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RESTORING BALANCE TO TREASURY'S ECONOMIC STATECRAFT

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About six months into the Trump administration, I participated in a meeting with a senior official on the topic of North Korea sanctions. As an aside on the U.S. Treasury Department's active role in sanctions policy, the official said, "Secretary Mnuchin didn't know he had so much authority and just *loves* the hammer."

To be sure, Treasury has a critical role in U.S. national security policy, and financial sanctions are among the important tools it wields, along with serving as chair of the interagency Committee on Foreign Investment in the United States (CFIUS). But Treasury has other important roles in international economic policymaking, including stewarding the dollar, advocating for sound macroeconomic and development policies around the world, and promoting global financial stability. Smart economic statecraft involves balancing these functions in a way that both protects national security and ensures the continued strength and openness of the U.S. economy.

Upcoming Events

- September 14–15: G20 Trade and Investment Ministerial Meeting (Buenos Aires, Argentina)
- September 18: 73rd Session of the UN General Assembly (New York, New York)
- September 18: Korean Connectivity Conference (CSIS Event, Seoul, South Korea)
- September 25: Putting FIRRMA into Practice: What CFIUS Reform Means for Foreign Investment in the United States (CSIS)

Although the Treasury Secretary was not originally designated as a statutory member of the National Security Council when it was established in 1947, the department has long had a role in national security affairs, going back to the War of 1812 when it imposed sanctions on Britain for impressing U.S. soldiers. At the start of the Korean War, the Office of Foreign Assets Control (OFAC) was established to block Chinese and North Korean assets under U.S. jurisdiction. OFAC's powers to administer sanctions were expanded with the passage of the International Economic Emergency Powers Act (IEEPA) in 1977 and, in 2001, the USA PATRIOT Act. A few years later, as part of the post-9/11 reorganization of national and homeland security functions, OFAC and Treasury's sanctions responsibilities were folded into a new under-secretary-led Office of Terrorism and Financial Intelligence (TFI).

Treasury's other major national security responsibility, foreign investment screening, dates back to 1975 when President Gerald Ford established CFIUS by executive order primarily in response to concerns about investment from Organization for Petroleum Exporting Countries (OPEC) countries. Major legislative reforms in 1988, 1992, 2007, and just this month with the signing of the Foreign Investment Risk Review Modernization Act (FIRRMA) by the president have gradually expanded the purview of CFIUS and thus Treasury's formal role as a national security agency.

In recent years, Treasury has taken up this role with increasing vigor. Use of sanctions grew sharply as the George W. Bush administration executed its "global war on terror" in the wake of 9/11. Nor was the Obama administration shy about using this tool of statecraft: in addition to tightening terrorist-related restrictions, the Obama Treasury imposed major new sanctions on North Korea and Russia in its final year.

But the Trump administration has taken sanctions to a new level in both intensity and scope, not only repeatedly adding restrictions on individuals and activities related to North Korea, Russia, and Venezuela but also restoring some sanctions on Iran that had been lifted as part of the Obama administration's nuclear deal, and, in a historic first earlier this month, targeting the assets of two cabinet members of a treaty ally, Turkey. In 2017 alone, Treasury added nearly 1,000 individuals and entities to its sanctions list, more than in any other year since 9/11.

CFIUS has also become more active in recent years, measured by both its caseload of foreign acquisitions reviewed and the number of deals formally or effectively blocked. After a gradual climb over the previous decade, the number of investigations launched by the Treasury-led interagency committee is estimated to have more than doubled in 2017 from the previous year, due in large part to the sharp increase in investment from China.

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There is good reason for Treasury to be stepping up its work as a national security agency. Global risks, from terrorism to nuclear proliferation, have increased in the early 21st century. Sanctions are a legitimate tool to address these problems when diplomacy alone is insufficient and kinetic action too costly. Even many critics of President Trump's foreign policy acknowledge that North Korean leader Kim Jong-un's sudden interest in summitry may have stemmed in part from the tightening of coordinated international sanctions on the rogue regime over the previous year. Meanwhile, more complex technology-related risks in today's global economy make enhanced scrutiny of inbound foreign investments by CFIUS warranted.

But increased use of these defensive tools of economic statecraft can also have unintended consequences. In a March 2016 speech generally touting the usefulness of well-crafted sanctions, former Treasury Secretary Jack Lew noted that these tools "can strain diplomatic relationships, introduce instability into the global economy, and impose real costs on companies here and abroad." He went on to warn of the longer-term risks of overuse of sanctions, including driving international business away from the United States and from the dollar. In a thoughtful report earlier this year, the Center for a New American Security (CNAS) highlighted this risk, noting that both China and Russia had set up alternatives to the dollar-based SWIFT payments system, which over time could undermine the competitiveness of the dollar as a cross-border currency and make future sanctions less effective.

A similar warning could be issued about the risk that overly restrictive screening of foreign investment poses to the openness of the U.S. economy. This has long been a key ingredient of U.S. growth and competitiveness—and even national security, insofar as our technological prowess depends on an open ecosystem for foreign capital and talent.

All of this points to a need for balance, in both policy analysis and policy prioritization. I wrote about the former last year, arguing that Treasury needs to use rigorous, evidence-based analysis that weighs the short- and long-term costs and benefits of policy choices and considers unintended consequences.

Balance is also needed in the policy priorities themselves. Treasury is not only a national security agency but also the principal advocate in the U.S. government for a strong and open economy—ours and the world's. On the Treasury website, the Office of International Affairs (known internally as "IA") sums up its role as "strengthening the external environment for U.S. growth." Most of IA's specific responsibilities are targeted at promoting key means to this end: a sound currency; growth-enhancing macroeconomic policies; deep, liquid, well-regulated capital markets; sound debt and development policies; and open trade and investment.

This was the mission I signed up for when I joined IA as a young economist in 1988. At a time of great stress in our economic relationship with Japan, I was fortunate to witness some of the most creative economic statecraft of the past 30 years, as we pursued meaningful structural reform in Japan and avoided a tit-for-tat trade war. Later, as an official in the George W. Bush and Obama White Houses, I had a small role in the establishment of strategic economic dialogues with China that produced useful—if incremental—results.

The Trump Treasury has not shown much interest in policy processes like these, canceling its own Comprehensive Economic Dialogue (CED) with China and putting little energy into what could be a productive dialogue with Japan about third-country economic cooperation. More substantively, it has not yet developed a positive agenda to shape rules and norms in the global economy. It has instead put its focus on playing defense, emphasizing sanctions and tighter screening of foreign investment.

Again, used judiciously, these are legitimate tools of economic statecraft. But to fulfill its mandate of "strengthening the external environment for U.S. growth," Treasury needs to balance its national security responsibilities with vigorous pursuit of a positive international economic agenda and invest in the processes to carry this agenda forward.

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