

An aerial photograph of a large port area, likely a container terminal. The foreground and middle ground are filled with rows of colorful shipping containers (blue, red, white) stacked on the ground. Several large red gantry cranes are visible, positioned along the waterfront. In the background, more port infrastructure, including buildings and additional cranes, is visible across a body of water. The sky is overcast.

Economic Warfare and Crisis Contingency Planning

A Historical Perspective

Hugo Bromley and Eyck Freymann

April 9, 2025

Hoover Economic Policy Working Group

The Role of History



Outline

1. U.S. Contingency planning and deterrence
2. The view from Beijing
3. Broader historical themes

The background of the slide is a deep blue, monochromatic image. It depicts several large, spherical, metallic-looking objects, possibly buoys or sensors, suspended from above by thick, dark chains. The spheres are covered in numerous small, protruding bolts or sensors. The scene is set underwater, with a hazy, blue background suggesting depth and light filtering from above. The overall mood is mysterious and technological.

1. Contingency planning today

“The United States lacks a contingency plan for the economic and financial impacts of conflict with the PRC.”

House Select Committee on the Chinese Communist Party, December 2023

“No office in the U.S. Government bears primary responsibility for assessing the costs to the U.S. and global economy of a conflict with the PRC...

Nor for doing contingency planning for how the United States and its allies would respond economically.”

House Select Committee on the Chinese Communist Party, December 2023

Sanctions on Russia didn't deliver as promised

Bloomberg

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Markets
Economics

JPMorgan Warns Russia Faces 1998-Like Collapse in Economy

U.S. Treasury Announces
Unprecedented & Expansive Sanctions
Against Russia, Imposing Swift and
Severe Economic Costs

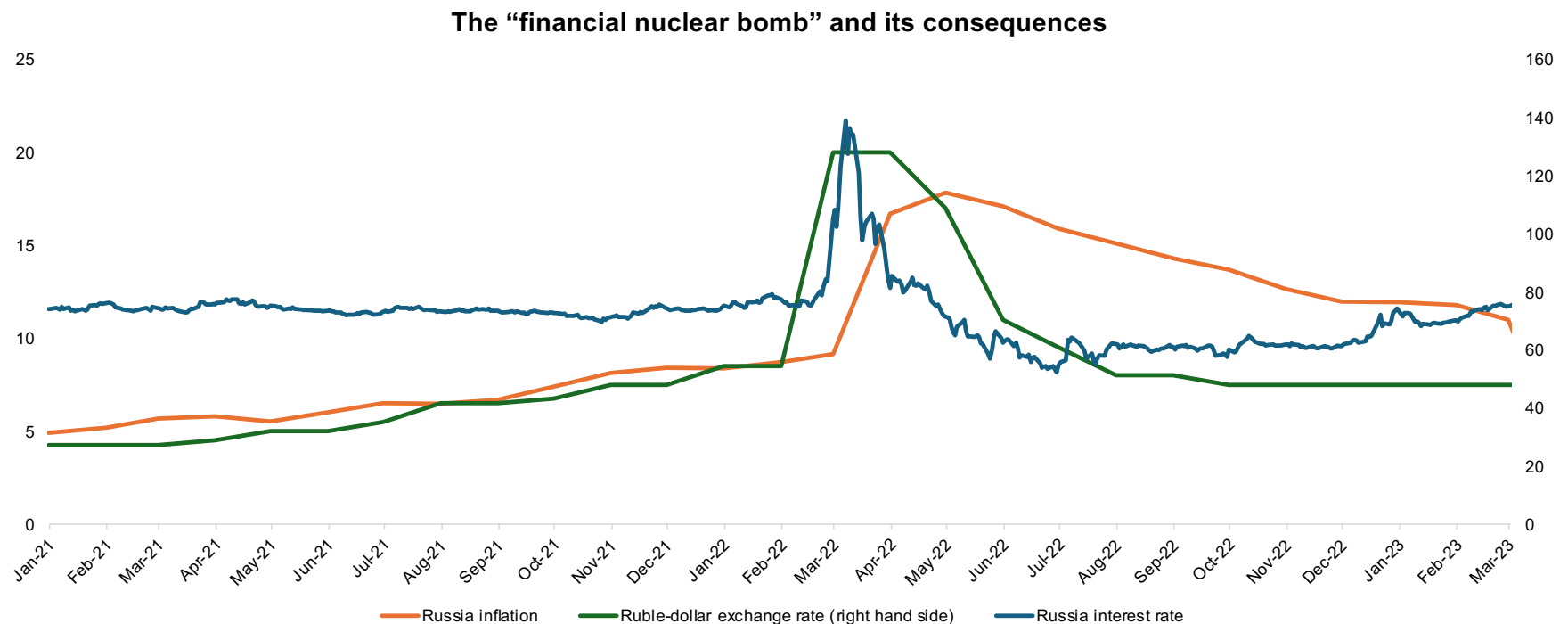
February 24, 2022



**The Russian economy is headed
for collapse**

Published: March 10, 2022 4.20pm CET

Was there something wrong with our models? Did Russia ace the response? Or did we not go hard enough?



In a crisis with China, most people now think we would need to go harder

07.26.24

SULLIVAN & DUCKWORTH INTRODUCE BIPARTISAN S.T.A.N.D WITH TAIWAN ACT OF 2024

WASHINGTON—U.S. Senators Dan Sullivan (R-Alaska) and Tammy Duckworth (D-Ill.), both members of the Senate Armed Services Committee (SASC), today introduced the *Sanctions Targeting Aggressors of Neighboring Democracies (STAND) with Taiwan Act of 2024*, which would impose devastating, comprehensive economic, energy, financial, and other sanctions on China in the event that the People's Liberation Army (PLA) initiates military aggression against Taiwan. The suite of sanctions includes the targeting of Chinese Communist Party (CCP) members and Chinese financial institutions and industrial sectors, as well as prohibiting U.S. financial institutions—including investment companies, private equity firms, venture capital firms, or hedge funds—from making any investments in a Chinese entity that benefits or is affiliated with the CCP. The bill would also restrict importation of China-produced goods.

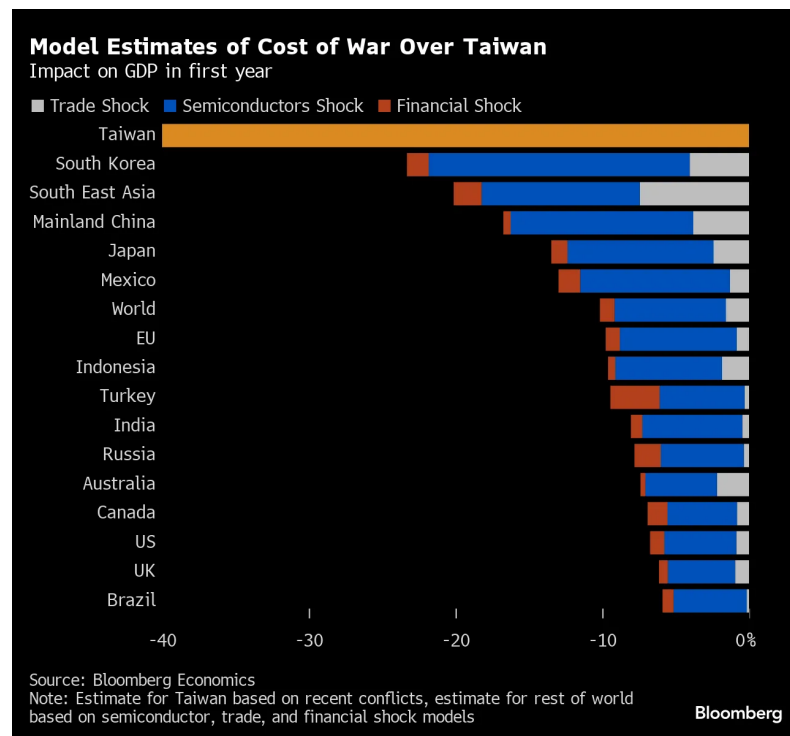
Much harder.

“If U.S. forces were engaged” in a war over Taiwan, “the sanctions [on the PRC] would be severe, and Washington would probably coordinate with—or even compel—major allies to join such sanctions.”

European allies would likely “support Washington’s efforts to punish China economically” because if they resist, Washington might “present European leaders with a binary choice they might otherwise hope to avoid.”

—Jude Blanchette and Gerard DiPippo

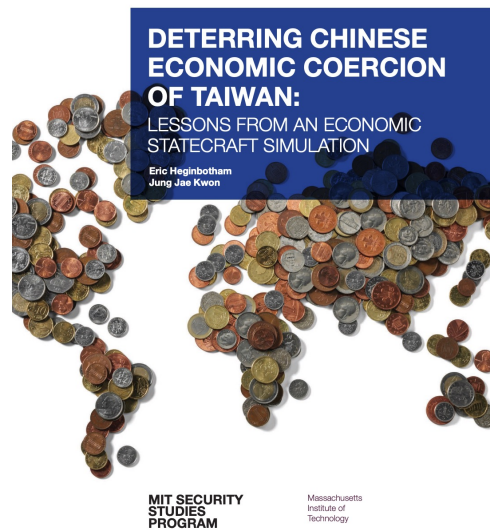
How can we even begin to model the consequences? How would central banks respond, for example?



Would trade actually go to zero, or would markets adapt?



How U.S. policymakers are being informed



How U.S. policymakers are being informed

- Both the U.S. and China teams considered, and came close to adopting, “murder-suicide” options that would have caused extreme damage to their own economy and the adversary’s. Both sides knew that the other would have a high tolerance for pain, but once conflict had been initiated, they were forced by circumstances to search for increased leverage. As the game progressed, and particularly during the final move, as the least painful, high-leverage options had been exhausted, policymakers reached for blunter tools to increase pressure, despite likely costs to themselves. China, for example, considered measures that would virtually sever trade with the United States and much of the West.

How U.S. policymakers are being informed

Figure 5: China GDP Growth, Move 2, 2026

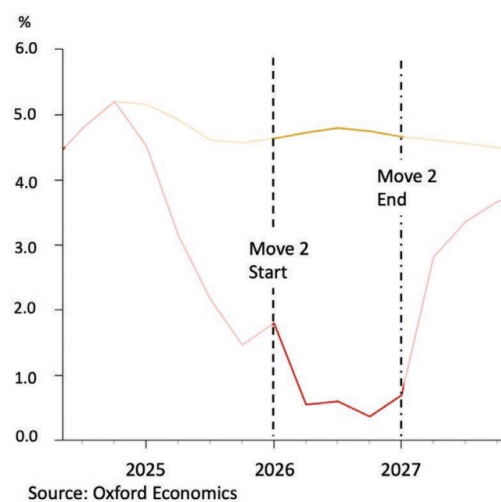
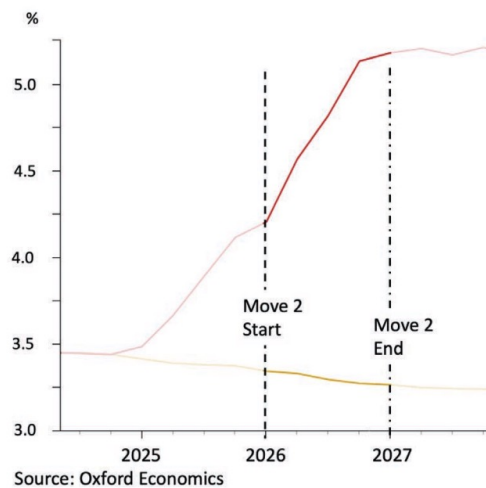


Figure 6: China Unemployment, Move 2, 2026



Key
— Move 2 Results
— Projected w/o Conflict

How U.S. policymakers are being informed

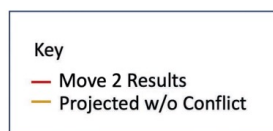


Figure 7: U.S. GDP Growth, Move 2, 2026

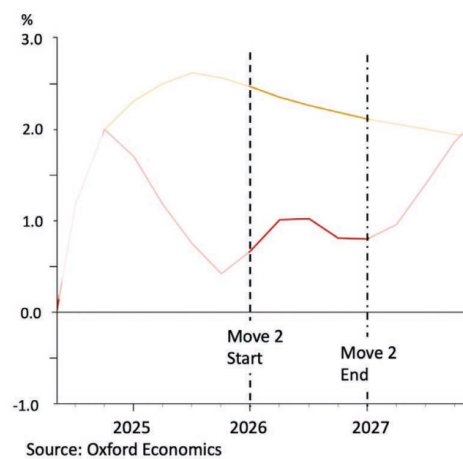
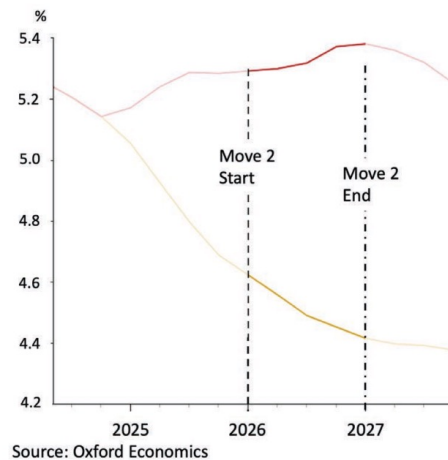


Figure 8: U.S. Unemployment, Move 2, 2026



2. The View from Beijing



“Most of the financial wars we have seen” since the end of Bretton Woods have been state actions “launched by one country.”

“U.S. financial warfare is characterized by the creation of trends ... When a trend is formed, financial speculators make profits for themselves while enabling the U.S. to achieve its strategic interests.”

Qiao Liang 乔良

Major General, People's Liberation Army

2016

Economic conflict with the U.S. will continue for the long term and will “not be limited to the trade area, but a full range.”

Huang Yiping 黄益平

President, Institute of International Relations, China Foreign Affairs University

2018

“Whether we treat the U.S. as a strategic rival or otherwise,” its
“long-term policy orientation” will be towards confrontation.

Li Lihui 李礼辉

Former president, Bank of China

2019

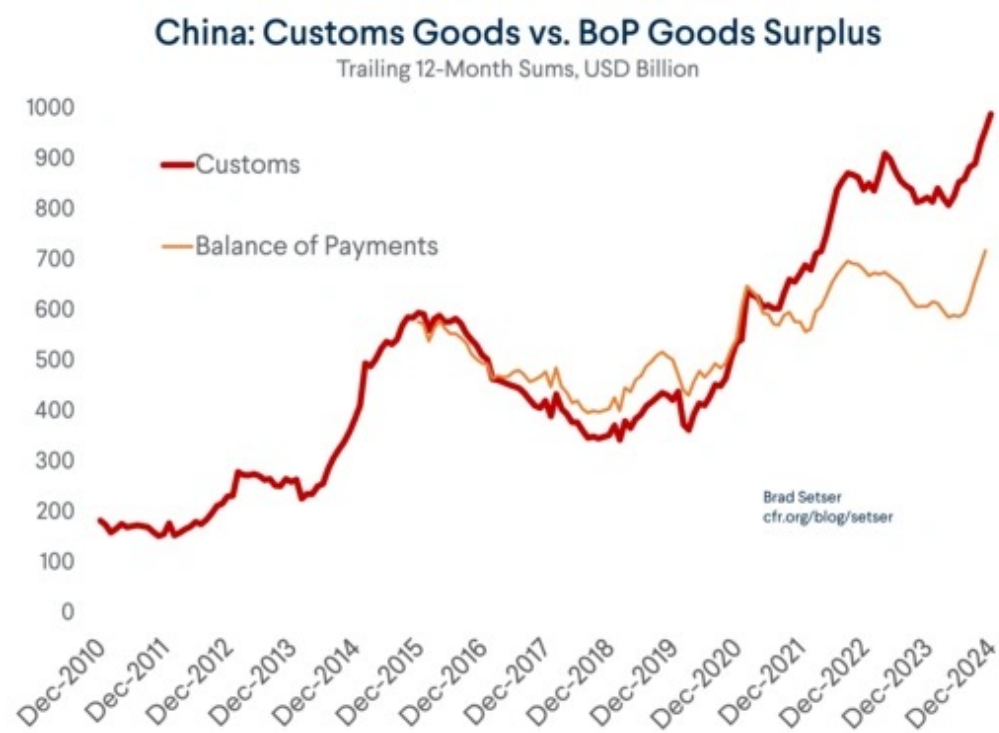
China's FX reserves are “the primary battlefield of a potential U.S.–China ‘financial war.’ The U.S. may exert pressure on China through the FX market.”

Chen Yuan 陈元

Former Governor, China Development Bank

2019

Accumulating secret FX reserves



“Judging from the past practice of the U.S. in containing its competitors,” Washington “creates financial crises through financial wars in order to achieve effects that cannot be achieved by trade wars.”

Huang Zhiling 黄志凌

President, Institute of International Relations, China Foreign Affairs University

2020

China to set up new financial regulator in sweeping reform

By Reuters

March 7, 2023 7:44 PM GMT · Updated 2 years ago



Aa



“We must be prepared for worst-case and extreme scenarios, and be ready to withstand the major test of high winds, choppy waters and even dangerous storms.”

The goal should be “ensuring normal operation of the national economy under extreme circumstances.”

Xi Jinping 习近平

General Secretary

2022

"We will move faster to fulfil the yearly task of stockpiling strategic goods as we work to expand the scale of reserves."

National Development and Reform Commission

March 2025

Why exactly does China suddenly need these reserves?

- China's SPR has already doubled in the last five years to ~950 million barrels. There are hints it may double again.
- As of 2022, it already held 69% of global maize reserves, 60% of global rice reserves, and 51% of global wheat reserves.
- The State Reserve Bureau also has equivalent reserves of cotton, sugar, meat, and fertilizers.
- Last month, it announced expansions to cobalt, copper, nickel, lithium, and other metals.

If Washington tries to sever “decades-old ties” and “integrated supply chains between the world’s two largest economies,” it is “bound to lead to chaos.”

Even if China breaks economic cooperation with the developed countries,” China and the developing world “can form a complete system on their own.” U.S. strategy is regressing from “wanting to decouple to “not daring to decouple.”

Wang Fan 王帆

President, Institute of International Relations, China Foreign Affairs University

2020

Blockades “have historically often failed to achieve the goals of their enforcers...The U.S. goal of containing China’s economy through an oil embargo is also difficult to achieve in an integrated global energy market....Any disruption in oil supply anywhere will have an impact on the global oil market.”

Zhao Hongtu

Deputy Director, Institute of World Economic Studies, China Institutes of Contemporary International Relations

2007

“U.S. foreign financial sanctions are indeed very severe and complete, but they are not invulnerable.” China can “participate in asset settlements in currencies other than the U.S. dollar, as Russia and India have done,” and “make use of international offshore financial centers to . . . clear in U.S. dollars by concealing our own information, as Iran has done.”

Zhou Hanmin 周汉民

Member, Standing Committee of the National Committee of the 14th Chinese People’s Political Consultative Conference (CPPCC); Vice Chairman, Shanghai Committee of CPPCC; Professor of Law, East China University of Political Science and Law

2022

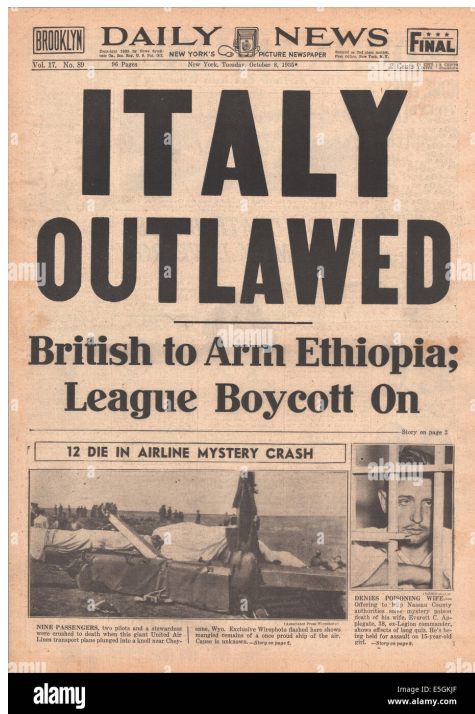
What Beijing thinks—and why it might miscalculate

- Beijing understands that we have formidable capability to inflict economic pain. Ideologues are particularly nervous about a potential “financial war.”
- However, technocrats understand that the United States does not have an interest in detonating the global economy.
- Beijing might calculate that we are bluffing about these threats.
- Even if not, Beijing might calculate that after a few months of pain, third countries—or even the American public—might demand a return to economic “normalcy.”
- **If Beijing thinks we have no credible economic plan, that undermines deterrence.**



3. Broader historical themes

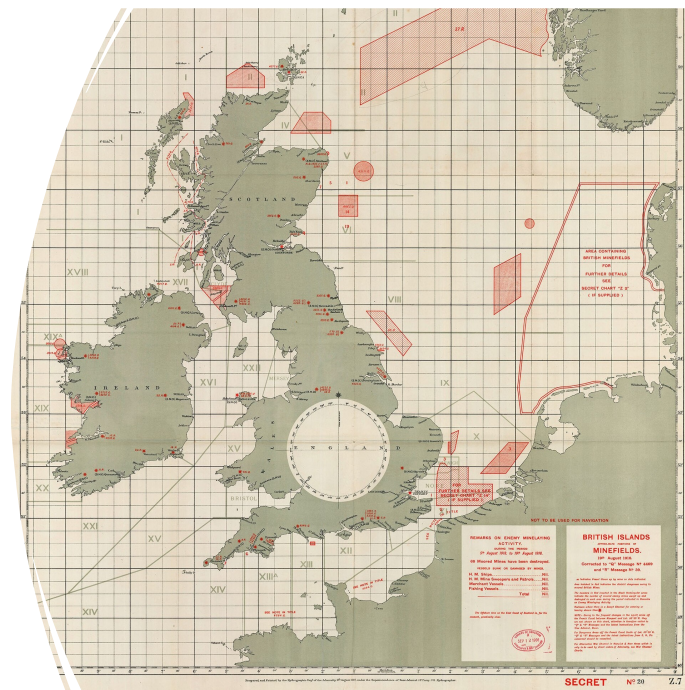
First Theme: Sanctions are a tool of cooperation, not competition



Sanctions are a tool of cooperation, not competition



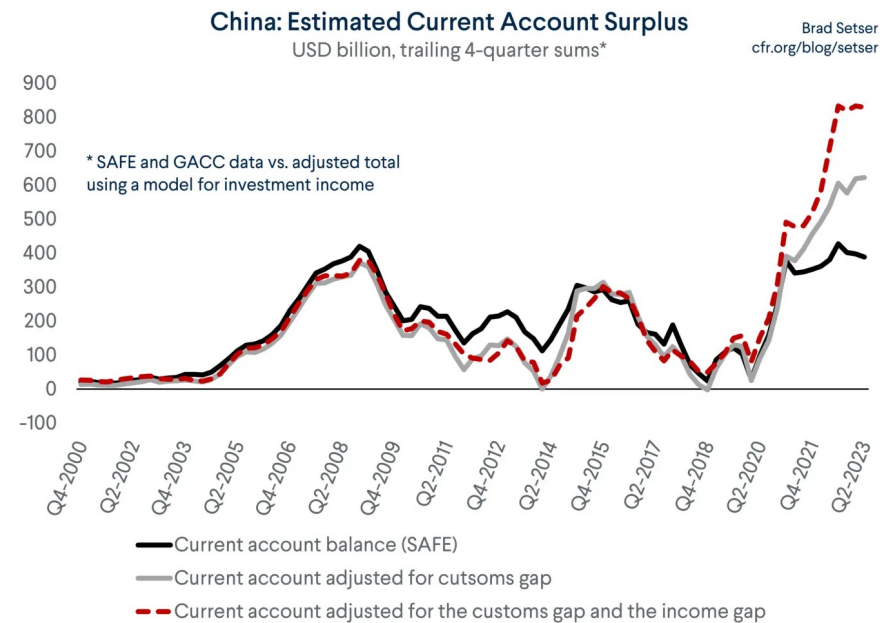
This is also true of distant blockades



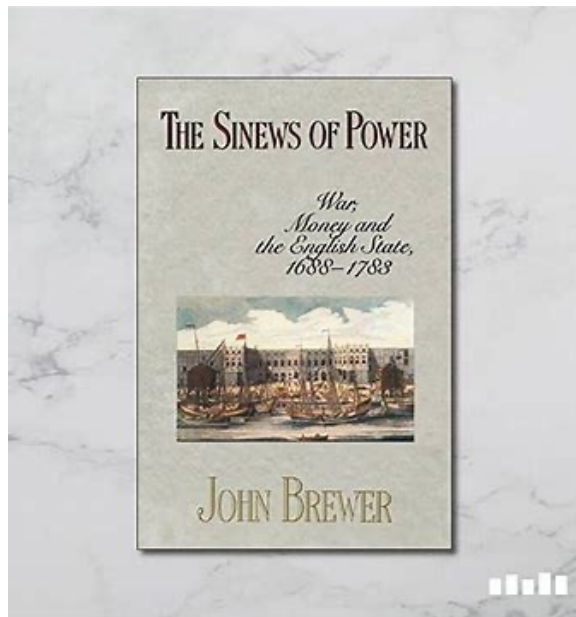
Economic competition undermines the quality of data



Economic competition undermines the quality of data



How have states grappled with this problem?



The most important relationships during times of economic coercion are between the belligerents and the neutrals



The most important relationships during times of economic coercion are between the belligerents and the neutrals

TECH

Samsung, SK Hynix get indefinite waivers to ship U.S. chip equipment to their China factories

PUBLISHED TUE, OCT 10 2023•1:35 AM EDT

Sheila Chiang
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The most important relationships during times of economic coercion are between the belligerents and the neutrals



Conclusion: history as a bridge

- Translate between economists and national security professionals.
 - Remind policymakers that intervening in markets has unintended consequences, because markets are adaptable.
- Interpret how the adversary thinks about economic statecraft.
 - Countries don't always behave rationally. Is China's strategy rational?
- Urge humility about forecasts and wargames
 - Data quality problems
 - "Break-glass" moments when political forces take over. What happens to institutions?
 - Bargaining with neutrals and adaptive behavior during periods of prolonged uncertainty.

Framing a collaborative research agenda

- How can American statecraft preserve and reshape the international trading system and financial system during and after a rupture with China?
- What makes a product “critical”?
- How should we model dynamic behavior (and cheating) on transshipment and sanctions? What other analytical tools do policymakers need?
- How can we make economic wargames more robust? Are GEMs appropriate? How should our crisis models treat political, institutional, and psychological variables?
- Who should lead contingency planning? What is the proper role of central bankers?