



Testimony of
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United States House of Representatives

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“U.S. Economic Security and Investment Abroad: Assessing Economic Security Zones”

Chairman Mills, Ranking Member Moskowitz, and members of the Subcommittee,

Thank you for the opportunity to testify today. My name is Clark Packard. I'm a Research Fellow at the Cato Institute where my research focuses on U.S. international trade and investment policy with a specific focus on the U.S.-China economic relationship.

Let me state unequivocally at the outset: The United States faces genuine economic security challenges. In 2025—after the Trump administration imposed sweeping tariffs on Chinese goods—Beijing imposed a near-total embargo on exports of seven rare earth elements and the magnets made from them. This decision disrupted automotive, semiconductor, and defense supply chains almost immediately. Ford's Chicago assembly plant shut down for a week due to a shortage of rare earth magnets. This is a very real vulnerability.

My concern is not with the diagnosis; it is with the treatment. My testimony will focus on the underlying causes.

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Treating the Symptoms, Not the Disease

China's dominance over certain critical products is real. Take tungsten. It is nearly as hard as a diamond and has a melting point higher than that of any other metal. The US uses tungsten in armor-piercing munitions, kinetic-energy missiles, aerospace components, and semiconductors. Today, China looms large over the tungsten supply chain – controlling about 80 percent of the global supply.¹

The 4,000-acre Economic Security Zone in the Philippines' Luzon Corridor is a response to a legitimate problem. Bolstering trusted supply chains with allies is a worthwhile goal. But creating a subsidized island of manufacturing cannot substitute for the far more powerful tools we've spent the last decade dismantling.

¹ <https://www.cnbc.com/2026/06/03/china-metals-national-security-defense-weapons-supply-tungsten.html>

Tariffs Have Imposed Significant Economic Costs and Alienated Close Allies.

Economic Costs

Consider where we stand. Section 232 “national security” tariffs on steel and aluminum were doubled to 50 percent – they apply to friends and rivals alike. A new 10 percent global tariff now applies to much of what Americans import. The latter tariffs will soon give way to a new round of tariffs under Section 301 of the Trade Act of 1974. Independent analysis finds that the tariffs since 2025 amount to the largest tax increase as a share of the US economy since 1993 – roughly \$1,000 per household last year alone.²

Tariffs are taxes; virtually all economic research shows that Americans are paying for them – families at the checkout counter and American manufacturers who rely on imported inputs and raw materials. Ironically, the tariffs make it more expensive to build everything downstream. More than half of what the United States imports are intermediate inputs and capital equipment used by American producers, so a broad-based tariff is, in effect, a tax on domestic manufacturing itself. And a tax on imports is ultimately a tax on exports—economists have understood that connection for nearly a century. The two move together; curtail one and you curtail the other. American exporters, from farmers to aircraft makers, end up paying the price. In 2025, after the US imposed sweeping tariffs—ostensibly to reshore manufacturing—American manufacturers shed about 75,000 jobs.³

The tariffs also impose costs through uncertainty and complexity. Investment depends on stable, predictable conditions; businesses cannot build supply chains around policy that changes on an ad hoc basis. Capital is unlikely to commit to such an environment – it waits or goes elsewhere. Complexity compounds the problem. The tariff schedule has grown so convoluted that firms now spend real time and money classifying products, tracking constant rule changes, and guarding against costly compliance errors—an administrative burden that pulls resources away from actually making things.

² <https://taxfoundation.org/research/all/federal/trump-tariffs-trade-war/>

³ <https://www.cato.org/blog/manufacturing-employment-data-confirms-concentrated-benefits-dispersed-costs-trumps-tariffs>

Pushing Allies Toward Beijing

Here is the deepest irony. To outcompete China, the US needs trusted allies. Yet our erratic and costly trade policies have strained relationships with our closest allies – Canada, Mexico, NATO members, Japan, South Korea, and others.

When we tell NATO members that their steel and aluminum exports threaten American security or treat a Japanese firm's investment in a U.S. steel producer, we signal that American commitments are conditional and easily reversed. That is a gift to Beijing, which is happy to present itself as a more reliable economic partner. It is not that Korean and Japanese firms are suddenly enamored with China; it's just that export-dependent economies have few alternatives.

Consider Canada. This is not a rival but a neighbor woven directly into our own defense industrial base—through NORAD and decades of shared defense production—and one of our largest suppliers of energy, uranium, potash, and critical minerals. Yet after a year of tariffs and threats, Ottawa is now openly hedging against us. It has pledged to double its exports to non-U.S. markets, is deepening ties with the European Union and the Indo-Pacific, and has moved to strike a trade deal with China. When a country that helps arm us starts looking for the exits, we have miscalculated badly.

The damage reaches well beyond our treaty allies. We have also let our trade-preference programs wither. The Generalized System of Preferences, which gave developing countries duty-free access to our market, has sat been dormant since 2020; the African Growth and Opportunity Act was allowed to lapse outright last fall before Congress managed only a one-year stopgap. When these programs lapse, sourcing shifts—during the GSP lapse, American importers moved orders to China. And when we impose tariffs on partners with whom we have binding agreements, we tell them our commitments are negotiable. Every one of these signals is an invitation for Beijing to present itself as the steadier partner.

Likewise, we walked away from an effective economic instrument. For all its flaws, the Trans-Pacific Partnership would have cemented an American-led trading bloc to offset China's gravitational pull in the Pacific region. Likewise, it would have set higher-standard rules for trade and investment. Binding, enforceable—and

crucially, legally codified—trade agreements are how the US should build resilient, allied supply chains at scale.

Meanwhile, the rest of the world is not standing still. As we raise barriers, our partners are lowering theirs—with one another and excluding us. In January, the European Union and the Mercosur bloc signed an agreement to create one of the largest free-trade areas on the planet, openly described as a way to reduce dependence on both China and the United States. The EU has also concluded deals with Indonesia and Mexico and is closing in on one with India; the United Kingdom and India signed their own pact last year. Each of these locks in preferential access for non-American firms.

Exemptions Make the Case

Finally, I would note that the administration has, in effect, already conceded the point. When tariffs threatened to raise prices or shut off supplies entirely for items the US genuinely needs, exemptions followed. The US recently lifted tariffs on phosphate and fertilizers to help bring costs down for American farmers. When Jones Act shipping requirements threatened fuel and fertilizer supplies, the Trump administration issued a waiver and then extended it.

The pattern runs throughout the tariff schedule. As grocery prices crept up following the tariffs, the administration exempted coffee, beef, bananas, tomatoes, and hundreds of other foods from its reciprocal tariffs and expanded beef import quotas to bring costs down. And in the one arena it guards most closely—the artificial-intelligence buildout—the Trump administration has carved out the advanced chips and data-center equipment that power American AI, applying its 25 percent semiconductor tariff only to chips not bound for our own supply chain. The most strategically important inputs we import are, revealingly, the ones we have chosen not to tax.

Each carveout is a tacit admission that protectionist tools raise prices, disrupt supply chains and undermine the very resilience they are advertised to provide. If exceptions are necessary, perhaps the rule deserves a second look.

Economic Security Zones may prove marginally helpful, but they cannot compensate for the market access, allied trust, and predictable rules the US built up since World War II and is now rapidly squandering.

We need policies that affirm market incentives that make American firms and those of our allies more competitive. We cannot hide behind tariff walls. We need to open more doors to friends and allies.

I look forward to answering any questions the Committee may have.