is something I feel like I need for a rainy day. Diversifying to partners and allies. When you have complementarity that exists among trusted partners and allies, China has a scale that is going to be, in certain areas, difficult for the United States to match unilaterally, and that is where I think partners and allies can really benefit the United States. And then, of course, bringing it in-house, and some of this is going to be able to be brought in-house, particularly if you are concerned about security externalities and if there is very clear reasons to be worried about stuff.

But I do want to couch my remarks in a broader concept that the U.S. and the Chinese economies are the world's largest, single largest two economics. With $30 trillion and $18 trillion, there is a big gap before you get to No. 3. These two are deeply integrated today, and there is a small portion of that integration that has direct national security ramifications and that is what we should really be focusing on, particularly in the acute timeframe.

In the bigger timeframe, if there is a real desire to decouple, that is another sort of conversation and another strategy. Is that, ultimately, in America's best interests, I think, is a conversation we ought to be having as a Nation. I don't necessarily have the right answer for you this morning on that.

Ms. KIM. Thank you. Very helpful. Let me now ask the ranking member to ask questions.

Mr. BERA. Great. Thank you. We do find ourselves in a pretty interesting time. You know, I would agree with each of the witnesses that the rest of the world, whether it is Europe, countries in Asia or elsewhere, are trying to figure out where the United States is and what our strategy is and so forth, and that is creating some uncertainty.

But in my interaction with, again, in my travels abroad but also with Ambassadors here in the United States, there is also a deepening recognition that they don't want the United States to leave, and I would say, you know, particularly in Southeast Asia, they recognize that, they understand the terms by which China does business and they want a robust U.S. presence there as an alternative partner.

Our trade policy, economic policy, isn't just based on benevolence. You know, much of it, again, in that 75 years post-World War II was benevolent, didn't disadvantage our companies, didn't disadvantage our economy, certainly opened up markets for our companies and we did very well in that construct, but so did many of the other nations that share similar values to us. And I think that creates an interesting opportunity for us, as well, because, you know, while they don't like the uncertainty, and I do think most countries around the world appreciated the rules-based order that we had put in place, I think there is a growing recognition that American economic policy is changing a bit. Again, I go back to my 13 years in Congress. We all would have guessed TPP would have—you know, trade deals were never easy. It didn't get across the finish line; and we saw in the 2016 Presidential candidate both candidates turned against TPP. I would have thought, you know, the renegotiation or the negotiation of USMCA, which was the largest bipartisan trade bill, you know, close to 400 members of the House of Representatives, more Democrats than Republicans, voted to support that process. I would have thought we would then say maybe we build off of that. Again, we are in a much different place with either President Trump to say, Okay, if you have issues with Mexico and Canada, you have got a renegotiation coming up, let's use that as a vehicle by which to address some of this.

Then the orthodoxy around tariffs and what that looks like again, the president might take this as a compliment, has been incredibly disruptive. I think he is using a very blunt instrument, a blunt tool, but it is getting everyone's attention. I would hope that we, on this committee, we, in Congress, along with the administration, as we start to approach this, I can't undo the past, but what does that context look like moving forward.

I also think the pandemic was a real wake-up call for not just the United States but most of the world because of the real dependence on whether it's the pharmaceutical sector and APIs, you know, protective equipment, rare earths, et cetera, just exposed tremendous vulnerabilities that we have. And if we were to get into a direct confrontation with China, those vulnerabilities we are seeing a little bit around the tariff conversation and the trade conversation with China, but it does expose real economic and national security vulnerabilities that not just us but others have.

So the reason why I talk about things like the Mineral Security Partnership, which, again, I think is a really good idea, but I also think how we approach trade and economic development in the 21st century is probably going to be more alliance values-driven with partners, and what I mean by that is I think we should work with the Koreas of the world, the Japans of the world, the Australias of the world.

Rare earth elements aren't super rare, it is just, as you pointed out, Ms. Dezenski, the processing of these, it is a dirty business and I don't know if we are going to do that in the United States. But we ought to go into Malaysia or Vietnam or places that would be willing to do it and build those markets. And we don't have to do that by ourselves. I would say we should do that with like-valued allies that want these redundant supply chains. Australia certainly has expressed an interest. Now, it may cost us a little bit more, and I think that is something that we will have to try to address. Dr. Norris, I certainly think it is a great idea for us to have a national stockpile of these critical earths. That is something that we, as Congress, should explore with the administration of creating that stockpile, so we don't have those vulnerabilities.

It is going to be different, and, again, I will just go back to my supposition, which is this can't be a Democratic or Republican strategy. This has to be an American strategy, and I think an American strategy in concert with countries that share similar values of relative open markets, relative democracy, freedom, because it is not a given what the next 75 years looks like, who dominates those 75 years. But I do think, again, in my travels, my conversations, the actions of the first 100 days of the Trump administration have shaken a lot of countries around the world, but it also has brought them to the table and say, hey, wait a minute, we may not like what America is doing, but the last thing we want is America to leave our markets.

I would be curious, just quickly, if you feel like that is characterizing it in the right way. And maybe we will start with Ms. Dezenski and just go——

Ms. DEZENSKI. I do think that is the right characterization. There is a long-term strategy here, but there is also a lot of tactical back and forth right now that is probably causing some confusion. But I think what we are seeing now is the display of economic power in a way that we haven't seen it before. And whether we agree or don't agree with how the tools are being used, we do have an administration that is using them in some pretty interesting ways.

I will go back to an earlier comment. I do think it is time for a pretty broad trade reset, and we need to think about it holistically and, ultimately, getting back to this Near-Global Economy idea. So we box out the countries that don't want to participate in a free and open market, and, to your point, we ally shore. We ally shore where we can. We bring home production. Where that is required and necessary, we do that. And where we can't do that, we work with allies and partners.

Mr. BERA. Dr. Norris.

Mr. NORRIS. Yes. I'm going to agree with a lot of what you said and also what my fellow panelists are saying. I think the United States does enjoy a significant incumbency advantage for having written a lot of the international rules of the order. I don't always think that we are taking full advantage of that opportunity, and I think that, when we think about this competition, it is important to maintain flexibility, the ability to adapt.

We have to be able to do us better. We are an incredible nation that has incredible capabilities. And when we think about how we are going to compete, we are not going to compete because we are going to mimic and do something that they are doing and try to make it fit for us. We have to think about what are we good at, and that's why I come back to innovation. I mean, we can completely change a paradigm with our radical capacity to innovate in this country. We have to preserve that capability; that's really important in a long-run competition.

I also think your point about making this bipartisan, making it something that is not going to lurch from one administration to the next or one Congress to the next is really important. And this is a long-run competition that is going to have to be run in a series of sprints, and they are going to be 4-year sprints or 2-year sprints, and we need to find strategies that are sustainable politically, economically, and socially for our fairly partisan and fairly divided country right now. I think that is really important.

I just would also agree that the idea of having trade and economic development be somewhat contingent on similar shared values, I think, makes a lot of sense. There is nothing that quite clarifies who your friends are than a pretty significant new challenge that you collectively face, and you have to sort of say, Okay, who do I want to have on my side. And that is kind of the moment we are in right now, and I think we can—to your point, this is kind of a unique moment. We should try to capitalize on it as best as we can to position ourselves for success for decades to come.

Mr. BERA. Ms. Cutler.

Ms. CUTLER. I also agree with almost everything you said. And, particularly, I do think there is an opportunity here. Okay. But what my concern is, we may squander that opportunity, and this is such a critical time where, you know, based on all our discussions this morning, our allies and partners are extremely important to work with in order to achieve our objectives.

So my view is carrots and sticks. Let's keep those carrots in mind. I think, to date, we have been doing a pretty good job competing with China for the hearts and minds of third countries, but I worry, through heavy-handed tariff requests, win/lose trade negotiations, and then the dismantling of a lot of our soft power, we may squander this opportunity if we don't all work together, Congress, the administration, the private sector, to really double-down on our strengths and work with our allies and partners.

Mr. GOODMAN. Yes. A colleague and I are doing a project in which we have been talking to a bunch of trading partners, mainly through their embassies, a few capitals. And we actually started this before the election, and we were trying to look at what the U.S. really needs from its trading partners and what it is willing to offer, what it needs to offer to get them to give those things.

The conversation has diverted to, you know, a lot of this uncertainty and confusion around tariffs. But I take away the same point you do, which is, while people are disturbed and troubled by that, there's a demand signal they want to work with the United States, maybe in a slightly different way than in the past. They recognize it is going to be different, but they want our engagement, they want our markets still, they want our products, they want our leadership. They want, you know, maybe access to our innovation ecosystem which is sort of a new thing that we may be able to—it is not new, but we could package it as a new offer.

So I do think there is a big opportunity, and I think the key is—two things I want to say about trade policy going forward. One, we need a trade policy that combines sort of three things: one, it has to advance American interests, economically, strategically, other ways; second, it has to incentivize our partners to want to work with us and give them something, some reason to give us the things we need; and, third, it has to win the support of the American people, and that's really your job.

I do think the second point I want to make is it's really important for you guys to figure this out because, in the end, if we don't have a trade policy that is embedded in law through you, it is not going to stick. It is going to be a house made of cards. You need the pylons dug deep into the soil, and that means you need legislated trade agreements, in my view.

Ms. KIM. Thank you. I think we all agree that economic policy is foreign policy. With that, our goal of this hearing was to evaluate how we can position the United States as the center of the economic statecraft.

So thank you, everyone, for engaging the Members of Congress in a very, very productive conversation today. It really was helpful in assessing that our current economic statecraft is an incoherent network of more than a dozen agencies and organizations with many of the overlapping responsibilities. As the saying goes, when everyone is in charge, no one is in charge, and I think that is true of economic statecraft architecture now.

So let me once again thank all of our witnesses for your valuable insights, the suggestions, the recommendations that you have provided to us. We will definitely keep our conversation today in mind and take those suggestions in mind as our committee works to authorize the State Department.

With that, the members of the subcommittee may have some additional questions to the witnesses, and we will ask you to respond to those in writing. Pursuant to committee rules, all members may have 5 days to submit statements, questions, and extraneous materials for the record subject to the length limitations.

So, without objection, the committee now stands adjourned. Thank you.

[Whereupon, the committee was adjourned at 11:37 a.m.]

APPENDIX

MATERIAL SUBMITTED FOR THE HEARING RECORD

Chairman Brian Mast

COMMITTEE ON FOREIGN AFFAIRS
SUBCOMMITTEE HEARING NOTICE
U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, DC 20515-6128

Subcommittee on East Asia and the Pacific
Young Kim (R-CA), Chairwoman

May 7, 2025

TO: MEMBERS OF THE COMMITTEE ON FOREIGN AFFAIRS

You are respectfully requested to attend an OPEN hearing of the Committee on Foreign Affairs to be held by the Subcommittee on East Asia and the Pacific at 10:00 a.m. in Room 2172 of the Rayburn House Office Building. The hearing is available by live webcast on the Committee website at https://foreignaffairs.house.gov/.

DATE:	Wednesday, May 14, 2025
TIME:	10:00 a.m.
LOCATION:	2172 RHOB
SUBJECT:	National Economic Security, Advancing US Interests Abroad
WITNESSES:	Ms. Elaine Dezenski Senior Director and Head of the Center on Economic and Financial Power The Foundation for Defense of Democracies
	Dr. William Norris Associate Professor Texas A&M University
	Ms. Wendy Cutler Vice President Asia Society Policy Institute
	Mr. Matthew P. Goodman Director of the Greenberg Center for Geoeconomic Studies Council on Foreign Relations

*NOTE: Witnesses may be added.

By Direction of the Chair

The Committee on Foreign Affairs seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202 -226-8467 at least four business days in advance of the event, whenever practicable. Questions with regard to special accommodations in general (including availability of Committee materials in alternative formats and assistive listening devices) may be directed to the Committee.

COMMITTEE ON FOREIGN AFFAIRS

MINUTES OF EAP SUBCOMMITTEE HEARING

Day *Wednesday* **Date** *May 14, 2025* **Room** *2172 RHOB*

Starting Time *10:00* **Ending Time** *11:37*

Recesses ____ (____to ____) (____to ____) (____to ____) (____to ____) (____to ____) (____to ____)

Presiding Member(s)

Chairwoman Kim,

Check all of the following that apply:

Open Session ■
Executive (closed) Session ☐
Televised ■

Electronically Recorded (taped) ■
Stenographic Record ■

TITLE OF HEARING:

National Economic Security, Advancing US Interests Abroad

COMMITTEE MEMBERS PRESENT:

Attached

NON-COMMITTEE MEMBERS PRESENT:

None

HEARING WITNESSES: Same as meeting notice attached? Yes ■ **No** ☐

(If "no", please list below and include title, agency, department, or organization.)

STATEMENTS FOR THE RECORD: *(List any statements submitted for the record.)*

NA

TIME SCHEDULED TO RECONVENE ________
or
TIME ADJOURNED *11:37*

Meg Wagner
Full Committee Hearing Coordinator

Clear Form

Committee on Foreign Affairs
Subcommittee on East Asia and the Pacific
119th Congress

ATTENDANCE

Meeting on: National Economic Security, Advancing US Interests Abroad
Date: May 14, 2025

Representative	Present	Absent	Representative	Present	Absent
Chairwoman Kim	X		RM Bera	X	
Rep. McCaul		X	Rep. Sherman	X	
Rep. Barr	X		Rep. Castro	X	
Rep. Radewagen		X	Rep. Moskowitz		X
Rep. Zinke		X	Rep. Amo		X
Rep. Moylan	X		Rep. Olszewski	X	
Rep. Biggs		X			
Rep. Mackenzie		X			

Empowering U.S. Economic Statecraft

Two Slides Supporting the Oral Testimony of William Norris
Associate Professor, Texas A&M University
before the
One Hundred Nineteenth Congress
U.S. House of Representatives
Committee on Foreign Affairs

For the House Foreign Affairs Subcommittee on East Asia and the Pacific Hearing Entitled:
"Economic Statecraft and Advancing US Interests Abroad"

Held on May 14, 2025

ECONOMIC STATECRAFT PROGRAM

What is Economic Statecraft?

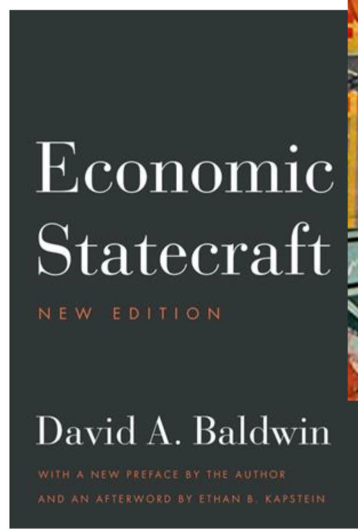
Economic statecraft focuses on the intersection of economics and security:

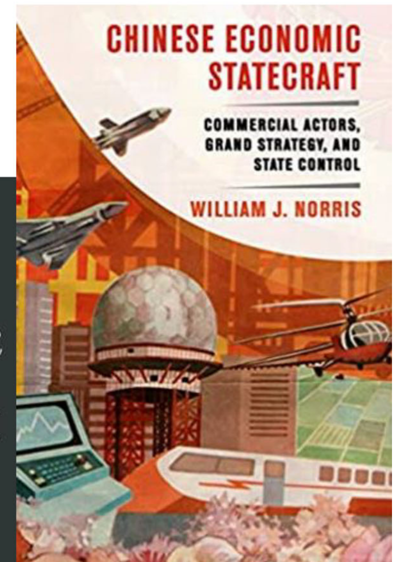
1. **Commercial actors** (not states) conduct the vast majority of international economics.

2. These interactions may carry important implications for states' **strategic security interests** (security externalities).

3. States can manipulate the **incentives** of commercial actors in order to encourage (or discourage) particular patterns of behavior that generate security externalities that are conducive to the state's strategic interests.

Such manipulation is defined as **economic statecraft.**





SECURITY EFFECTS STEMMING FROM ECONOMIC INTERACTION:
A TYPOLOGY OF SECURITY EXTERNALITIES