REPORT OF THE WORKING GROUP ON ECONOMICS AND NATIONAL SECURITY
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Executive Summary
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The integration of economic and national security policies is critical to the United States' interests for three reasons. First, long-term economic and demographic trends are gradually but steadily shifting the geopolitical weight of power towards Asia and away from Europe, and the United States must prepare for the security implications of this shift. Second, economic relations between countries increasingly define the overall tone and depth of their relationship. Third, both a nation's military capacity and its citizenry's well-being depend on that country's economic performance.

Despite these compelling reasons for policy integration, U.S. policymakers have had difficulty achieving it conceptually or operationally. Yet, success or failure in each of these policy areas easily reinforces and advances developments in each other. American leadership in the multilateral economic system, the management of China's economic rise, and broader adaptation to the shift in power from Europe to Asia are central to the achievement of both U.S. economic and national security goals. The United States is more likely to achieve these goals if the connections between economics and national security are well understood.

Improving current thinking on economics and national security

The conventional wisdom on economic and national security policy contains both valid assumptions and significant misperceptions. Correctly, the conventional wisdom recognizes: that globalization increases U.S. capabilities and vulnerabilities simultaneously; that the ability of the United States to restrict commerce and technology transfer is severely limited; that successful economic development in and integration of poorer countries enhances U.S. security; and that economic policy mistakes at home and abroad can rapidly undermine American security.

At the same time, widespread mistaken perceptions persist among U.S. policymakers: that relatively faster economic growth in other countries threatens the United States; that the process of economic development abroad always enhances American security; that globalization makes the American economy highly vulnerable to the policies of other nations; that globalization increases the effectiveness of economic sanctions and export controls; and that the economic capabilities of countries are changing rapidly. All of these assumptions are flawed.

Major challenges

The United States faces five main security-relevant challenges in international economic policy. First, the United States needs to integrate economic and national security policy more strategically. Although the end of the Cold War has increased the importance of international economic policy as a means of statecraft, the United States has a less dominant economic position today from which to achieve its foreign policy goals than it possessed in the immediate post-war period. Furthermore, the United States confronts a more privatized and turbulent economic system and a rising set of costs, such as terrorism and expanding entitlements. With such limitations on economic tools while demands on those tools rise, it is essential that the government coordinate economic and national security policies.

Second, the United States must undertake that integration in a multi-polar economic environment with a novel set of characteristics. The emergence of a multi-polar economic system characterized by the inclusion of countries at very different levels of development and the rise of Asia ex-Japan puts the United States in rapidly shifting territory. In this environment, the United States needs to leverage the spillover benefits for national security policy from successful economic policy, and vice-versa. Multi-polar economics calls for a greater emphasis on diplomacy and for a greater dedication of resources to managing this complex set of economic relationships.

Third, in the economic arena, as in the security one, China's emergence will be the single most important challenge for U.S. foreign policy in the next several decades. The United States does not have experience managing a relationship with a country that is potentially its principal economic and military rival. The rise of China also produces a set of frictions different from those encountered in other U.S. economic relationships. For instance, many of the concerns prompted by China's rise, such as pressures on the jobs and wages of low-skilled labor and increasing competition for energy supplies, lie outside of the mandates of existing institutions. Problems can also emerge if China's economic performance lags; even a moderate slowdown could make the Chinese government less willing to undertake more accommodating exchange rate and intellectual property policies or to reduce the influence of the People's Liberation Army in Chinese policies.

Fourth, the extent of international economic leadership provided by the United States has been gradually but steadily declining over the last quarter century. This decline has had two deleterious effects on America's overall international position. First, it has reduced positive spillover effects from U.S. economic leadership to American political influence and popularity in trading partners. Second, other countries have gained opportunities and incentives to fill that leadership vacuum with regional or local initiatives, or to define themselves as following an indigenous model in opposition to U.S. policies.

Finally, the slow but steady shift in economic influence from Europe to Asia will present the United States with one of two situations within the next quarter century: 1) there may no longer exist another economic power with which the United States can cooperate to pursue a positive global economic agenda, or even to maintain the current multinational framework; or 2) there may exist an economic power—either China alone, or China leading an integrated Asian regional bloc—with the requisite heft but without the incentive to partner with the United States.

Recasting U.S. policymaking for greater integration

To deal with these challenges, the United States must integrate economic and national security policymaking on an ongoing basis. This would entail: recognizing that economic interests represent important national security interests; convening the right mix of people and agencies for policy decisions rather than separating the "silos"; and assessing regularly the economic—and thus fuller security—costs of proposed foreign policy measures. Such a commitment is required more from the mindset of the policymakers involved than any specific reorganization of the relevant U.S. decision-making apparatus. The United States must also exercise greater leadership of the multilateral economic system, while working within its institutions.

Strategically, the U.S. must formulate policies based on the principle that sustained economic growth and development in the rest of emerging market Asia (notably India and Vietnam) is the key to geopolitical management of China's rise. Simultaneously, the economic relationship with relatively declining European powers must be managed to maintain interactions that are essentially cooperative rather than trending towards rivalry. Otherwise, China will have room to play the U.S. and the European Union (E.U.) off against each other in the economic and diplomatic spheres. American relations with other developing countries around the world, and with failed or occupied states in particular, must always include a positive economic component—not least so that a 'division-of-labor' does not emerge that repeatedly makes China, the E.U., or even anti-American oil exporters (such as current Iranian or Venezuelan regimes) the apparently generous benefactors, and the U.S. the militarist bully by comparison.

More than just adequate economic growth is required to sustain long-term capacity for economic and technological leadership, as well as sufficient resources to pursue American national security interests. At home, the United States must: rectify its irresponsible fiscal policies; reallocate enough of its limited public resources to provide sufficient economic security for American workers to assure equitable and politically sustainable global economic integration; modulate the post-9/11 restrictions on foreign visitors, especially of students in technical fields; and replace outdated practices in education, training, and research and development.