

Economic Statecraft for the Twenty-First Century

Remarks by Chairman Robert Menendez

American Leadership Initiative - April 28th 2022

Thank you Orit. It is a pleasure to be here to discuss with the American Leadership Institute the imperative of reviving and renewing the instruments of American economic statecraft as we deal with the challenges and realities of the twenty-first century.

And to share with you my new legislation, introduced today, the Economic Statecraft for the Twenty-First Century Act.

In order to understand how we got here, I'd like to begin with a story – starting just after the end of World War II. Before there was Air Force One, President Truman travelled in a Douglas Skymaster airplane. Officially it was called the Flying White House.

In July of 1947, Truman sat in the presidential cabin and signed the National Security Act. This act reorganized the American government as it turned to the post-war period. And one of the things it did was establish the National Security Council.

The statutory members were the President, the Vice President, the secretaries of State and Defense as well as two advisors, the Chairman of the Joint Chiefs of Staff and the Director of the CIA.

But it did not include the Treasury Department or other elements of the U.S. Government critical to our prosperity here at home or our leadership of the global economy.

In the wake of the great geostrategic struggles of the first half of the twentieth century, the tools of international finance were not considered central to our national security and foreign policy. We were focused on hard security.

Even though one of the principal triggers of the Berlin Blockade – one of the first flash points of the cold war – was the introduction of the new Deutschmark currency in allied controlled Germany.

And as the cold war progressed, and even as we experienced how economic models of governance drive domestic and national security policy, our institutions still did not adapt and fully incorporate economic tools into our foreign policy toolkit.

Not with the embargo after the Cuban Missile Crisis, not with the freezing of Iranian assets during the hostage crisis, and not with the Gulf War when we put sanctions on Iraq.

Even as we were reminded time and time again of its importance when faced with the immediate threat of nuclear, biological and chemical weapons, what we now call economic statecraft – the longer term investments into finance, development, and economic governance – remained off to the side.

We've had multiple reorganizations of our defense and national security agencies over the past seventy years. But it was only a couple years ago that the Treasury Secretary was finally included as a statutory member of the National Security Council.

And while we stood up the Development Finance Corporation in 2019, and USAID has long executed economic development programs across various sectors, we still have a lot of catching up to do as a nation.

The war in Ukraine reminds us that economic leverage can be just as powerful as an army, both in waging war and in a country's ability to fight back against an aggressor. Geopolitics and geostrategy still matter. History has not ended.

In the twenty-first century, national power increasingly rests on geoeconomic foundations from fundamental resources like gas and oil to competition in new and emergent technologies like Quantum Computing, genomics, and Artificial Intelligence.

We can simply look at the consistent priorities of the voters of the United States to know that day to day economic issues like being able to fill your gas tank and your fridge often drives decisions about all other issues.

Yet the U.S. is still operating using the outdated tools of twentieth century. It's time to modernize.

So I'm grateful to talk to you today about my economic statecraft bill. It's an important issue that has profound implications for the future of our nation and the world.

As we have come to realize, China plays four-dimensional chess around the world. It does it militarily, diplomatically, culturally, and economically.

But their ace in the hole, their most effective tool, is their integration of it all under one giant economic toolkit.

China has effectively used its economic diplomacy to shape the global political order to align with their values and interests. From originally using the Belt and Road Initiative to export its own domestic overcapacity, to then wielding it to influence votes at the United Nations, one has to acknowledge that China's economic statecraft – while inimical to U.S. interests – has been remarkably effective in advancing their authoritarian view of the world.

The Belt and Road has allowed China to use lucrative port contracts to grow its power and win friendly trade terms.

These infrastructure projects may be commercially desirable for countries who have signed onto the Belt and Road Initiative. But can they be relied upon at times of national emergency? Letting China build critical infrastructure may be cheap, but there certainly is a cost.

The increasing prevalence of Chinese companies in international markets is also a growing concern. Seemingly regular transactions can have serious security implications. A deal with a Chinese state-owned enterprise could transform the Chinese military into your partner and your Achilles heel.

Globally, China's brand of international economic diplomacy is best described as manipulative investment. It not only threatens global stability, but the free flow of commerce, freedom of navigation, and the resolution of disputes consistent with international law.

The U.S. may not be in a position to counter 'dollar for dollar' China's state-owned enterprises or checkbook as it builds infrastructure around the world. But we also don't need to be. That is not where our competitive advantage lies.

Our advantage is our values – free markets, democracy, and human rights.

To create, shape, and set standards for the twenty-first century, America and our allies must show up. If we don't, we risk seeing the rule of law in these countries washed away in a flood of Chinese cash. It is not too late, but time is certainly running out.

Revitalizing the rules-based order and institutions built for the twenty-first century means dealing with the challenges posed by technology and Artificial Intelligence. It means being honest about how these advances can also lead to oppression and economic displacement. And it means reforming our institutions in a way that delivers economic prosperity for all of our people.

Our best hope at establishing the rules of the road for the future of global commerce is to work together.

China has aggressively ingrained itself into the very fabric of nations' successes. And that includes American supply chains.

The United States only recently realized the extent geo-economics plays in our national security. It was this belated realization of the power of supply chains and economic diplomacy that caught us flat-footed when COVID began. The industries critical to our survival were not American made – but Chinese based.

At the start of the pandemic, nurses had to shield themselves with garbage bags. Americans didn't have enough masks because China was hoarding them for their own protection.

Even this past January, the KN95 masks distributed to the U.S. Congress were made in China. A casualty of the inefficient and underachieving bureaucracy steering our geoeconomic policy.

It is a bureaucracy divided between the Treasury Department, the State Department, the Commerce Department, the U.S. Trade Representative, and various other agencies. Each have their own competing interests, creating a stovepipe system without a coordinated vision.

This dynamic makes it more difficult to advance our national interests and promote the values of freedom and democracy that flourished in the post-war period.

Just this week, we've seen how Russia wields its own form of geo-economic power. In light of its unprovoked, brazen invasion of Ukraine, the free world has rallied together to provide weapons for Kiev and to cut off Russia's coffers. But because of Europe's reliance on Russia for vital energy resources, some countries are limited in the financial impact they are willing to absorb as their citizens already contend with inflation and high prices on basic commodities. We must support investment into new energy technologies and economic models that will allow for a strategic energy independence for countries currently economically enmeshed with Russia. It is time to have coordination. We need a new, whole-of-government approach. One rooted in the emerging geopolitical realities of a world more connected yet more complex than ever. And that's exactly what my bill, the Economic Statecraft for the Twenty-First Century Act, will do.

The bill tackles these challenges in two parts.

The first half of the bill focuses on confronting the anti-competitive and predatory nature of China's international economic policy.

And that starts by shining a spotlight on China's economic coercion through transparency.

Those applying for U.S. foreign aid will have to disclose everything they owe to Chinese Government entities. Because U.S. taxpayer dollars shouldn't be used to pay off Chinese loans. It directs the State Department to work with the OECD and come up with a shared set of facts and issue reports on China's Belt & Road Initiative. Because predatory subsidies are distorting markets around the world.

It creates a Presidential task force which will publish a list of cases of Chinese economic coercion, the economic tools China could use in the future, and how the U.S. can respond. And because so much of China's economic coercion is aimed at those countries that increase their ties with Taiwan, we will develop a playbook to help those nations.

We also need transparency when it comes to the issue of confronting investment security. My bill will direct the Secretary of State, in coordination with CFIUS, to assist allies and partners in building new disclosure mechanisms so that they will be able to evaluate potential national security risks in their economies.

We also need to confront anti-competitive behavior.

My bill will direct the State and USTR to identify subsidies by the Chinese government that favor Chinese enterprises. These subsidies warp international markets and can violate American antitrust laws.

Customs and Border Protection will report seizures of counterfeit goods and increase inspections from designated countries.

And when it comes to intellectual property theft or forcible transfers of American technology, we will publish a list of Chinese, state-owned violators.

And finally when it comes to confronting Chinese economic coercion, we need to deepen our coordination with allies to create resilient supply chains.

Whether it's semiconductors, large capacity batteries, critical minerals and materials, or pharmaceuticals, we will keep pushing for transparent, trusted, and sustainable supply chain standards.

We will look at China's semiconductor manufacturing capabilities and how they impact the U.S. And we will work with allies on export controls of semiconductor manufacturing equipment to China.

Those are the ways we need to confront China's actions.

As I've said time and time again — simply being confrontational with China is not the same as being competitive with China. That's why the second half of this bill overhauls our economic diplomacy framework so we can effectively compete in the twenty-first century. First, we must compete in global infrastructure.

China's financing for their Belt and Road infrastructure initiative is opaque. But we know that is far more than the US spent on the Marshall Plan to rebuild Europe after the war.

If we want to compete, we need to support the President's Build Back Better World Initiative. There is an estimated \$40 trillion dollar need for infrastructure investments in low and middle-income countries.

But money is not enough - there is so much more we must do. Promoting the Blue Dot Network's infrastructure quality certification standards. Supporting the Three Seas Initiative to help Central European countries reduce their dependence on Russia. Nearshoring supply chains to the Western Hemisphere and bringing domestic production back to the U.S. And we need to bolster the Development Finance Corporation's ability to make strategic investments, so they can counter China's coercive economic measures in countries like Lithuania.

Second, we need to bolster our energy diplomacy. This is crucial not just for confronting China but also helping countries who are economically dependent on Russia's national resources.

My bill will codify an Assistant Secretary of State for Energy Resources, responsible for protecting energy security and promoting global clean energy production.

We will work with our European allies not just to respond to China's Belt and Road Initiative, but also to support countries grappling with the clean energy transition.

We will create a clean energy development fund between the Development Finance Corporation and European Bank for Reconstruction and Development.

And we need to reduce the carbon footprint of our international investment portfolio and prioritize projects in countries struggling with transitioning away from carbon use.

Because even as we work to reach the goals of the Paris Agreement, we have to be more ambitious on reducing green-house gas emissions.

Third, we must compete in the future of technology.

The United States, not China or Russia, should set the standards and global norms in this area. And we need to support the G20's goals in promoting principled and practical standards for international digital connectivity and trade.

We will work with our allies on Artificial Intelligence strategies and policies. My bill mandates that AI deployment take into account human rights, democratic values, and security.

Even Vladimir Putin, whose archaic worldview is rooted in the nineteenth century, has acknowledged that "artificial intelligence is the future for all humankind. Whoever becomes the leader in this sphere will become the ruler of the world," he has said.

We cannot cede leadership on this to a man who believes he can still redraw the world map by brute force.

International cooperation on research and development has great potential. The United States is stronger when we work together with allies and partners – and the innovation and creation of the technologies of the next generation is no exception.

Fourth, we have to leverage international financial institutions and multilateral pacts.

As my bill states, it is the policy of the United States to lead the international economy in the aftermath of COVID-19. This includes developing new ways to ease debt burdens for developing countries. Specifically, my bill will authorize the transfer of Special Drawing Rights to the IMF's new Resilience and Sustainability Trust (RST). This, together with other advanced economies, will pool 100 billion dollars to go to the developing world so that their economies can recover from the pandemic.

It also authorizes capital increases at the Inter-American Development Bank, and creates a diplomatic strategy for increasing Taiwan's participation there.

My bill also directs the U.S. to work with the G20 to have a transparent framework for the debts that developing countries take on, and increase our engagement at the Asia Pacific Economic Cooperation Forum to promote our priorities on everything from cross-border investment in emerging markets to improving cybersecurity.

And finally, we must compete in strengthening global economic resilience.

When the next pandemic hits, the world has to be ready.

My bill establishes the Office of Economic Resiliency in the State Department's Bureau of Economic and Business Affairs, which will develop plans with our allies and partners to respond to these types of global destabilizing events.

Whether it's COVID-19 public health or economic recovery, foreign assistance and development institutions are critical in fighting the harmful effects of international shocks and stresses.

In closing – I want to look back about how we got here – and what the future holds.

Twenty years ago, the common consensus was that by joining the international economic order, China would adopt principles of economic liberalization and personal freedom. But unfortunately, that hasn't happened.

Instead they are using their economic integration to pressure the developing world to choose between our system and values of self-determination, respect for human rights, and openness. Or their system and their values of authoritarianism, repression, and censorship.

Take for example Lithuania. After the opening of a Taiwanese Representative Office in Vilnius, Beijing reacted by immediately downgrading diplomatic relations with Vilnius. It prevented Lithuanian goods from entering China – effectively creating a trade barrier. This is economic warfare.

The good news is that the United States is finally doing something about it. The State Department is creating a "playbook" to help our allies and partners push back against Chinese economic coercion.

The Export-Import Bank is replacing a Chinese loan worth \$300 million. A trade delegation led by State and USTDA visited Lithuania to discuss ways to increase cooperation.

But there is still more to do, because we know this won't be the last time China does this. Lithuania is a test for the international community. If we cannot help them, then we fail that test. And ultimately, we will face the consequences.

Looking forward, the economic battleground is clear. And the time to act is now. I recently travelled to Japan, Taiwan and Australia, and it was clear that unless we have an economic and trade agenda, we will not meet the strategic competition challenge with China. And we will not meet the security challenge these countries face. China is our single biggest geostrategic threat. Without a robust economic and trade agenda, we cannot win.

This is not just about economic tools that are a critical element of shoring up the free world. This is a confrontation between violent autocrats, and those of us fighting for a rules-based international order.

This is a battle between dictators who want to act with impunity, and those of us standing up for democracy, human rights, and the cause of freedom around the world.

And so I am proud to introduce the Economic Statecraft for the Twenty-First Century Act today. It is time for the United States to reclaim the mantle of global economic leadership.

Thank you very much.

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