

Jake Sullivan

On Renewing American Economic Leadership

*Remarks by National Security Advisor Jake Sullivan at the Brookings Institution,
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I want to start by thanking all of you for indulging a National Security Advisor to discuss economics.

As most of you know, Secretary Yellen gave an important speech just down the street last week on our economic policy with respect to China. Today I'd like to zoom out to our broader international economic policy, particularly as it relates to President Biden's core commitment—indeed, to his daily direction to us—to more deeply integrate domestic policy and foreign policy.

After the Second World War, the United States led a fragmented world to build a new international economic order. It lifted hundreds of millions of people out of poverty. It sustained thrilling technological revolutions. And it helped the United States and many other nations around the world achieve new levels of prosperity.

But the last few decades revealed cracks in those foundations. A shifting global economy left many working Americans and their communities behind. A financial crisis shook the middle class. A pandemic exposed the fragility of our supply chains. A changing climate threatened lives and livelihoods. Russia's invasion of Ukraine underscored the risks of overdependence.

So this moment demands that we forge a new consensus.

That's why the United States, under President Biden, is pursuing a modern industrial and innovation strategy—both at home and with partners around the world. One that invests in the sources of our own economic and technological strength, that promotes diversified and resilient global supply chains, that sets high standards for everything from labor and the environment to trusted technology and good governance, and that deploys capital to deliver on public goods like climate and health.

Now, the idea that a “new Washington consensus,” as some people have referred to it, is somehow America alone, or America and the West to the exclusion of others, is just flat wrong.

This strategy will build a fairer, more durable global economic order, for the benefit of ourselves and for people everywhere.

So today, what I want to do is lay out what we are endeavoring to do. And I’ll start by defining the challenges as we see them—the challenges that we face. To take them on, we’ve had to revisit some old assumptions. Then I’ll walk through, step by step, how our approach is tailored to meeting those challenges.

When President Biden came into office more than two years ago, the country faced, from our perspective, four fundamental challenges.

First, America’s industrial base had been hollowed out.

The vision of public investment that had energized the American project in the postwar years—and indeed for much of our history—had faded. It had given way to a set of ideas that championed tax cutting and deregulation, privatization over public action, and trade liberalization as an end in itself.

There was one assumption at the heart of all of this policy: that markets always allocate capital productively and efficiently—no matter what our competitors did, no matter how big our shared challenges grew, and no matter how many guardrails we took down.

Now, no one—certainly not me—is discounting the power of markets. But in the name of oversimplified market efficiency, entire supply chains of strategic goods—along with the industries and jobs that made them—moved overseas. And the postulate that deep trade liberalization would help America export goods, not jobs and capacity, was a promise made but not kept.

Another embedded assumption was that the type of growth did not matter. All growth was good growth. So, various reforms combined and came together to privilege some sectors of the economy, like finance, while other essential sectors,

like semiconductors and infrastructure, atrophied. Our industrial capacity—which is crucial to any country’s ability to continue to innovate—took a real hit.

The shocks of a global financial crisis and a global pandemic laid bare the limits of these prevailing assumptions.

The second challenge we faced was adapting to a new environment defined by geopolitical and security competition, with important economic impacts.

Much of the international economic policy of the last few decades had relied upon the premise that economic integration would make nations more responsible and open, and that the global order would be more peaceful and cooperative—that bringing countries into the rules-based order would incentivize them to adhere to its rules.

It didn’t turn out that way. In some cases it did, and in lot of cases it did not.

By the time President Biden came into office, we had to contend with the reality that a large non-market economy had been integrated into the international economic order in a way that posed considerable challenges.

The People’s Republic of China continued to subsidize at a massive scale both traditional industrial sectors, like steel, as well as key industries of the future, like clean energy, digital infrastructure, and advanced biotechnologies. America didn’t just lose manufacturing—we eroded our competitiveness in critical technologies that would define the future.

Economic integration didn’t stop China from expanding its military ambitions in the region, or stop Russia from invading its democratic neighbors. Neither country had become more responsible or cooperative.

And ignoring economic dependencies that had built up over the decades of liberalization had become really perilous—from energy uncertainty in Europe to supply-chain vulnerabilities in medical equipment, semiconductors, and critical minerals. These were the kinds of dependencies that could be exploited for economic or geopolitical leverage.

The third challenge we faced was an accelerating climate crisis and the urgent need for a just and efficient energy transition.

When President Biden came into office, we were falling dramatically short of our climate ambitions, without a clear pathway to abundant supplies of stable and affordable clean energy, despite the best efforts of the Obama-Biden Administration to make significant headway.

Too many people believed that we had to choose between economic growth and meeting our climate goals.

President Biden has seen things totally differently. As he's often said, when he hears "climate," he thinks "jobs." He believes that building a twenty-first-century clean-energy economy is one of the most significant growth opportunities of the twenty-first century—but that to harness that opportunity, America needs a deliberate, hands-on investment strategy to pull forward innovation, drive down costs, and create good jobs.

Finally, we faced the challenge of inequality and its damage to democracy.

Here, the prevailing assumption was that trade-enabled growth would be inclusive growth—that the gains of trade would end up getting broadly shared within nations. But the fact is that those gains failed to reach a lot of working people. The American middle class lost ground while the wealthy did better than ever. And American manufacturing communities were hollowed out while cutting-edge industries moved to metropolitan areas.

Now, the drivers of economic inequality—as many of you know even better than I—are complex, and they include structural challenges like the digital revolution. But key among these drivers are decades of trickle-down economic policies—policies like regressive tax cuts, deep cuts to public investment, unchecked corporate concentration, and active measures to undermine the labor movement that initially built the American middle class.

Efforts to take a different approach during the Obama Administration—including efforts to pass policies to address climate change, invest in infrastructure, expand the social safety net, and protect workers' rights to organize—were stymied by

Republican opposition.

And frankly, our domestic economic policies also failed to fully account for the consequences of our international economic policies.

For example, the so-called “China shock” that hit pockets of our domestic manufacturing industry especially hard—with large and long-lasting impacts—wasn’t adequately anticipated and wasn’t adequately addressed as it unfolded.

And collectively, these forces had frayed the socioeconomic foundations on which any strong and resilient democracy rests.

Now, these four challenges were not unique to the United States. Established and emerging economies were confronting them, too—in some cases more acutely than we are.

When President Biden came to office, he knew the solution to each of these challenges was to restore an economic mentality that champions building. And that is the core of our economic approach. To build. To build capacity, to build resilience, to build inclusiveness, at home and with partners abroad. The capacity to produce and innovate, and to deliver public goods like strong physical and digital infrastructure and clean energy at scale. The resilience to withstand natural disasters and geopolitical shocks. And the inclusiveness to ensure a strong, vibrant American middle class and greater opportunity for working people around the world.

All of that is part of what we have called a foreign policy for the middle class.

The first step is laying a new foundation at home—with a modern American industrial strategy.

My friend and former colleague Brian Deese has spoken about this new industrial strategy at some length, and I commend his remarks to you, because they are better than any remarks I could give on the subject. But in summary:

A modern American industrial strategy identifies specific sectors that are foundational to economic growth, strategic from a national security perspective,

and where private industry on its own isn't poised to make the investments needed to secure our national ambitions.

It deploys targeted public investments in these areas that unlock the power and ingenuity of private markets, capitalism, and competition to lay a foundation for long-term growth.

It helps enable American business to do what American business does best—innovate, scale, and compete.

This is about crowding in private investment—not replacing it. It's about making long-term investments in sectors vital to our national wellbeing—not picking winners and losers.

And it has a long tradition in this country. In fact, even as the term “industrial policy” went out of fashion, in some form it remained quietly at work for America—from DARPA and the Internet to NASA and commercial satellites.

Now, looking over the course of the last couple of years, the initial results of this strategy are remarkable.

The Financial Times has reported that large-scale investments in semiconductor and clean-energy production have already surged 20-fold since 2019, and a third of the investments announced since August involve a foreign investor investing here in the United States.

We've estimated that the total public capital and private investment from President Biden's agenda will amount to some \$3.5 trillion over the next decade.

Consider semiconductors, which are as essential to our consumer goods today as they are to the technologies that will shape our future, from artificial intelligence to quantum computing to synthetic biology.

America now manufactures only around 10 percent of the world's semiconductors, and production—in general and especially when it comes to the most advanced chips—is geographically concentrated elsewhere.

This creates a critical economic risk and a national security vulnerability. So thanks to the bipartisan CHIPS and Science Act, we've already seen an orders-of-magnitude increase in investment into America's semiconductor industry. And it's still early days.

Or consider critical minerals—the backbone of the clean-energy future. Today, the United States produces only 4 percent of the lithium, 13 percent of the cobalt, 0 percent of the nickel, and 0 percent of the graphite required to meet current demand for electric vehicles. Meanwhile, more than 80 percent of critical minerals are processed by one country, China.

Clean-energy supply chains are at risk of being weaponized in the same way as oil in the 1970s, or natural gas in Europe in 2022. So through the investments in the Inflation Reduction Act and Bipartisan Infrastructure Law, we're taking action.

At the same time, it isn't feasible or desirable to build everything domestically. Our objective is not autarky—it's resilience and security in our supply chains.

Now, building our domestic capacity is the starting point. But the effort extends beyond our borders. And this brings me to the second step in our strategy: working with our partners to ensure they are building capacity, resilience, and inclusiveness, too.

Our message to them has been consistent: We will unapologetically pursue our industrial strategy at home—but we are unambiguously committed to not leaving our friends behind. We want them to join us. In fact, we need them to join us.

Creating a secure and sustainable economy in the face of the economic and geopolitical realities will require all of our allies and partners to do more—and there's no time to lose. For industries like semiconductors and clean energy, we're nowhere near the global saturation point of investments needed, public or private.

Ultimately, our goal is a strong, resilient, and leading-edge techno-industrial base that the United States and its like-minded partners, established and emerging economies alike, can invest in and rely upon together.

President Biden and European Commission President Ursula von der Leyen talked about this here in Washington last month.

They released a very important statement, which, if you haven't read it, I really encourage you to read. At its heart, what the statement said was the following: bold public investments in our respective industrial capacity needs to be at the heart of the energy transition. And President von der Leyen and President Biden committed to working together to ensure that the supply chains of the future are resilient, secure, and reflective of our values—including on labor.

They laid out practical steps in the statement to achieve those goals—like aligning respective clean-energy incentives on each side of the Atlantic and launching a negotiation on supply chains for critical minerals and batteries.

Shortly after that, President Biden went to Canada. He and Prime Minister Justin Trudeau established a task force to accelerate cooperation between Canada and the United States toward exactly the same end: ensuring our clean-energy supply and creating middle-class jobs on both sides of the border.

And just a few days after that, the United States and Japan signed an agreement deepening our cooperation on critical-mineral supply chains.

So we are leveraging the Inflation Reduction Act to build a clean-energy manufacturing ecosystem rooted in supply chains here in North America, and extending to Europe, Japan, and elsewhere.

This is how we will turn the IRA from a source of friction into a source of strength and reliability. And I suspect you'll hear more on this at the G7 Summit in Hiroshima next month.

Now, our cooperation with partners is not limited to clean energy.

For example, we're working with partners—in Europe, the Republic of Korea, Japan, Taiwan, and India—to coordinate our approaches to semiconductor incentives.

Analyst projections on where semiconductor investments will happen over the next

three years have shifted dramatically, with the United States and key partners now topping the charts.

Let me also underscore that our cooperation with partners is not limited to advanced industrial democracies.

Fundamentally, we have to—and we intend to—dispel the notion that America’s most important partnerships are only with established economies. Not just by saying it, but by proving it. Proving it with India—on everything from hydrogen to semiconductors. Proving it with Angola—on carbon-free solar power. Proving it with Indonesia—on its Just Energy Transition Partnership. Proving it with Brazil—on climate-friendly growth.

This brings me to the third step in our strategy: moving beyond traditional trade deals to innovative new international economic partnerships focused on the core challenges of our time.

The main international economic project of the 1990s was reducing tariffs. On average, applied U.S. tariff rates were nearly cut in half during the 1990s. Today, in 2023, our trade-weighted average tariff rate is 2.4 percent—which is low historically, and relative to other countries.

Of course, those tariffs aren’t uniform, and there is still work to be done bringing tariff levels down in many other countries. As Ambassador Tai has said, “We have not sworn off market liberalization.” We do intend to pursue modern trade agreements. But to define or measure our entire policy based on tariff reduction misses something important.

Asking what our trade policy is now—narrowly framed as plans to reduce tariffs further—is simply the wrong question. The right question is: how does trade fit into our international economic policy, and what problems is it seeking to solve?

The project of the 2020s and the 2030s is different from the project of the 1990s.

We know the problems we need to solve today: Creating diversified and resilient supply chains. Mobilizing public and private investment for a just clean energy transition and sustainable economic growth. Creating good jobs along the way,

family-supporting jobs. Ensuring trust, safety, and openness in our digital infrastructure. Stopping a race-to-the-bottom in corporate taxation. Enhancing protections for labor and the environment. Tackling corruption. That is a different set of fundamental priorities than simply bringing down tariffs.

And we have designed the elements of an ambitious regional economic initiative, the Indo-Pacific Economic Framework, to focus on those problems—and solving those problems. We’re negotiating chapters with thirteen Indo-Pacific nations that will hasten the clean-energy transition, implement tax fairness and fight corruption, set high standards for technology, and ensure more resilient supply chains for critical goods and inputs.

Let me speak a bit more concretely. Had IPEF been in place when COVID wreaked havoc on our supply chains and factories sat idling, we would have been able to react more quickly— companies and governments together— pivoting to new options for sourcing and sharing data in real-time. That’s what a new approach can look like on that issue—as on many others.

Our new Americas Partnership for Economic Prosperity, launched with a number of our key partners here in the Americas, is aimed at the same basic set of objectives.

Meanwhile, through the U.S.-EU Trade and Technology Council, and through our trilateral coordination with Japan and Korea, we are coordinating on our industrial strategies to complement one another, and avert a race-to-the-bottom by all competing for the same targets.

Some have looked at these initiatives and said, “but they aren’t traditional FTAs.” That’s exactly the point. For the problems we are trying to solve today, the traditional model doesn’t cut it.

The era of after-the-fact policy patches and vague promises of redistribution is over. We need a new approach.

Simply put: In today’s world, trade policy needs to be about more than tariff reduction, and trade policy needs to be fully integrated into our economic strategy, at home and abroad.

At the same time, the Biden Administration is developing a new global labor strategy that advances workers' rights through diplomacy, and we will be unveiling this strategy in the weeks ahead.

It builds on tools like the rapid-response labor mechanism in USMCA that enforces workers' association and collective-bargaining rights. Just this week, in fact, we resolved our eighth case with an agreement that improved working conditions—a win-win for Mexican workers and American competitiveness.

We're in the process now of continuing to lead a historic agreement with 136 countries to finally end the race-to-the-bottom on corporate taxes that hurt middle-class and working people. Now Congress needs to follow through with the implementing legislation, and we are working them to do exactly that.

And we're taking another kind of new approach that we think a critical blueprint for the future—linking trade and climate in a way that has never been done before. The Global Arrangement on Steel and Aluminum that we're negotiating with the European Union could be the first major trade deal to tackle both emissions intensity and over-capacity. And if we can apply it to steel and aluminum, we can look at how it applies to other sectors as well. We can help create a virtuous cycle and ensure our competitors aren't gaining an advantage by degrading the planet.

Now, for those who have posed the question, the Biden Administration is still committed to the WTO and the shared values upon which it is based: fair competition, openness, transparency, and the rule of law. But serious challenges, most notably nonmarket economic practices and policies, threaten those core values. So that's why we're working with so many other WTO members to reform the multilateral trading system so that it benefits workers, accommodates legitimate national security interests, and confronts pressing issues that aren't fully embedded in the current WTO framework, like sustainable development and the clean-energy transition.

In sum, in a world being transformed by that clean energy transition, by dynamic emerging economies, by a quest for supply chain resilience—by digitization, by artificial intelligence, and by a revolution in biotechnology—the game is not the same.

Our international economic policy has to adapt to the world as it is, so we can build the world that we want.

This brings me to the fourth step in our strategy: mobilizing trillions in investment into emerging economies—with solutions that those countries are fashioning on their own, but with capital enabled by a different brand of U.S. diplomacy.

We've launched a major effort to evolve the multilateral development banks so they are up to the challenges of today. 2023 is a big year for this.

As Secretary Yellen has outlined, we need to update the banks' operating models—especially the World Bank but the regional development banks as well. We need to stretch their balance sheets to address climate change, pandemics, and fragility and conflict. And we have to expand access to concessional, high-quality finance for low income and for middle-income countries as they deal with challenges that span beyond any single nation's borders.

We saw an early down payment on this agenda last month, but we will need to do much more.

And we're very excited for Ajay Banga's new leadership at the World Bank to make this vision a reality.

At the same time as we are evolving the multilateral development banks, we've also launched a major effort to close the infrastructure gap in low- and middle-income countries. We call it the Partnership for Global Infrastructure and Investment—PGII. PGII will mobilize hundreds of billions of dollars in energy, physical, and digital infrastructure financing between now and the end of the decade.

And unlike the financing that comes in the Belt and Road Initiative, projects under PGII are transparent and high-standard and in service of long-term, inclusive, and sustainable growth. And in just under a year since this initiative launched, we have already delivered significant investments in everything from the mines needed to power electric vehicles to global subsea telecom cables.

At the same time, we're also committed to addressing the debt distress faced by an increasingly large number of vulnerable countries. We need to see genuine relief, not just "extending and pretending." And we need to see all bilateral official and private creditors share the burden.

That includes China, which has worked to build its influence through massive lending to the emerging world, almost always with strings attached. We share the view of many others that China now needs to step up as a constructive force in assisting debt-stressed countries.

Finally, we are protecting our foundational technologies with a small yard and high fence.

As I've argued before, our charge is to usher in a new wave of the digital revolution—one that ensures that next-generation technologies work for, not against, our democracies and our security.

We've implemented carefully tailored restrictions on the most advanced semiconductor technology exports to China. Those restrictions are premised on straightforward national security concerns. Key allies and partners have followed suit, consistent with their own security concerns.

We're also enhancing the screening of foreign investments in critical areas relevant to national security. And we're making progress in addressing outbound investments in sensitive technologies with a core national security nexus.

These are tailored measures. They are not, as Beijing says, a "technology blockade." They are not targeting emerging economies. They are focused on a narrow slice of technology and a small number of countries intent on challenging us militarily.

A word on China more broadly. As President von der Leyen put it recently, we are for de-risking and diversifying, not decoupling. We'll keep investing in our own capacities, and in secure, resilient supply chains. We'll keep pushing for a level playing field for our workers and companies and defending against abuses.

Our export controls will remain narrowly focused on technology that could tilt the

military balance. We are simply ensuring that U.S. and allied technology is not used against us. We are not cutting off trade.

In fact, the United States continues to have a very substantial trade and investment relationship with China. Bilateral trade between the United States and China set a new record last year.

Now, when you zoom out from economics, we are competing with China on multiple dimensions, but we are not looking for confrontation or conflict. We're looking to manage competition responsibly and seeking to work together with China where we can. President Biden has made clear that the United States and China can and should work together on global challenges like climate, like macroeconomic stability, health security, and food security.

Managing competition responsibly ultimately takes two willing parties. It requires a degree of strategic maturity to accept that we must maintain open lines of communication even as we take actions to compete.

As Secretary Yellen said last week in her speech on this topic, we can defend our national security interests, have a healthy economic competition, and work together where possible, but China has to be willing to play its part.

So, what does success look like?

The world needs an international economic system that works for our wage-earners, works for our industries, works for our climate, works for our national security, and works for the world's poorest and most vulnerable countries.

That means replacing a singular approach focused the oversimplified assumptions that I set out at the top of my speech with one that encourages targeted and necessary investments in places that private markets are ill-suited to address on their own—even as we continue to harness the power of markets and integration.

It means providing space for partners around the world to restore the compacts between governments and their voters and workers.

It means grounding this new approach in deep cooperation and transparency to

ensure that our investments and those of partners are mutually reinforcing and beneficial.

And it means returning to the core belief we first championed 80 years ago: that America should be at the heart of a vibrant, international financial system that enables partners around the world to reduce poverty and enhance shared prosperity. And that a functioning social safety net for the world's most vulnerable countries is essential to our own core interests.

It also means building new norms that allow us to address the challenges posed by the intersection of advanced technology and national security, without obstructing broader trade and innovation.

This strategy will take resolve—it will take a dedicated commitment to overcoming the barriers that have kept this country and our partners from building rapidly, efficiently, and fairly as we were able to do in the past.

But it is the surest path to restoring the middle class, to producing a just and effective clean-energy transition, to securing critical supply chains, and, through all of this, to repairing faith in democracy itself.

As always, we need the full and bipartisan partnership of Congress if we are going to succeed.

We need support from Congress to revive America's unique capacity to attract and retain the brightest talent from around the world.

We need the Hill's full partnership in our reform initiatives in development finance.

And we need to double down on our investments in infrastructure, innovation, and clean energy. Our national security and our economic vitality depend on it.

Let me close with this.

President Kennedy was fond of saying that “a rising tide lifts all boats.” Over the years, advocates of trickle-down economics appropriated this phrase for their own

uses.

But President Kennedy wasn't saying what's good for the wealthy is good for the working class. He was saying we're all in this together.

And look at what he said next: "If one section of the country is standing still, then sooner or later a dropping tide drops all the boats."

That's true for our country. That's true for our world. End economically, over time, we're going to rise—or fall—together.

And that goes for the strength of our democracies as well as for the strength of our economies.

As we pursue this strategy at home and abroad, there will be reasonable debate. And this is going to take time. The international order that emerged after the end of the Second World War and then the Cold War were not built overnight. Neither will this one.

But together, we can work to lift up all of America's people, communities, and industries, and we can do the same with our friends and partners everywhere around the globe as well.

This is a vision the Biden Administration must and will fight to achieve.

This is what is guiding us as we make our policy decisions at the intersection of economics, national security, and democracy.

And this is the work that we will do not just as a government, but with every element of the United States, and with the support and help of partners both in government and out of government around the world.