ECONOMIC COERCION

Definition

Use of coercive economic instruments (e.g., illicit finance or energy coercion) to achieve economic goals or cause economic harm to an adversary.

Examples of Gray Zone Threat vs. U.S. Interests

Erosion of confidence in democracy and capitalist systems as well as international and domestic institutions

- Russia’s LNG/energy market dominance used as political leverage
- China’s development and technological projects enable intellectual property (IP) theft and limit competition, thereby harming competitiveness of U.S. companies
- Erosion of faith in the U.S. economic model, and growing credibility of Chinese state-directed capitalism
- The global rise of populism and skepticism of global economic institutions

U.S. Government Responses

The Players: Department of State (DoS), U.S. Agency for International Development (USAID), Department of Energy (DOE), Department of Treasury, Department of Commerce, Department of Justice (DOJ), Intelligence Community (IC), U.S. Trade Representative (USTR), and White House (WH)

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<th>Deterrence &amp; Resilience</th>
<th>Intelligence &amp; Investigation</th>
<th>Cost Imposition</th>
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<td>DoS, DoE, and USAID invest in programs that buttress economic resiliency, capacity building, technical advice, and market diversity</td>
<td>IC aids Treasury’s foreign investment considerations and DOJ investigations</td>
<td>Exclude malign actors from multilateral or regional trade agreements</td>
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<td>Treasury determines if foreign investments and transactions are national security threats</td>
<td>Treasury’s National Illicit Finance Strategy and Supporting Risk Assessments investigates and assesses current U.S. government efforts to combat illicit finance</td>
<td>Make trade participation contingent on reformed standards</td>
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<td>DoS and USAID promote narrative of rivals’ predatory deals</td>
<td>Treasury’s Financial Crimes Enforcement Network Geographic Targeting Order expands record keeping and investigation of certain real estate transactions</td>
<td>Enforce sanctions and restrictions enforced by DOJ, Treasury, and Commerce</td>
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<td>DoS tightens and multi-lateralizes U.S. export controls on critical technologies</td>
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<td>Implement broad-based tariffs on Chinese imports</td>
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<td>Treasury and DOJ enforce sanctions</td>
<td>Congress passage of BUILD and Ukraine Freedom Support Act to build resiliency</td>
<td>Support World Trade Organization (WTO) arbitration</td>
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<td>DoS, USAID, and DOE spread narrative of benefits of transparency, established economic norms, and rule of law as reward for reform</td>
<td>Mandate Executive Order blocking rival technology and supply chains (like that of Huawei)</td>
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<td>The U.S. International Development Finance Corporation will provide investments and technical advice to drive economic growth, increase private capital, and strengthen local markets</td>
<td>WH, DoS, USAID, Treasury, and Commerce name and shame predatory practices</td>
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<td>Investment restrictions, export controls, and vigilance in international research collaboration</td>
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<td>U.S. alliances with like-minded countries to isolate or force compliance of gray zone actors</td>
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U.S. Government Assessment

Bureaucratic Structure
- Lack of interagency coordination, centralized direction for strategic action, and discretionary funds
- Few regulation and evaluation structures

Policy Positions
- Weak international alliances and partnerships limit collective action
- WTO arbitration abandoned
- Strategy to counter economic coercion lacks long-term consideration

Operational Limitations
- U.S. funding slow to disperse, too few economic and commercial officers in the field, and varying clearance levels discourage U.S. intelligence to share information with allies, partners, and non-governmental organizations (NGOs) and civil society organizations

Ineffective Tools and Tactics
- Few and underutilized punitive measures to stop economic coercion
- Few inducements for private sector to share information that would be used to aid investigations and research, rare punishment for skirting laws

Authorities and Purview
- Misalignment of foreign and domestic agencies and programs
- DoS's Energy Bureau lacks flexible authority to transport emergency energy supplies to allies and partners

Recommendations

Authorities and Resourcing
- Increase resourcing for targeted international development, stabilization, and finance authorities
- Create a system to track financial flows to provide common operating picture for relevant authorities
- Enhance interagency cooperation on issues of tax evasion and money laundering

Policies
- Prioritize strategy and policy for China
- Increase free trade agreements, accelerate implementation of the Better Utilization of Investments Leading to Development (BUILD) Act, and harness U.S. asymmetric advantages of transparency, rule of law, private sector innovation, and alliances and partnerships
- Elevate money laundering as a national security threat within Treasury and DOJ
- Collaborate with allies and partners to develop their own Committee on Foreign Investment in the United States (CFIUS)-like mechanisms, expand technical advice outreach; expand private sector partnerships

Tools
- Buttress targeted international development and stabilization assistance
- Foreign Corrupt Practices Act can help tackle illicit funds and economic coercion

Read the full report here. For related CSIS gray zone analysis visit: csis.org/grayzone.