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STRATEGIC ECONOMICS IN PRACTICE: OPERATIONAL PLANNING

TALIA GIFFORD, ISAAC HARRIS , EVA-MARIE ETZEL, JIM HICKEY, CHRIS BASSLER, AND MARIN HALPER

Across MITRE and in support of our sponsors, there are at least three primary objectives in the economic domain.
These objectives include a focus on (1) national resilience, economic prosperity, and an affirmative economic agenda; (2) economic competition and countering economic coercion; and (3) the use of economic power to deter conflict and prevail if necessary. While some of these objectives have recently received more national attention than others, they are all interconnected and share a common set of stakeholders, economic instruments, and enabling capabilities.

MITRE's Strategic Economics initiative aims to catalyze the realization of a "strategic" level of integrated planning and execution for the employment of economic power in support of these objectives, with particular emphasis on the convergence of national security and economic security.

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INTRODUCTION

The economic domain has significant yet underrealized potential for enhanced U.S. competitiveness with China and for underpinning victory in the event of a conflict. As the Chinese Communist Party (CCP) seeks to shape and revise the international political and economic order, the United States must leverage its economic strength against a Chinese approach that centralizes and integrates economic and national security strategy.

In MITRE's paper *A Sum Greater than Its Parts: Integrated Deterrence and Strategic Competition*,[1] we argued the importance of integrated deterrence to the United States' response to Chinese aggression and identified the economic domain as providing expanded non-kinetic options to address this threat. Our second paper, *Strategic Economics: Options for Competitive Advantage*,[2] detailed the instruments, operational concepts, and campaign plans of strategic economics. **Strategic economics is the deliberate effort to create and use economic effects and power to deliver geopolitical competitive advantage for the United States and its allies and partners.** Strategic economics can be employed to either amplify the United States' competitive edge or diminish the advantage of other international state and non-state actors.[3]

This paper expands on our previous work by reviewing the Chinese and American approaches to strategic economics. We examine how the CCP operates in practice, revealing a coercive strategy that has generally proved successful in the short term in gaining concessions and prosperity. We review the United States' approach to strategic economics and discuss aspects of the U.S. system that present challenges, including how the nature of American democracy complicates comprehensive and coordinated efforts. The second half of the paper outlines planning guidance for the use of economic instruments to support operational concepts and discusses how to apply that guidance to an example scenario of a Chinese blockade of Taiwan.

CHINA'S APPROACH TO STRATEGIC ECONOMICS: A FOCUS ON ECONOMIC COERCION

The CCP has repeatedly demonstrated its willingness to use economic instruments for political purposes. It has done so to support extraterritorial repression and retribution against criticism by its own citizens or foreign countries, as well as to coerce other nations to support its policies.

The CCP recognizes the power of strategic economics and has already begun preparing for when the United States may use strategic economics instruments against China. The CCP's observations of the global response to Russia after its 2022 invasion of Ukraine—a response that has involved efforts to economically isolate and punish Russia—led China to prepare for the day its adversaries may seek to isolate and punish it. In preparation, the CCP has circulated domestic messaging for the people to "eat bitterness,"[4] hardened the Chinese economy, and instituted "dual circulation" for more economic resiliency, self-sufficiency, and decoupling and isolation from critical dependencies.[5]

China's Playbook

In many cases, the Chinese playbook can be seen as a form of economic coercion, as it seeks to shape the behavior of target countries in ways that are favorable to the CCP's interests and often come at the expense of other countries or entities. This coercion is achieved through many approaches, including the seven that will be discussed below: trade restrictions; market access; investment strategies; supply chain manipulation; financial institutions; renminbi internationalization; and information and cyber operations.[6]

Trade Restrictions

Chinese economic coercion in the form of trade restrictions has become an increasingly prominent instrument in the CCP's foreign policy and economic toolkit. As the world's second-largest economy and a global trading partner, China wields significant influence through control over trade flows and access to the vast Chinese domestic market. By imposing trade restrictions on targeted countries, the CCP can exert pressure on their economies, potentially forcing them to comply with its political or strategic objectives.

One of the most notable examples of Chinese economic coercion through trade restrictions is its dispute with South Korea over deployment of the Terminal High Altitude Area Defense (THAAD) system in 2016. In response to South Korea's decision to host the missile defense system, which the CCP viewed as a threat to its security, Beijing directed a series of trade restrictions on South Korean goods and services. These restrictions targeted key sectors of the South Korean economy, such as tourism, entertainment, and consumer goods, resulting in significant economic losses for South Korean businesses and a downturn in bilateral trade relations. We expand on this example in the section "Chinese Economic Coercion in Practice: A Case Study of South Korea and THAAD."

Another example is the 2012 dispute between China and Japan over the Senkaku/Diaoyu Islands in the East China Sea. Amid rising tensions, the CCP imposed restrictions on the export of rare earth elements to Japan, which are critical for the production of high-tech products and a key component of Japan's manufacturing sector.[7] This move was widely seen as an attempt by the CCP to coerce Japan into softening its stance on the territorial dispute and was generally unsuccessful.

The CCP has also used trade restrictions as a form of economic coercion against countries that have taken positions on sensitive issues, such as on Taiwanese independence or human rights, that Beijing perceives as challenging its sovereignty or political interests. One prominent example is the Chinese Ministry of Commerce's imposition of a 212 percent tariff on Australian wine imports in November 2020 after the Australian prime minister publicly called on the World Health Organization to investigate the origins of the COVID-19 pandemic. At the time, China constituted 40 percent of the Australian wine export market.[8]

These examples demonstrate that Chinese economic coercion through trade restrictions is a powerful instrument for Beijing to exert influence and pressure on targeted countries. However, this approach carries risks. Countries affected by Chinese trade restrictions may seek to diversify their trading partners and reduce their reliance on the Chinese market, potentially undermining China's long-term economic influence. In the Senkaku Islands case, Japan shifted its dependence for rare earth elements to Australia.

Market Access

Beijing has increasingly used Chinese market access, or the ability of foreign companies and countries to sell their products and services in China, for economic coercion. China's domestic market, with its vast and growing consumer base, represents an attractive opportunity for foreign businesses and governments, creating a prospect for strategic leverage and advancement of Chinese objectives.

The CCP has granted or withheld[9] market access to specific international industries or sectors based on the target country's alignment with China's interests. For example, the CCP has occasionally relaxed[10] restrictions on foreign companies in sectors such as finance, technology, and entertainment as a reward for cooperation on key political or strategic issues.

Another form of economic coercion through market access is the use of regulatory measures to pressure foreign companies operating in China. These measures can include selective enforcement of regulations, imposition of fines or penalties, and delays or denials of licenses and permits. By targeting foreign companies with these measures, the CCP sends a strong message to their home countries about the potential costs of opposing its interests or policies.

Furthermore, the CCP has also utilized its large state-owned enterprises (SOEs) to influence market access for foreign companies. SOEs often dominate key sectors of the Chinese economy and have significant control over supply chains and distribution networks. By directing SOEs to favor or discriminate against certain foreign companies, the CCP can effectively use its market access as an instrument of economic coercion.

Similar to trade restrictions, using market access as a form of economic coercion has consequences. By restricting access to its market, China may deter foreign investment, hinder the transfer of technology and expertise, and encourage countries to seek alternative trading partners.

Investment Strategies

The CCP has made significant investments abroad and uses these investments strategically. For instance, it may threaten to withdraw funds or reduce business cooperation as a means of influencing policy decisions in other countries.

One of China's most effective efforts to achieve its economic and political objectives has been its adept use of foreign direct investment through the Belt and Road Initiative (BRI), a Chinese-led infrastructure project that seeks to develop and solidify trade routes from China to Europe and Africa. The BRI and other infrastructure and development projects have increasingly been viewed as a form of economic coercion.[11] Through the BRI, the CCP built a network of projects that expanded the market for its domestically produced goods, created political ties with target nations, and expanded its global footprint. Some BRI port projects have ultimately hosted People's Liberation Army (PLA) Navy vessels, and other projects have gone so far as to enable Chinese control over critical infrastructure of U.S. allies, such as through partial ownership of key ports[12] or management of power grids.[13] The BRI also enables Beijing to promote the use of the renminbi as an international currency, challenging the dollar's dominance, as is discussed in a later section.

One of the primary ways in which Chinese investment abroad can be seen as a form of economic coercion is through the creation of debt dependency. Many of the countries receiving Chinese investment, particularly those participating in the BRI, are developing nations with limited

By providing loans and financing for large-scale projects, the CCP can create a dependency relationship and compel the recipient nation to align its political and strategic interests with China's to secure continued financial support.

financial resources and significant infrastructure needs. By providing loans and financing for large-scale projects, the CCP can create a dependency relationship and compel the recipient nation to align its political and strategic interests with China's to secure continued financial support. China also often couples direct investment bids with foreign aid grants that directly benefit host government leadership.[14]

China uses its foreign investment abroad as leverage in negotiations or disputes. The CCP has been known to withhold or delay investments in response to political disagreements or to secure concessions from recipient nations on issues such as territorial disputes, market access, or support for China's policies in international forums. In 2012, following a tense standoff with the Philippines over the Scarborough Shoal in the South China Sea, the CCP reportedly delayed the implementation of investment projects and economic assistance to the Philippines.[15] However, after the 2016 election of President Rodrigo Duterte, who adopted a more conciliatory stance toward China, Beijing resumed its investments and pledged billions of dollars in economic assistance to the Philippines.[16]

Furthermore, Chinese investment abroad often involves the acquisition of strategic assets, such as ports, energy resources, and telecommunications infrastructure. In one example, the Chinese state-owned enterprise COSCO has been obtaining controlling interests in ports in NATO member

HAMBANTOTA PORT, SRI LANKA. BUILT, OPERATED, AND MAJORITY OWNED BY CHINESE FIRMS

nations, giving Beijing insight into how the alliance is mobilizing military equipment for use in Ukraine.[17] In another instance, in 2017, following mounting debt and financial difficulties, Sri Lanka agreed to lease the Hambantota Port, which had been built with Chinese loans, to a Chinese state-owned company for 99 years. The port's strategic location in the Indian Ocean raised concerns among regional powers, particularly India,[18] about China's growing influence in the region. By controlling such critical assets, the CCP can exert significant influence over the target country's economy and national security. This control is economic coercion, as the recipient country may be reluctant to take positions contrary to the CCP's interests for fear of losing access to these vital resources or facing other economic repercussions.

Supply Chain Manipulation

As the world's largest manufacturing hub, China plays a critical role in numerous supply chains, particularly in industries such as electronics, pharmaceuticals, and automotive manufacturing. By leveraging its control over these supply chains, the CCP can impact industries and economies dependent on its production capabilities by disrupting or redirecting production.

One of the most notable examples of the CCP's control of supply chains is its dominance in the production and export of rare earth elements. These elements, which are essential for the manufacturing of various high-tech products, including smartphones, electric vehicles, and military equipment, are primarily sourced from China.

China also has a prominent role in the global supply chain for personal protective equipment (PPE) and medical supplies. During the COVID-19 pandemic, China's position as a major producer of these essential items allowed it to exert influence over countries desperate for supplies to combat the virus. In some cases, the CCP has been accused of using its control over the supply of PPE and medical equipment as a form of diplomatic leverage, tying access to these critical supplies to political concessions or expressions of gratitude.[19]

China's control of supply chains also extends to industries such as telecommunications and information technology. Its dominance in the production of key components and technologies, such as 5G infrastructure, has raised concerns about the potential for the CCP to use its control over these supply chains for both economic and political coercion. This concern has led to increased scrutiny and, in some cases, restrictions on the involvement of Chinese companies, such as Huawei,[20] in the development of critical infrastructure in countries like the United States, Australia, and the United Kingdom.

Financial Institutions

China's influence in international financial institutions, such as the International Monetary Fund (IMF) and the World Bank, has been growing, especially since the 2008 global financial crisis, and has increased the CCP's voting power to affect global financial policies.

China's growing influence in international financial institutions (IFIs) has been an important aspect of its strategic economics and has provided the country with an additional platform for exerting influence over other nations. As China's global economic clout has expanded, it has sought to play a more significant role in IFIs including the IMF,[21] the World Bank,[22] and the Asian Development Bank. Additionally, the CCP has established its own financial institutions, such as the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank (NDB), to further extend its influence in global finance. Through its involvement in these institutions, China has been able to advance its political and strategic interests.

The CCP has used its position within the IMF and the World Bank to advocate for policy reforms that would increase its voting share and give it greater influence over the institutions' decision-making processes.[23] By doing so, China can potentially influence the allocation of financial resources and the approval of development projects in ways that align with its interests, such as promoting infrastructure projects that connect to its Belt and Road Initiative or supporting countries that are politically aligned with Beijing.[24]

Furthermore, China's establishment of new financial institutions, such as the AIIB and the NDB, has given it additional platforms for economic coercion. By providing alternative sources of financing for development projects, China can attract countries that may be unable or unwilling to secure funding from the IMF or World Bank. This increased dependency on Chinese-led institutions could give Beijing leverage over recipient countries,[25] as it can use the threat of withdrawing funding or support to pressure them into adopting positions or policies that are favorable to China's interests.[26]

Moreover, China's participation in IFIs can also provide it with valuable insight into the financial vulnerabilities and needs of other countries. This better understanding of the economic challenges and opportunities facing other nations can inform the CCP's broader strategic economic strategy and help it identify potential targets for economic coercion.

Renminbi Internationalization

China has been working to internationalize its currency, the renminbi (RMB), by promoting its use in global trade and finance. The inclusion of the RMB in the basket of currencies used to calculate the value of Special Drawing Rights by the IMF[27] is one such example.

The internationalization of the RMB is a key component of the CCP's broader strategic economic agenda. As the world's second-largest economy, China has made substantial efforts to promote the use of the RMB in international trade, investment, and finance.[28] These efforts aim to enhance China's global economic influence, reduce its reliance on the U.S. dollar–dominated international financial system, and potentially provide it with greater flexibility in pursuing its economic coercion strategies.

RMB internationalization provides China greater control over its currency and international monetary policy. As the RMB becomes more widely used in international transactions, the CCP gains increased autonomy in managing its exchange rate, interest rates, and capital flows. This autonomy allows the CCP to deploy a range of monetary tools, such as currency devaluation or interest rate adjustments, to exert pressure on other countries or to respond to external economic shocks. For instance, a more internationally accepted RMB could allow Beijing to impose targeted financial sanctions or restrictions on countries that challenge its interests, without relying on the U.S. dollar–based financial system.

Additionally, RMB internationalization can enhance the CCP's ability to shape global financial norms and standards. As the RMB becomes more widely accepted and used in international finance,[29] the CCP gains increased influence in setting the rules and regulations governing cross-border transactions, currency exchange, and capital flows. Beijing can use this influence to advance its strategic interests, such as promoting the adoption of Chinese financial technologies, systems, and infrastructure, which can in turn be employed for economic coercion purposes.

Furthermore, RMB internationalization provides the CCP with increased leverage in its bilateral and multilateral economic relationships.[30] By offering RMB-denominated loans, investments, or trade settlements, Beijing can encourage other countries to adopt its currency in their transactions,[31] thereby fostering greater economic interdependence and potentially increasing vulnerability to Chinese coercion. For example, countries that accumulate large amounts of RMB-denominated debt or assets may be more susceptible to Chinese pressure tactics, such as the threat of withholding financing or manipulating exchange rates, to achieve its political or strategic objectives.

RMB internationalization can further support China's economic coercion efforts by enhancing its role in IFIs and regional economic organizations. As the RMB gains increased acceptance and prominence in global finance, the CCP can leverage its currency to strengthen its position within institutions such as the IMF, the World Bank, and the AIIB. As discussed in the "Financial Institutions" section above, this enhanced role can provide China with greater influence over the allocation of financial resources, the approval of development projects, and the shaping of financial norms and standards, all of which can contribute to its economic coercion strategies.

By promoting the use of the RMB in international trade, investment, and finance, the CCP can gain greater control over its currency and monetary policy, shape global financial norms and standards, increase its leverage in bilateral and multilateral economic relationships, and enhance its role in international financial institutions. While these efforts have made significant progress in recent years, the extent to which RMB internationalization will ultimately contribute to China's economic coercion capabilities will depend on its ability to overcome various challenges, such as capital account liberalization, exchange rate flexibility, and the establishment of deep and liquid financial markets.

Information and Cyber Operations

China's information and cyber operations play an important role in supporting its economic coercion efforts. They enable Beijing to obtain sensitive information, disrupt critical infrastructure, and manipulate public opinion to advance its strategic objectives. By engaging in these activities, the CCP can exert pressure on other countries and shape their behavior in ways that are favorable to its interests, while simultaneously bolstering its own economic and technological capabilities.

One of the principal ways in which China's information and cyber operations support its economic coercion efforts is through industrial espionage and intellectual property (IP) theft.[32] By infiltrating computer networks; stealing trade secrets; and conducting corporate, industrial, and economic espionage, the CCP can obtain valuable information and technologies that can enhance Chinese domestic industries and give Chinese firms a competitive advantage in the global market.[33] This not only supports China's economic growth and accelerates its ability to leverage technology for military power, but also undermines the competitiveness of foreign companies, making them more vulnerable to Chinese economic pressure tactics.

The CCP can also use its cyber capabilities to target and disrupt other countries' critical infrastructure, such as power grids, water distribution, and transportation networks.[34] By launching cyber attacks on these systems, the CCP can create economic chaos and panic, potentially forcing targeted countries to comply with its political or strategic demands. Moreover, the threat of such attacks can act as a deterrent, discouraging countries from taking actions that may provoke China's ire.

China can further use its cyber capabilities to directly target the financial systems and institutions of other countries, potentially causing significant economic disruption and damage.[35] By launching cyber attacks on banks, stock exchanges, or payment systems, the CCP can create financial instability, undermine investor confidence, and potentially force targeted countries to comply with its demands or face further economic consequences.

Chinese Economic Coercion in Practice: A Case Study of South Korea and THAAD

In July 2016, South Korea announced its decision to allow the deployment of the U.S.-made Terminal High Altitude Area Defense missile defense system on its territory.[36] South Korea argued that THAAD was necessary to protect against North Korean missile threats. However, the CCP strongly opposed the deployment, expressing concerns about its own security interests, viewing THAAD's advanced radar and U.S. basing in South Korea as a threat.

The CCP implemented several economic measures against South Korea following its decision to deploy the missile defense system:

- China placed a de facto ban on Chinese tourism in South Korea. Chinese tourists had become a significant source of revenue for South Korea's tourism industry, and the sudden drop in Chinese visitors had a substantial economic impact. Chinese travel agencies stopped offering South Korea as a destination, and flights to South Korea were significantly reduced.
- Chinese consumers were encouraged[37] to boycott South Korean products and services, which had a negative impact on South Korean companies operating in China, particularly in the entertainment, retail, and automotive sectors.
- The CCP imposed various economic restrictions on South Korean companies doing business in China. These restrictions included stricter inspections, delayed customs clearances, and regulatory barriers, which disrupted supply chains and affected South Korean exports.
- The CCP suspended cultural exchanges and banned South Korean entertainment content, including Korean dramas and K-pop, from being broadcast in China, damaging the South Korean entertainment industry.
- China also engaged in diplomatic pressure, isolating South Korea internationally by discouraging other countries from participating in joint military exercises or defense cooperation with South Korea.

The economic measures China imposed had a noticeable impact on South Korea's economy, particularly in sectors heavily dependent on Chinese consumers and trade. South Korean businesses faced disruptions, losses, and challenges to their operations. Estimates of economic losses suffered by South Korea range from 6.3[38] to 7.5[39] billion U.S. dollars.

Eventually, South Korea floated the "three nos" policy, saying that "South Korea would not add any new THAAD batteries, not participate in U.S. missile defense networks, and not join a trilateral military alliance with the United States and Japan."[40] In return, the CCP lifted some of its economic sanctions and restrictions. In October 2017, the two countries agreed to normalize relations.[41]

This case illustrates the intertwining of economic and political interests in international relations and is a clear case for how economic coercion can be used as an instrument of strategic economics to advance strategic objectives.

U.S. APPROACHES TO STRATEGIC ECONOMICS

The American Playbook to strategic economics involves the use of economic instruments and resources to advance the country's political, strategic, and diplomatic objectives. However, the approaches, strategies, and tactics employed by the United States often differ significantly from those used by the CCP. Five common U.S. approaches are detailed below.

Sanctions

In the post–Cold War era, one of the most prominent instruments of American strategic economics has been the use of economic sanctions. The United States has a long history of using sanctions to pressure individuals, entities, and countries that affect national security and international stability.

These sanctions can take various forms, including trade embargoes, asset freezes, and restrictions on financial transactions. The United States has used economic sanctions against a wide range of targets, from rogue states like North Korea and Iran to terrorist organizations and drug traffickers. The United States also uses sanctions as a form of diplomatic signaling. By imposing sanctions, the U.S. government (USG) sends a clear message about behavior it considers unacceptable. Sanctions can thus serve as a warning to other countries or entities that might be considering similar actions. In some cases, the USG has offered to lift sanctions in exchange for changes in behavior by the target country or entity, most notably in the case of the Iran nuclear negotiations.

The effectiveness of sanctions as an instrument of strategic economics depends on several factors. One key factor is the extent to which the target country or entity is economically integrated with the United States and its allies. The more integrated the target, the more it stands to lose from sanctions, and the more likely it is, in theory, to change its behavior in response to them. Another factor is the level of international cooperation in enforcing the sanctions. Sanctions are most effective when they are multilateral, with many countries participating in their enforcement so there are few trade alternatives for the target entity to mitigate their effect.

Free Trade and Open Markets—With Some Exceptions

Another key component of American strategic economics in the post–Cold War era has been the promotion of free trade and open markets across the globe. Since the end of World War II, the United States has been a leading advocate of liberal economic policies[42] and has used its economic power to push for the reduction of trade barriers and the liberalization of markets. It has done so through various means, including bilateral and multilateral trade agreements, as well as through its influence in international economic institutions like the World Trade Organization.

However, despite the USG's general principle of free markets, it is worth noting that the United States has been able to retaliate against some Chinese firms through the restriction of market access. Zhongxing Telecommunication Equipment Corporation (ZTE) is a multinational telecommunications company based in Shenzhen, China. It is one of the world's leading providers of telecommunications equipment and network solutions. ZTE's product range includes wireless, exchange, access, optical transmission, and data telecommunications gear; mobile phones; and telecommunications software. ZTE also offers products for transmitting voice, data, and multimedia. ZTE is a key player in the 5G technology space.[43]

ZTE was founded in 1985 by a group of state-owned enterprises associated with China's Ministry of Aerospace. As of now, it is a publicly traded company, with shares listed on the Shenzhen and Hong Kong stock exchanges. However, the Chinese state still has significant control over the company. The largest shareholder of ZTE is a Chinese state-owned enterprise, Zhongxingxin, which holds about 30 percent of the company's shares.[44] The company's close ties to the Chinese government have raised security concerns in several countries, including the United States. These concerns stem from the fear that the Chinese government could use ZTE's equipment for espionage, a claim that ZTE has consistently denied.

In April 2018, the U.S. Department of Commerce banned American companies from selling components to ZTE for seven years. The ban was a penalty for ZTE violating U.S. sanctions by illegally shipping U.S. goods to Iran and North Korea and then lying about its actions.[45] ZTE relied heavily on U.S. components, especially semiconductors, and the ban threatened to put the company out of business. The ban was lifted three months later after ZTE agreed to pay a $1 billion fine, replace its board and senior management, and allow U.S. oversight. The incident highlighted the vulnerability of Chinese tech companies to U.S. sanctions and disrupted ZTE's operations, damaging its competitiveness and costing an estimated $2 billion loss in sales.[46]

ZTE is not the only example of this behavior. The United States seems to be starting to explore limiting market access as a function of national security and geopolitical tension. Another example is U.S. bans on the sale of new Huawei communications equipment. U.S. policymakers were concerned that the technology and resulting IT and 5G infrastructure being deployed by Huawei enabled exploitation by the Chinese government.[47]

Foreign Aid

The United States also uses foreign aid as an instrument of strategic economics. Through its various economic aid programs, the United States provides financial and technical assistance to developing countries to promote economic development, improve governance, and address humanitarian needs. While these aid programs are often driven by altruistic motives, they also serve strategic purposes, as they can help foster goodwill toward the United States, promote American values and norms, and create favorable conditions for American businesses. Aid can be used to stabilize regions in conflict, support allies, and counter threats to U.S. security. Military aid in particular is usually in line with direct foreign policy objectives other than altruism. The United States often provides military aid to allies to enhance their defense capabilities, while U.S. humanitarian aid distributed by local leadership can give that leadership significant political benefit. All types of aid can be used to address root causes of instability such as poverty, inequality, and lack of access to education, which can contribute to terrorism and other security threats. Since 1978, for example, the United States has provided Egypt with more than $50 billion in military aid and $30 billion in economic assistance. Today, Egypt is the United States' largest export market in Africa, with a bilateral trade of goods worth $9.2 billion in 2022.[48]

Foreign Direct Investment

Investment is another important aspect of American strategic economics. The United States is the world's largest source of foreign direct investment. American companies play a major role in the global economy. Through their overseas investments, these companies not only generate profits but also spread American business practices, standards, and values. At the same time, the USG uses various instruments, such as investment treaties and the work of agencies like the U.S. International Development Finance Corporation, to protect and promote American investments abroad.

Status of the Dollar

Finally, the United States uses its control over the global financial system as an instrument of strategic economics. The dollar's status as the world's primary reserve currency gives the United States significant leverage over other countries, allowing it to exert influence over global financial flows and to impose costs on countries that defy its policies. The United States has used this power in various ways, from enforcing sanctions to managing global economic crises. During the 2008 financial crisis, for instance, the U.S. Federal Reserve served as a lender of last resort to central banks around the world, providing them with dollar liquidity to prevent a global financial meltdown. The crisis underscored the fact that the dollar is the world's primary reserve currency and that the U.S. Federal Reserve plays a crucial role in maintaining global financial stability. This event reinforced the dominance of the United States in the global financial system and the dependence of other countries on the U.S. financial system.

U.S. Strategic Economics in Practice—A Case Study of Russia and Economic Punishment

In response to Russia's invasion of Ukraine in 2022, the United States and allies implemented a series of economic sanctions against the Russian government. These sanctions penalized Russia for its aggressive actions, seeking to target Russian supply chains, degrade the Russian military's ability to supply itself, and deter further aggression. The sanctions were multifaceted, targeting various sectors of the Russian economy, specific individuals, and certain Russian entities.

The first type of sanctions imposed were targeted sanctions. These sanctions were aimed at specific individuals and entities associated with the Russian government that the U.S. Department of the Treasury's Office of Foreign Assets Control designated as Specially Designated Nationals (SDNs). Once designated as SDNs, these individuals and entities were essentially cut off from the U.S. financial system. Their assets within U.S. jurisdiction were blocked, and U.S. persons and entities were generally prohibited from dealing with them.[49]
The targeted sanctions were not limited to government officials. They also included Russian oligarchs and businesspeople who were believed to have close ties to President Vladimir Putin and his regime. The rationale behind targeting these individuals was to put pressure on the Russian government by affecting the financial interests of those close to the government.[50]

The second type of sanctions were sectoral sanctions. These sanctions targeted specific sectors of the Russian economy, including the financial, energy, and defense sectors. The sectoral sanctions were designed to limit Russia's access to U.S. capital markets and to restrict Russia's ability to develop its oil resources.[51]

For example, U.S. companies were prohibited from providing goods, services, or technology to support deepwater, Arctic offshore, or shale projects that could produce oil in Russia.[52]

The European Union, Canada, Australia, Japan, and other countries imposed similar sanctions against Russia. They argued that Russia's actions in Ukraine violated international law; constituted an ongoing threat to international peace and security; and merited global isolation, punishment, and degradation of warfighting economic strength.

By working together, the United States and its allies sought and continue to seek to create a united front against Russia's aggression and to isolate Russia economically and politically.

CHALLENGES TO ENHANCING U.S. APPROACHES TO STRATEGIC ECONOMICS IN PRACTICE

China's economy is deeply controlled by the state in ways that the U.S. economy is not and should not be. The CCP's control over the economy and centralized decision-making allow it to quickly respond to other nations' perceived slights with economic punishment.

Indeed, given the CCP's successes with economic coercion, it would be easy to assume that China holds the advantage in this domain. However, American perception of China's overwhelming economic strength and savvy is only that—an illusion. The CCP's system of control over the Chinese economy incentivizes overinflation of results and key metrics from local sources. At the national level, this distortion creates an inaccurate perception of economic power. China's recent economic struggles underscore the reality of these weaknesses.

A 2023 Congressional hearing well summarized the fragility of Chinese economic coercion:

> ***China's demonstrated willingness to break global trade rules and norms, apply economic pressures, and engage in tit-for-tat economic brinkmanship allows it to influence key players and impose terms favorable to China [only] if the United States and other countries do not impose consequences, costs, or countermeasures. China's ability to coerce others depends on the perceived importance of access to China's market and the extent to which countries and/or firms are willing to backfill the target of China's coercion.***[53]

China's top-down approach of consolidated and centralized political control may also contribute significantly to the growing brittleness and structural issues of the Chinese economy. As discussed in our previous paper *A Sum Greater than Its Parts Integrated Deterrence and Strategic Competition*, "the U.S. also has economic and financial issues, but with dispersed and decentralized control may have more adaptability and creativity to addresses its issues, compared to the CCP for China's own economic and financial issues."[54]

The United States can counter Chinese economic coercion and continue to shape the global order with Western principles and values. The United States is still the largest economy in the world, possibly as much as double the size of China's economy in real terms,[55] and has far more influence with global economic institutions than the CCP does.

Consistent Strategy & Awareness and Instrument Familiarity

The United States remains challenged in its ability to preserve and maintain institutional knowledge of the full spectrum of economic instruments available to it and in its ability to systematically orchestrate these instruments. The lack of institutional knowledge of strategic economics feeds both into and from a lack of overarching strategy.

The United States has not yet realized the full potential of the available economic instruments, as it has not utilized them collectively to address a comprehensive set of American strategic objectives. This untapped potential highlights the need for a more coordinated and integrated approach to strategic economics to advance U.S. interests.

The USG lacks well-structured and repeatable processes and approaches to conduct economic campaign and operational planning, the ability to systematically consider all the elements of strategic economics, and an understanding of what elements of the economic surface can and should be contested. Many parts of the USG have an inconsistent or incomplete understanding of how the CCP views the global economic chessboard. Without knowing which pieces on the board Beijing views as critical versus expendable, the United States has difficulty establishing a well-informed set of economic objectives, instruments, target spaces, and methodologies. The USG also does not currently have structures in place to quickly consolidate the disparate economic authorities and intelligence that are distributed across the interagency, and it lacks institutional memory of what a successful economic campaign or operation looks like.

Decentralized and Dispersed Approaches in a Democracy

The U.S. interagency is a federated system for enacting presidential policy, which helps explain why the USG struggles to develop grand strategy and maintain institutional knowledge. The executive branch conducts the majority of its actions through individual departments and agencies that receive and then follow presidential guidance. Therefore, cabinet secretaries have substantial leeway over policy. Furthermore, within the interagency, no single department or agency currently has the mandate to look at USG policy holistically through an economic security or strategic economics lens, or to prepare the approaches and readiness to execute economic warfare. Departments have defined missions that break down the larger issue of economic security into its component parts.

Further complicating matters is the U.S. government's internal divergence on what the CCP's economic, diplomatic, and militarily aggression means and how the United States should respond. Departments that focus on the economic relationship between the United States and China tend to see benefit to U.S. markets and businesses in continuing a trading relationship with China and tend to publicly promote that benefit. They also tend to vocalize the hope that continued trade will eventually liberalize the Chinese system. In contrast, the Department of Defense (DoD) has closely tracked the Chinese military buildup over the past decade and analyzed how the PLA repurposes U.S. technology, know-how, and research into military combat capability. However, most of the instruments in the U.S. strategic economic toolkit that could confront this technology transfer reside outside of the DoD's direct control.

Strategic Economics Trade-Offs: The Tension Between Security and Growth

The USG must always manage the natural tension between economic growth and national security, which can be seen embodied even within a single cabinet department. All Departments face this challenge, and we can take the Department of Commerce as an example. The mission statement of the Commerce Department is, "to **create the conditions for economic growth and opportunity** for all communities."[56]

However, the Commerce Department's Undersecretary for the Bureau of Industry and Security's (BIS's) mission is to:

> ***Advance[ ] U.S. national security, foreign policy, and economic objectives by ensuring an effective export control and treaty compliance system, and by promoting continued U.S. leadership in strategic technologies. BIS accomplishes its mission by maintaining and strengthening adaptable, efficient, effective export controls and treaty compliance systems, along with active leadership and involvement in international export control regimes.***[57]

The missions of BIS and the Commerce Department writ large are naturally and consistently in tension, especially when it comes to China, as China presents the clearest strain between U.S. objectives of growth and security. Similar tensions exist in all departments. Decision-making trade-offs between security and growth often happen haphazardly within and across USG departments. The result is a lack of consistency inside interagency discussions and broad failure to consider the larger effect of economic policies on U.S. security.

De-risking the nation's supply chains and maintaining its trading relationships are necessarily at odds and sometimes mutually exclusive. Supply chain security and trade policy often exist in a delicate balance, with each one having the potential to significantly impact the other. On one hand, a liberal trade policy promotes economic growth and efficiency by allowing countries to specialize in what they do best and import the rest. On the other hand, over-reliance on foreign suppliers can create vulnerabilities in supply chains, potentially threatening national security and economic resilience in the event of a crisis.

The tension between supply chain security and trade policy has been a topic of ongoing debate among policymakers and scholars. Some argue that the United States should take a more protectionist stance to protect its national security. For instance, former advisers to President Trump advocated for reshoring manufacturing and reducing dependency on China.[58] The Biden administration expanded and accelerated this advocacy through the Inflation Reduction Act; infrastructure spending; Creating Helpful Incentives to Produce Semiconductors (CHIPS) Act; and the National Science Foundation's Technology, Innovation and Partnerships (TIPS) effort. Other government officials and foreign policies, however, caution against a blanket decoupling from China, arguing that it would lead to economic inefficiencies and potentially escalate geopolitical tensions. For instance, Chad Bown of the Peterson Institute for International Economics has argued that, while it may be necessary to diversify supply chains for certain critical goods, a broad-based decoupling could be economically harmful.[59]

In recent years, the USG has taken steps to address these concerns. The Trump administration began imposing tariffs on China in 2018 for a wide range of Chinese goods. The stated goal of these tariffs was to reduce the United States' trade deficit with China and to protect U.S. industries from IP theft and other unfair business practices.[60] The Biden administration has signaled its intention to address supply chain vulnerabilities. In February 2021, President Biden signed an executive order (EO) directing federal agencies to review the supply chains of critical goods, including semiconductors, pharmaceuticals, and rare earth elements.[61] The order represents an effort to balance the benefits of trade with the need for supply chain security.

Alignment with an Independent Private Sector

Over the past decade, U.S. businesses have been even more divided than the U.S. government on how to respond to the CCP's economic coercion. American businesses act in support of their own objectives and profit maximizing fiduciary duties, which are not always aligned with U.S. national security objectives. However, business leaders have increasingly recognized the importance of geopolitical risk and their vulnerabilities to an adversary that leverages market access, its position in global supply chains, and the supply of core materials such as rare earth elements to enable increasingly aggressive political objectives.

The USG has several tools with which it can affect private sector behavior. The government may try to convince businesses to forgo short-term profits for broader U.S. national security by offering incentives, or it may enact laws to compel businesses. For decades, the U.S. government has restricted the export of certain dual-use technologies to foreign countries. It has at times limited the access of foreign businesses to the U.S. banking system, and it provides subsidies to businesses and sectors it deems strategically important.

However, the USG rarely exercises its tools in concert with one another to achieve a strategic objective. The development of macro strategy has largely been reserved for times of war, such as the recent economic actions against Russia following its invasion of Ukraine. The United States must recognize the CCP's strategy and develop an integrated response. Policy development must consider the differing interests of USG departments, as well as the limitations that U.S. policy has on business. The United States should act to not only protect U.S. companies and technologies from CCP efforts to acquire them, but also disrupt the CCP's military technology development ecosystem.

Speed of Government Responses

Recent news stories have documented how China can sustain economic growth despite extensive U.S. export controls or Committee on Foreign Investment in the United States (CFIUS) restrictions. In March 2023, Reuters reported that the Commerce Department approved numerous export control license exemptions to entity-listed companies.[62] The Entity List is a list of foreign companies designated by the USG as having demonstrated a risk to U.S. national security. The granting of license exemptions for a restricted technology circumvents the purpose of the list and demonstrates incoherent strategy.

In addition to being contradictory, today's U.S. strategic economics are often overly slow when compared to the pace of China's activities. The Biden administration recently issued an EO that created an outbound investment screening mechanism for U.S. private investment in the People's Republic of China (PRC) in areas of high national security interest. The process to create this EO took nearly two years. While the new tool is much needed, the undertaking highlights the difficulty U.S. policy has in keeping pace with the speed of the CCP's adaptability. The internal U.S. policy and industry ecosystem is ill prepared to take decisive action against CCP strategy.

Limited Resources and Challenged Prioritization

The United States must use its finite resources in a way that maximizes its interests, and it must do so with levers other than its military. Various USG programs and institutions, such as the Development Finance Corporation, the Export-Import Bank, the U.S. Agency for International Development, and foreign military sales, have forged relationships with countries around the world. These programs typically embark on relationship building alone and not as part of a broader strategy, but they are well positioned to support macro-level U.S. strategic economics.

RIGOROUS OPERATIONAL PLANNING FOR STRATEGIC ECONOMICS

The previous sections of this paper discussed how the CCP and the United States conduct strategic economics, emphasizing that China has learned how to wield its economic might to generate significant foreign policy success and highlighting that the United States needs to grow its capabilities in order to counter China. In response, this section lays out planning guidance for transforming strategic economics from ad hoc, reactionary operations to coherent, preventative and/or punitive campaign plans that will set the pace for and prevail in global economic conflict.

Intended Use of Planning Guidance

Within the DoD, there are career officers who are trained in the function of planning. To respond to China with speed, the below guidance can be used by DoD planners who should be embedded in a supporting role in key departments and agencies, such as within Treasury and Commerce. In the long term, as there is currently no designated role of "planners" inside the departments of Treasury or Commerce that is analogous to the planning functionality within DoD, these departments should build a planning function and train a cohort of planning staff. This cohort of embedded staff would become the cross-government counterparts for interagency planning collaboration.

An Economic Play

To build a framework for strategic economics, the elements that make up a successful economic operation must be understood. In this section, we lay out a clear structure for what we call economic "plays." **A play is a single use of an economic instrument by an actor on a target to accomplish an objective.** It is one move on the chessboard and represents the smallest unit of activity within economic campaigns. A play is not necessarily solely offensive or defensive. The target is the entity being affected, whether positively or negatively. For example, a target can be a development project in a neutral nation.

Instruments

In our previous paper *Strategic Economics: Options for Competitive Advantage*,[63] we created a compendium of the economic instruments available to nation-states. These instruments range in intensity, scope, and circumstances of application. Some, such as trade strangulation through blockade,[64] are tantamount to an act of war, and others are normal aspects of a competitive relationship. Instruments fall into the following categories:

- **Trade:** Using trade policies and agreements to gain an economic advantage over another country. This can include imposing tariffs, trade embargoes, or sanctions to harm the economy of the targeted country.

- **Finance/Markets/Investment:** Manipulating financial markets, currencies, and foreign investments to destabilize an adversary's economy. This could involve freezing assets, manipulating currency values, or influencing foreign direct investment.
- **Resource Management/Supply Chain:** Controlling or disrupting the supply of critical resources such as oil, minerals, or components needed for manufacturing. This could also involve disrupting supply chains through blockades or other means.
- **Diplomacy/Regulation:** Using diplomatic pressure or regulatory measures to achieve economic objectives. These efforts could manifest as lobbying for certain regulations, imposing sanctions, or using diplomatic channels to pressure other countries to comply with certain economic policies.
- **Information/Communication/Influence:** Leveraging information and communication technologies to disrupt, manipulate, or control economic activities. This could involve cyber attacks on financial systems,[65] spreading disinformation to manipulate markets, intent signaling, or controlling access to information to influence economic behavior.
- **Coercive/Military:** Using military force or threatening military force to achieve economic objectives. This could involve blockades, seizures of assets, or military interventions that disrupt economic activities.

Figure 1, below, maps a non-comprehensive list of instruments by type (the six categories above represent the x axis) and by where in the range of conflict the instrument would be first employed (the y axis). The y axis moves from competition to pre-crisis, crisis, war, and finally to total war. Many instruments, such as tax incentives and debt collection, would continue to be used through a range of conflict levels, but they are placed in the figure at the point of first use.

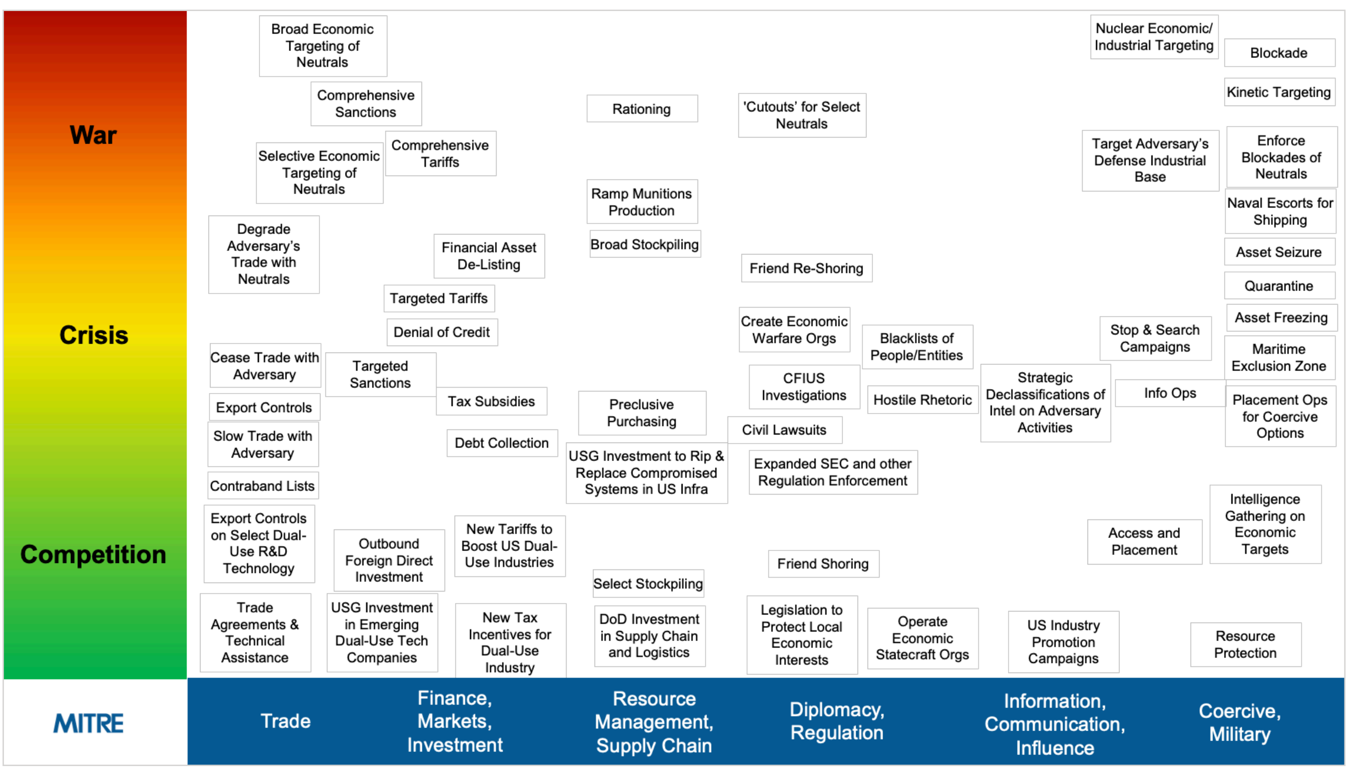


FIGURE 1. ECONOMIC INSTRUMENTS IN AN ESCALATION FRAMEWORK

Objectives for Strategic Economics at the Operational Level

U.S. actors—such as DoD, Commerce, and Treasury—can use the above instruments against a target to achieve an objective. The objective of a play should determine the targets and the instruments used against them, and the objective's scope and intensity should be set according to the broader context of whether the play is happening during peace, crisis, or wartime. It is important to emphasize that most objectives can be achieved many ways. For example, if we want to stop a munitions factory from making missiles, we can blow it up, ask a friend to buy it and use it to produce something else, or turn the power off to the factory. Some of these plays are reversable, which may influence the commander's decision of which to use.

The objective of an economic play will be informed by higher-level strategy: the broader strategy of the economic campaign of which the play is a part, and the national strategy under which the campaign is aligned. The relationship between objectives and planning is laid out in Figure 2. National security strategic objectives can be summarized from national strategic documents like the National Security Strategy, the National Defense Strategy, White House policy statements, and bipartisan Congressional legislation language.

The summary of those documents leads to five top-level objectives:

(1) Strengthen U.S. and Allied Economic Growth and Resilience;

(2) Counter Adversary Erosion of the Democratic Rules-Based International Order;

(3) Increase the Resilience of U.S. Critical Infrastructure, the Defense Industrial Base, and Key Industrial Sectors for Prosperity;

(4) Deter Adversary Aggression in the Near, Medium, and Long Terms; and

(5) Punish Adversary Aggression to Accelerate and Shape Peace.

Campaign-level objectives are aligned to context-specific needs, such as controlling energy flows, targeting with counter-force versus counter-value strategies, or precipitating capital outflows. An operation could advance, promote, or protect U.S. and allied entities, assets, and interests. It could seek to deceive, degrade, deny, disrupt, destroy, and/or manipulate adversary entities, assets, and interests.

Economic plays' objectives are at the tactical level. When employed as part of coordinated campaigns, economic play objectives achieve broader strategic objectives that can yield material national-level competition-, crisis-, or conflict-winning impacts.

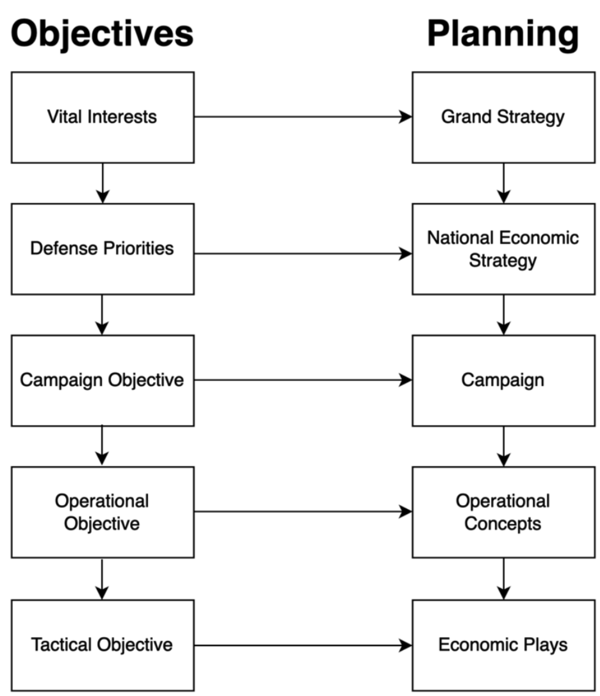
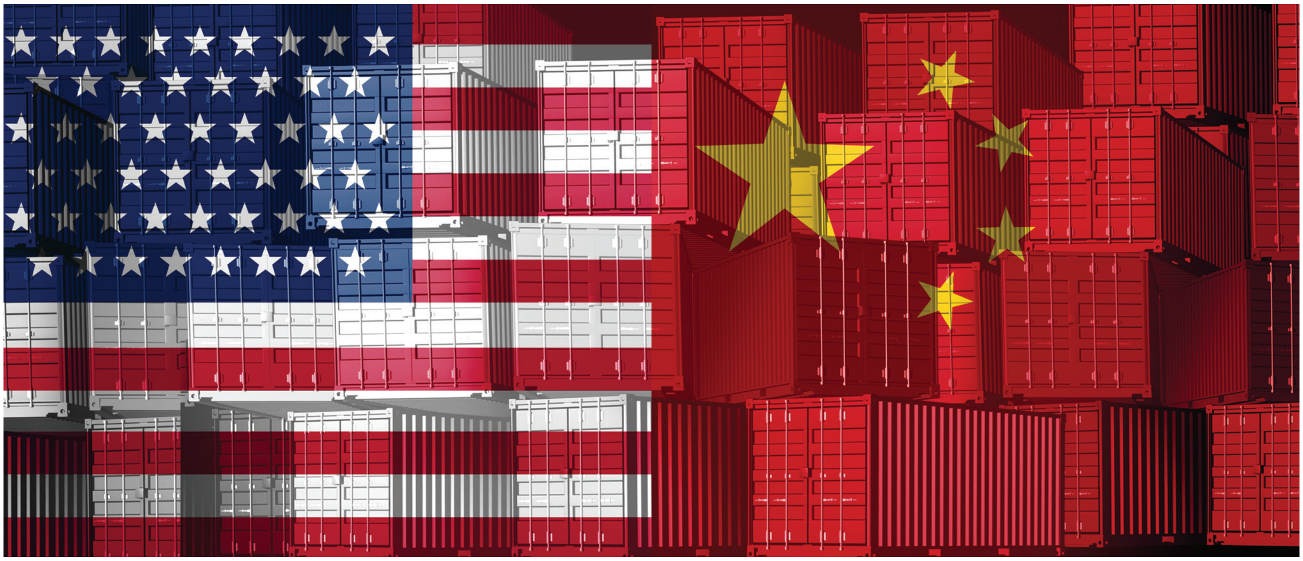


FIGURE 2. OBJECTIVES AND PLANNING HIERARCHICAL RELATIONSHIPS



Targets

There are many ways to view the economic target space comprehensively—for example, by industry sector (such as the Global Industry Classification Standard used by financial markets), geographic market, aspect of production or business operations, technology readiness level, economic entity hierarchy (e.g., country, sector, company, individual), and other lenses.

Given the national security focus of strategic economics—and to enable focused targeting of economic campaigns and operations—we propose viewing the economic landscape using the following four target categories because they align to well-recognized areas of greatest geopolitical threat as well as clear opportunity:

- **Critical Emerging Technology R&D:** Entities involved in the research and development of critical emerging technologies, including those identified by the DoD and White House as Critical Emerging Technology Areas. These entities can be research labs, startup companies, or divisions of large corporations, as well as individual researchers and engineers. This target category also includes the IP and digital and physical assets produced by these entities.
- **Defense and Critical Industry Production:** Entities of the defense industrial base and other critical industries (including energy and utilities, communication services, healthcare supplies, and consumer staples), along with those of their supply chains. This target category also includes the IP and digital and physical products produced by these entities.
- **Real Assets and Infrastructure:** Entities that own or lease real estate assets including strategic land and mineral deposits; infrastructure assets including ports, toll roads, and rail lines; IT and telecommunications assets including towers, cables, switches, ground stations, and data centers; and energy extraction, production, and transmission assets. This target category also includes the physical assets themselves.

- **Financial Services and Assets:** Entities that provide the foundational services and infrastructure by which the U.S. and global financial systems operate. This target category includes banks, financial exchanges, clearinghouses, data providers, and insurers. This also includes entities involved in financial asset management and investment (i.e. venture capital, private equity, private credit, hedge funds, trading, and family office firms), along with large institutional investors including mutual funds, pension funds, and sovereign wealth funds. The category also includes the financial capital assets (including crypto assets) held, managed, and/or transacted by these entities, along with the securities products, systems, services, and information they provide.

Within the four categories above, the targeting surface is diverse. Plays can focus on affecting a company/organization, an asset, or an individual. Below is deeper granularity on the entities within the categories above that are part of the targeting surface:[66]

- **Company Governance Exposure:** Company ownership, board of director control or membership, and shareholder activism
- **Company Financing/Balance Sheet Exposure:** Access to capital, cost of capital, credit rating, and equity value/stock price
- **Legal Liability Exposure:** Contractual, lawsuit, audit, and/or regulatory compliance liabilities or benefits
- **Public Relations Exposure:** Brand and reputational risks or benefits in the information/media domain
- **Supply Chain Exposure:** Loss or resilient access to suppliers or critical input supplies to production, increased/decreased supplier costs, compromised/improved supply quality, and logistics delays or guarantees
- **Business Operations/Production Exposure:** Disruptions or improvements to internal business operations, production, and manufacturing workflows
- **Trade/Revenue Exposure:** Loss or gain of customers or access to markets
- **IP Exposure:** Theft/compromise of IP, including third-party IP claims or gain of new IP
- **Product Quality Exposure:** Compromised or improved inputs or production processes
- **Systems and Data Exposure:** Compromise or hardening of business systems and company data
- **Workforce Exposure:** Access to human capital and skillsets needed, labor costs, labor organization/unionization actions, and insider threats

Finally, individual human actors involved with targeted entities (e.g., workers, researchers, engineers, labor organizers, individual actors who own entity assets) can themselves be targets for economic instruments. For example, in response to the Russian government's invasion of Ukraine, the United States and European Union have imposed economic sanctions, asset freezes, and travel bans on specific influential Russian oligarchs involved in the Russian energy, banking, technology, defense, and materials sectors, along with their family members.

Actors

In this paper, we consider the principal actors as the various U.S. government cabinet departments (e.g., State, DoD, Commerce, Treasury), each of which has comprehensive sets of instruments and corresponding authorities. Operational planners will have to determine who has the authority to conduct which plays and how authorities and instruments can be combined. This paper does not address who in the United States can conduct which operations—who can develop which tools and who has what intelligence on economic targets. This paper assumes all relevant stakeholders are included in dedicated campaigns, as needed.

Considerations

The planning of economic plays can be systematized. In Appendix B of our paper *Strategic Economics: Options for Competitive Advantage*,[67] we discuss the seven steps of operational planning for strategic economics. As an overview, a play should be initiated by a need, and planners should conduct a review of mission, target environment, and broader context. Courses of action are then developed, analyzed, wargamed, and compared, until one is chosen and approved. The final planning step is implementation of the order, which is the play itself, and, per DoD guidance, measuring play success.

Traditionally, a campaign planner would start with an **objective** and then identify the instruments, targets, and actors with which the planner can accomplish their play to achieve the desired effect. However, sometimes a planner may have identified exposed targets, have developed a sophisticated economic instrument, or have actors with exceptional authorities and buy-in, and the planner may seek to build economic plays from those lenses as opposed to the objective-first lens:

- Given an exceptional **instrument**, what objectives can be met, what does the potential attack surface look like, and who has the authority to conduct the play?
- Given a vulnerable **target**, which instruments can have an effect, what objectives can be met, and who has the authority to conduct the play?
- Given a willing and organized **actor**, which instruments do they have the authority to wield, what targets are within their remit, and what objectives are they interested in pursuing?

Broader Strategy

The activities of the economic domain need to be structured. Beyond the planning structure of an economic play, we propose using a hierarchical structure of grand strategy informing campaign plans, which inform operational concepts, which inform plays—the instruments, actors, targets, and play objectives chosen. Individual plays will be conducted in concert to achieve operational concepts, such as shaping import and export flows or targeting an adversary's defense industrial base. In turn, operational concepts are conducted in concert to achieve a broad campaign plan. Much of this content, particularly the development and use of campaign plans and operations concepts, is covered in more depth in the previous paper *Strategic Economics: Options for Competitive Advantage*.[68]

There are two final, major considerations for the planning of economic operations for strategic economics. The first is that, by the nature of the economic domain, many objectives will require buy-in from multiple actors, including departments and agencies, key private sector players, and key allies/partners. As a stark example, sanctions are generally not effective unless large parts of the world sign on. The foreign policy pressure required to implement successful strategic economics is beyond the scope of this paper but is important to keep in mind.

The second consideration is the potential for blowback of economic plays to the American domestic and allied economies. Some economic instruments are targeted, highly limited in scope, and do not involve the U.S. domestic private sector. Other instruments would place significant burden on U.S. and/or allied companies. Any economic play would need to involve significant consideration of intended and unintended first-, second-, and third-order effects.

APPLICATION IN A SCENARIO: THE CCP'S BLOCKADE OF TAIWAN FOR CAPITULATION

The final section of this paper reviews elements of a possible USG response to a Chinese quarantine or blockade scenario of Taiwan.[69] The recommendations evolve as the scenario moves from a state of competition to pre-crisis and then crisis, highlighting that campaign plans and their planners must be prepared for increasing hostility.

A Chinese blockade of Taiwan is highly plausible, and the difficulty of generating good response options emphasizes the need for mature economic instruments. The United States and allies may find a kinetic response to a blockade unwise. This section presents some components of an economic campaign plan that first focuses on deterring a Chinese blockade and then transitions to potential economic options for punishment and degradation of Chinese capabilities. The example campaign takes a sequential approach, working through how the United States could strategically prepare for and engage with the adversary at each phase: competition, pre-crisis, and crisis.

For illustrative purposes, a suggestion of potential instruments and objectives through the timeline are highlighted, but exact implementation of plays would be subject to the specific conditions of that scenario and so cannot be fully worked out here.

Strategic Competition and Pre-Blockade

The United States' main strategy during competition is deterring the CCP from implementing a blockade without using military force, which involves the development of economic campaign plans to be used in the event of hostilities. If significant economic response capabilities are prepared and economic instruments are matured and strategically revealed, Beijing could be deterred from blockading Taiwan. Competition time also involves resilience and domestic strength building, which enable prosperity and build the power needed to compete and dominate in conflict time.

Below are several specific elements of a strategic economic strategy during competition time with China, some of which the USG can and does implement now.

Trade Agreements and Friend-Shoring

Competition involves diplomatic outreach and trade promotion. Beyond economic prosperity, strategic trade can also enhance resilience to global shocks and crises. The United States can perform assessments for overdependency on certain countries for strategic resources (e.g., rare earth minerals) and, if overdependencies are found, correct them by pursuing trade relationships with other sources. Through trade, the United States can also seek to stockpile select resources or deny them to an adversary.

Resource Protection—IP of Dual-Use Technology

The United States relies on a variety of actors to develop military capability and technologies. These actors include academic institutions, government labs, private companies, and the military services. Technology development for the nine Critical Technology Areas identified by the Undersecretary of Defense for Research and Engineering are particularly reliant on private sector research and capital. The CCP is exploiting U.S. dual-use capability development by directly forming or facilitating indirect relationships with U.S.-based startups and academic institutions that are engaged in this development system. Through these relationships, China is able to steal U.S. military IP and compromise its systems.

The United States needs to better protect its military technology development ecosystem. One method is changing the law to prevent such relationships from being built. Another method is exposure. By making Chinese actions public, the USG may disincentivize private institutions from building relationships with Chinese representatives. The United States can work with major U.S. companies that have high dependence on China for production (e.g., Apple, Tesla) to slowly terminate operations in China and move to alternative locations.

Focus on Raw Materials

The supply of raw materials has also become part of the contest between the United States and China. As commercial and military systems have become more reliant on computing power, high-density battery power, and advanced materials, they have become more reliant on the rare earth elements essential to the production of these critical components. Deposits of these minerals are targets for CCP acquisition not only to ensure a dedicated supply for itself but also to control supplies to other nations.

Once the material is mined, processing is a bottleneck to supplying. Turning raw ore into usable rare earth elements is an environmentally hazardous process. China has dominated processing in the post–Cold War era due to its prioritization of production over environmental protection and as a result of decreased emphasis in the United States and other Western countries on preserving this processing capability.

Over the past two years, the United States has started to work to reduce its reliance on China through investment in new, more modern rare earth element processing techniques, but these are still in the experimental phase.[70] For the near future, China will dominate this critical resource unless the United States and key allies plan coordinated campaigns to rapidly establish alternative processing capacity and reduce dependency on China. The USG can assess military need of certain materials and engage in subsequent stockpiling.

Prepare the ‘Stick’ as the Last Chance for Deterrence

The competition phase is when crisis and conflict-time economic plays should be conceived and planned, as early development enables deterrence. Actions outlined in the following sections that would be undertaken in conflict time, such as targeting China’s military ecosystem and contesting the seas and ports, require advance preparation. The United States should signal under which circumstances it would be prepared to conduct which plays. Prework with allies and partners can set in place contingency plans with broad buy-in. If the CCP were to disregard U.S. signaling and move forward with a blockade, the USG will need to be prepared to coordinate with allies and partners and deploy a crisis-time economic playbook.

Imminent Establishment of a Blockade

Should it become clear that deterrence has failed and that China plans to blockade Taiwan, the United States can begin the shift from threatening action to instead implementing punishment and capability degradation measures, without resorting to military force.

Rapid, Selective Decoupling

If it becomes clear that deterrence has failed, the United States will likely need to slow and cease some substantial percentage of its trade with China. The United States can implement blacklists and contraband lists, and deploy targeted sanctions. It can also expand the enforcement of U.S. Securities and Exchange Commission (SEC) and other regulations while drastically curbing the export of dual-use technology.

Prepare for Conflict

A campaign of hostile rhetoric against the CCP could be implemented, and the DoD would need to engage in information operations and placement operations for coercive options. If the U.S. government is convinced of an imminent blockade, it may engage in strategic declassification of adversary economic activities that demonstrate war preparation efforts.

Should the warning signs show that the CCP and PLA are preparing to imminently blockade Taiwan, the USG would need to sharply escalate its efforts to reduce Chinese maritime mobility. While a Taiwan conflict would significantly impact global shipping, China would likely retain the ability to transport goods on its own vessels throughout the conflict. The Chinese have stockpiled critical resources such as petroleum in anticipation of a conflict that could disrupt sea-lanes. China also maintains a substantial fleet of Chinese-owned merchant vessels delivering goods worldwide daily.

According to the United Nations Conference on Trade and Development, as of 2023, China is the second-largest ship-owning country after Greece, excluding those owned in Hong Kong, a special administrative region of the PRC.[71] The PLA relies on commercial shipping both domestically and internationally, so Chinese firms that transport PLA resources should be considered valid targets for economic instruments. The USG can focus on denying those ships maritime insurance on the international market and decrease maneuverability of the broader Chinese fleet, both military and commercial.

Widespread Economic Disruption Through Economic Bombardment

As the threat of conflict over Taiwan escalates, the United States could employ more aggressive economic instruments and operational concepts. These could include disrupting energy flows, blacklisting individuals and organizations, and seizing overseas assets.

The United States could aim to disrupt core logistics functions, such as “deployment and distribution, supply, maintenance, logistics services, operational contract support (OCS), engineering, and joint health services,”[72] through economic targeting and non-kinetic approaches like cyber warfare.

During a Blockade—Crisis Phase

The primary objectives during crisis would be to deter additional aggression and degrade China’s ability to maintain the blockade. As the crisis progresses, the United States could employ additional economic instruments and operational concepts on both sides of the blockade, including non-kinetic approaches to conventional industrial targeting, anti–merchant shipping campaigns, financial market targeting, and other punitive measures to shape peace.

Target the PRC's Military Ecosystem

Given China's geographic proximity to Taiwan and its longterm military buildup, the PLA will possess significant missile capabilities. Once activated and deployed, these capabilities will be challenging to neutralize, especially in the early stages of conflict. The focus should be on undermining China's ability to resupply and redeploy assets to maintain the blockade, as this would not only deter further Chinese agression but also better position the United States and key allies for victory, should a blockade be well established. These efforts could encompass a range of strategic instruments, including tariffs, resource stockpiling, credit denial and selective insurance rates for involved firms, contraband lists, and control and disruption of critical commodity supply chains.

Contest the Seas and Ports

The blockade would severely disrupt imports and exports for both China and Taiwan and potentially all of Western Asia. A 2020 study[73] by the National Bureau of Economic Research on the Geopolitics of International Trade in Southeast Asia examined potential conflict scenarios that would shut down the South China Sea to maritime trade. In one scenario, trade was redirected south of Australia to avoid the conflict zone, resulting in the complete closure of ports in eight countries: Cambodia, Indonesia, Malaysia, the Philippines, Singapore, Taiwan, Thailand, and Vietnam. The United States could use its own economic coercion to try to keep some of these ports open to U.S. vessels and to close them to Chinese vessels or encourage rerouting of maritime traffic to prioritize U.S. allies while disadvantaging China.

Target PLA and Chinese Government Officials

The USG should have an objective of punishing relevant CCP, PLA, and other government officials while not targeting the general Chinese population. The USG could target the assets of the culpable and avoid impacting the broader Chinese domestic economy. The State Department can work with other countries to prevent Chinese officials from traveling and to deny them access to international or internationally facing assets.

Restrict China's Financial Inflows and Outflows

The United States could try to restrict the external financial flows going into China and limit the amount of currency and liquidity of assets that the PRC can withdraw from the United States. The Society for Worldwide Interbank Financial Telecommunication would likely be a primary mechanism. The United States would have to get near-global buy-in on a trade embargo, investment freezing, sanctions, travel restrictions, and necessary legal and regulatory changes to enforce the measures.

TAIWANESE POLICE MONITORING PROTESTS AGAINST CHINA'S NATIONAL DAY IN FRONT OF A PHOTO OF XI JINPING, UPSIDE DOWN TO SIGNAL DISRESPECT (OCTOBER 1, 2021).

Defend the U.S. Homeland and Mobilize for a Wartime Economy

The Chinese may attempt to attack the U.S. homeland, especially with non-kinetic means. The CCP and PLA would likely conduct their own economic warfare campaign against the United States and key allies, including coupling economic operations with information and propaganda campaigns and cyber attacks. The United States would need to take steps to replace its dependencies on China, potentially through increased trade with other nations—and ensure that the global economy remains open to the United States and becomes more closed to the PRC.

Shape the Crisis Toward the Desired End State

While economic options alone are unlikely to stop a war, they may convince an adversary to come to the negotiating table and certainly can help in dictating the terms by which the war is concluded—setting the terms of the peace. The state of a nation's economy at the end of a conflict determines the concessions that can be demanded and how post-war global partnerships are formed. During the crisis, the United States should ensure plans are in place to coerce reparations for Taiwan from China at the end of the conflict.

Furthermore, depending on the duration of the conflict, the United States could take advantage of a fractured CCP to lend aid to certain Chinese political factions and not others. Like the success of the Marshall Plan or American efforts to rebuild Japan following World War II, the nation that designs and implements a robust reconstruction effort will likely be the regional leader for the foreseeable future. Predictions for how a conflict ends are never completely accurate; however, the United States should consider potential outcomes ahead of time to be prepared to execute actions to maximize the end result.

WAY AHEAD: DEVELOPING THE U.S. AND ALLIED PLAYBOOK FOR STRATEGIC ECONOMICS

Strategic economics can provide decisive advantage for the United States. Since the end of the Cold War, the American playbook has narrowed and been selectively employed against non-peer adversaries. Efforts to further develop and enhance strategic economics in practice are critical to achieve U.S. national security policy objectives against adversaries, especially the CCP.

In this paper, we applied defense planning approaches to strategic economics and recognize that more work must be done to develop and refine economic plays. Efforts should be made to embed DoD operational planners in Commerce, Treasury, and State in the near term to accelerate progress, while simultaneously beginning to train a cohort of functional planners within these departments.

Developing a comprehensive and robust playbook for strategic economics will require practice, resilience in failure, and persistence. The way ahead in the near term should involve tabletop exercises, modeling, and real-world play simulations. Eventually, the U.S. government may need to build a command control system that can be used to orchestrate the synchronized execution of plays across departments at scale and speed in support of the President's direction and strategic objectives. **America's economic might continues to be enormous. The USG needs better ways to harness it.**

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Authors

Talia Gifford, Analyst, Integrated Deterrence, MITRE

Isaac Harris, Strategic Advisor

Eva-Marie Etzel, Cross-Cutting Operations Lead, MITRE

Jim Hickey, Chief Strategist, National Security and Capital Integration, MITRE

Chris Bassler, Cross-Cutting Priority Director, Integrated Deterrence, MITRE

Marin Halper, Vice President, Cross-Cutting Priorities, MITRE

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Keoki Jackson, Senior Vice President and General Manager of National Security Sector, MITRE

Kevin Toner, Vice President, Center for Government Effectiveness and Modernization (CGEM), MITRE

Will Kirkman, Director, Center for Policy and Strategic Competition, MITRE

Rozlyn Engel, Managing Director, Treasury, Economics and Commerce Division, MITRE

Brian Tivnan, Division Chief Engineer MITRE

Mary Bruzzese, Technical Editor / Writer MITRE

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