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We are living in the age of economic statecraft. In just two decades, the world's leading powers—above all, the United States—have shifted from using economic pressure sparingly to making it a default feature of foreign policy. As a result, the practice of economic coercion—sanctions, export controls, tariffs, and investment restrictions—has proliferated at breathtaking speed. Since 2000, the number of sanctioned individuals and entities worldwide has increased tenfold. Tariffs and trade barriers have quintupled globally in just five years. More than 90 percent of advanced economies now screen foreign investment in sensitive sectors, up from less than one-third a decade ago. And when Russia invaded Ukraine in February 2022, the United States and its allies froze more than $300 billion of the foreign reserves held by

Russia's central bank in G-7 jurisdictions—crossing financial boundaries once considered sacrosanct.

Indeed, more than three years later, it is clear that Pandora's box has been opened. In its first hundred days, the current Trump administration attempted to enact tariffs with a speed and breadth unmatched in modern history. Beijing responded by imposing controls on key minerals exports and telegraphing its capacity to throttle supply chains across strategic sectors, underscoring the reality that economic warfare is no longer the exception. It is now the main arena of great-power competition.

Yet economic statecraft holds both power and peril. Unbridled economic coercion can fracture global markets, entrench rivalry between blocs, and breed instability that risks triggering the very kinetic conflicts it aims to avoid. Despite these risks, no U.S. government doctrine has yet emerged to guide economic statecraft, nor are there institutional safeguards to protect against its abuses. The use of military force, by contrast, has strict and long-established rules of engagement and escalation. Economic force deserves the same, or else policymakers risk deploying it without discipline or legitimacy. If the United States is to maintain its unique leadership role in the global economy, it must clearly define the objectives of economic statecraft, create the institutional capacity to match that mission, and embrace a more positive vision for the use of economic tools.

A NEW ERA

Several structural forces are driving states to rely more heavily on coercive economic statecraft. Perhaps the simplest to understand is geopolitical: the post–Cold War unipolar moment has given way to rivalry. Yet because most major powers possess nuclear weapons, the logic of mutually assured destruction has channeled direct conflict—most notably between Russia and the West, and between China and the United States—away from the battlefield and into economic domains.

At the same time, democracies—including the United States, where political polarization has reached its highest level in over a century—are fracturing from within. As the political center weakens, leaders from both parties increasingly resort to economic tools for immediate political gain. The Biden administration's early 2025 intervention to block Nippon Steel's acquisition of U.S. Steel illustrates this trend: prioritizing domestic ownership in a critical sector over partnership with a trusted ally to build long-term resilience.

Rapid innovation in dual-use technologies—semiconductors, artificial intelligence, quantum computing, synthetic biology, and nuclear fusion—is also reshaping how countries achieve both economic growth and military strength. These innovations' potential to transform the global balance of power is accelerating countries' efforts to wall off technology ecosystems and weaponize chokepoints in supply chains. China, for example, is simultaneously investing to achieve dominant scale in key dual-use technologies while tightening control over exports of essential inputs such as rare earths, gallium, and germanium. Its goals are to cement its technological advantage and to increase global dependence on Chinese production.

As energy demand soars—driven by AI, electrification, and the expanding middle class—the world's energy supply is also struggling to keep pace amid regulatory and political constraints. That scarcity and uncertainty provides opportunities for energy-rich states to exploit bottlenecks to their geopolitical advantage. Russia, for example, curtailed its natural gas exports to Europe to pressure governments to trim their sanctions and delay military aid to Ukraine. China, which controls more than 70 percent of the supply chain for battery materials, has restricted exports of graphite and signaled that it could extend controls to other minerals essential for electrification.

A DESTRUCTIVE CYCLE

These mutually reinforcing trends have dramatically increased the demand for economic weaponry. And the opportunities to wield such weapons have rarely been more abundant. Although the era of hyperglobalization has passed its peak, global flows in trade, capital, and technology transfers remain near historic highs—offering countries an ample variety of economic links to sever.

Unsurprisingly, governments are rapidly building administrative capacity, not only to deploy economic weapons but also to shield themselves from their effects. China has constructed the bureaucratic machinery to blacklist foreign companies, orchestrate mass consumer boycotts, and develop payment systems that bypass the dollar. Russia is aiming to perfect sanctions evasion through its use of cryptocurrency, barter arrangements, and gray-market networks. Japan has established a cabinet-level economic security ministry. The European Union is developing new anti-coercion tools. And India has embedded an economic security function within its National Security Council. Economic statecraft is no longer a boutique function of finance ministries. It is now a central pillar of national strategy worldwide.

Yet the more commonplace economic statecraft becomes, the greater the risk that it will spiral out of control. The world is on the cusp of entering a destructive cycle in which every foreign policy challenge triggers a sanction, a tariff, or an export control, fueling rounds of escalation with no clear off-ramps. The United States faces a distinctive test to sustain the legitimacy of the global economic order it built, anchored in the primacy of the dollar-based financial system. This architecture confers immense advantages for the United States: lower borrowing costs for households and businesses, unmatched fiscal capacity to absorb economic shocks, greater resilience in times of global stress, and the power to project force through economic statecraft.

If left improvisational, U.S. economic statecraft will not only erode its own credibility but also intensify global efforts to dilute American economic dominance. China is already spearheading mBridge, a multi-central-bank digital currency platform that aims to settle trade directly in digital yuan and other currencies. The central banks of China, Hong Kong, Thailand, and the United Arab Emirates are already using mBridge, with dozens more countries expressing interest. Its success could accelerate efforts to bypass the dollar entirely, making U.S. sanctions and export controls less effective and splintering the world's existing economic interdependence into rival financial blocs.

RULES OF ENGAGEMENT

Against this backdrop, the United States must articulate—at the highest levels of government—a set of guiding principles and rules of engagement for why, when, how, and against whom punitive economic measures are deployed. Although the United States will, at times, want to use restrictive economic tools with overwhelming force, it should do so sparingly. Their implementation should be tethered to clearly defined and achievable geopolitical objectives. Before deploying such measures, policymakers should articulate their strategic aims, including the specific behavior they are penalizing and the outcomes they expect to accomplish when economic pressure is combined with military, diplomatic, or humanitarian levers. This approach can ensure that instruments of economic coercion would remain what they should be: force multipliers, not a strategy unto themselves. Consider the U.S. "maximum pressure" campaign on Venezuela, which aimed to force regime change by cutting off the Maduro regime's access to oil revenues and global financial markets. Lacking a credible diplomatic pathway for leadership transition, the strategy triggered economic collapse without political change—fueling humanitarian catastrophe and mass migration and opening space for Russian and Chinese influence.

The application of economic pressure also demands careful calibration. Measures should be proportionate to their anticipated impact and mindful of spillover effects. In every case, they must exceed a threshold of expected efficacy relative to the costs and risks involved. Practitioners of coercive statecraft have a responsibility to minimize unnecessary harm to civilians and third countries; to avoid targeting food, medicine, or humanitarian goods; and to refrain from seizing private property without due process. The sweeping sanctions that the UN imposed on Iraq in the 1990s—which were so broad that they effectively restricted access to food, medicine, and critical infrastructure—offer a stark warning. Rather than forcing compliance, the measures produced devastating humanitarian suffering, eroded international support for the sanctions, and provided the

Iraqi regime with propaganda that undermined the legitimacy of the entire effort.

Economic weapons' effectiveness ultimately hinges on how much they influence the behavior of the targeted actors, not how few unwanted side effects they cause. Sanctions experts excel at designing measures that disrupt economies and financial systems with minimal collateral damage—a necessary capability. But the strategic question that policymakers must consider is whether the punishments will meaningfully shift the calculus of key decision-makers in the targeted country or entity. Meeting this test of sufficiency requires integrating economic analysis with political intelligence. Yet all too often, there is no precise judgment about how much economic pain is required to compel a change in behavior, or whether such a shift is feasible at all—especially when dealing with autocrats such as Russian President Vladimir Putin, who may pursue territorial conquest regardless of the economic costs. Policymakers should also weigh timing and signaling carefully: whether to deploy economic weapons preemptively or reactively and whether to communicate their intentions openly or preserve ambiguity to maximize impact.

> The United States must be able to marshal both economic sticks and economic carrots.

Coordination with allies is equally essential. Aligning restrictive measures amplifies their power, reduces opportunities for evasion, and reinforces their legitimacy. The purpose of coercive statecraft, after all, should not be the unilateral exercise of brute force but the collective defense of principles that sustain peace and security. Washington's withdrawal from the Iran nuclear agreement in 2018 and its unilateral reimposition of sanctions—even as European allies remained committed to the deal—illustrated the costs of going it alone. The move sowed legal confusion, stoked transatlantic tension, and diminished the United States' credibility, underscoring how effective economic statecraft depends on building unity and a sense of shared purpose.

Even the most carefully designed measures, however, are blunt tools that are typically deployed amid profound uncertainty. Flexibility and humility, therefore, must be foundational to any doctrine of economic statecraft. It should surprise no one when the impacts diverge from expectations. Humility demands that policymakers acknowledge miscalculations and adjust accordingly. Indeed, even without miscalculation, the context will inevitably shift: the coalition implementing sanctions may expand or contract, economic conditions in the target country may improve or deteriorate, and the political dynamics may evolve in ways that demand reassessment and recalibration.

A good example of adaptive sanctions policy came in 2018 when the United States imposed measures on Rusal, a major aluminum producer linked to the Russian oligarch Oleg Deripaska. After the sanctions triggered severe disruptions in global aluminum markets, the Treasury Department issued a series of general licenses to delay enforcement, ultimately lifting the sanctions once the company's ownership structure was reformed. This recalibration balanced pressure on the target with protection of broader economic interests—a model of flexibility that should inform future policy design.

Finally, doctrine cannot stop at America's shores. The United States should lead the development of an international framework based on these principles—a kind of Geneva Conventions for economic statecraft. This would not be an exercise in idealism but a pragmatic recognition that unchecked economic coercion invites reciprocal harm and risks accelerating the breakdown of the global economic system into competing spheres of influence. Persuading countries such as Japan and India—each investing heavily in their own economic statecraft—to join would require the United States to lead not with dominance but with diplomacy and a willingness to codify constraints on its own power. Other countries' participation would depend on seeing the framework as a source of stability and reciprocity, not hierarchy. Although rivals such as China and Russia may be reluctant to join initially, a credible, coalition-based architecture would still serve to align democratic economies around shared principles and build pressure against the excessive or abusive use of coercive economic tools. As with previous rule-setting efforts, early alignment among trusted partners can establish norms that eventually shape broader global behavior. Without such a framework, the alternative is an escalating cycle of economic brinkmanship that undermines the system that has long anchored U.S. leadership and global prosperity.

STRESS TEST

Upholding these principles will require a significant upgrade in the U.S. government's institutional capacity. The use of restrictive economic tools must be treated not as ad hoc responses but as part of a disciplined, well-resourced strategic arsenal. That means building analytical infrastructure capable of simulating complex economic interactions—ranging from evasion and retaliation by targets to feedback loops, unintended spillovers, and macroeconomic policy responses—using frameworks akin to multiplayer, multistage game theory. These models must account for various potential outcomes: the diversion of sanctioned goods through third countries, the ripple effects of secondary sanctions on allied economies, adversaries' retaliation with export restrictions in critical sectors, and the capacity for the United States to compensate for import shortfalls with domestic supply.

Just as the Federal Reserve takes regular inventory of its policy instruments and stress tests their effectiveness under varied conditions, the U.S. government should also maintain a continuously updated assessment of the full variety of restrictive measures at its disposal. This assessment should include regular evaluations of each tool's operational readiness, likely effectiveness, and limitations. For example, policymakers should be able to gauge not only whether a particular export control will impair an adversary's technological capacity but also how quickly alternative suppliers or domestic substitutes might emerge. The assessment should be able to consider prospective analyses of where America's economic strengths—such as its dominance in global finance, its cutting-edge technologies, its energy production, and its consumer demand—intersect with adversaries' vulnerabilities, and where adversaries in turn hold leverage over the United States and its allies.

To bring strategic coherence to this work, the United States may need to establish a new Department of Economic Security, staffed with experts in macroeconomics, trade policy, technology, finance, energy, diplomacy, and international law. This institution could function as an operational hub with the scale, analytical muscle, and surge capacity to manage multiple crises simultaneously. Although it may be possible to build these capabilities within the Treasury Department, the reality is that no existing agency today has the mandate, authority, or interdisciplinary expertise to design and deploy economic tools across the full spectrum of national security challenges. Ad hoc task forces and interagency processes have often proved too slow, siloed, or reactive to match the pace of today's geoeconomic threats. When Russia's invasion of Ukraine upended European energy flows and triggered a scramble for alternative suppliers, for example, or when U.S. export controls on advanced chips reverberated through tech supply chains from Taiwan to the Netherlands, it became clear that the United States needs enhanced operational preparedness to anticipate and manage the ripple effects of its economic decisions. A dedicated department would institutionalize economic statecraft as a core pillar of national power—on par with defense, intelligence, and diplomacy—and give it the strategic focus and executional capacity it currently lacks.

Enhancing institutional capacity can't stop at sharpening the tools of economic coercion; it must also support the design and delivery of positive economic tools. No matter how credible the doctrine or rigorous the analysis behind them, restrictive measures alone will never tap into America's most enduring advantages—its ability to attract, inspire, and create.

CARROTS

Currently, the United States suffers from a competitive disadvantage in that many of the innovations with the greatest strategic value—such as advanced semiconductor manufacturing, next-generation batteries, and biomanufacturing—require long investment horizons, high risk tolerance, and substantial upfront capital outlays. These are not the kinds of investments that U.S. private markets, which chase quarterly returns, prefer to make. The same funding deficit appears in old-economy sectors critical to U.S. economic and national security, such as shipbuilding, mining, and port equipment manufacturing. China, by contrast, is advancing a comprehensive strategy combining subsidies, preferential lending, public procurement, and export restrictions to secure dominance in these sectors and to exploit its control over key nodes in global production chains.

Large-scale financing remains elusive in the United States because public-sector leaders generally lack the flexibility to compensate for the private sector's short-termism. In 2022, the Biden administration created the Office of Strategic Capital within the Department of Defense to help channel long-term investment into defense-relevant emerging technologies, but it is authorized to offer loans and guarantees only for narrowly defined projects. For the United States to compete more effectively, it needs to ignite innovation in breakthrough technologies and rebuild strategic scale across the full scope of critical supply chains. This requires a flexible investment authority such as a sovereign wealth fund; concessional lending tools designed to "de-risk" investment and crowd in private capital; and the capacity to proactively secure essential energy and technology inputs—ideally through a Strategic Resilience Reserve that reimagines the Strategic Petroleum Reserve for a broader set of twenty-first-century vulnerabilities.

In a contested world, the United States must be able to marshal both economic sticks and economic carrots. The first step is to articulate a doctrine for how, when, and why coercive tools are used. The second is to build the institutional muscle to deploy them with foresight. The third—and perhaps most vital—is to ensure that U.S. economic power is not guided by brute force but instead reflects a principled ambition to advance resilience at home, opportunity abroad, and innovations that shape a more free and secure world. If the United States leads in defining a global framework rooted in these values, it can renew the legitimacy of the economic order it created—and avert a dangerous unraveling of the international system that would leave all nations diminished, none more than itself.