THE BROOKINGS INSTITUTION

FALK AUDITORIUM

JAKE SULLIVAN ON THE US INTERNATIONAL ECONOMIC AGENDA: AN UPDATE

Wednesday, October 23, 2024

WELCOME REMARKS:

DAVID WESSEL: Director, The Hutchins Center on Fiscal and Monetary Policy, Senior Fellow, Economic Studies, Brookings

SPEAKER:

JAKE SULLIVAN: National Security Adviser

MODERATOR:

DAVID WESSEL: Director, The Hutchins Center on Fiscal and Monetary Policy, Senior Fellow, Economic Studies, Brookings

David Wessel Good morning. Thank you all for waiting. I'm David Wessel, director of the Hutchins Center on Fiscal and Monetary Policy here at Brookings. Jacob Jeremiah Sullivan has a long and impressive resume for a guy who's 47 years old, which I am not going to recite this morning. He's been an adviser to Hillary Clinton, Barack Obama, and for the last four years, Joe Biden's national security adviser. In April of last year, Jake Sullivan came to the stage with a critique of what he called old assumptions. He said America's industrial base had been hollowed down. Geopolitical and security competition with China had intensified. The climate crisis was accelerating and inequality in part driven by globalization, threatened democracy. He outlined an industrial and innovation strategy that he said would build capacity, build resistance and build inclusiveness at home and with partners around the world. Challenging the notion that lowering trade barriers has been a recipe for global prosperity, jake talked about the need to protect key technologies in the United States with the now famous phrase "small yard and a high fence". Some people applauded. Some people criticized. To me, it was a clear, if wordy statement of a significant change in the way the U.S. deals with the global economy. I think it's a sign of the times at a moment when there is still bloodshed in Ukraine and Israel and Gaza and Lebanon that the White House national security adviser is spending time developing and defending an international economic strategy. So as finance ministers and central bankers from around the world gather in D.C. this week for the IMF World Bank meetings, and as the Biden administration's enters its closing chapter, Jake Sullivan has come back to our stage to review what has happened in the past 18 months on the strategy and what remains to be done. Following Jake's remarks, I'll ask him a few questions and I'll invite some questions from the audience. Thank you all.

Jake Sullivan Good morning, everyone, and thank you so much, David, for that introduction and for having me here today. It's great to be back at Brookings. As many of you know, I was here last year to lay out President Biden's vision for renewing American economic leadership, a vision that responded to several converging challenges our country faced the return of intense geopolitical competition, a rising inequality and a squeeze on the middle class, a less vibrant American industrial base, an accelerating climate crisis, vulnerable supply chains and rapid technological change.

For the preceding three decades, the US economy had enjoyed stronger top line aggregate growth than other advanced democracies and had generated genuine innovation and technological progress. But our economic policies had not been adapted to deal effectively with these challenges. That's why President Biden implemented a modern industrial strategy, one premised on investing at home in ourselves and our national strength, and on shifting the energies of U.S. foreign policy to help our partners around the world do the same. In practice, that's meant mobilizing public investment to unlock private sector investment, to deliver on big challenges like the clean energy transition and artificial intelligence, revitalizing our capacity to innovate and to build, creating diversified and resilient global supply chains, setting high standards for everything from labor to the environment to technology. Because on that level playing field, our logic goes, America can compete and win, preserving open markets and also protecting our national security and doing all of these things together with allies and partners.

Since I laid this vision out in my speech at Brookings last year, I've listened with great interest to many thoughtful responses because these are early days. Meaningful shifts in policy require constant iteration and reflection. That's what will make our policy stronger and more sustainable. So today, I'm glad to be back here at Brookings to reengage in this conversation, because I really believe that the ideas I'm here to discuss and the policies that flow from them are among the most consequential elements of the administration's foreign as well as domestic policy. And I believe they will constitute an important legacy of Joe Biden's presidency.

I want to start by reflecting on some of the questions I've heard and then propose a few ways to consolidate our progress. One overarching question is at the core of many others does our new approach mean that we're walking away from a positive sum view of the world that America is just in it for itself at the expense of everyone else? In a word, no, it doesn't. In fact, we're returning to a tradition that made American international leadership such a durable force. What Alexis de Tocqueville called interest, rightly understood the notion that it's in our own self-interest to strengthen our partners and sustain a fair economic system that helps all of us prosper. After World War Two, we built an international economic order in the context of a divided world, an order that helped free nations recover and avoid a return to the protectionist and nationalist mistakes of the 1930s, an order that also advanced American economic and geopolitical power.

In the 1990s, after the collapse of the Soviet Union, we took that order global embracing the old Eastern Bloc China, India and many developing countries. Suddenly the major powers were no longer adversaries or competitors. Capital flowed freely across borders. Global supply chains became just in time without anyone contemplating potential strategic risk. Each of these approaches was positive some, and each reflected the world as it was. Now the world of the 1990 is over, and it's not coming back. And it's not a coherent plan or critique just to wish it. So we're seeing the return of great power competition. But unlike the Cold War era, our economies are closely intertwined. We're on the verge of revolutionary technological change with A.I., with economic and geopolitical implications. The pandemic laid bare the fragilities in global supply chains that had been growing for decades. The climate crisis grows more urgent with every hurricane and heat wave. So we need to articulate once again to Tocqueville's notion of interest, rightly understood. To us, that means pursuing a strategy that is fundamentally positive sum calibrated to the geopolitical realities of today and. Rooted in what is good for America, for American workers, American communities. American businesses and American national security, and economic strength. We continue to believe deeply in the mutual benefits of international trade and investment. Enhanced and enabled by bold public investment in key sectors, bounded in rare but essential cases by principled controls on key national security technologies, protected against harmful non-market practices, labor and environment abuses, and economic coercion, and critically coordinated. With a broad range of partners.

The challenges we face are not uniquely our own, and nor can we solve them alone. We want and need our partners to join us. And given the demand signal, we hear back from them. We think that in the next decade, American leadership will be measured by our ability to help our partners pull off similar approaches and build alignment and complementarity across our policies and our investments. If we get that right, we can show that international economic integration is compatible with democracy and national sovereignty. And that is how we get out of Dannie Broderick's trilemma.

Now, what does that mean in practice? What is this kind of positive sum approach mean for trade policy? Are we walking away from trade as a core pillar of international economic policy? U.S. exports and imports have recovered from their dip during the pandemic, with the real value of U.S. trade well above 2019 levels in each of the last two years. We're also the largest outbound source of FDI in the world. So we are not walking away from international trade and investment. What we are doing is moving away from specific policies that frankly didn't contemplate the urgent challenges we face. The climate crisis, vulnerable, concentrated, critical mineral and semiconductor supply chains, persistent attacks on workers rights. And not just more global competition, but more competition with a country that uses pervasive, non-market policies and practices to distort and dominate global markets. Ignoring or downplaying these realities will not help us chart a viable path forward. Our approach to trade responds to these challenges.

Climate is a good example. American manufacturers are global leaders in clean steel production. Yet they've had to compete against companies that produce steel more cheaply, but with higher emissions intensity. That's why earlier this year, the White House stood up a climate and trade task force. And the task force has been developing the right tools to promote decarbonization and ensure our workers and businesses engaged in cleaner production aren't disadvantaged by firms overseas engaged in dirtier, exploitative production. Critical minerals are another example. That sector is marked by extreme price volatility, widespread corruption, weak labor and environmental protections, and heavy concentration in the PRC, which artificially drops prices to keep competitors out of the marketplace. If we and our partners fail to invest, the PRC's domination of these and other supply chains will only grow, and that will leave us increasingly dependent on a country that has demonstrated its willingness to weaponize such dependencies. We can't accept that, and neither can our partners. That's why we are working with them to create a high standard, critical mineral marketplace, one that diversifies our supply chains, creates a level playing field for our producers and promotes strong workers rights and environmental protections. And we're driving towards tangible progress on that idea in just the next few weeks. In multiple sectors that are important to our future, not just critical minerals, but solar cells, lithium ion batteries, electric vehicles. We see a broad pattern emerging. The PRC is producing far more than domestic demand. Dumping excess onto global markets at artificially low prices, driving manufacturers around the world out of business and creating a chokehold on supply chains. To prevent a second China shock, we've had to act. That's what drove the decisions about our 3 to 1 tariffs earlier this year.

Now we know that indiscriminate, broad based tariffs will harm workers, consumers and businesses both in the United States and our partners. The evidence on that is clear. That's why we chose instead to target tariffs and unfair practices in strategic sectors where we and our allies are investing hundreds of billions of dollars to rebuild our manufacturing and our resilience. And crucially, we're seeing partners in both advanced and emerging economies reach similar conclusions regarding overcapacity and take similar steps to ward off damage to their own industries. From the EU to Canada to Brazil, to Thailand, to Mexico, to Turkey and beyond. That's a big deal. And it brings me back to my earlier point. We're pursuing this new trade approach in concert with our partners. They also recognize we need modern trade tools to achieve our objectives. That means considering sector specific trade agreements. It means creating markets based on standards when that's more effective. And it also means revitalizing international institutions to address today's challenges, including genuinely reforming the WTO to deal with the challenges I have outlined. And it means thinking more comprehensively about our economic partnerships. That's why we created the Indo-Pacific economic framework and the America's Partnership for Economic Prosperity. That's why we also gave them such catchy names.

Within IPF, we finalized three agreements with 13 partners to accelerate the clean energy transition to promote high labor standards, to fight corruption, and to shore up supply chain vulnerabilities before they become widespread disruptions. And within APF, we're working to make the Western Hemisphere a globally competitive supply chain hub for semiconductors, clean energy and more.

And that leads to the next question I've often been asked in the last year and a half. Where does domestic investment fit into all of this? How does our positive sum approach square with our modern industrial strategy? The truth is that smart, targeted government and government investment has always been a crucial part of the American formula. It's essential to catalyzing private investment and growth in sectors where market failures or other barriers would lead to underinvestment. Somehow we forgot that along the way, or at least we stopped talking about it. But there was no plausible version of the answers on decarbonization or supply chain resilience without recovering this transition or this tradition. And so we have. We've made the largest investment ever to diversify and accelerate clean energy deployment through the Inflation Reduction Act. And these investments are generating hundreds of billions of dollars in private investment all across the country. Rapid growth in emerging climate technologies like sustainable aviation fuels, carbon management, clean hydrogen, with investments increasing 6 to 15 fold from pre IRA levels. This will help us meet our climate commitments. This will advance our national security. And this will ensure that American workers and communities can seize the vast economic opportunities of the clean energy transition and that those opportunities are broadly shared. And that last part is crucial. The fact is that many communities hard hit in decades past still haven't bounced back. And the two thirds of American adults who don't have college degrees have seen unacceptably poor outcomes in terms of real wages, health and other outcomes over the last four decades.

For many years, people assumed that these distributional issues would be solved after the fact by domestic policies. That has not worked. Advancing fairness, creating high quality jobs and revitalizing American communities can't be an afterthought. Which is why we've made them central to our approach. In fact, as a result of the incentives in the IRA to build in traditional energy communities, investment in those communities has doubled under President Joe Biden.

Now, initially when we rolled this all out, our foreign partners worried that it was designed to undercut them, that we were attempting to shift all the clean energy investment and production around the world to the United States. But that wasn't the case, and it isn't the case. We know that our partners need to invest. In fact, we want them to invest. The whole world benefits from the spillover effects of advances in clean energy that these investments bring. And we are nowhere near the saturation point of investment required to meet our clean energy deployment goals. Nor will markets alone generate the resources necessary either. So we've encouraged our partners to invest in their own industrial strength. We've steered U.S. foreign policy towards being a more helpful partner in this endeavor. And our partners have begun to join us. Look at Japan's green transformation policy. India's production linked incentives. Canada's clean Energy Tax Credit. The European Union's Green Deal. As more and more countries adopt this approach. We will continue to build out the cooperative mechanisms that we know will be necessary to ensure that we're acting together to scale up total global investment, not competing with each other over where a fixed set of investments is located.

The same goes for investing in our high tech manufacturing strength. We believe that a nation that loses the capacity to build risks losing the capacity to innovate. So we're building again. As a result of the Chips and Science Act, America is on track to have five leading edge logic and memory chip manufacturers operating at scale. No other economy has more than two. And we're continuing to nurture American leadership in artificial intelligence, including through actions were finalizing, as I speak, to ensure that the physical infrastructure needed to train the next generation of AI models is built right here in the United States.

But all of this high tech investment and development hasn't come at the expense of our partners. We've done it alongside them. We're leveraging Chips Act funding to make complementary investments in the full semiconductor supply chain from Costa Rica to Vietnam. We're building a network of A.I. safety institutes around the world, from Canada to Singapore to Japan, to harness the power of AI responsibly. And we've launched a new quantum development group to deepen cooperation in the field that will be pivotal, pivotal in the decades ahead. Simply put, we're thinking about how to manage this in concert with our allies and partners, and that will make all of us more competitive.

Now, all this leads to another question that is frequently asked. What about your technology protection policies? How does that fit into a positive sum approach? The United States and our allies and partners have long limited the export of dual use technologies. This is logical and uncontroversial. It doesn't make sense to allow companies to sell advanced technology to countries that could use them to gain military advantage over the United States and our friends. Now, it would be a mistake to attempt to return to the Cold War paradigm of almost no trade, including technological trade, among geopolitical rivals. But as I've noted, we're in a fundamentally different geopolitical context, so we've got to meet somewhere in the middle. That means being targeted in what we restrict, controlling only the most sensitive technologies that will define national security and strategic competition. This is part of what we mean when we say de-risking, not decoupling. To strike the right balance to ensure we're not imposing controls in an arbitrary or reflexive manner, we have a framework that informs our decision making. We ask ourselves at least four questions. One, which sensitive technologies are or will likely become foundational to U.S. national security? Two, Across those sensitive technologies, where do we have distinct advantages and are likely to see maximal effort by our competitors to close the gap? Conversely, where are we behind and therefore most vulnerable to coercion? Three, to what extent do our competitors have immediate substitutes for U.S. sensitive technology, either through indigenous development or from third countries that would undercut the controls. Four, what is the breadth and depth of the coalition we could plausibly build and sustain around a given control. When it comes to a narrow set of sensitive technologies, U.S. defense is high, as it should be. And in the context of broader commerce, the yard is small and we're not looking to expand it needlessly.

Now, beyond the realm of export controls and investment screening, we will also take action to protect sensitive data and our critical infrastructure, such as our recent action on connected vehicles from countries of concern. I suspect almost no one here would argue that we should build out our telecommunications architecture or our data center infrastructure with what we. Millions of cars on the road with technology from the PRC. Getting daily software updates from the PRC, sending reams of information back to the PRC. Similarly, doesn't make sense, especially when we've already seen evidence of a PRC cyber threat to our critical infrastructure. We have to anticipate systemic cyber and data risks in ways that, frankly, we didn't in the past. Including what that means for the future Internet of Things. And we have to take the thoughtful, targeted steps necessary in response.

This leads to a final kind of fundamental question. Does this approach reflect some kind of pessimism about the United States and our inherent interests? Quite the contrary. It reflects an abiding and ambitious optimism. We believe deeply that we can act smartly and boldly, that we can compete and win, that we can meet the great challenges of our time, and that we can deliver for all of our people here in the United States. And while it's still very early, we have some evidence of that. This includes the strongest post-pandemic recovery of any advanced economy in the world. There's more work to do, but inflation has come down. And contrary to the predictions that the PRC would overtake the U.S. in GDP either in this decade or the next, since President Biden took office, the United States has more than doubled our lead. And last year, the United States attracted more than five times more inbound foreign direct investment than the next highest country. We are once again demonstrating our capacity for resilience and reinvention. And others are noticing. The EU's Draghi report, published last month, mirrors key aspects of our strategy.

Now, as we continue to implement this vision, we will need to stay rigorous. We will need, for example, to be bold enough to make the needed investments without veering into unproductive subsidies that crowd out the private sector or unduly compete with our partners. We're clear eyed that our policies will involve choices and tradeoffs. That's the nature of policy. But to paraphrase Sartre, not to choose is also a choice. And the trade offs only get worse the longer we leave our challenges unchecked. Pointing out that it's challenging to strike the right balance is not an argument to be satisfied with the status quo. We have tried to start making real a new positive sum vision, and we have tried to start proving out its value. But we still have our work cut out for us.

So I'd actually like to end today with a few questions of my own, where our answers will determine our shared success. First, will we sustain the political will here at home to make the investments in our own national strength that will be required of us in the years ahead? Strategic investments like these need to be a bipartisan priority, and I have to believe that will rise to the occasion that we won't needlessly give up America's position of economic and technological leadership because we can no longer generate the political consensus to invest in ourselves. There is more we can do now on a bipartisan basis. For example, Congress still hasn't appropriated the science part of chips in science, even while the PRC is increasing its science and technology budget by 10% year on year.

Now, whether we're talking about investments in fundamental research or grants and loans for firms developing critical technologies, we also have to update our approach to risk. Some research paths are dead ends. Some startups won't survive. Our innovation base and our private sector are the envy of the world because they take risks. The art of managing risk for the sake of innovation is critical to successful geostrategic competition. So we need to nurture a national comfort with, to paraphrase FDR, bold and persistent experimentation. And when an investment falls short, as it will, we need to maintain our bipartisan will, dust ourselves off, and keep moving forward. To put it bluntly, our competitors hope we're not capable of that. We need to prove them wrong. We need to make patient strategic investments in our capacity to compete. And we need to ensure fiscal sustainability in order to keep making those investments over the long term.

Second question, will we allocate sufficient resources for investments that are needed globally? Last year here at Brookings, I talked about the need to go from billions to trillions in investment to help emerging and developing countries tackle modern challenges, including massively accelerating the speed and scale of the clean energy transition. We need a Marshall Plan style effort investing in partners around the world and supporting homegrown U.S. innovation in growing markets like storage, nuclear and geothermal energy.

Now, trillions may sound lofty and unachievable, but there is a very clear path to get there without requiring anywhere near that level of taxpayer dollars. And that path has renewed American leadership and investment in international institutions. For example, at the G-20 this fall, we're spearheading an effort that calls for the international financial institutions, the major creditors in the private sector, to step up their relief for countries facing high debt service burdens so they, too, can invest in their future. Or consider the World Bank and the IMF. We've been leading the charge to make these institutions bigger and more effective, to fully utilize their balance sheets and be more responsive to the developing and emerging economies they serve. That has already unlocked hundreds of billions of dollars in new lending capacity at no cost to the United States, and we can generate further investment on the scale required with very modest U.S. public investments and legislative fixes. That depends on Congress taking action. For example, our administration requested 750,000,000 million from Congress to boost the World Bank's lending capacity by over 36 billion, which, if matched by our partners, could generate over 100 billion in new resources. This would allow the World Bank to deploy $200 for every $1 the taxpayers provide. We've asked Congress to approve investments in a new trust fund at the IMF to help developing countries build resilience and sustainability. Through a U.S. investment in the tens of millions, we could enable tens of billions in new IMF lending and outside the World Bank and the IMF, We're asking Congress to increase funding for the Partnership for Global Infrastructure and Investment, which we launched at the G7 a couple of years ago. This partnership catalyzes and concentrates investment in key corridors, including Africa and Asia, to close the infrastructure gap in developing countries. It strengthens countries economic growth. It strengthens America's supply chains and global trusted technology ventures. And it strengthens our partnerships in critical regions. The private sector has been enthusiastic. Together with them and our G7 partners, we've already mobilized tens of billions of dollars, and we can lever that up and scale that up in the years ahead. With help on a bipartisan basis from the Congress.

We need to focus on the big picture. Holding back small sums of money has the effect of pulling back large sums from the developing world, which also, by the way, effectively cedes the field to other countries like the PRC. There are low cost common sense solutions on the table, steps that should not be the ceiling of our ambitions, but the floor. And we need Congress to provide us, the authorities and the seed funding to take those steps now.

Finally, will we empower our agencies and develop new muscle to meet this moment? Simply put, we need to ensure that we have the resources and the capabilities in the U.S. government to implement this economic vision over the long haul. This starts by significantly strengthening our bilateral tools, answering a critique that China has a checkbook and the U.S. has a checklist. Next year, the United States is going to face a critical test of whether our country is up to the task. The DFC, the Ex-Im Bank and AGOA, the African Growth and Opportunity Act, are all up for renewal by Congress. This provides a once in a decade chance for America to strengthen some of its most important tools of economic statecraft and think about how they can work better with the high leverage multilateral institutions I just mentioned. The DFC, for example, is one of our most effective instruments to mobilize private sector investments in developing countries. But the DFC is too small compared to the scope of the investment needed, and it lacks tools our partners want, like the ability to deploy more equity as well as debt, and it's often unable to capitalize on fast moving investment opportunities. So we put forward a proposal to expand the DFC toolkit and make it bigger, faster, nimbler.

Another gap we need to bridge is to make sure we attract, retain and empower top tier talent with expertise in priority areas. We're asking Congress to approve the resources we've requested for the commerce's Bureau of Industry Security, Treasury's Office of Investment Security, the Department of Justice's National Security Division. If Congress is serious about America competing and winning, we need to be able to draw on America's very best.

Let me close with this. Since the end of World War Two, the United States has stood for a fair and open international economy, for the power of global connection to fuel innovation, for the power of trade and investment done right to create good jobs for the power, as Tocqueville put it, of interest, rightly understood. Our task ahead is to harness that power to take on the realities of today's geopolitical moment in a way that will not only preserve America's enduring strengths, but extend them for generations to come. It will take more conversations like this one and iteration after iteration to forge a new consensus and perfect a new set of policies and capabilities to match the moment. I hope it's a project we can all work on together. We can't afford not to. So thank you and I look forward to continuing the conversation, including hearing some of your questions this morning.

David Wessel Well, thank you very much for that, Jake. And it seemed to me fair that you pose all the questions and answer them before you got the chance to ask any. Let me start. You mentioned one point trade offs and you did mention the word consumers once. But how do you. There are costs to this in order to have a more resilient supply chains, in order to have stronger national security, in order to maintain a technological lead over China, you are asking the American people to pay a cost. We will get we will pay more for lives. We will pay more for solar energy. We will lose some of the benefits that we get from the competition that comes from globalization. How do you weigh those costs? How do you weigh those tradeoffs when you're deciding which policies to pursue?

Jake Sullivan Well, first of all, any policy of any kind involves tradeoffs, because you can't just go to a corner solution. Corner solution would be don't worry at all about national security. Corner solution would be don't worry at all about consumers. We don't believe in that. We believe in worrying about both. And therefore, inherently you're reducing tradeoffs. The sanity of a policy actually rests in the fact that it is grappling with tradeoffs and tensions, and pointing that out is not an argument. Well, let's just keep doing what we were doing before. That's kind of one of the points I was making in the speech. Now, as I also said, we believe that is broad based indiscriminate tariffs do harm consumers. They harm businesses, they harm productivity. And we aren't for those. So the way we think about it is where are the strategic sectors where actually revitalizing American manufacturing and innovation capacity will have long term benefits that go beyond just the growth of those industries, but will deliver actual benefits to actual communities and actual humans across the United States. And that's what's behind the IRA. That's behind the targeted steps we took on the 3 to 1 tariffs earlier this year. And that's behind the kind of approach that that we are trying to put forward. It is fundamentally with the American worker, working family, middle class family in mind that we are trying to take these steps and that family cares about affordability. They care about their security and safety. They care about having good paying jobs and vibrant communities. And they care also about going through an effective clean energy transition and meeting the moment on the climate crisis. To do all of that means trying to design a policy that can be honest and transparent about the approach and the tradeoffs, and then try to balance them effectively in a way that delivers on the kind of ambition that I've laid out in this speech.

David Wessel You described the imperative to have tariffs strategically employed. Yet the administration maintained all of the Trump tariffs, including those on things like clothing and toys from China. Wouldn't it have been a good symbolic gesture to lift those, to show that you're really being strategic on tariffs and not just punitive?

Jake Sullivan Well. Look, since we're less than two weeks out from an election, I want to be very careful not to get into a debate that that ends up having any kind of political overtone. I want to keep this conversation at a high level so maybe you can bring me back in a few weeks and we can have a deeper discussion about the trade policy we're pursuing versus the trade policy of the previous administration. But the key thing from our perspective is the step we took. What did our 301 tariff approach look like when the president authorized it? It was rolled out a few weeks ago. And it had a core logic to it that was very much targeted at a specific set of high impact industries in which we are investing substantially in electric vehicles, in semiconductors and other areas. So from our perspective, that is the right model, the right way to go forward, and that is the stamp that the Biden administration has put on the question of how to deploy tariffs in a smart and strategic way. And by the way, if you look at the European Union, you look at other countries that I listed in my speech across multiple continents, they are taking a similar approach because they, too, recognize the fundamental threat to their industries, their vitality from the kind of overcapacity that we've seen from the PRC in these key sectors.

David Wessel So one one thing that you sort of described in rather broad terms was the need for more public investment in the United States beyond what we've done in the IRA and the Chips and Science Act. And it sounded like you think that you talked about the need for risk taking and which we think the private sector in the U.S. is pretty good at, maybe sometimes takes too many risks. But are you thinking that the government needs to, the U.S. government needs to have some way to invest in, say, like Temasek or the dollar in order to protect our key industries and invest in things that the private sector is under-investing?

Jake Sullivan Well, we are discussing what additional tools and authorities the US government could have for certain critical strategic investments, whether it's, for example, if we were in a real pinch and we needed to acquire critical minerals for a national security purpose. Just to provide one example now. This is a complex question. We are working through some formulas and some thinking on that. That involves a broad based interagency conversation. And you can imagine there are multiple different perspectives for how to do it. But there is a broad consensus that that the United States, from the perspective of thinking about its access to key inputs on a global basis for our national security, that there are additional tools and authorities we could use to be able to accomplish that. But that's not centrally what I meant when I was describing the appetite for risk taking. What I meant was that we have a long history of investing in scientific researchers at universities and think tanks around the country. Sometimes those investments bring about Nobel Prizes. In fact, the major science Nobel Prizes this year that were just awarded were to people who had gotten grants from our National Science Foundation. Sometimes those investments reach dead ends, and we've become comfortable with that. But I think in an increasingly politicized and charged environment, the question of our ability to do investment in research and investment in strategic sectors like clean energy or like semiconductors, it does bring about it inherently an element of risk. And we have to recognize that and not say the first time there's some set back up, the whole thing's got to be abandoned. That whole project has to be abandoned. So that point about risk applies to the things that we are currently doing. It also would apply in the case of additional capacity to make strategic investments, you know, which is something that we are looking at but not prepared to kind of roll out a full plan on because it's still the subject of intense conversation within the core.

David Wessel What's the what's the problem you're trying to solve? That there's not enough capital in some of these strategic sectors and that we need to put public capital into them. Or.

Jake Sullivan So one of the problems that we'd be trying to solve, there's a number, but one of the key ones would be a an acute market failure at a moment of acute strategic need. That would be one. So we need how how would we do that, for example? And maybe stockpiles is the answer or maybe IT stockpiles plus some investment tools. These are the kinds of questions that we're asking ourselves, and that's the main thrust of what we are trying to to pursue.

David Wessel So this is the time of year where the International Monetary Fund puts out a lot of words. Sometimes I think they must get paid by the world, and there's a tone to what they're saying. That is, I think, comes in two different pieces. One is Pierre-Olivier Gourinchas said in his statement on the World Economic Outlook that, you know, I'm sure you'll agree with this, that we're industrial and trade policy measures can sometimes boost investment and activity in the short run. They often lead to retaliation and fail to deliver sustained improvements in standards of living that should be avoided when not carefully addressing well identified market failures or narrowly defined national security. Sounds like you could have written those words. But they also warn that somehow we are devout. We're moving to a world in which the world economy is increasingly fragmented. Not only that, we are we are paving we are showing other countries that we are willing to erect trade barriers where we didn't have them for the reasons you laid out. And as you point out now, the other countries are doing the same. But similarly, in inflows of finance and stuff, the world is fragmenting and they warn that this could lead to lower growth over time. Is that a concern you have or you just think that's a cost we have to pay in order to get the goals you need?

Jake Sullivan So my view is that this the sentence you just read, it's kind of like the almost the flip side of the coin of the speech I just gave. It's it's putting the risks we need to manage and then comma. But we kind of still need to do it as opposed to we need to kind of do it comma, but we need to manage the risks, which is our thinking is like. We needed an answer. Right. And anyone who says, well, this isn't quite the answer, I think does have a responsibility to come forward and lay out how do we meet the challenges I've laid out, which I think are basically indisputable challenges relating to the clean energy transition, to the rise of a massive non-market economy that destroyed global economic integration, challenges of geopolitical competition, challenges and fragmented fractured supply chains and economic coercion. So those are all challenges we've seen, all challenges we need to deal with. So if this isn't the answer, you have to have an alternative answer. And my argument and that or th0at answer has to be sustainable economically, geopolitically and politically, actually, also in this country and in many countries around the world. And so from my perspective, what we are trying to do is to take steps that we think can address those challenges while being clear eyed about stating and then managing for the risks that you just laid out. And the remarks I gave today, really in the key areas of trade, investment, technology are attempting to do that. And that is going to require iteration. It is going to require a constant effort to ensure that we are being rigorous. And I made the point in my speech that we have to ask ourselves the question repeatedly, how do we do bold public investment without doing it in a way where actually we're just crowding out private investment or just competing with with partners over a fixed set of investments? How are we actually growing the pie, so to speak? I believe that what we have put forward can contribute to that, particularly to outcomes at a crucial moment of technological change and the clean energy transition. But I acknowledge the risks that come with it and the need for us to be clear eyed in how we deal with them. Just the argument I would make is people pose these questions and in posing these questions. I think they also need to develop an answer that says, if not this, then X. And to me, the X of let's just go back to the status quo in light of what we have seen is not going to work. So, you know, the way that my high school soccer coach talk was plan beats no plan, which is not a sufficient answer to the.

David Wessel Tim Geithner line.

Jake Sullivan To your question. Maybe Tim Geithner was my high school soccer coach.

Jake Sullivan So it's not a sufficient answer to your question, but I think it's an important part of this ongoing conversation.

David Wessel One more question before I turn to the audience. So let's look ahead, say five years. And I have a very clear idea of the American economy that you imagine if this works, you know, broadly shared prosperity. We have strong innovation. We are moving towards a clean energy transition. But let's think about China. What is it that your goal is that China would be like in five years and our relationship with them? Is it that they're walled off and they're doing their own thing and and we're protected from them? Is it that they've changed their approach, which seems unlikely to me. What's your I.

Jake Sullivan Mean, one thing we have been very explicit about and I have said this repeatedly, I've written this repeatedly, previous efforts to build a China policy on changing China have not succeeded, will, in my view, not succeed. So what we need to do is take the PRC as it is and design a policy consistent with our interests, our values, and the interests and values of our allies and partners. What does that mean? Under a broad tagline, which is we are not for decoupling with China, we are for de-risking there really three core components to it. First, we need to make the investments in ourselves so that we have not outsourced all of our main high value manufacturing capability to another any other country, but especially a competitor like China. Second, we need to diversify and make resilient supply chains so that no country and particularly China can hold us hostage on critical supply chains. And third, we need to protect advanced technologies through the small yard, high fence. Those are the things we want to do. Beyond that, we want to sustain a broad based economic relationship with China, as with other countries. But we want that to be based on a level playing field where if China does not play by the rules, which they often have not, we are responding with things like these targeted 301 tariffs and doing so in concert with allies and partners. That is what we are looking for. So it is not a an extreme vision of decoupling which some put forward, but it is also not the approach that was in place. Call it a decade or 20 years ago. It is, as I said, sort of in my speech, an effort to be clear about exactly what we're trying to accomplish and then to effectuate policies to accomplish that set of things while sustaining a substantial economic relationship, which the data, even through everything that we have done, would show, still exist between the.

David Wessel Are you convinced that our Asian allies China, South Korea, Singapore, Vietnam, are as committed to that as you are.

Jake Sullivan Every country takes its own approach. Every country has a different perspective. Every country has different priorities. And frankly, different countries have different perceptions of their own leverage and vulnerability. So no one is just going to, you know, saying the exact same words in the exact same tone off the exact same song sheet.

But I do believe that there is growing convergence and alignment. First among the G7. And if you look at the Hiroshima G7 statement from last from, yeah, May of 2023, it says we all have our own approaches to China, but we agree on some basic fundamentals. And those fundamentals are a more articulate version of what I just laid out. And increasingly, other countries, whether it's India or Vietnam or others, are recognizing the challenge posed by the direction of PRC economic policy and are trying to adjust accordingly. And we are trying to align our approach with as many countries as possible, not to create some giant economic confrontation, but to create a more fair, durable and resilient global economy.

David Wessel Okay, I'm going to take questions and say pairs. We have mics, so wait for a mic. Let me start over here with Julia Coronado. And if you could say who you are and try to make it a question and not a speech. Jake already made a long speech to you.

Julia Coronado So I have a kind of specific question on Coronado. Julia Coronado, Macro Policy Perspectives. Recently, Mexican President Claudia Sheinbaum announced an initiative to produce an electric vehicle domestically in Mexico targeted to retail for $8,000, meant to, I think, compete with the low cost electric vehicles coming out of India and China. Can you tell me how that fits into your vision of strategic partnerships and, you know, meeting goals amongst friends? How how does the U.S. view this new initiative?

David Wessel Can you pass the mic? I think there was someone you know, the gentleman on the aisle.

Michael Ashe In 1947, Michael Ashe, Amalgamated Transit Union. In 1947, Congress passed a Taft-Hartley law which limited the ability of workers to fight for a fair share of the American prosperity. I think when you talk about rights for workers, you have to think about modifying that law. And is there consideration be given to that?

Jake Sullivan So on that, the answer is yes. I mean, President Biden has been very vocal in his view that we need the pro act, we need other legislative initiatives and authorities to make it easier for workers to be able to organize effectively. And he has also made clear that we need to take the fight for workers rights globally. He'll be going down to Brazil in a few weeks for the G20. He and President Lula launched the Partnership for Workers Rights between the U.S. and Brazil, and we're looking to expand that to include other countries as well. First president ever, in fact, to have a presidential memorandum on advancing workers rights globally, in addition to trying to enhance collective bargaining and worker power here in the United States. Obviously, he has made, I think, substantial progress in that over the last four years. But there's a lot left to go because we need the Congress to act. And there have been those in the Congress who have stood in the way of that. I've not seen the specific proposal with respect to these electric vehicles. So I don't want to get ahead of my skis in trying to characterize or address it. I would just say that USMCA was passed on a bipartisan basis. One of the questions embedded in the discussion over USMCA and in particular, what will be required to update it when it comes up for updating here in the near term is to what extent is the North American supply chain, you know, how are the rules of origin being set and how do players like the PRC play into an auto supply chain in a place like Mexico? That's something we will have to take a close look at. And then to what extent are we ensuring that the promise of USMCA with respect to workers rights in particular, through things like the rapid response mechanism, actually being vindicated and effectuated in a way that there isn't an unfair playing field that needs to be addressed. So we will look at all of those things and frankly have had and will continue to have, I think, quite robust conversations with our Mexican counterparts, as well as our Canadian counterparts about how we truly vindicate a vision of a North American platform economic platform that is a level playing field, and that is one that delivers on high standards.

David Wessel Would you object to invest in importing cheap, high quality EVs if they weren't Chinese?

Jake Sullivan I mean, the U.S. currently imports cars.

David Wessel Not very many, EVs, you know. .

Jake Sullivan And that same is true. It is not EVs. What I want to make sure that we do is that we have a competitive industry, [unintelligible]

Jake Sullivan Okay. But I'm not looking to wall the United States entirely off. I just want to make sure that.

David Wessel Yeah. All right. Let's take a couple over here. Tristin, there's a gentleman with a notebook and. Yeah, and then there's one right behind him.

Alan Jones Your Excellency. Hi. My name is Alan Jones. An undergraduate through Georgetown. And my sophomore year at my alma mater in 2022. I had the honor of sharing concerns from South Korea with you at your event, particularly regarding the how the subsidies of the Inflation Reduction Act might marginalize you as allies. Now, as a college senior, I stand before you during a critical election. Should the persistent sense of skepticism toward America among U.S. allies and partners be extended to the United States? Can the Biden-Harris administration show US allies and partners and stand out to be capable of preserving the free and open Indo-Pacific? Thank you.

David Wessel Thanks. The gentleman behind you.

Brett Fortnum Hi. Brett Fortnum from Inside US Trade. The Biden administration has been successful in getting many of its allies on board with certain technology controls. But my understanding is there is a concern among allies about the most aggressive controls and in trying to get allies on board with that. What is your message to U.S. allies when it comes to those most aggressive controls to try to get them on board?

Jake Sullivan I'm not sure what you're referring to by most aggressive controls, I would say that this is a give and take. It's an extended dialog that we've had with a widening group of allies and partners who play in the highest in dual use technology supply chain with national security implications. And we take this in steps. We diagnose the threat. We then look at what the tradeoffs are in imposing a certain control to deal with that threat. And we walk through the four questions that I laid out in my remarks. And that has been an extremely constructive set of dialogs with allies and partners. Does it mean we agree on everything? Not necessarily. But are we broadly aligned on the methodology for how to approach this issue? I believe we are. And then it really comes down to the issue of practical application, which is an intense give and take within the respective governments of our allies and partners, and then across those governments and then between us and them. So we will continue to work on that as we go forward. Look, my message to my allies and partners, I can't really say to our allies and partners, I can't really say much more than what I said in my speech. What I what I do believe very much is that the volume of concern, even in some cases alarm about elements of the IRA when it came out after the work that we have done now for two years to align efforts to explain what it is and what it is not, has put us in a markedly better position with our allies and partners and has also led many of our allies and partners to say, Hey, we get what the United States is doing. We want to do something along those lines. And frankly, we'd like the U.S. is help in doing that. And our answer to that is yes. That is part of what we're trying to do in aligning and energizing our foreign policy is to create not just a sense of ambition in the investment here in the United States, but in our allies and partners, too, because we believe that that is in our interest.

David Wessel Thanks, Antoine. Here.

Antoine van Agtmael Antoine van Agtmael, Brookings trustee. Very interesting. Thank you. You know, as you know, some of the public investment in the past has been wildly successful from Google to putting a man on the moon in terms of incentivizing innovation and now strength and resilience. I personally believe, having visited after your speech, the SAPs in Pheonix, that same eventually will be true there. And my question is, why is it and I've never understood venture capitalists take 20% of the upside. Public investment doesn't. Why is that? It would be a great way to fund science and investment in future. And there's still plenty left for the entrepreneurs.

David Wessel Thanks to some of the woman on your right there in the red.

Audience member Thank you, Ernestine Shelia from Georgia. Journalist. What is your perspective on China's interests in the South Caucasus, particularly regarding the construction of our ports on the Black Sea? And if I may ask you about the ongoing developments in Georgia in this context. There are significant elections in three days. The entire pre-election process has been marked by heavy interest and rhetoric from the government. And what is your expectation? Thank you, sir.

David Wessel Two directly related questions,

Jake Sullivan Yeah, right. We've made we've made our concerns very clear about the trajectory of the democratic institutions in an election process in Georgia, and we remain very concerned about it. Ultimately, the future of Georgia should be up to the Georgian people to decide in a free and fair process. And I don't think anyone in Georgia wants to mortgage their country or any one among the ordinary Georgian people wants to mortgage their country to any other country, including the PRC. With respect to the question you posed about taking upside, look, I think it's a very fair question. Frankly, I've asked it myself. I you know, I'm not entirely opposed to some kind of method of trying to achieve that. I would say at a broad level, the way that government tends to think is less about financial upside and more about the upside of impact on communities, the country, etc.. And so it's measuring the return on the investment in just a different way. But your point is there's nothing inconsistent with that. And also getting a little money, too, I don't know. So I'll keep my totally honest answer to your question is you know, there's probably a variety of both philosophical and political reasons why that doesn't happen. It's an interesting question. I think other countries have models that that do do that. But our main concern fundamentally is will our policy actually produce progress on the clean energy transition, good paying jobs, protection of our national security, etc.? And if we're getting all of that, then that is real upside.

David Wessel Thanks. Can we go to the back, and then there's a gentleman here on the aisle. You can give him a mic too.

Eric Branham Great. Thank you. My name is Eric Branham at the Carnegie Endowment. You mentioned toward the end of your remarks the Draghi report on European growth and competitiveness. It's no secret that in a lot of European countries, economic growth outlooks are a lot lower than the United States. And I'm just curious from the administration's perspective, how concerning is it that some of the United States, its closest economic and security partners, are struggling to grow economically? And what opportunities, if at all, are there for mutual economic gain that that the U.S. can leverage with these partners?

David Wessel Thank you, gentlemen, here on the aisle. Yeah, Just raise your hand so they can see you. Yeah.

Audience member [unintelligible] from Foreign Policy magazine. So my one question is would you serve in another administration should the opportunity arise? And aside from that, leaving aside if you put the election aside, if you did get the opportunity to serve another four years, what would you do differently or what would you change about the the strategy you've put forward?

David Wessel That's why I give you two questions. You can duck one if you want.

Jake Sullivan Yeah, exactly. So the president was just in Germany seeing the chancellor and also meeting with the prime minister of the UK and the president of France. And you know, they were mainly focused on Ukraine in the Middle East, but also had the opportunity to just talk about a collective, bold, ambitious vision for advanced democracies, close allies to all be seizing the benefits and opportunities of the clean energy transition, the artificial intelligence revolution and and delivering for people. And so we do believe it is a profound national security and economic priority of the United States, that Europe is strong, vital, vibrant and growing. And we think there are genuine opportunities, both in terms of the future of energy and the future of technology in particular to create a new equation, a new platform where Europe has the dynamism to grow significantly and in ways that are complementary to and mutually reinforcing of the United States. And we want to contribute to that. And that's not just Europe, it's other country. He's around the world. It's Korea, it's Japan and other of our closest allies. But this is something that we think about a lot. It's something that, you know, appeared on every single page of my speech and will be something that we continue to drive at. And I really, unfortunately, have no comment on my future.

David Wessel But. But let me rephrase that question in in the spirit. So your speech in April 2023, some people criticize and I took some of your tone today as saying that in some respects you think people misunderstood. So what was it that you want to make sure that people what was the misunderstanding, if any, that you thought people took away from your previous speeches that you're trying to correct?

Jake Sullivan Well, you know, there was a really robust, even sometimes raucous debate that came out of that speech, and some of it was extremely positive. Some of it was quite critical. Some of it was everything in between. So it's not really I was like, there's that misunderstanding. And it's deal with rather I think in, as you can tell, quite a linear way. And I say, you know. Because you don't just walk out, give a speech and say, okay, now let's let that flow for the next 20 years and see what happens. It's, as I said, iteration and reflection. It's a conversation. It's a back and forth. We have to move into a new set of approaches based on the new reality, geopolitical and economic, that we confront. So what I was trying to do today is basically say it's been a year and a half. We've had experience. We put points on the board. We've confronted tensions and trade offs. And I've heard this conversation continue. Not just here in the United States, but globally. Let me come back and add my next iteration of the conversation. So I'm not trying to respond to a particular criticism or clarify a particular misunderstanding. I'm trying to say this is good government. This is what we should do to make policy better. It's come put this out now, hear what people have to say to that. Come again. Put it out. Keep doing that. If that's how we iterate our way to something sustainable and strong over time, that would be great. Probably the thing I'd most like to leave people with is the status quo is not a sufficient answer. And moving from the status quo to something new is uncomfortable and does require this kind of sharpening over time, which I'm committed to doing in whatever capacity I have, whether it's in government or out of government.

David Wessel Thanks. I'll take a couple more as a couple gentleman in the back there, Tristan, he's standing up. I think people stand up to get a shot.

Donghui Yu Thank you. Thank you very much. My name is Donghui Yu with China Real News Agency of Hong Kong, I have a question regarding Chinese economy. So right now in this town, many people are talking about the collapsing Chinese economy and some people say that China's power has peaked. Now, I'm I'm wondering how would you evaluate the Chinese economy situation now? And are you concerned that the US, China, the copy may go further if Mr. Trump comes back only do you believe the small yard high fence strategy will be sustainable in the future? Thank you.

David Wessel Pass the mike. To the guy.

Gavin Bain And yeah, thank you for being here, Mr. Sullivan. Gavin Bain with Politico. You spoke to the need to have international partners, both allies and the broader developing world, sign on to this new economic world order, as you've put it. Ostensibly, they would have both economic and geopolitical considerations to take into account when they sign on to them. And ostensibly, one of those geopolitical considerations today would be the situation in the Middle East, the war in Gaza and the US's support for the Israeli military action there. I wonder if that ever comes into play when you're trying to encourage economic partnerships and build this new economic world order. And if it does, does that point to a contradiction between U.S. international economic policy and U.S. military policy in the Middle East? Thank you.

Jake Sullivan So on the first question, I get asked this from time to time, and I try to straightforwardly dodge the question. And the reason is because people with deep economic expertise on China, including Chinese economic experts and also economic experts from around the world, have very different diagnoses of where the Chinese economy is and where it's going. Very different. My job is not to predict that. My job is rather to set a policy based on any number of possible outcomes and to recognize that from the U.S. perspective. On the one hand, there will be an intense and sustained competition between the U.S. and China. But on the other hand, neither the U.S. nor China is going anywhere. And we're going to have to learn to live alongside one another as major powers. This is a point we have made repeatedly. So I'm just straightforwardly going to say I cannot answer the question for you where exactly whither the Chinese economy? Rather, I need to help us design a policy that can take account of any of a number of possible pathways that could happen. And by the way, a lot of that will depend on policy choices made in Beijing that I'm not in a position to dictate and in some cases not in a great position to even predict. On the on the question with respect to the Middle East, I think that was a very elegant way of bringing the Middle East into a discussion about international economic policy. Look, all I can say is when we sit down and engage with countries, whether it's allies or countries in the global South, our conversations run the entire spectrum to include sharing our respective views and perspectives on evolving events in the Middle East. That will continue. But so too will discussions with those same countries on investments in infrastructure, physical, digital, energy, infrastructure and otherwise continue as well. And that's just a feature of U.S. foreign policy at any given point in any decade where we might have differences of perspective on a particular issue with other countries. I can't think of a country in the world, even our very closest allies, on which there isn't a range from total alignment to total disagreement across the full sweep of things that we work on in our relationships.

David Wessel All right. So I think we're going to close it now. I want to thank everybody for coming and thank you particularly Jake, for your time. If I could ask you to stay in your seats and tell Jake leaves, and also, if you have coffee cups or papers at the at your feet to put them in the garbage can at the bottom. So thank you very much.