How to Defend Taiwan: Leading with Economic Warfare

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To cite this article: Michael O'Hanlon (2021) How to Defend Taiwan: Leading with Economic Warfare, The Washington Quarterly, 44:4, 183-196, DOI: 10.1080/0163660X.2021.2020459

To link to this article: https://doi.org/10.1080/0163660X.2021.2020459

Published online: 02 Feb 2022.
How to Defend Taiwan: Leading with Economic Warfare

Should the United States commit to defend Taiwan in the event of Chinese attack? Should Washington extend to Taiwan something like NATO’s Article V mutual-defense promise or America’s solemn vow in Article V of the US-Japan Treaty to protect Japan against foreign aggression? Unlike those other treaties, Washington no longer has treaty pledges or any other kind of formal status in its dealings with Taiwan and does not even recognize Taiwan as a country. For four decades, under a policy of “strategic ambiguity,” the United States has refused to tip its hand, declaring instead that any decision on whether to use military power in defense of Taiwan would depend upon how a conflict began. Such deliberate muddying of the deterrence waters has had an unredeeming legacy from Korea to Kuwait and beyond. For Taiwan, however, such a policy has enjoyed support for four decades.¹

The debate over whether to change America’s strategic stance has picked up steam in the current era of a return to great power competition, as codified in the Trump administration’s National Security Strategy and National Defense Strategy. Even though Trump himself was highly controversial as president, these documents, and what they said about Russia and China, were

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The Washington Quarterly • 44:4 pp. 183–196
https://doi.org/10.1080/0163660X.2021.2020459
not. Indeed, they had roots in concepts like the Obama administration’s “rebalance” or “pivot” to the Asia-Pacific, as well as its “Third Offset” concept, which sought to reestablish clear conventional dominance and thereby reinvigorate conventional military deterrence. The Biden team can be expected to continue to prioritize a renewed focus on Russia and China in its overall national security policy. What should that fact mean for the policy of strategic ambiguity?

A minority of American scholars and officials now want to end the ambiguity, which they say is bad for deterrence. Given China’s greatly increased power in modern times, the traditional logic of a policy that sought, Goldilocks-style, to balance perfectly the need to dissuade Beijing from attacking Taiwan and the imperative of persuading Taipei not to seek independence is no longer compelling, these critics say. The danger of an emboldened China lashing out has become substantially greater than the risk of Taiwan’s leaders throwing caution to the wind and recklessly pursuing independence in the false belief that America will always grant them a get-out-of-jail-free card by coming to their defense.2

At one level, these critics make a valid case. Beijing cannot be allowed to develop the misimpression that the United States might truly do nothing if the People’s Liberation Army (PLA) attacked Taiwan. Certainly, an outright invasion attempt would be a tectonic event in world politics that we could hardly ignore. But even a Chinese blockade designed to squeeze the Taiwanese economy could not be brushed under the rug. It would require a strong response of some type.

The United States needs to develop, with allies, the elements of a capability to wage economic warfare against China in the event that Beijing seeks to blockade or otherwise forcibly coerce Taiwan into surrender. The economic warfare approach might be reinforced with plans for limited military attacks against China’s use of sea lines of communication (SLOCs) in the Indian Ocean. But the main purpose of the strategy would be to avoid the choice between all-out war near China’s own shores and defeatism. Existing military options could be retained but would not be preferred, at least not for any initial response to a crisis or conflict. The essence of the new approach could be captured in the Biden administration’s national security strategy or another public document that, without being overly threatening, would clarify that the United States had this new option in its toolkit for keeping peace and stability in the Taiwan Strait. Washington would keep “strategic ambiguity” in regard to a possible military response to a conflict but lean away from any ambiguity or indifference in a broader sense—signaling Beijing that the U.S.-China relationship could not continue as before if China attacked Taiwan with the intent of forcible reunification. Such a strategy requires preparatory work now
—though more in the realm of economics and national resilience than that of military capability.

**Why Eliminating Strategic Ambiguity Is Not Enough**

The real question is how the United States and any willing allies should respond in the event of Chinese aggression toward Taiwan. Should the initial response be principally economic, or military? Should it involve a direct defense of Taiwan, or a geographically asymmetric defense? Should the United States be willing to countenance escalation to all-out war if need be? Treating these questions as second-order derivate matters is wrongheaded. Strategy must provide the links between ends, ways, and means. It is not adequate to voice aspirational views divorced from the practicality of achieving desired objectives.

As authors and analysts like Chris Brose, Elbridge Colby, and David Ochmanek have argued, it is far from clear who would win a fight over Taiwan—and far from clear how escalation would be avoided once the shooting starts.³ As Brookings fellow Ryan Hass points out, this uncertainty is a powerful argument against China undertaking aggression; Beijing cannot be sure it would win, and it can be quite sure there would be serious costs associated with even making the effort.⁴ In particular, amphibious assault in the modern era—the only credible way to get enough Chinese troops across the Taiwan Strait to conquer the island—remains a daunting military task. But the United States should not assume that it will be able to regain unambiguous military dominance in regions near China’s own shores just because it develops a National Defense Strategy with that goal.

Indeed, China would likely begin any aggression against Taiwan at much lower levels of warfare, to include deniable operations and other “grey-zone” tactics. As two thoughtful Taiwanese authors recently put it in these pages, “By combining attacks on IT infrastructure, imposing economic sanctions, and deploying para-military agencies, gray-zone coercion is likely to achieve battlefield results similar to military operations. Since it does not involve mobilizing traditional military forces, a gray-zone conflict is unlikely to cause large changes in local military balance, but it can distract the target’s resources and lower the cost of engagement and escalation.”⁵ Because limited attacks (e.g., a blockade) or grey-zone operations (e.g., deniable cyber attacks against Taiwanese infrastructure) are the most likely forms of aggression that China would undertake

**Should the initial US response be principally economic or military?**
against Taiwan, the United States and its allies need better and more proportionate tools to address such contingencies.

Therefore, rather than fixate on the question of strategic ambiguity and risk myopia in thinking of Taiwan crises as primarily military problems, the United States needs to develop broader, integrated, and asymmetric options for defending Taiwan. Strategic ambiguity in a pure sense may have run its course, but clarity over just what the United States would do during a Chinese attack on Taiwan is neither desirable nor possible. To paraphrase former Secretary of Defense Mattis, we should be strategically predictable but operationally unpredictable. The US and allied toolkit for responding to various kinds of Chinese aggression should include various methods of economic warfare. It should also include, if necessary, options for military attacks—but not necessarily near Taiwan’s shores. Rather, options that would focus on interdicting shipping in the broader Indo-Pacific region would play to America’s advantages and possess the additional advantage of being less escalatory.

To be sure, raw offensive military power still has a role to play in undergirding deterrence. For example, a former US deputy secretary of defense has advocated developing the ability to sink 350 Chinese ships within 72 hours of combat. But whatever the utility of such a capability against a massive invasion attempt, it is less germane against the much more likely scenario of limited Chinese aggression that includes a blockade of Taiwan of some type. In situations where China had not necessarily caused large numbers of casualties itself, the practicality or wisdom of a US response that could quickly kill tens of thousands is not obvious.

The essence of a better and more credible strategy should therefore be what defense specialists call integrated and asymmetric deterrence—an approach involving multiple geographic as well as cyber and space domains, multiple government agencies, and America’s allies. Secretary of Defense Austin has been rightly emphasizing the integrated element. He is onto something. His idea, and my analysis below, moreover apply not just to a Taiwan scenario; they may in fact get at the heart of the strategies truly needed to deal with great-power crises in the years to come.

For this strategy to deter successfully, advance preparation is required. That is especially true in realms of economic resilience, perhaps even more so than in more technical matters of defense planning. If the threat of economic pain and punishment is to be our main deterrent against limited attacks, the ability of the United States and allies to persevere in the face of inevitable Chinese retaliation in kind must be ensured.
The Conundrum: Limits on Military Deterrence

A Taiwan scenario centered on a Chinese attempt to reunify with the island by force could be all too likely in the years ahead. If Taiwan pushes seriously for independence, or if China gets tired of waiting for reunification, trouble could again ensue. Beijing might convince itself that a blockade-centered operation against Taiwan—designed to force it to accept some version of unification or reverse whatever purportedly offending action might have caused China’s reaction in the first place—would present acceptable risks.

I consider such a scenario the most likely of the various major ways China might attack Taiwan. That is because China can undertake it without assaulting the island directly, without causing large loss of life, and with the ability to dial down any blockade (at least temporarily) should the United States intervene. It can also be carried out largely by China’s much-improved attack submarine force—targeting the import and export routes that are at the very heart of Taiwan’s highly trade-dependent economy.

In principle, China could scale back or suspend enforcement of the blockade at any point if it needed to, while still saving face, especially if the blockade were conducted principally by submarines. Beijing might believe that even a partially effective naval blockade could be a potent instrument of coercion against Taiwan. It therefore would not need to stop all commercial ships transiting into and out of Taiwan—it would simply need to deter enough ships from risking the journey that Taiwan’s economy would suffer badly. The goal would likely be to squeeze the island economically to the point of capitulation. This solution might seem quite elegant from Beijing’s point of view, as it could involve little or no loss of life, little or no damage to Taiwan itself, and the ability to back off the attack if the United States seemed prepared to intervene or if the world community slapped major trade sanctions on China in response.

In any such blockade, China might well combine various elements of military power, including cyberattacks, into a multidimensional operation. It could attack Taiwan’s command and control capabilities; if the United States intervened, it could seek to neutralize America’s space-based assets too, as well as fiber-optic cable and other elements of the US military sensory and nervous systems. The centerpiece of the approach could be the PRC submarine fleet, introducing a significant risk factor into all maritime voyages into and out of Taiwan by occasionally sinking a cargo ship, either with submarines or with mines it had laid in Taiwan’s harbors. The PRC submarine force has improved by leaps and bounds in recent decades. Over the past 20 years, China’s fleet of modern attack subs has grown from roughly
two to forty. Submarines are an excellent tool for blockade because they are hard to detect and sink, and because they can create effects similar to sharks near a beach—lurking in the depths, attacking only when they wish, but creating fear (and thus a drag on commercial shipping and the Taiwan economy) constantly. China’s precision-strike capabilities have improved to the point that China could conceivably juxtapose the naval blockade with a preemptive missile and air attack against Taiwanese airfields and ports as well as associated infrastructure to hobble Taiwan’s ability to strike back (though it might choose not to attack Taiwan’s territory in the first instance).

To allow humanitarian supplies to reach Taiwan, Beijing might offer countries the option of first docking in a PRC port for inspection before sailing to their destinations. In this and other ways, it could limit the dangers to innocent civilians. Since this strategy might require the Chinese submarine fleet to sink only a few ships to achieve the desired aims, even in a worst-case Beijing might believe that it was acting humanely by threatening the lives of no more than a couple hundred commercial seamen. Given the perceived stakes involved, Beijing could consider this a reasonable risk. Because China wants to integrate Taiwan (and its high-tech industrial sectors) into the country, rather than squash it, and because it wants the rest of the world to “forgive” its transgressions as quickly as possible so as to sustain its own economic relationships with foreign nations, such a low-cost and relatively low-risk attack concept is probably the most compelling to leaders in Beijing.

If the United States chose to help Taiwan try to break the blockade, the classic concept of operations would probably be to assemble enough forces in the western Pacific to set up a protected shipping lane east of Taiwan. To carry out that mission, the United States together with Taiwan, and perhaps Japan, would need to establish air superiority throughout a large part of the region. The United States and Taiwan, and perhaps others, would also need to protect ships against Chinese submarine attack while coping with the threat of mines near Taiwan’s ports. And they might have to do all this without assured access to some of their satellite architecture. That is because China’s abilities to shoot down or disable low-Earth orbit satellites, through direct-ascent interceptors or directed-energy weapons or other means, have improved in recent years (even as some aspects of US access to space have become more distributed and resilient).
Twenty years ago, it seemed likely that the United States, with or without allied help, could confidently prevail in such an engagement, albeit perhaps losing several ships along the way. Today, I am much less sure. China’s cyberweapons, antisatellite weapons, advanced missiles, and quiet submarines mean it would have numerous potent strategic capabilities—and perhaps a greater propensity to consider nuclear escalation if losing the conventional fight. Even in domains where the United States might still be expected to dominate, like air-to-air warfare, the advantage is less than before—and the growing vulnerability of major US bases to accurate missile strikes complicates the calculus substantially. In undersea warfare, China’s enormous progress in fielding quiet submarines also changes the situation. Make no mistake, the United States remains ahead in this domain of warfare. Given the gauntlets it would have to run, the typical Chinese submarine would do well to survive for two or three round-trip missions from base. But for a typical single attack sub, it might succeed in sinking several valuable, and vulnerable, surface ships before meeting its own demise.

Similarly, China’s modern missile arsenal of more than 1,000 cruise and ballistic missile varieties, which 25 years ago would have missed any runway they targeted at least 90 to 95 percent of the time, has now turned the tables and could achieve hits with that probability. In a large attack, they could quickly saturate and overwhelm missile defense systems. Missiles might also be used against ships if China could proliferate enough sensors (or protect its satellites) to target them as they moved. On balance, the odds of losing dozens of American and Taiwanese ships would be high, and the confidence with which a blockade could be decisively broken would be much less. Nothing in a modestly reinvigorated and reoriented US modernization plan, or modest additional increase in the defense budget, is likely to change these core realities anytime soon.

In fact, the situation is worse—much worse—than these narrow tactical computations suggest. If either China or the United States finds itself losing a war over Taiwan through a series of engagements like those depicted above, it will have serious incentives to escalate. The United States might, for example, attack Chinese ports and missile launch facilities on the mainland to get to the source of the problem. And in its efforts to sink submarines, it might intentionally or inadvertently attack a Chinese nuclear-armed ballistic missile submarine. China might strike US and Japanese airfields and other bases on Okinawa, Guam, and elsewhere. Kinetic and cyber attacks either side conducted against the forces of the other might become confused with general attacks on national military assets like reconnaissance and command and control networks, raising the prospects of inadvertent escalation in ways that analysts such as Caitlin Talmadge recently, and Bruce Blair, Paul Stares, and Barry Posen have warned about going back to Cold War days. Once such measures were attempted, the possibility
of general military escalation up to and including even nuclear attacks could not
be easily excluded.21

The United States should not signal to Beijing that it is somehow intimidated
from coming to the defense of Taiwan because of the likely difficulty of the oper-
ation. It would be a difficult and very risky conflict for China, too, and there is no
point in depriving the United States of instruments that may contribute to deter-
rence. That said, for the United States, it would be crucial to have other options
—especially early in any crisis or conflict, and especially if there were ambiguity
about whether Beijing or Taipei was most at fault in producing any conflict.22

The goal should be less to achieve military victory per se, and more to cause
enough potential pain to China principally through economic means that a nego-
tiated end to any conflict became achievable. Ideally, deterrence would be
reinforced and the conflict forestalled from occurring in the first place.

**The Economic Elements of a Graduated, Integrated Deterrent**

The United States should think creatively about other kinds of assertive and reso-
lute, yet also indirect and asymmetric responses that emphasize economic warfare
more than decisive military victory. In other words, especially for scenarios involv-
ing less than vital stakes, it should seek to broaden its capacity to attempt deter-
rence by punishment rather than primarily by denial. The exercise of developing
a taxonomy of possible responses could be useful for many other problems and
contingencies in great-power relations, such as disputes over islets in the East
China Sea, South China Sea, and Baltic Sea that could prove serious challenges
to the rules-based order in the years to come—even as they individually remain at a level of
danger well below that of all-out war. The challenge is to deter such actions before they
occur by possessing response options that are proportionate and therefore credible. Ideally,
they should be relatively non-escalatory, threatening relatively few people. They could
also be geographically asymmetric, playing to US strengths and avoiding fighting near the
territories of another superpower. To the extent possible, they should emphasize
economic and limited, de-escalatory military instruments of national power; key
watchwords should be to avoid drawing first blood in superpower conflict and to
avoid unnecessary escalation.

In regard to Taiwan, the preferred essence of a US-led response to potential
Chinese aggression should be a strategy that imposes enough economic pain
and privation on the PRC to make the attack not worth it. But the overall strategy would have military elements as well, primarily in support of the economic campaign. The overarching concept would be to deny China much of what it needs from external suppliers—most of all, energy supplies, Western consumer markets for manufactured goods, and key components like semiconductors (many of which are in fact from Taiwan)—to keep its economy thriving for as long as the crisis persists. Financial sanctions, which should not be overused for minor disputes lest other countries develop workarounds, would be entirely appropriate here as well given the gravity of the situation. The success of the strategy would likely hinge on whether the United States could elicit enough allied support to make the boycotts and embargoes maximally effective—and on whether Western nations could mitigate their own dependencies on Chinese goods before and during the crisis to prevent Beijing from enjoying “escalation dominance” in any such multi-stage economic war. Western nations would also need political resolve to make the application of such a policy sustainable.

Geographically speaking, the preferred theater of any US military component to the strategy would likely be not the western Pacific but the broader Indian Ocean region, extending to the Persian Gulf and the east coast of Africa. It is in this broad region where China has economic relationships with countries like Iran that have little interest in supporting a US and allied embargo and boycott of China. The application of US military power in this zone should seek to impede China’s ability to maintain these trade relationships by challenging its access to the SLOCs. Admittedly, China has more military presence in the broader Middle East than before, including a base in Djibouti—but its capabilities in this area are still a far cry from those of the United States, and a far cry from what it can do in the western Pacific.  

Anticipating Chinese Economic Actions

Financial interdependencies are a wild card in using integrated economic leverage against China to defend Taiwan. Both China and the United States, and other major countries too, would surely suffer greatly if, for example, Beijing sought to dump US bonds en masse. Such kamikaze tactics would be risky for China, but given the stakes for all countries of a scenario like the one presumed here, such tactics would be hard to dismiss. Because of the Fed’s ability to take countervailing steps however, like varying its own bond sales (or purchases), this weapon may not be a decisive game-changer.

For other interdependencies, such as electronics and other high-tech goods, the United States needs to continually evaluate its dependencies on China and take ameliorative action when necessary, making sure those dependencies
on Chinese goods for key industrial and infrastructural as well as military needs do not exceed reasonable amounts. Transformers for the electricity grid, key medicines, and industrial control equipment are prime examples. It may be possible in some cases simply to ensure that China not provide more than a given percentage—say, 30 or 50 percent—of total required supply, for example. Subsidizing companies to diversify their sourcing in global supply chains may have to be an important element of strategy for the indefinite future. The concept of pure free trade probably needs to be relegated to the dustbin of history, at least within these strategic sectors of the economy.

There are other economic dependencies on China to consider where Beijing might retaliate in economic kind as well. These dependencies are linked to the purchase of certain minerals and numerous consumer products, the financing of deficits, and the purchasing of bonds. Some of these dependencies, such as the acquisition of consumer goods, are not particularly worrisome. They could be forgone for a stretch, and production could eventually be moved to other places if a crisis seemed likely to be protracted, though the cost of production might become modestly higher. Most minerals can also be found elsewhere or substitutes for them found, even if there would be delays and costs associated with such transitions. To buy time for such a strategy, expansion of the strategic reserves of oil as well as key raw materials for manufacturing for the United States and of its key allies in Asia and Europe would be prudent and affordable. Diversifying supply of key raw materials and components is also essential and should be a central element of national security policymaking for the United States and its allies without delay.

**Financial Sanctions – the “Nuclear” Economic Option**

Then there are financial and monetary sanctions, which can act like molasses in China’s overall trade and economic relationships by impeding payments, loans, and access to liquidity in general. Consider SWIFT, the principal mechanism by which banks in today’s world communicate to transfer funds between themselves and across nations and continents. It is important to prioritize the selective use of this tool coercively—not to apply financial coercion for mundane problems and crises. SWIFT is a multinational organization designed to carry out a technical function. Using it to apply financial coercion too frequently can encourage workarounds by sanctioned entities that allow them to soften the pain of being denied access to SWIFT—and perhaps also to avoid scrutiny by the world's...
intelligence agencies in many of their financial dealings (since SWIFT trans-
actions are themselves relatively transparent and well regulated). Countries
could take steps to reduce their vulnerability to US-imposed or SWIFT-related
sanctions were they to determine that their access to such a financial system
was no longer reliable or adequate for their needs. Insofar as China benefits
evermously from the US-led international economic order and has many other
problems to solve—including job creation, environmental remediation, the cre-
ation of a stronger middle-class consumer base, strengthening of private banks
and companies, and coping with the gradual aging of its population—it may
not seek to build a less efficient financial system as an alternative to SWIFT
unless convinced it truly needs one.

Hence, the goal for the United States should arguably be to keep its powder dry for
as long as possible in any consideration of SWIFT sanctions. But a Taiwan contin-
gency qualifies as a case in which using SWIFT against China would make sense,
especially since the main alternative would be a military-heavy counter-blockade
operation with high likelihood of escalation to general superpower war. In such con-
tingencies, denying China access to American and other Western banks is a superior
“nuclear option” that, while generally not suitable for routine disagreements, would
make sense as part of a strategy to defend the physical security of Taiwan.

Other elements of a graduated strategy should be developed in advance as well;
they might not be needed at first, but they should be available in case the situ-
atation deteriorates. For example, if the crisis endures and China succeeds in stran-
gling a good deal of trade with Taiwan, the United States might have to consider
providing an emergency supply of key goods like medicines or even foods to
Taiwan by airlift and/or sealift, along the lines of ideas proffered by Elbridge
Colby, Robert Zelikow, Robert Blackwill, and other researchers. China would
have to worry that, at some point, these American humanitarian missions
might start to evolve into military resupply efforts that could even involve
placing some American military support personnel on Taiwan soil. China
could shoot at such vessels, but in so doing it would squander many of the advan-
tages of the blockade-centric strategy, which avoids taking irreversible steps with
a high likelihood of producing all-out war.

A 21st Century Deterrent: Improving Options in the Economic Trenches

The United States and allied nations have great economic leverage over China.
They provide it the market, undergirded by one billion wealthy consumers, on
which the PRC’s export-oriented economic machine is still largely based. In
terms of grand strategy, that represents a major point of leverage and should be
fully exploited—especially in crises or conflicts such as a struggle over Taiwan
where high-end and potentially escalatory kinetic warfare would seem to be the most likely alternative outcome—and therefore risks losing credibility, or incurring momentous escalatory risks that should be avoided if at all possible.

Admittedly, things are changing as China becomes a more balanced and less export-dependent economy. Still, looking out as far as 2040, the United States and allies will have a great deal of latent economic leverage that could be employed against China. When combined with expected American and allied military dominance in key theaters such as the Middle East, it should provide them an upper hand in economics-based showdowns.

Improving and maintaining this relatively desirable state of affairs requires, however, that Western nations mitigate their own dependencies on China, especially in strategic sectors like rare Earth metals and some electronics components. This is not an argument for decoupling—though the prospect of such decoupling is an implicit and important part of the deterrent that should be wielded in persuading Beijing not to force the Taiwan issue militarily. It is, however, a powerful reason why the United States and its allies should seek to avoid developing dependencies on China for more than 50 percent (roughly speaking) of any crucial commodity or product—and why they should take remedial action when they discover vulnerabilities that exceed such thresholds today, as with rare Earths and some types of pharmaceuticals.

Yes, some of these economic strategies could cause almost as much pain to the United States and its friends as to China in an interdependent world. That is actually beside the point. The crucial issue here is that a strategy of economic punishment is economically and politically sustainable, and an alternative and superior deterrent prior to escalating to military combat near Taiwan’s shores, which could easily escalate further to great-power war. Rather than hope that China will never test our mettle to wage such a hot war—whether we preserve “strategic ambiguity” or not—we need credible and proportionate prior options to respond that, even if painful to execute, do not lead quickly on a path to World War Three. It is in this way that deterrence can be most effectively bolstered in the 21st century.

Notes


12. For a discussion of Chinese writings that seem to take a similar tack, see Roger Cliff et al., Entering the Dragon’s Lair: Chinese Antiaccess Strategies and Their Implications for the United States (Santa Monica, CA: RAND, 2007), 66–73.

14. See, for example, David A. Shlapak and others, A Question of Balance: Political Context and Military Aspects of the China-Taiwan Dispute (Santa Monica, CA: RAND, 2009), 31–90.


