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America's Use of Coercive Economic Statecraft

A Report from Select Members of the CNAS Task Force on the Future of U.S. Coercive Economic Statecraft

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About the Energy, Economics, and Security Program

The Energy, Economics, and Security Program analyzes the changing global economic landscape and its national security implications. From the shifting geopolitics of energy to the market influence of new technologies, to the tools of economic statecraft, such as trade and investment policy and sanctions, the program develops strategies to help policymakers understand, anticipate, and respond. This program draws from the diverse expertise and backgrounds of its team and leverages other CNAS experts' strengths in regional knowledge, technology, and foreign policy to inform conversations at the nexus of markets, industry, and U.S. national security and economic policy.

About the CNAS Task Force on the Future of U.S. Coercive Economic Statecraft

In July 2019, the Center for a New American Security (CNAS) launched its Task Force on the Future of U.S. Coercive Economic Statecraft, consisting of former senior U.S. officials, private sector representatives, and academic and think tank experts. It examined emerging trends, such as the growing use of export controls and other trade restrictions; the role of energy in coercive economic statecraft; trans-Atlantic cooperation and disagreement on these measures; and developments in U.S.-China economic relations and the prospects for economic decoupling. During 2019 and 2020, the task force hosted a range of high-level government officials and distinguished thought leaders.

Task force members analyzed key trends in U.S. coercive economic statecraft and global developments that could potentially affect U.S. economic strength and statecraft in the future. This brief describes the most important of those trends and offers concise summaries of issues that national security policymakers should consider.

The below members of the task force have publicly signed on to the findings of the report. They do so in their individual capacity; they do not speak for any institutions with which they are affiliated:

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KEY TAKEAWAYS

- U.S. policymakers will continue to intensively use a growing array of coercive economic tools, including tariffs, sanctions, trade controls, and investment restrictions. The growing use reflects a desire by policymakers to use coercive economic tools in support of a growing range of policy objectives.
- Diplomacy around these tools has long been challenging and can require hard choices. To use these tools effectively, policymakers should focus on articulating clear objectives and measuring effectiveness and costs. U.S.-China competition raises the stakes for getting the use of coercive economic statecraft right.
- Policymakers in the next presidential administration and Congress would be well served to spend at least as much effort focusing on the positive tools of statecraft. These include domestic economic renewal, international finance and development incentives, and positive trade measures, among others.

The Rapid Evolution of America's Use of Coercive Economic Tools

The last decade has seen an explosive growth in U.S. coercive economic tools. Under the George W. Bush and Barack Obama administrations, innovation in the coercive economic toolkit was primarily, although not exclusively, in the domain of U.S. sanctions. These administrations expanded sanctions on Iran in unprecedented ways, invented new types of financial restrictions on Russia, and targeted a growing array of transnational threats. Under Donald Trump's administration, America has not only continued to expand its use of sanctions, it has also renewed and expanded other parts of America's coercive economic toolkit. The United States has introduced new types of export controls, restrictions on foreign investment in the country, tariffs, efforts to ban the distribution of foreign-owned apps, and other limits on imports.

America's expanding coercive economic toolkit serves a growing array of policy objectives. For decades, U.S. sanctions have been deployed to target the proliferation of weapons of mass destruction (WMD); military aggression by adversaries; terrorism; narcotics trafficking; and mass atrocities, repression, and other serious violations of human rights. But the United States has begun to use sanctions to pursue a wider range of targets, including cybercrime, intellectual property theft, and even the International Criminal Court. More notably, the country has begun to use its growing array of non-sanctions coercive economic measures to pursue a wide array of objectives. For example, the United States has imposed tariffs on steel and aluminum imports on the reasoning that high volumes of imports threaten U.S. national security—the first time the country has imposed so-called Section 232 tariffs in decades (though Section 232 tariffs have historically been used on multiple occasions). With broad bipartisan support, the United States has tightened restrictions on investment in the United States to ensure that competitors, particularly Chinese firms, cannot acquire key U.S. technology. Also, the United States is increasingly deploying export controls and other coercive tools in its technological and economic competition with China, seeking to limit Chinese technology companies' global reach and ability to overcome U.S. and allied firms' technological advantage.

Of course, the U.S. toolkit to address these challenges is not only coercive. Particularly in the wake of the COVID-19 pandemic, U.S. policymakers have also begun to contemplate industrial policies, such as subsidies for U.S. semiconductor firms and localizing supply chains of critical materials within the United States. The United States has also expanded its diplomatic outreach and activities around economic issues, particularly in Asia, where it has sought to build cooperation to counter China's economic and national security threats around shared concerns. While both domestic investments and coercive tools used internationally are critical for U.S. security, this brief examines the dynamic and evolving domain of U.S. coercive economic tools and how they are used.

Snapshot of Prominent, Current U.S. Coercive Economic Tools

- *Tariffs:* Under the Trump administration, U.S. use of tariffs for trade and national security purposes has soared to levels not seen in decades. U.S. goods imported from China, for example, now face an average tariff of 19 percent, compared with 3 percent before Trump began imposing additional tariffs on U.S. imports from China.[1] Tariffs imposed under the justification of national security affect steel and aluminum imported from most countries, including the United States' NATO allies. The Department of Commerce has also investigated whether imports of automobiles, uranium, titanium sponge, mobile cranes, and other products impair U.S. national security.
- *Sanctions:* The United States has steadily expanded its use of sanctions over the past decade, and particularly in the last several years. In addition to sanctions that limit trade between the United States and target companies and countries, the United States has aggressively expanded secondary sanctions—sanctions that restrict trade by foreign companies having no link to a U.S. person or company—which are deeply controversial with allies. Additionally, recent moves to assert a wider reach of U.S. primary sanctions, such as citing use of data centers in the United States to process transactions as a sanctions violation, means that even primary sanctions are having a greater extraterritorial impact.
- *Export controls:* Since the early days of the Cold War, the United States has used export controls to limit adversaries' access to military technologies and to dual-use items, which have both civilian and military applications. Over the past several years, however, export controls have risen in prominence as a policy tool of choice with Washington leaders, particularly in the increasingly important role they play in the U.S.-China competition. The United States uses export controls both to target more significant global companies and, as the Commerce Department continues to implement a 2018 export control reform law, to limit trade in a greater range of products and technologies. Moreover, the National Security Council has clarified that certain technologies are considered strategic, such as artificial intelligence, and their export should be constrained.[2]
- *Other import restrictions:* Over the past couple of years, the United States has begun to impose targeted import restrictions due to national security concerns. Notably, the Trump administration has effectively banned the use of equipment from Chinese state-owned telecom megacompanies Huawei and ZTE in U.S. telecommunications networks and has announced measures that enable the Commerce Department to limit the import or use in the United States of a range of information and communications technology products and services. These measures served as a partial basis for the administration's attempts to limit the distribution of Chinese-owned apps TikTok—which the administration has also pushed to see divested to U.S. companies, pursuant to a Committee on Foreign Investment in the United States (CFIUS) order—and WeChat. The administration has also announced measures to limit the import of Chinese-made bulk power management equipment, citing national security concerns. With growing bipartisan concern regarding U.S. supply chain security spurred by the COVID-19 pandemic, policymakers are contemplating further limits on certain imports to spur re-shoring and increase security of supply chains.

President Donald Trump takes part in a welcoming ceremony with China's President Xi Jinping during a visit to Beijing. The United States has moved to a more aggressive posture toward China in recent years, targeting Chinese companies with an expanding set of coercive economic tools. (Thomas Peter-Pool/Getty Images)

- *Review of inbound investment:* In 2018, Congress enacted a substantial expansion of the jurisdiction of CFIUS, giving it greater powers to review minority investments and expanding the scope of the type of investments subject to review. CFIUS has not only become more assertive in reviewing prospective investments, it has also vastly expanded its work to review already-completed investments that had not previously come before the committee, requiring divestment or other mitigation measures in a number of public cases.

Trends in the Use of Coercive Economic Statecraft

America's expanding use of coercive economic statecraft reflects a number of factors. First, the United States faces an increasing range of international challenges, particularly related to a tech-savvy, economically powerful, and militarily ambitious China. Global interconnectivity in the cyber domain, while providing global benefits, increases U.S. vulnerability to cyberattacks, intellectual property theft, and the collection of sensitive information. Moreover, political leaders and a U.S. public weary of post-9/11 military conflict have embraced economic coercion as an appealing pressure tool that falls short of war. U.S. leaders have turned to "maximum pressure" economic campaigns against Iran and Venezuela, for example, rather than substantial military strikes. In addition, multilateral economic institutions, including the World Trade Organization (WTO), have proven less effective at constraining abusive trade practices by China than policymakers originally hoped, spurring a return to more unilateral U.S. tools.

The expanding use of coercive economic measures also reflects a changing understanding about the utility and effectiveness of such measures. In the 1990s, as United Nations sanctions largely failed to change the behavior of Saddam Hussein in Iraq, as Fidel Castro remained firmly ensconced in power in Havana, and with the establishment of the WTO and the ushering in of an era of trade liberalization, policymakers increasingly saw economic coercion as a tool of limited impact that would be used only in exceptional circumstances. But this perception began to change by the 2000s, as new financial sanctions disrupted narcotraffickers and terrorist financing networks and began to put unprecedented economic pressure on Iran. In recent years, coercive economic tools have put significant economic pressure on not just Iran, but also Venezuela, North Korea, and other adversaries. These tools also have been used to threaten the success of major Chinese tech companies, including ZTE and Huawei. This relative success has contributed to a broad, bipartisan view that coercive economic statecraft is an attractive and effective policy tool, which in turn encourages its use.

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Several current trends in the U.S. use of coercive economic measures may be useful for decision makers and analysts to contemplate across whole-of-government foreign and national security policymaking. They are listed below.

Diplomacy Is Critical to the Deployment of Coercive Economic Measures, but It Can Require Hard Choices

U.S. coercive economic measures have long created tensions with allies. In the 1990s, the Helms-Burton Act, which targeted Cuba, and the Iran-Libya Sanctions Act prompted European governments to enact "blocking statutes" that sought (with limited success) to prevent European companies from complying with U.S. sanctions. European allies were opposed to most aspects of the U.S. escalation of pressure on Iran during George W. Bush's administration and the early days of Obama's, before eventually, under heavy U.S. diplomatic and sanctions pressure, adopting some increases in sanctions on Iran under European law, such as banning European oil imports from Iran. More recently, the Trump administration's aggressive use of sanctions and tariffs targeting traditional allies has heightened diplomatic tensions, particularly transatlantic tensions. European countries, facing tariffs on steel and aluminum, sanctions on Iran targeting European companies, and sanctions on the Nord Stream 2 pipeline, have already begun to enact ways to counter U.S. economic pressure and are actively discussing more substantial measures to resist U.S. coercion.

These tensions, however, have not prevented cooperation in other areas where U.S. allies and partners share American policy goals. The European Union, for example, has moved forward with sanctions against human rights abusers and rogue cyber actors in ways that were heavily influenced by the U.S. Magnitsky Act sanctions and by sanctions on Russian and other malign cyber actors. While few allies have implemented a U.S.-style campaign of sanctions on Venezuela, more than 60 countries have joined the United States in recognizing opposition leader Juan Guaidó as Venezuela's legitimate president, and the European Union and other key allies have imposed targeted sanctions on the de facto regime led by Nicolás Maduro. Sanctions on North Korea have largely been a multilateral affair, featuring remarkable coordination at the United Nations, albeit with varying degrees of enforcement by member states.

Beijing's and Moscow's actions in recent years have increased the willingness of many U.S. partners and allies to join the United States in taking steps to restrain Chinese and Russian threats. For example, Beijing's widening crackdown on domestic dissent within China and its more assertive foreign policy have contributed to a number of countries, which now include the United Kingdom, Germany, Australia, and Belgium, joining the United States in excluding Huawei and other Chinese

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telecom companies, at least partially, from their next generation 5G telecommunication networks. But U.S. policymakers will have to keep in mind that many allies and partners have critical economic relations with both China and Russia that they will be wary of disrupting. Achieving multilateral cooperation in addressing Chinese threats will take substantial time and effort. In some cases, the United States may need to make the hard choice to pursue action unilaterally if allies cannot be brought on board.

Clear Policy Objectives Are Essential, Though Challenging

Communicating clear objectives for coercive economic measures is extremely important. Clarity in goals enables policymakers to use coercive economic measures as effective diplomatic bargaining chips, offering relief from certain measures in exchange for a target's specific behavior changes. Clarity also better enables stakeholders, such as the business community, to comply with coercive economic measures. But the reality is that targets of economic coercion often engage in a range of malign activities. And Washington policy and political dynamics, where different branches of government and even different agencies may have set different priorities for different objectives, can make it difficult to set clear objectives for individual coercive economic measures. For example, Congress and the executive branch have established overlapping but not identical goals for U.S. sanctions on Russia. Many of the sanctions targeting Iran serve goals ranging from stopping WMD proliferation to countering Iran's support for terrorist groups. There also appear to be multiple policy goals for the U.S. export control restrictions on Huawei.

Some recent uses of coercive economic measures reflect clear, discrete policy goals. The 2019 sanctions on Turkey, for example, were in pursuit of the comparatively narrow goal of seeking to convince Turkey to de-escalate its military intervention in northern Syria. But in many cases of U.S. coercive economic statecraft over recent decades, the strategic goals are complex and often unclear, reflecting a range of different and shifting policy priorities. The Trump administration's goals in its trade war with China, for example, have shifted over the past several years. Moreover, policymakers within and between the U.S. Congress and the administration have had sharp divisions about whether to pursue change in Chinese trade practices or a policy of selective economic decoupling. Future U.S. policy leaders will probably find that setting clear goals for U.S. coercive economic measures is easier said than done, and they will probably have to invest significant political capital to do so. Where coercive economic measures do serve multiple goals, policymakers should nonetheless be clear in both expectations and the conditions for lifting some or all of the measures.

The Costs of Coercive Economic Measures Are Rising

As the United States has increased its use of coercive economic measures and focused on bigger financial entities and economies, the costs have risen. The tariffs that the Trump administration has imposed since 2017 are estimated to have cost approximately $60 billion annually, and China's retaliatory tariffs and other measures have harmed U.S. exporters, particularly in agriculture.[3] Huawei is estimated to have bought about $11 billion annually from U.S. companies prior to the U.S. imposition of escalating restrictions on sales to the firm, which will now render its purchases nil.[4] The 2018 sanctions actions on Oleg Deripaska, a Russian metals magnate, caused global aluminum prices to spike 20 percent in the weeks following the sanctions, before the U.S. Department of the Treasury began issuing licenses that helped stabilize the market.[5] An independent assessment of Trump's steel tariffs

President Donald Trump meets with U.S. allies during a G7 summit in Biarritz, France. The Trump administration's aggressive use of sanctions and tariffs has heightened diplomatic tensions with a number of U.S. allies in recent years. (Jeff J. Mitchell-Pool/Getty Images)

concluded that they cost U.S. consumers and businesses $900,000 for every job saved or created.[6]

A challenge for the policymaking community is appropriately calibrating, and institutionalizing, the capacity to anticipate and measure the economic costs of coercive policy. Particularly as the United States continues to use coercive economic measures against economically important targets, such as Russia and China, policymakers will need to look to internal governmental, as well as external, resources to improve its capacity for weighing the potential costs of actions. The benefits of tariffs and other coercive economic measures to U.S. national security and global economic interests may well justify costs, but the costs should be studied and considered.

Experts Disagree about Effectiveness of Coercive Economic Statecraft

In recent years, the United States has demonstrated that its coercive economic tools can inflict substantial costs on targets. For example, U.S. sanctions against Iran and Venezuela have cut both countries' oil exports far more than most experts predicted, and the export control measures against Huawei and ZTE appear to have had real impacts on the firms' ability to obtain technology.

In terms of achieving desired policy outcomes, however, the record for use of coercive economic measures is decidedly mixed. Pressure campaigns on North Korea, Venezuela, Syria, and Russia have yet to persuade their targets to make major policy concessions to U.S. goals. The aggressive use of tariffs on China did persuade China to agree to a limited Phase One trade deal, but the deal left out the most contentious and important issues in the U.S.-China economic relationship, and China is falling short on the commitments it made to increase purchases of U.S.-made goods. The more aggressive U.S. posture toward China over the last several years failed to deter China from enacting a new national security law that severely undercut Hong Kong's autonomy or from continuing to pursue widespread repression in China's Xinjiang region.

This is not to say these campaigns are without benefit. Denying resources to an adversary or competitor can weaken its position even if the United States fails to persuade it to change its behavior. Sanctions and other coercive economic tools can be a powerful signal of condemnation that serve to reinforce rules and deter malign activities even if the direct target refuses to make concessions. Other tools, such as the use of CFIUS to prevent Chinese companies from acquiring U.S. companies that possess sensitive U.S. data, can harden U.S. defenses even if China will not change its objectives.

Given the escalating costs and the potential for U.S. economic coercion to cause tension with allies, policymakers must be clear-eyed about the likelihood of success and should regularly evaluate whether coercive economic measures are actually achieving their stated goals.

China Raises the Stakes

Finally, China is likely to present the most complex challenge to U.S. coercive economic statecraft in decades. China's large economy makes it more important for the United States to obtain the cooperation of allies and partners but also raises the economic stakes for many allies and partners. The collateral costs of coercive economic measures against China—which is home to some of the world's largest banks and companies, is a vital supplier and market for U.S. firms, and has grown in importance as a supplier during the COVID-19 pandemic—have the potential to be enormous. China is even more central to U.S. allies and partners, especially in Asia. Over the longer term, China also may have a greater ability than other targets of U.S. economic coercion to reduce its reliance on key U.S. sources of leverage, such as U.S. semiconductors, and, potentially, the international financial system. And China will necessarily have a seat at the table in important multilateral efforts to combat collective global threats, such as climate change and future pandemic diseases. Policymakers will need to carefully evaluate whether and how to deploy coercive economic measures against Beijing.

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Conclusion

There is little doubt that U.S. policymakers will continue using coercive economic tools aggressively. The use of economic power, backed up by all of the available legal tools, plays to America's strengths as the dominant global economic power and promises a continued stream of benefits. Although there are inevitably going to be costs, and possibly increasing ones, associated with the use of coercive economic tools, the benefits are also going to increase over time. Economic power, as an engine of national security, will form a basis for leverage for American leaders to advance foreign policy goals in an array of domains. However, experience suggests that coercive economic tools need to be deployed carefully. Policymakers should rigorously evaluate how to use them and how to ensure that they are effective. Moreover, policymakers in the incoming administration and Congress would be well served to spend at least as much effort focusing on the positive tools of statecraft. These include domestic economic renewal, international finance and development incentives, and positive trade tools, among others. This will contribute to a balanced, and ultimately effective, economic statecraft toolkit.

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