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Waging Economic Warfare with China

By

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The commander of the US Strategic Command, General Anthony Cotton, correctly warns that the United States may not be able to deter Chinese aggression using the same economic leavers employed during the Cold War by Ronald Reagan and George H. W. Bush. Margaret Thatcher's claim that "Reagan won the Cold War without having to fire a shot," was prescient and largely due to the economic approach President Reagan initiated. General Cotton's warning suggests that Reagan's good fortune will not necessarily carry over to the challenge posed by China.

Two issues are at play today. First, a direct military confrontation between the United States and China appears inevitable, despite the economic entanglement that was intended to prevent it. Second, two nations that are so closely tied economically have rarely waged war, leaving such conflict's second and third order effects unknown. Should the United States follow Reagan's approach and challenge China's economic rise, there may be a path to avoiding conflict. Oil may be a good place to begin such an effort because China is so highly dependent on oil imports.

President Reagan began by initiating a change in US oil price policy that commenced what National Security Council official Roger Robinson called a policy of "economic warfare" against the Soviet Union. One of Reagan's first moves was to decontrol the price of oil. This lowered the price of oil and markedly decreased the earnings of the Soviet government, which relied heavily on oil and gas sales to generate foreign currency reserves.

A second move was to encourage the expansion of American oil and gas production over the long-term—driving down prices. In 1984, President Reagan persuaded the Kingdom of Saudi Arabia to markedly increase oil production by seven million barrels a day, again seriously reducing Moscow's export earnings. As an importer of oil, driving prices down would help, not hurt, the Chinese economy. Thus, the United States would need to put Chinese oil imports at risk and more expensive.

China is growing its ability to project military power astride key maritime choke points which see the transit of 60 percent of global oil production—58.9 million barrels of oil per day. This includes four choke points where China is seeking a military presence. These include: the Straits of Hormuz (with the help of Iran); the Straits of Malacca (through military construction in the South China Sea); Bab el-Mandeb (with Iranian/Houthi help); and the Suez Canal.

While China fears an oil cut-off during a military conflict, it appears China is seeking to turn the tables on the United States. As part of China's belt and roads initiative, overland routes for petroleum export are under construction, with a specific design to prevent American interference.

Given the stakes, the United States must act with urgency and circumspection as it looks for ways to economically disentangle from China—a country which clearly seeks to supplant American global influence. As the Chairman of the Committee on the Present Danger warned in a recent "Xi's Pearl Harbor" broadcast, many American institutions may not be up to the challenge. Employing oil as a deterrent force is no simple task.

If China were to achieve a stranglehold on oil tanker transportation, America's NATO allies stand to suffer most. Michael Klein and Robert Zubrin point out that it is no coincidence that each recession since 1975 began with sharp spikes in oil prices.

Currently, the United States is the largest oil producer in the world despite the Biden administration's efforts to constrain oil production. Should administration's change or President Biden change his position on hydrocarbons, the United States could, in a time of crisis, ramp up production to counter Chinese efforts to constrain oil flows.

There is real value in the United States securing the sea-lanes and thwarting Chinese plans to build overseas bases at key the key geographic points mentioned above. One of China's weaknesses is that it uses economics in a purely coercive way that seem attractive at first, but always carry heavy burden on the back end. States participating in the Belt and Road Initiative are now coming to regret their decision. Buyer's regret is a key tool the United States can use to thwart Chinese expansionist efforts.

Maintaining a sufficiently sized and capable US Navy that can patrol sea lanes remains a core capability and coercive tool of American diplomacy. The sight of American warships in foreign ports, rather than Chinese warships, speaks volumes to those countries considering which superpower to support. This is proving particularly true in the Middle East as oil rich nations are reconsidering their cooperation with the United States.

In a future strategic environment where China attempts to use oil as a coercive tool, the United States must be prepared to push back or prevent such a set of circumstances from ever materializing. The time is now for American policymakers to contemplate the role oil can play in economic warfare with China. Xi Jinping is certainly thinking about it.

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