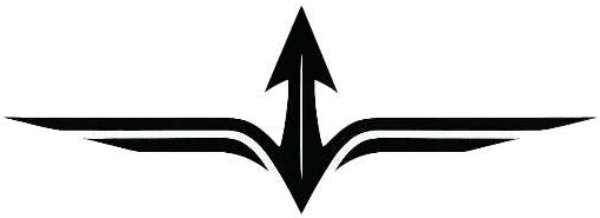
Chapter 7



Economic Power, Industrial Readiness, and Deterrence

Tim Buehrer and Lori Forman

"For the greater part of the last decade, the United States and China have been locked in a cold war, fought as fiercely over economic and technology advantages as over military advantages."[2]

— Navin Girishankar

Economic power has long been the foundation of any country's geopolitical influence and national security. The history of the United States affirms this fact. In the early 19th century, the United States was a modest player on the global stage. It was a mostly agrarian society with cotton as its largest export. Through innovation, geographic expansion, investment, and population growth, the United States was transformed over the next century

into an industrial giant on the verge of becoming a superpower. During the 20th century, the dynamic U.S. economy continued to grow, enabling the United States and its allies to win two World Wars and the Cold War. With the fall of the Soviet Union near the end of the 20th century, the United States was the pre-eminent economic and military superpower, ushering in a period of global primacy.

In the three decades since, the world has changed. The Chinese economy has grown rapidly, enabling it to significantly expand its military. Possibly more importantly, that growth, particularly in manufacturing, has enabled China to play a central role in a wide range of critical global supply chains, which it uses as leverage to promote its geopolitical interests. China also regulates access to its domestic market to promote its geopolitical goals.

Today, we see the conflict between the United States and China playing out in economic policy. The United States has increasingly used its economic might to advance geopolitical objectives, including through sanctions, export controls, tariffs, and other economic tools.[3] This has often been effective. When the United States announced broad-based tariffs on imports from countries around the world, most countries sought negotiated exemptions. However, China was almost unique in imposing retaliatory tariffs on key U.S. exports. China also threatened to respond to the tariff threat by restricting exports of rare earths, many of which are essential to the defense industry. In the end, China and the United States reached a negotiated solution that avoided the worst of the trade interventions.

This amply illustrates the current challenge to the primacy of the United States and its allies. This heightened state of economic and military competition highlights the need for the United States and its allies and partners to strategically and effectively use their economic power and the tools it supports to advance their economic and security interests.

This chapter examines four dimensions of the strategic use of economic power. First, it explores how countries use economic statecraft to accomplish geopolitical goals that would otherwise require military force. Second, it addresses industrial policy, both as an economic necessity and as a tool of war readiness, highlighting how national security-informed economic policies are a prerequisite for developing the defense industrial base. Third, it analyzes economic power as a deterrent, noting how visible economic strength, when coordinated with defense strategy and guided by national security goals, alters competitor calculations. Finally, it considers the value of strategic alliances that promote economic partnerships and trusted supply chains to strengthen security cooperation and resilience while blunting coercion.

Ultimately, this chapter argues that economic policy can no longer operate in isolation from national security planning. In an era of great power rivalry and multipolarity, strategic advantage belongs to countries that can coordinate the use of economic tools with security objectives, thereby mobilizing capital, labor, and markets as deliberately as they mobilize troops. While the Department of War (DoW) may not launch economic weapons, its leaders and warfighters need to understand their power and implications. At the same time, DoW must work with the

interagency, the private sector, as well as allies and partners, so that its priorities inform the "ready, aim" before economic agencies fire these tools.

Economic Statecraft

Economic statecraft is the deliberate use of economic instruments to achieve strategic foreign policy and national security objectives that might otherwise require the use or threat of military force. As the world's largest and most diversified economy, the United States wields unmatched economic power due to its enormous consumer market, robust banking system, and deep capital markets. This allows the United States to increasingly exercise economic statecraft as a frontline tool through instruments of denial and punishment such as tariffs, export controls, quotas, bans, standards, financial sanctions, and investment screening.

Tariffs

The United States consumer market is the largest in the world, roughly double that of China or the European Union (EU).[4] Thus, maintaining access to the American consumer market is critical for countries worldwide, including U.S. competitors. Recognizing this, successive U.S. governments have leveraged this market access through tariffs and tariff threats as instruments of economic statecraft to advance defense and national security objectives.

For instance, Executive Order 14257 of April 2, 2025, established a 10 percent base tariff on all imports, with higher

reciprocal tariffs on more than 50 countries, finding that "large and persistent annual U.S. goods trade deficits…[constitute an] unusual and extraordinary threat…to the national security and economy of the United States."[5] As a result, countries around the world sought new trade agreements with the United States, creating greater market access for U.S. firms in their economies.

Tariff actions have also been designed to address specific national security objectives: tariffs on Mexico and Canada were designed to incentivize stronger controls on fentanyl and its precursor chemicals that posed a threat to U.S. national security.[6]

In April 2025, the United States imposed targeted tariffs on Chinese electric vehicles and lithium-ion batteries to address both national security concerns and market distortions.[7] These measures were accompanied by incentives for domestic production under Title III of the Defense Production Act, reinforcing the U.S. industrial base.[8]

Similarly, on July 30, 2025, a presidential proclamation imposed tariffs on imported copper, citing findings that such imports were "being imported into the United States in quantities and under circumstances that threaten to impair the national security of the United States."[9]

Sanctions

Turning to the financial system, nearly 90 percent of foreign exchange transactions involve the U.S. dollar, and over 50 percent of trade invoices are denominated in it.[10] This makes the U.S. banking system the hub of global finance and trade. By

controlling who can access their banking systems, the United States and its allies can put pressure on governments worldwide.

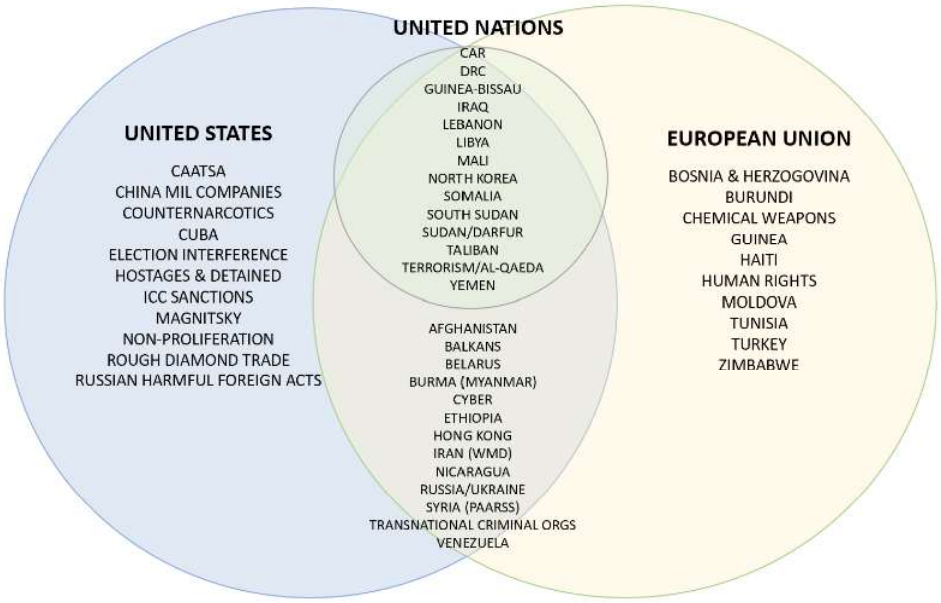


Figure 7.1 Targets of Global Sanctions Regimes[11]

Financial sanctions are the primary tool for limiting access to the banking system. Figure 7.1 illustrates the breadth of the sanction regimes in effect in July 2025 from the United States, the United Nations, and the European Union.

While there is debate over how effective sanctions can be, research suggests that effectiveness depends on scale and speed: sanctions work best when multilateral, rapidly imposed, and oriented toward achievable policy shifts rather than existential objectives.[12]

Export Controls

Export controls offer similarly direct means to deny adversaries access to sensitive capabilities. In December 2024, the

Department of Commerce's Bureau of Industry and Security restricted China's access to advanced semiconductor tools and computer components needed for military modernization.[13] Subsequent rules expanded restrictions on China's access to extreme ultraviolet lithography equipment because of its use in advanced weapons development.[14] These controls were coordinated with allies through the Wassenaar Arrangement and bilateral agreements with Japan and the Netherlands,[15] ensuring that China cannot circumvent restrictions by sourcing from third countries and reinforcing allied cohesion in technology protection.

Investment Controls

Finally, the United States has the largest and deepest capital markets in the world, and it is the world's largest source of foreign direct investment (FDI),[16] making access to American investment markets and capital critical for countries everywhere.

Investment controls are used to limit adversary access to U.S. markets. In the United States, the Committee on Foreign Investment in the United States (CFIUS), chaired by the Department of the Treasury, is the primary body responsible for reviewing foreign investment for potential security threats. China was the largest source of CFIUS notices in 2024, and two of those notices led to Presidential orders halting investments.[17] For example, in September 2025, the United States blocked a proposed $1.3 billion Chinese acquisition of a U.S. semiconductor firm whose products reportedly have military

applications,[18] underscoring the recognition that microelectronics constitute defense-critical assets.

Meanwhile, outbound investment screening ("reverse CFIUS") to ensure that U.S. capital is not supporting foreign businesses that undermine U.S. security is now being implemented. For example, a 2023 Executive Order called for the Department of the Treasury to develop a system to prohibit or require notification of investments by U.S. firms in key technologies—semiconductors and microelectronics, quantum information technologies, and artificial intelligence—in China.[19] This effort has been strengthened by the FY 2024 National Defense Authorization Act, which prohibits U.S. capital from supporting adversary advances in microelectronics, quantum technologies, and artificial intelligence.[20]

International cooperation is also important, particularly regarding outbound investment controls. Fortunately, U.S. allies are working to expand their investment control regimes. Japan already maintains outbound investment screening mechanisms, with the Foreign Exchange and Foreign Trade Act as its primary tool.[21] In January 2025, the European Commission recommended that EU member states also review outbound investments in critical technology areas. By coordinating U.S. systems to share intelligence on capital flows and coordinate regulatory actions, we can multiply the deterrent effect, close loopholes, and signal a unified resolve against adversarial economic practices.

The United States is also focused on shaping outbound FDI to support national security, allies, and partners. While the private sector overwhelmingly drives America's outbound FDI, the U.S. government can influence outbound private investment through the actions of the U.S. Development Finance Corporation (DFC). Established via the BUILD Act of 2018 and a bipartisan 93–6 vote of the United States Senate, DFC works with the private sector to promote investments that "prevent adversaries from monopolizing infrastructure development, energy markets, and supply chains of critical minerals" that are critical to the United States.[22] Tools like private FDI and government efforts like the DFC can be seen as the positive side of economic statecraft.

The Department of War is also engaged in promoting strategic investment. DoW's Office of Strategic Capital (OSC) has emerged as a key actor in the investment space. OSC's FY2025 Investment Strategy examined 31 critical technology sectors where the U.S. strategic advantage is at risk.[23] These areas include microelectronics, quantum computing, and synthetic biology. As noted in the strategy, "investing for what might be termed 'national security returns' requires a different yardstick" than used in typical private sector investment.[24]

To address capital shortfalls identified by the national security yardstick, OSC launched a credit-based investment vehicle that leverages federal guarantees to attract private capital in 15 Industry Segments of Particular Interest for OSC's new credit-based authorities.[25] This initiative has already helped

scale production of gallium nitride semiconductors, a component essential for next-generation radar and directed energy systems.[26] In August 2025, OSC announced its first direct loan to add heavy rare earth separation capabilities at a U.S. rare earths mine in California.[27]

CFIUS, reverse CFIUS, the DFC, and the OSC show how capital allocation has become a critical instrument of economic statecraft.

Coordinating Economic Statecraft

A range of federal departments and agencies implement the policies discussed above. For those policies to be maximally effective, domestic agencies must synchronize their actions within a unified economic and security framework. This requires a high degree of communication and collaboration across the government. The U.S. White House has a National Security Council and a National Economic Council that advise the President on security and economic topics, respectively. Still, they are distinct organizations with some overlapping membership. Improving coordination among those councils is crucial to ensuring that economic and national security policies are aligned.

Japan has addressed this at an even higher level, creating a ministerial post for economic security and passing an Economic Security Promotion Act.[28] While creating a U.S. cabinet position for economic security would be excessive, adopting a bipartisan approach to economic security through legislation could significantly strengthen coordination across departments and

generate a level of strategic certainty that Executive Orders alone cannot.

This section has discussed how economic power can be leveraged using economic statecraft, a dynamic tool that can shape the strategic environment and deter conflict. To be effective, economic statecraft must be credible, coordinated, and clearly communicated. Allies must understand the strategic logic, and adversaries must perceive the costs.

Industrial Policy

To meet the challenges of this century, the United States should adopt a more aggressive industrial policy that is informed by economic, national security, and defense objectives.

The Organization for Economic Cooperation and Development (OECD) defines industrial policy as "government assistance to businesses to boost or reshape specific economic activities…"[29] The critical question is choosing which economic activities will effectively achieve the desired ends. Much of the debate today in the United States centers on key technologies of the future, like AI and hypersonics. Still, it can also include access to key supply chains, such as pharmaceuticals or rare earths. Once industrial policy targets are identified, resources can be directed toward them.

This sounds simple enough, but decision-making for U.S. industrial policy is not concentrated in a single dedicated office. Industrial policy, at best, is fragmented across statutes, services, and agencies. Moreover, the deference that U.S. economic

policy usually gives to market forces has made it challenging to pursue industrial policy.

Intense competition from China in key sectors, as well as Chinese control over key value chains, has altered this dynamic to some degree. The United States is now more actively pursuing industrial policy for both economic and national security reasons. But to do so, there needs to be greater coordination of efforts, as a lack of coordination can put sectors into competition for key resources, such as skilled labor or investment capital.

Industrial Policy for Economic Growth

The United States remains the largest and most dynamic economy in the world. This has been driven mainly through private-sector incentives and creativity, but underlying that, have been critical government investments in infrastructure, such as the interstate highway system, which reduced transportation costs, and in basic research and technologies, such as the internet and GPS.

As China and other countries pursue coordinated, long-term strategic investment programs,[30] the United States must expand its efforts to promote industrial growth, while recognizing that private-sector incentives will ultimately drive outcomes.

Two recent examples of U.S. industrial policy are the CHIPS and Science Act of 2022 and the Infrastructure Investment and Jobs Act of 2021. These laws establish frameworks for government support in critical sectors, including semiconductor supply chains, clean energy, and advanced manufacturing. The infusion of billions of U.S. dollars of federal

funding has “generated over $200 billion in private investment and created more than 80,000 jobs.”[31]

More recently, the United States has pursued a more interventionist industrial policy, including equity participation in government financing and support arrangements. In several cases, the government has taken minority equity stakes—such as a 10 percent stake in Intel and a 15 percent stake in MP Materials, a rare-earth mining and processing firm—as part of broader efforts to strengthen critical supply chains and industrial capacity.[32] While the mechanisms vary, the underlying objective is consistent: to steer private-sector investment toward the government's strategic priorities.

One of the key challenges recognized today is supply chain resiliency. One of the enduring lessons of the COVID-19 pandemic has been the fragility of global supply and value chains. Lean inventories and complex global supply chains for key manufacturing inputs left both producers and consumers vulnerable to supply disruptions. The support mentioned above for MP Materials and other producers of rare earths, as well as the support for Intel, are examples of how the government is seeking to reduce foreign control over critical products. Similar investments are being made in other key supply chains.

Ultimately, modern industrial policy seeks to address economic security issues that the private sector cannot solve on its own. Government investments in specific value chains and technologies can increase economic security but must be coordinated and efficient.

Industrial Policy for Defense

The section above examined how industrial policy can be designed to promote economic security. Still, it can also be designed to promote specific industrial goals, such as improving the defense industrial base—the factories, suppliers, and workforce that ensure surge capacity, secure supply chains, and accelerate innovation. This is a critical goal of the Department of War that requires integrating economic planning with defense readiness.

The United States has taken initial steps to address defense readiness through Executive Order 14265, *Modernizing Defense Acquisitions and Spurring Innovation in the Defense Industrial Base*, and the Department's subsequent *Acquisition Transformation Strategy*. Together, these initiatives are designed to ensure that acquisition and production operate on a "wartime footing," characterized by speed, flexibility, and disciplined risk-taking.[33]

Proposed legislative measures, such as the SPEED Act[34] and the FoRGED Act,[35] aim to streamline the acquisition process further and accelerate the deployment of critical technologies. Together with Executive Order 14265, they form a coordinated effort to eliminate bureaucratic delay, expand surge capacity, and place the acquisition system on a wartime footing.

Expanding investment in dual-use smart capabilities is another strategic industrial strategy for America, representing a fusion of innovation, agility, and partnership across government,

industry, and finance. The Replicator initiative, launched in 2023, illustrates this shift. It provides funds for small businesses to deliver all-domain, attritable, autonomous (ADA2) systems at scale.[36]

Together, these initiatives reflect a growing recognition that defense readiness is no longer determined solely by force structure or budgets, but by speed, resilience, and adaptability of the industrial systems that support them. Industrial policy, when aligned with defense requirements, thus becomes a foundational element of deterrence and warfighting credibility.

Domestic Coordination and Collaboration

For these initiatives to be effective, institutional coordination is key. Within the federal government, the Departments of War, Commerce, Energy, and Treasury, together with the National Security Council and the National Economic Council, must work together to ensure that industrial policy is targeted and efficiently supports strategic objectives while navigating the complexities of modern competition. Equally important is coordination between government and industry, where experience has shown that reliance on government as the sole customer or the primary source of incentives can discourage sustained private investment. Regulatory delays, uncertain funding streams, and shifting priorities hinder long-term commitments to facilities, workforce development, and research that are critical to economic growth and national security.

The United States is making progress in aligning economic and national security objectives, but significant gaps remain. It

lacks a centralized doctrine and a dedicated national team focused on economic deterrence. Outbound investment screening is being rolled out, yet enforcement mechanisms continue to evolve, and interagency messaging remains uneven.

Without a holistic approach, industrial policy risks fragmentation and missed opportunities. At the end of the day, industrial policy cannot be reactive. It must anticipate needs, build depth in critical supply chains, and promote sustained domestic and international cooperation to ensure that both economic and security interests are met.

Economic Power as a Deterrent

If economics is the science of scarcity and choice, then economic tools function by creating—or alleviating—scarcity in ways that force strategic choices. Therefore, it is no surprise that when economic tools are used deliberately and in sync with defense objectives, they can influence adversary behavior, reduce coercive leverage, raise the cost of aggression, and help prevent conflict before it starts. That is the logic of deterrence.

When integrated with national security and defense strategies, economic power becomes not just a source of resilience but a proactive means of shaping the strategic environment—one increasingly central to how the United States and its allies pursue deterrence in an era of sustained competition.

Deterrence by Denial

Denial aims to prevent adversaries from acquiring the technologies, capital, or material needed to develop or sustain military capabilities, with export controls and investment screening serving as central tools.

A long-standing focus of export controls has been to restrict access to critical technologies. For example, in March 2025, the Department of Commerce's BIS expanded export controls to include advanced semiconductor design software and quantum computing components used by Chinese and Russian firms with military ties.[37] These measures were coordinated with allies in the Netherlands, the Republic of Korea (ROK), and Japan—states that control key nodes in the semiconductor supply chain—reinforcing a shared approach to technology protection and limiting adversaries' ability to source sensitive capabilities through third countries.

Investment controls, discussed previously, pursue the same objectives by restricting the acquisition of firms possessing sensitive technologies, rather than focusing solely on the technologies themselves.

Deterrence by Punishment

Deterrence through punishment is often implemented through financial sanctions. For example, following a series of Iranian proxy attacks on U.S. personnel in Iraq and Syria in early 2025, the Treasury Department froze assets and sanctioned banks linked to arms transfers.[38] These actions were intended to disrupt

the Islamic Revolutionary Guard Corps' operational funds by freezing billions of dollars in assets. The primary sanctions were mirrored by the European Union and Japan, amplifying their impact and reinforcing the credibility of deterrence.[39]

Similar tools are routinely applied to other adversaries. North Korea, for instance, is a frequent target of the Treasury Department's Office of Foreign Assets Control (OFAC). In late 2024, OFAC sanctioned additional individuals and entities for providing financial and military support to Pyongyang, which in turn supplied material to Russia for its war in Ukraine.[40]

Primary sanctions are often reinforced through secondary sanctions, which target firms in third countries that facilitate trade with sanctioned entities. Several United Arab Emirates-based logistics companies have been sanctioned for enabling Iranian arms shipments to Yemen,[41] further disrupting supply chains and raising the costs of illicit activity.

When applied at scale and in coordination with partners, punishment-based measures can raise the costs of malign behavior sufficiently to contribute to a durable deterrent effect.

Deterrence by Signaling

Not all economic deterrence is coercive. Certain economic actions—including major investments, joint procurements, and industrial collaboration—serve as signals of resolve and long-term capacity, shaping adversary expectations without direct punishment.

One form of deterrence by signaling is creating visible economic strength. Investments under the CHIPS and Science Act, now totaling over $50 billion, reflect a sustained commitment to technological leadership and supply-chain security. These include $11 billion in grants and loans to support expanded fabrication capacity at TSMC facilities in Arizona, Texas Instruments' facilities in Texas, and GlobalFoundries facilities in New York and Vermont. Beyond their economic effects, such investments signal that the United States is willing to mobilize capital at scale to protect technologies central to its long-term strategic advantage.

Signaling also occurs through allied industrial and defense cooperation. The 2025 defense budget included joint development programs with partners through frameworks such as AUKUS and the U.S.–Japan–ROK trilateral arrangement, emphasizing undersea warfare, advanced sensing, and integrated command-and-control systems. By enhancing interoperability and co-development, these initiatives reinforce collective capacity and signal that potential aggression would encounter a coordinated and technologically advanced coalition.

Economic Alliances and Partnerships

As strong as the United States is on its own, when it coordinates with allies and partners, it is even stronger. The same logic that underpins military alliances applies to economic statecraft: actions taken in concert are more credible, more resilient, and far harder for adversaries to counter.

The European Union demonstrates how shared economic weight translates into geopolitical influence. While Germany is the largest economy in the European Union, it alone accounts for less than 5 percent of global GDP (measured in nominal terms at current exchange rates), compared with approximately 26 percent for the United States and just under 17 percent for China.[42] Taken together, however, the 27 member states of the European Union have a combined GDP of roughly 17 percent, comparable to China's share, allowing the bloc to respond more effectively to economic threats, shape regulatory standards, and attract engagement from like-minded partners. At the same time, dense internal trade and investment linkages help align national interests and reinforce cohesion among member states.

The Association of Southeast Asian Nations (ASEAN) is an example of how even looser forms of economic partnership can amplify influence. The eleven ASEAN member states are not as integrated as the European Union,[43] but they have committed to cooperation in support of regional stability and development. Since its formation in 1967, ASEAN has fostered an enabling economic environment that has supported sustained growth and elevated the collective standing of its members in global affairs. While consensus-based decision-making limits coercive capacity, ASEAN's convening power enables it to bring together countries across the Indo-Pacific to address shared challenges.

Together, these models underscore a central point: coalitions can amplify economic and geopolitical influence even without full integration, provided participants align around shared

interests and frameworks. By pursuing security and economic agreements, the United States can strengthen collective resilience and extend its strategic influence through partnership rather than unilateral action.

Trusted Supply Chains and Shared Resilience

Strong partnerships are central to supplychain resilience. Critical supply chains—for semiconductors, batteries, rare earth elements, high-purity materials, and advanced components—cannot be secured by the United States alone. Even where domestic capacity can be expanded, these systems cannot be rebuilt overnight and often depend on inputs that the United States does not possess in sufficient quantity. As a result, alliances and partnerships with like-minded countries are crucial, while longer-term diversification across trusted partners strengthens resilience and reduces vulnerability to disruption or coercion.

FDI, both inbound and outbound, can be a key tool in linking supply chains and increasing trust among partners. U.S. encouragement of investment by foreign firms in domestic production facilities helps embed advanced technologies, deepen industrial linkages, and expand shared capacity. At the same time, the DFC works with the private sector to support strategic investments abroad that reinforce critical supply chains and, in turn, enhance security at home.

These dynamics extend directly to the defense industrial base. Cooperative frameworks like AUKUS, particularly in undersea systems, and trilateral cooperation among the United

States, the ROK, and Japan on co-production, maintenance, and sustainment illustrate how allied industrial integration can amplify military capabilities and readiness.

The ROK offers a particularly strong example. Its 2022 Defense White Paper articulates an explicit goal of "fostering the defense industry into a national strategic industry."[44] In 2024, this vision was reinforced during a U.S.–ROK 2+2 meeting, where leaders committed to "strengthen alliance maintenance capabilities…increase readiness regeneration capacity…deepen defense cooperation and enhance supply chain resiliency."[45] Through partnerships like these, the United States and its allies are building a more networked defense industrial ecosystem in which production, innovation, and sustainment are increasingly integrated across trusted partners.

Countering Economic Coercion

Partnerships and alliances enhance a country's ability to respond to economic coercion. In recent years, China has used its position in the global economy to apply economic pressure in pursuit of geopolitical objectives. For example, it restricted Japan's access to critical minerals following the arrest of a Chinese fishing vessel captain after a collision with Japanese Coast Guard ships.[46] Similarly, it imposed trade restrictions on Australian exports of wine and other goods after Canberra called for an independent inquiry into the origins of the COVID-19 pandemic.[47]

How do alliances and partnerships help in these types of situations? Even before one country tries to coerce another,

alliances and partnerships allow countries to diversify their sources of supply of key materials and widen markets for key export goods. This reduces an adversary's ability to coerce. Once an adversary acts, alliances and partnerships can assist by providing alternative sources of supply and markets. For instance, after China curtailed imports from Lithuania following Vilnius's decision to allow a Taiwanese representative office to use the name "Taiwan," the United States extended a $600 million export credit to support Lithuanian firms.[48]

As with multilateral sanctions, coordinated responses to economic coercion are more durable, more costly to evade, and more strategically potent than unilateral actions.

Public–Private Collaboration

Given the primacy of the private sector in the U.S. economy, sustained collaboration between government and industry is a strategic necessity. Effective partnership requires that the government align its strategic priorities with market incentives, recognizing how investment drivers, risk assessments, regulatory certainty, and capital availability shape private-sector decision-making.

To better integrate industry into defense acquisition and readiness planning, the Department of War has created the Economic Defense Unit and the Wartime Production Unit within the Office of the Under Secretary for Acquisition and Sustainment. Created pursuant to Executive Order 14265, these offices integrate economic intelligence, supply-chain analytics,

and acquisition execution to enable production, contracting, and capital flows to operate on a "wartime footing."[49]

Alongside tools such as the DFC, these mechanisms serve as bridges between market forces and strategic imperatives. That process begins, however, with transparent conversations as partners, not just as buyer and supplier.

Coalition as a Deterrent Asset

Ultimately, alliances and partnerships, whether multinational or domestic, strengthen a country's ability to exercise economic statecraft and respond to economic coercion. They reduce the cost of coordinated action, increase the costs of coercion, and signal to adversaries that attempts at economic pressure will be met with collective resilience.

For economic statecraft to support security objectives, the DoW must play a role not just as a consumer of economic policy but as a strategic partner helping guide where and how these tools are used. DoW must assist by shaping its policies and strengthening its partnerships, particularly in industries of strategic importance, to ensure that America's access to critical materials and technology is not threatened and that its strategic policy interests are protected.

Conclusion

In today's contested geopolitical landscape, economic policy has become a central instrument of national security. To fulfill that role, the era of siloed economic and military planning must end.

Preserving strategic advantage requires mobilizing capital and markets as deliberately as military power. It means coordinating investment, trade, and industrial strategies with security imperatives and cultivating economic partners with the same resolve as the United States cultivates military allies.

Economic power, when purposefully targeted, is a tool of deterrence, disruption, and denial. It shapes the strategic environment before conflict erupts and reinforces resilience when adversaries attempt coercion. Whether through sanctions that degrade adversary capabilities, alliances that harden supply chains, or investment strategies that build sovereign capacity, smart economic policy is mission critical.

In an era when major powers increasingly leverage economic interdependence for strategic gain, America must sustain a coherent approach that integrates economic planning with defense readiness and treats financial and industrial tools as instruments of strategic influence.

The United States retains significant advantages: a dynamic economy, deep capital markets, a widely trusted currency, and innovative firms. Yet these strengths yield strategic benefit only when coordinated effectively and exercised in concert with allies. In a period of sustained competition, enduring advantage will belong to nations that align economic power with strategic intent, build resilient partnerships, and employ economic statecraft as a force multiplier for national security.

Endnotes

[1] The authors are solely responsible for the views expressed in this publication, which do not necessarily represent the official policy or position of the Daniel K. Inouye Asia-Pacific Center for Security Studies, the U.S. Department of War, or the U.S. government.

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