

# Capital Wars from 1600 to the Present

As I studied past cases of conflict between major powers, I observed that in most cases, before there is a shooting war, there is a mix of escalating economic, technological, geopolitical, and capital wars. For instance, while 1939 and 1941 are known as the official starts of World War II in Europe and the Pacific, the conflicts really began about 10 years before that, with a series of escalating economic and capital conflicts before the “hot war” began.

To better understand what these economic and capital conflicts could look like in the future, I looked at all the major cases of capital wars from 1600 to the present. In this study, I lay out the typical nature of these conflicts and share details on the major cases we looked at.

As we started digging into the different measures that countries have taken, we found that they generally fall into three categories:

- 1) **Asset Freezes/Seizures:** Preventing an enemy/rival from using or selling foreign assets they own. These measures can range from asset freezes for targeted groups in a country (such as current US sanctions on the Iranian Revolutionary Guard) up to more extreme measures like unilateral debt repudiation or outright seizures of a country’s assets.
- 2) **Blocking Capital Market Access:** Preventing a country from accessing your country’s capital markets, either for accessing capital (such as by blocking debt or equity issuance in your country), or for investing in your country (such as policies to block inbound investment from rival countries). This can also take the form of either withholding ongoing lending or coordinating sales of a country’s assets, with the non-economic purpose of weakening them or coercing particular behaviors.
- 3) **Embargoes/Blockades:** Blocking trade in goods or services, either with your own country or in some cases with neutral third parties, for the purpose of weakening the targeted country. This can involve blocking imports of key supplies (such as occurred with the US embargo of oil to Japan in the lead-up to WWII) or blocking exports from the targeted country that represent significant income to that country (such as occurred in France’s blockade of the UK in the Napoleonic Wars).<sup>1</sup>

All three of these levers can take more and less severe forms, as we show in the following diagram. When looking at past cases, particularly recent ones, **we generally see a range of levers employed at once** (such as simultaneously restricting some trade and engaging in highly targeted asset freezes). And **the most severe levers—such as completely cutting a country off from your financial system or freezing all its assets abroad—typically comes after a longer period of tit-for-tat escalation (as occurred with the US and Japan in the lead-up to WWII) or comes in response to a major crisis/provocation from the targeted country (such as the Russian annexation of Crimea).**

**The most extreme measures often come when a hot war is imminent or already underway** (e.g., the most extreme measures across the types of levers were all employed in WWII, with a number of measures starting in the lead-up period). By contrast, **US sanctions against Russia over the past decade have involved a range of moderate measures** (broad blockages from the US financial system for key Russian businesses, targeted asset freezes of specific individuals, and trade restrictions, including ones applied to third-party countries).

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<sup>1</sup> We recognize that embargoes may be considered part of trade wars rather than capital wars. However, we learned that embargoes were the main tool to cut countries off from government/war financing through at least the 19th century (and maybe beyond). The income from naval trade (and tariffs on that trade) was a big deal for many countries—often easily the single biggest government revenue source. And the big trading companies had armies bigger than the government’s.

	Asset Freezes/Seizures	Blocking Capital Market Access	Embargoes/Blockades
<b>Severe</b>	Freezing all assets and/or pressuring third parties to do so; outright asset seizures; debt repudiation Ex: US's measures against Germany during both world wars	Total block from capital markets; sanctions imposed on all entities, including third-party countries that transact in enemy's assets Ex: US sanctions against North Korea	Cutting off supply of key resource (e.g., oil embargos); directly blocking trade with third-party neutrals (such as full naval blockades) Ex: US embargo of Japan in lead-up to WWII
↑			
<b>Moderate</b>	More indiscriminate asset freezes (such as all government assets) Ex: Current US sanctions against North Korea	Blocking large portions of country or government; banning your citizens from holding target's assets Ex: Current US sanctions against Russia	Broader restrictions on trade, and/or pressure on third-party neutrals to stop trading with targeted country Ex: US sanctions on Axis-supporting neutrals in WWII
↑			
<b>Mild/ Targeted</b>	Targeted asset freeze for specific individuals or companies Ex: 2014 asset freeze for specific Russian officials	Targeted blocking of specific individuals or companies Ex: Potential pressure to force Chinese companies to de-list from US exchanges	Blocking trade with strategically important entities and/or products, or in luxury products Ex: Limiting some high-tech exports to China, Huawei

The following table summarizes which of these levers were employed across the historical cases we examined. **At a high level, we see capital wars being used as an instrument of warfare throughout history**—there's evidence of blockading trade-dependent cities to weaken them as far back as ancient Greece. **At the same time, the composition of levers used has broadly shifted. In earlier conflicts, it generally took the form of disrupting/blockading trade of an enemy (such as occurred in the Napoleonic Wars or the War of 1812), and so naval power influenced who could and couldn't effectively use these weapons. More recently, we've seen a wider array of financial and trade measures used. In particular, over the past half century we've seen the US weaponize its reserve currency status to block its adversaries from the dollar financial system, as well as to threaten neutral parties that might consider transacting with the US's adversaries (through what are known as secondary sanctions).** One notable case is the series of financial sanctions against Russia over the past decade, though similar measures have been employed against Iraq, Iran, Venezuela, and other countries over the past few decades.

## Historical Capital Wars Summary Table

Case		Country Imposing Capital War	Country Targeted	Hot War?	Capital War Preceded Hot War?	Asset Freezing/ Seizure	Blocking Financial Access	Blockades/ Embargoes of Key Trade
2014-Present	Venezuela	USA	Venezuela	No	-	Moderate	Moderate	Moderate
2014-Present	Russia	USA	RUS	Not Directly	-	Targeted	Moderate	Moderate
1979-Present	Syria	USA	Syria	Yes	No	Moderate	Severe	Severe
1990-2003	Iraq Wars	USA, UN	Iraq	Yes	Yes	Moderate	Severe	Severe
1979-Present	Iran	USA	Iran	No	-	Moderate	Severe	Severe
1973-74	OAPEC Oil Embargo	OAPEC	USA, NLD, PRT, SAF	No	-	No	No	Severe
1960-Present	Cuba	USA	Cuba	No	-	Severe	Severe	Severe
1956	Suez Crisis	USA	GBR	Not Directly	No	No	Severe	No
1950-Present	North Korea	USA	North Korea	Yes	No	Moderate	Severe	Severe
1948-91	Cold War	USA	USSR	No	-	No	Severe	Severe
1940-45	WWII	USA, GBR	Neutrals	No	-	Moderate	No	Moderate
1940-45	WWII	USA	DEU, JPN	Yes	Yes	Severe	Severe	Severe
1939	WWII	USA	USSR	No	-	No	No	Moderate
1939-45	WWII	DEU	GBR, USA	Yes	Yes	Severe	-*	Severe
1939-45	WWII	GBR	DEU, JPN, ITA	Yes	Yes	Severe	Severe	Severe
1937, 40-44	WWII	USA	ESP	No	-	Moderate	No	Moderate
1935, 41-44	WWII	USA	ITA	Yes	Yes	Severe	Severe	Severe
1914-18	WWI	DEU	GBR, FRA, USA	Yes	No	Severe	-*	Severe
1914-18	WWI	USA	DEU	Yes	No	Severe	-*	Severe
1914-18	WWI	FRA	DEU	Yes	No	Severe	-*	Severe
1914-18	WWI	GBR	DEU	Yes	No	Severe	Severe	Severe
1861-65	US Civil War	USA (South)	USA (North), GBR, FRA	Yes	No	Ineffective	**	Moderate
1861-65	US Civil War	USA (North)	USA (South)	Yes	No	Severe	**	Severe
1807-15	War of 1812	GBR	USA, FRA	Yes	Yes	**	**	Severe
1807-15	War of 1812	USA	GBR, FRA	Yes	Yes	**	**	Moderate
1806-14	War of 1812	FRA	USA, GBR	No	-	**	**	Severe
1806-14	Napoleonic Wars	FRA	GBR	Yes	No	**	**	Severe
1803-14	Napoleonic Wars	GBR	FRA	Yes	No	**	**	Severe
1781-84	Fourth Anglo-Dutch War	GBR	NLD	Yes	No	**	**	Severe
1775-83	Revolutionary War	GBR	USA	Yes	No	**	**	Severe
1756-63	Seven Years' War	GBR	FRA	Yes	Yes	**	**	Severe
1672-74	Third Anglo-Dutch War	FRA, GBR	NLD	Yes	No	**	**	Ineffective
1672-78	Franco-Dutch War	FRA, GBR	NLD	Yes	No	**	**	Ineffective
1665-67	Second Anglo-Dutch War	NLD	GBR	Yes	Yes	**	**	Moderate
1655-60	Second Northern War	SWE	DNK, NLD	Yes	Yes	**	**	Moderate
1651-54	First Anglo-Dutch War	GBR	NLD	Yes	Yes	**	**	Moderate
1618-48	Thirty Years' War	NLD	ESP	Yes	No	**	**	Moderate
1602-63	Dutch-Portuguese War	NLD	POR	Yes	No	**	**	Severe

\* Markets were broadly closed for significant periods of the war.

\*\*Evidence for financial asset seizures and restrictions is limited for pre-20th century conflicts, though many of these conflicts focused upon controlling territories that were valuable sources of revenue (e.g., colonies, trading posts).

Below, we briefly summarize the major cases.

### Major 20th and 21st Century Cases: Portuguese

- **World War I (1914-18):** WWI was preceded by a contest for resource-rich colonies, but given how sudden the war was, there were only a couple examples of capital war—with the notable one being **Germany blocking financial access to Russia in the 1880s**. During the war, combatants used an escalating series of trade blockades and asset seizures to advance their agendas. All countries banned trading with enemies, and naval powers like the **UK and the US blockaded Germany, who retaliated by using submarines to target merchant ships to the UK**. As the war progressed, **combatants who initially froze enemy assets liquidated them to fund their own war efforts**.
- **World War II (Late 1930s-45):** Prior to the war, there was an escalating spiral of capital war and hot war conflicts, as Allied powers like **the US and the UK placed punitive resource embargoes on Axis countries** in response to their territorial expansion, which spurred further invasions by Axis powers to support the needs of their militaries (such as Japan's need for oil). As the war began, Allied forces expanded embargoes into full blockades, and **assets from combatants and neutrals were frozen and then seized**. Countries relied less on blocking market access or selling assets because target countries were often more reliant on access to resources than financial flows at the time.
- **Cuba Embargo (1960s-Present):** Throughout the Cold War, following Castro's takeover of Cuba, the **US maintained steady capital war sanctions, including stopping trade with Cuba, freezing financial aid, and limiting remittances**. Cuba did respond with some seizing of US property in Cuba but lacked the capacity to fully retaliate.
- **The Suez Crisis (1956):** After Egypt seized and nationalized the Suez Canal, the UK invaded to regain control. The US was opposed to any military intervention, and **withheld IMF funds from the UK until British forces completely withdrew from Egypt**. The UK desperately needed capital as it was hemorrhaging reserves and would not be able to maintain convertibility of the pound without US financial support, so the UK capitulated and withdrew.
- **OAPEC Oil Embargo (1970s):** From 1973 to 1974, the Arab members of OPEC maintained total oil export embargoes against the US and other developed countries for their support of Israel, which Egypt and Syria had just invaded. The embargo, as well as massive supply cuts, caused significant economic damage and financial asset losses across the world through higher oil prices and inflation. In the end, it did little to affect the immediate Arab-Israeli political situation, but it did serve to enrich oil producers and change the US's stance on foreign energy dependence.
- **US-Iraq Conflicts (1980-2003):** The conflict between the US and Iraq lasted for decades and was centered around Iraq's invasion of Kuwait and possible support of terrorism and weapons programs. The US heavily enforced **severe economic sanctions and the freezing of financial assets over this period to hold leverage over Iraq**. Through the UN and the US's allies, the US was also able to exert global pressure, with most of the world signing onto the economic sanctions.
- **Today:** The United States currently imposes considerable sanctions on Iran, North Korea, and Russia, along with a few other countries. **These include asset freezes, bans on US entities trading with or financing blacklisted entities, blocking access to dollar-financing pipelines (notably, the SWIFT system), and secondary sanctions on neutral entities that trade with blacklisted entities**.

### Major Cases of Capital War Pre-1900:

- **Capital War Tactics During the Dutch Empire (1600-1800):** The main form of capital war in the wars fought by the Dutch during their heyday were trade blockades, cutting off key income sources for their enemies from trade and colonial revenues. **Several wars broke out over trade barriers and commercial rivalries that preceded the war**—the most notable examples of this are the First and Second Anglo-Dutch Wars. The Fourth Anglo-Dutch war is a key example of the devastating power of capital warfare: by blocking trade routes and controlling trading posts, the British managed to bankrupt the Dutch East India Company.
- **Napoleonic Wars (1803-15):** Capital wars were an important lever used by both France and the UK throughout the conflict. Three years after the two powers went to war, Britain stepped up a severe blockade of naval ports in France. The capital warfare escalated from there in a tit-for-tat manner with **cascading blockades and trade restrictions** (the UK relied on its superior fleet, while France relied on its control of many European ports the UK used to trade).
- **The War of 1812:** During the Napoleonic Wars, the US faced capital war pressure from both the British and the French as the two sides tried to restrict trade with each other. This along with Britain's aggressive impressment actions (i.e., capturing US citizens and forcing them into the British Navy) caused the US to impose trade embargoes against both powers, which hurt the US more than Britain or France. Over 1810 to 1811 the US ended up reengaging in trade with France while cutting off Britain, eventually leading to war in 1812. During the war, the British used their superior navy to step up their blockade of US ports.
- **The US Civil War (1861-65):** Over the course of the war, the North blockaded the Confederate states, relying on its superior navy, while the South informally cut off exports to Britain and France ("King Cotton Diplomacy") in an unsuccessful attempt to coerce them to join the war effort. Additionally, the North passed laws over the course of the war allowing for the seizure of Confederate assets.