FOREIGN AFFAIRS

Geopolitics in the C-Suite

More Than Ever, U.S. Foreign Policy Depends on Corporations—and Vice Versa

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In late 1914, U.S. President Woodrow Wilson was facing pleas from a number of influential supporters who wanted him to make a public appeal to American manufacturers to stop selling arms to European countries—or even ban them from doing so. Wilson was seeking a way to end the war then raging in Europe, or at least slow it down, and he was sympathetic to the impulse. But in a response to one such plea, he explained his predicament. "The sales proceed from so many sources, and my lack of power is so evident," he wrote, "that I have felt that I

could do nothing else than leave the matter to settle itself."

Wilson's claims of presidential powerlessness sound odd today, during an era in which U.S. government intervention has become routine in a wide variety of economic activities relating to national security, even in peacetime. Contrast them, for example, with comments made last December by U.S. Secretary of Commerce Gina Raimondo, whose department has spent the past few years designing export controls intended to prevent American companies from aiding China's advancement in critical technology such as artificial intelligence—and who had a stern warning for any U.S. firm that might try to cleverly circumvent those controls. "If you redesign a chip around a particular cut line that enables [China] to do AI, I'm going to control it the very next day," she told a gathering of policymakers and executives.

The historical changes that took place in the century plus between Wilson's comments and Raimondo's were profound. But even though national security and foreign policy occasionally intruded on corporate America during that time, until very recently, few executives concerned themselves with geopolitics. In the post–Cold War world, with globalization on the march, the idea that national interests might be at odds with open markets and expanding trade came to seem alien to American executives.

But the changes that have roiled the geopolitical landscape in recent years have left an impression in C-suites around the United States. In a recent poll of 500 institutional investors, geopolitics ranked as the top risk to the global economy and markets in 2024. Part of this concern is driven by the quickening cadence of global conflicts, with ongoing wars

in Ukraine and the Middle East and concerns about a crisis in the Taiwan Strait. More fundamentally, however, a tectonic shift is taking place, one that is forcing corporations to become actors on the geopolitical stage. As governments lean on economic restrictions and industrial policies to achieve geopolitical ends, corporations have increasingly become both the objects and instruments of foreign policy. Some of Washington's main foreign policy priorities, such as encouraging resilient clean-energy supply chains or slowing down China's technological advance, rely on thousands of individual corporate actors, whose interests do not always align with those of the U.S. government and who often possess an informational advantage over the public sector.

This understandably makes some policymakers uneasy; they are used to being in the driver's seat when it comes to geopolitical decision-making, not riding shotgun. But given the federal government's ultimate role as the arbiter and protector of U.S. national interests, officials need to adapt to this new paradigm. Institutionalized consultations with the private sector, funding for industry expertise, and better economic intelligence would be good first steps. At a deeper level, policymakers will have to commit to thinking in a fundamentally different way about the private sector.

HOW WE GOT HERE

The centrality of economic competition to today's foreign policy problems represents a qualitative break from the past. During the Cold War, for example, the United States and the Soviet Union hardly interacted economically: trade between them peaked at a paltry $4.5

billion in 1979; in recent years, the United States and China have generally traded that much every week or two, adjusting for inflation. In the post–Cold War era, U.S. foreign policy was focused on opening markets and reducing international economic barriers rather than erecting them. Era-defining crises such as the 9/11 attacks did little to change the relationship between U.S. policymakers and American corporations; if anything, the "war on terror" further solidified the idea that foreign policy was primarily concerned with security and military issues, not economics.

But in the background, global economic integration was transforming the playing field. In 1980, trade accounted for just 37 percent of global GDP. Today, that figure is 74 percent, and economies have become intertwined to a degree never seen in the twentieth century. Globalization is not new, of course; it has been a centuries-long process. What is new, however, is the emergence of great-power rivalry in a highly interconnected world. Military power still matters, but economic and technological competition have become the main battlefield of global politics. Under the so-called Washington consensus that dominated policymaking for decades, the question of where a semiconductor manufacturer would build its next factory or whether German auto companies would decide to throttle their investments in China would have seemed relatively unimportant to policymakers. Now, such questions are at the center of almost every major foreign policy debate.

Greater economic integration has also created a complex web of links between geopolitical rivals that policymakers now seek to leverage for

strategic ends. This is especially true when it comes to financial and technological networks, where Washington holds a privileged position. As noted by the scholars Henry Farrell and Abraham Newman in their recent book *Underground Empire,* the United States sits at the center of a vast informational plumbing system, built almost haphazardly over decades, that allows the global economy to function. The ubiquity of the dollar in global transactions, U.S. control of critical Internet infrastructure, and the dominance of American companies when it comes to the intellectual property rights behind the most important technology have allowed Washington to coerce or target geopolitical rivals, often through sanctions.

But as great-power tensions have increased, so has the number of sectors caught in the fray of what Farrell and Newman call "weaponized interdependence." Consider, for example, the way that G-7 countries have taken advantage of Russian dependence on shipping insurers based in the West, an industry that most foreign policymakers had probably never thought about before Russia's 2022 invasion of Ukraine. To try to cap the price of Russian oil exports, the G-7 prevented these companies from insuring Russian crude oil cargoes unless they had been sold at a maximum of $60 per barrel.

Western powers are not the only ones playing this game. In 2010, after a Chinese fishing trawler and Japanese Coast Guard patrol boats collided in disputed waters, setting off a diplomatic row between Beijing and Tokyo, China banned exports to Japan of the rare-earth minerals that are critical components of batteries and electronics, thus raising costs and creating shortages for Japanese manufacturers of

everything from hybrid cars to wind turbines.

Geopolitical friction has also made life more confusing for companies operating in multiple countries with competing directives, sometimes forcing them to choose which set of rules to follow. After Russia invaded Ukraine, many companies seeking to leave Russia had to freeze their operations. If they carried on, they faced Western sanctions; if they decided to exit Russia, they faced countersanctions from Moscow. More recently, a number of American consulting firms have been caught in the middle of the complex U.S.-Saudi relationship, with Congress demanding details about their contracts with Saudi Arabia that Riyadh has forbidden them to provide.

All these dynamics are being turbocharged by an intensifying competition between the United States and China, the two countries with the largest and most globally intertwined economies. Both aim to dominate the twenty-first-century economy, which means gaining the upper hand in computing technologies, biotechnology, and clean energy. And the foreign policies of both countries are now driven by a shared desire to shape their economies in ways that reduce their vulnerability and increase their leverage. China calls this "self-reliance." Washington calls it "de-risking." For the United States, what it looks like in practice is expanded export controls on advanced semiconductors and manufacturing equipment, enhanced government screening of investments by U.S. companies in foreign markets, and major subsidies for industries such as electric vehicles and microchips, primarily through the Inflation Reduction Act and the CHIPS Act. In this brave new world, the secretary of commerce is as important to foreign policy

as the secretaries of state and defense.

Washington is hardly alone in taking such steps. State-sponsored drives for greater self-reliance have taken hold in nearly every major economy, particularly after the supply-chain disruptions of the COVID-19 pandemic. The number of countries introducing or expanding investment screening, for example, jumped from three between 1995 and 2005 to 54 between 2020 and 2022. Meanwhile, a wave of industrial policies has increased trade barriers in an attempt to induce companies to reshore their supply chains. At the same time, the understanding of what matters to national security has also expanded, as countries seek to advance or protect everything from software and microchips to pharmaceuticals and foodstuffs.

"HOW AM I IN THIS WAR?"

In this new environment, the success or failure of foreign policymaking increasingly depends on corporate decision-making. Export controls and sanctions are effective only if companies don't pursue workarounds. Industrial policies and subsidies are effective only if companies respond to the incentives they are meant to create.

Many of the complications of this new era are rooted in the difference between the way the public and private sectors view time horizons. Policymakers set bright lines with immediate operational implications —for example, suddenly forbidding companies from exporting or importing certain goods from certain countries. But companies need to make long-term investment decisions. Should a company set up another plant in China if there is market demand and doing so is currently allowed by law? Should a pharmaceutical company set up

advanced R & D centers in mainland China or purchase a Chinese biotech firm, given the long-run trajectory of relations between Beijing and the West? Should a consumer electronics firm purchase Chinese-made chips if they are the most cost-efficient option? Answering these questions requires executives to forecast the outcomes of highly volatile political debates and policymaking choices over which they have little control. And yet whatever decisions they make have a significant effect on whether, for example, the United States can effectively "de-risk" its economic relationship with China.

The example of semiconductors is instructive. Washington is seeking to reshore semiconductor manufacturing, but the success of its flagship industrial policy, the CHIPS Act, depends only in part on how the Commerce Department distributes the legislation's $39 billion in subsidies over the next five years. A much more important factor is whether the Taiwanese chip manufacturer TSMC will risk setting up facilities in the United States despite high costs and a relative scarcity of human capital, and whether Apple decides to buy slightly more expensive chips made by U.S. fabricators instead of less expensive ones produced in Asia. And the CHIPS Act is only one input in those decisions.

In some cases, companies are shaping foreign policy and international conflicts in more overt ways. Consider Starlink, the satellite-based Internet service offered by SpaceX, a company owned by one of the world's richest men, Elon Musk. After Russian cyberattacks ahead of the February 2022 invasion eliminated most Internet connectivity in Ukraine, Musk rushed to provide Starlink access to the country, giving

it a crucial lifeline. But in September of that year, Musk denied Kyiv's request to extend Starlink coverage into Crimea so that Ukrainian forces could carry out an attack on Russian forces there. Musk later wrote that doing so would have made SpaceX "explicitly complicit in a major act of war and conflict escalation." Musk found himself wondering, as he put it in an exchange at the time with the journalist Walter Isaacson, "How am I in this war?"

But Musk's predicament should have come as no surprise to him or anyone else. The lines separating governments from corporations and international relations from commerce have blurred to the point of vanishing.

A GROWTH MINDSET

As governments tinker with complex supply chains and technology ecosystems built over decades, the choices and conduct of thousands of corporate actors will make it harder to achieve policy goals. And given an inherently limited toolkit and the myriad nuances of each industry, the U.S. government can't possibly think of every conceivable workaround or contingency for a specific sanction or export control. Washington will have to rely on companies to adhere to the spirit of policies, rather than just the letter. Even if most companies comply with new rules at first, over time, some will find ways to get around restrictions and overcome hurdles; regulators and lawmakers will need to be vigilant. And U.S. rivals will hardly sit idly by. After the West severed nearly every economic interaction with Russia in 2022, Moscow soon found alternative sources of supply from China: Russian imports from Beijing have surged 64 percent since 2021.

Policies such as export controls and outbound investment restrictions have unintended consequences and will work only for a limited time. They require continual updating as countries and industries respond and as technology changes. Such rules also require multilateral action, since other players around the globe will happily seek to replace U.S. expertise and capital whenever Washington makes it unavailable.

Industrial policies have similar limitations. Governments can convey their intent to reduce foreign economic dependencies, but their means are limited. Subsidies and other financial breaks are too small to fully rewire embedded supply chains that were built over decades. And more extreme policies such as import bans risk shortages and price spikes, not to mention full-blown trade wars that could devastate entire sectors.

Adapting to this new geopolitical reality demands a paradigm shift for policymakers. Traditionally, interactions between foreign policy decisionmakers and businesses have been either adversarial ("Don't sell these things here!") or promotional ("Do sell those things there!"). Going forward, the U.S. government will need to adopt a more collaborative approach. A key step is to clearly articulate the intention and objective of every policy. It is impossible to follow the spirit of a government regulation if its intent is unclear and its objective is undefined. For example, Biden administration officials have repeatedly referred to "biotechnology" as an area of focus and next in line for economic restrictions on China akin to those placed on semiconductors. Yet it has not yet defined which aspects of the complicated and broad biotechnology ecosystem—which includes an array of elements, including genomics, cell therapies, and advanced biomanufacturing—

are the most concerning. Neither has it indicated how it plans to restrict U.S. capital and know-how, and for what purpose. Doing so would help provide companies some sense of how to interact with the Chinese market today, even before new measures are announced.

Foreign policy officials also need to develop more expertise in economics and critical technologies. Gone are the days of Brent Scowcroft, who served as national security adviser to Presidents Gerald Ford and George H. W. Bush and who was a master strategist—but who pleaded ignorance about anything related to economics. Building up those muscles will require more institutionalized dialogue with the private sector, including in fast-moving situations when companies have to make decisions with long-term consequences, such as foreign acquisitions or operational reorganizations. Although major technology firms that are caught in the cross hairs have plenty of access to the administration these days, smaller companies and those in other sectors may not know where to receive guidance on major decisions related to their operations or businesses in, say, China. The Commerce Department should establish a consultation office for just such discussions, where companies can have an open dialogue with policymakers with some assurance that raising the issue will not trigger increased regulatory scrutiny. The idea would be to destigmatize the notion of consulting with the government early and often. One model of healthy dialogue is the Cyber Safety Review Board run by the Department of Homeland Security and the Cybersecurity and Infrastructure Security Agency, which brings together cybersecurity experts from the public and private sectors.

To enhance the effectiveness of sanctions, improve enforcement, and build a better picture of economic vulnerabilities, Washington needs better monitoring systems. The White House Council on Supply Chain Resilience, which President Joe Biden established last year, is a good start. The Commerce Department needs increased funding for collecting industry data and carrying out predictive analysis to enhance its new Supply Chain Center, which should conduct annual stress tests of critical supply chains to gauge how they would weather geopolitical disruptions. The department also needs more funding for its Bureau of Industry and Security, which oversees the development and monitoring of export controls—and whose budget is the same as it was ten years ago.

Finally, Washington must invest more in gathering economic intelligence. A better understanding of China's domestic development of critical technologies and of how Beijing is exploiting regulatory loopholes could help avoid surprises, such as Huawei's recent announcement that it had developed a seven-nanometer chip for its Mate 60 smartphone. (Although China can't yet produce the chips efficiently and at scale, most observers, including in the U.S. government, were nevertheless caught off-guard by this development.) This will require an increase in funding for economic intelligence at the Treasury and Commerce Departments and at the CIA. Over the years, Washington has gone back and forth about how much to embrace economic intelligence. But today, there's no doubt about its centrality to national security.

More broadly, U.S. policymakers will have to get comfortable with a

broad set of questions and problems that their forebears during the Cold War and its immediate aftermath had the luxury of avoiding. They will have to develop new economic expertise, build new relationships with industry, and find new ways to operate. But it is worth remembering that those earlier generations of policymakers had to do all those things, as well, in response to the geopolitical paradigm shifts of their times. The questions and problems were different, but they required the same kind of adaptation. American officials have succeeded at that task many times before, and they can do so again.

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