



CHINA'S USE OF COERCIVE ECONOMIC MEASURES

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Executive Summary

China has been a practitioner of economic statecraft throughout its history, and in recent decades since Deng Xiaoping opened the country in the 1970s. Today, one of President Xi Jinping's central foreign policy initiatives, the Belt and Road Initiative (BRI), is a potentially trillion-dollar testament to Beijing's commitment to using loans, infrastructure projects, and other economic measures as foreign policy tools.

In the past decade, China has expanded its set of such economic instruments to include sticks, not just carrots. China has punished countries that undermine its territorial claims and foreign policy goals with measures such as restricting trade, encouraging popular boycotts, and cutting off tourism. These actions have caused significant economic damage to U.S. partners such as Japan and South Korea. The measures may also have long-term effects in deterring and shaping countries' foreign policy interests that go well beyond the short-term economic costs.

Chinese use of economic coercion is likely to shape U.S. policy options in Asia and constrain both U.S. policymakers' and companies' maneuverability globally. Yet, the fact that China often relies on informal or extralegal measures to implement its economic coercion, the lack of a coordinated U.S. government response, and major methodological differences between Chinese and U.S. approaches to economic coercion have resulted in relatively limited study of this tool. This report sheds light on the nature and breadth of China's coercive economic policies. It analyzes and classifies the major features of China's economic coercion and its implications for the United States. It also offers preliminary recommendations for U.S. policymakers and stakeholders to begin addressing the challenge.

This paper draws its conclusions primarily from nine cases of Chinese economic coercion since 2010: seven cases where China acted alone and two where it joined a broader multilateral campaign of economic pressure. The cases point to Beijing's sophistication in its use of coercion. China learns from previous experiences, adopting tactics that work and abandoning those that do not. Additionally, Beijing tailors each coercion campaign, finding pressure points in target countries and minimizing collateral damage on its own economy and population. China also deftly combines its economic coercion with economic inducements and other tools of statecraft, pairing its sticks with carrots and diplomatic negotiations.

As China's economy and its economic statecraft become more sophisticated, Beijing is sharpening and expanding its coercive economic toolkit. Its growing set of tools looks quite different from the wide array of U.S. tools. Washington relies on formal, published sanctions, trade controls, or investment restrictions. Instead, Beijing prefers approaches that do not legally link a foreign policy dispute to the coercive measures, creating public deniability and greater optionality for escalation and de-escalation. China typically imposes economic costs through informal measures such as selective implementation of domestic regulations, including stepped-up customs inspections or sanitary checks, and uses extralegal measures such as employing state media to encourage popular boycotts and having government officials directly put informal pressure on specific companies.

The cases also illustrate key aspects of Chinese targeting. All of the cases studied where China acted alone involve China using economic coercion against democratic countries, and Beijing generally targets politically influential constituencies capable of pushing for policy change, regardless of whether or not the targeted constituency has any involvement in the policy to which China objects.

Finally, the report sheds light on the Chinese policy interests that trigger Beijing's use of economic coercion. When China undertakes multilateral coercive economic measures, such as sanctions, Beijing has helped to reinforce global norms—for example, nonproliferation. Yet, far more commonly, when Beijing unilaterally uses its own coercive economic measures it does so to bolster its territorial claims and national sovereignty or to advance other core interests. China has targeted countries such as the Philippines for their challenges to China's maritime claims and Norway for its alleged intrusion in Chinese domestic politics for the awarding of a Nobel Peace Prize to dissident Liu Xiaobo. Recently, as China's market has grown ever more important to global companies, China has also begun targeting individual corporations with coercive measures if they fail to adopt Beijing's preferred policy positions. For example, in early 2018 U.S. airlines began to experience retaliation for listing Taiwan as a separate country.

Though economic coercion is one of many facets of Chinese economic statecraft, U.S. policymakers must better understand it. Beijing's use of coercive measures is growing in frequency and evolving in scope. Both China's tools and the situations in which China is willing to use them are broadening as the country's confidence increases. In the next decade, China's relative economic

power will expand, giving Beijing additional leverage over a more diverse set of countries and companies.

Xi has made clear that under his continued leadership, China will take a more assertive posture abroad. Economic coercion will be part of this. Coercion also serves domestic political purposes for Beijing, which has cultivated rising nationalism domestically and which can use coercive economic measures to show domestic political audiences that China is acting to punish countries and companies that fail to conform to Beijing's wishes.

It is possible that in the midterm Beijing will formalize some of its coercive economic measures, particularly if Beijing adopts a planned Export Control Law, though China is likely to continue relying on informal and extra-legal measures for the majority of its economic coercion. Whether or not the measures are formal, however, the United States and other nations will need a formal response and must begin to formulate it immediately. Threatened countries will likely experience a growing sense of urgency to respond to Chinese economic coercion.

U.S. policymakers need to initiate a response. The Trump administration should study the phenomenon to identify specific vulnerabilities in the United States and in partner nations. Building on these efforts, the administration should increase outreach to allies. Economic coercion is a global issue that cannot be addressed without adequate international information sharing and coordination. U.S. officials abroad can play an essential role by gathering currently unavailable data and encouraging foreign partners to take preemptive measures. The Trump administration should also begin to identify trade policy tools and other tools that can be used to build the resilience of partners to resist Chinese economic coercion.

The U.S. Congress should specifically highlight Chinese economic coercion through hearings and investigations. It should consider strengthening anti-boycott statutes and authorizing funding to compensate targets of Chinese coercive measures, at home and abroad. This approach could act as a deterrent by raising costs for China's conduct. Capitol Hill should also work to fund innovation in key economic sectors. The more the United States becomes irreplaceable in the supply chains of the future, the harder it will be for China to use coercive measures against Washington. Private-sector actors should understand their exposure to Chinese economic coercion and limit their vulnerabilities through supply chain redundancy and market diversification. Finally, nongovernmental organizations should advance government efforts by supporting research on this topic. For too

long Chinese economic coercion has escaped sustained scrutiny. The goal of this report is to begin spurring a global, coordinated response.

CHAPTER 1

Introduction and Background

KEY TAKEAWAYS

- China is a longtime practitioner of economic statecraft and over the past decade has increasingly used coercive economic measures as a tool of foreign policy.
- China has been able to achieve several successes from its use of economic coercion and appears likely to increase its use of such measures in the future. This will have important implications for U.S. action.

China has long used economic statecraft as a pillar of its foreign policy. Historically, Chinese leaders used economic inducements ranging from gifts to the promise of loans and investments to solidify relationships with foreign governments and advance Chinese influence. Some 2,000 years ago, for example, a minister in the Han Dynasty recommended offering tribes on China's frontier "five baits" to bring them into China's orbit. These included "elaborate clothes and carriages," "fine food," "lofty buildings," and other enticements to submit to the Chinese emperor.¹

Much more recently, as China emerged as one of the world's largest economies by the 1990s, Beijing embarked on an ambitious agenda of using Chinese-financed development projects, Chinese investments, and favorable trading terms as tools to expand its global footprint. In 2013, China launched the Belt and Road Initiative (BRI), a potentially \$1 trillion, almost 70-country² global infrastructure development initiative that is likely to significantly expand Chinese influence from Asia to Europe.³ But even before the BRI, since the 1990s China had greatly expanded its foreign assistance and development projects globally, typically with an eye toward winning both economic and strategic benefits.⁴

Over the past decade, however, China has also used the "sharp end" of its economic statecraft, turning to coercive economic measures as a tool. The authors define coercive economic measures as China's restrictions on trade or investment intended to impose financial or economic costs on a target in pursuit of a foreign policy objective or to influence a foreign government to offer policy concessions to China. As used here, coercion indicates the use, or threatened use, of economic "sticks," but not the use of positive inducements or other tools, as commonly included in academic definitions.⁵ Countries that take foreign policy actions contrary to Chinese

interests have found themselves victims of measures ranging from restrictions on exports to China to sudden declines in the flow of Chinese tourists to a target country. Individual companies have also come under pressure and faced restrictions on business in China and threats of being fully cut out of the Chinese market.

The first contemporary case of Chinese economic coercion to attract widespread international attention was China's decision in 2010 to restrict rare earths exports to Japan during a maritime standoff near the disputed Senkaku/Diaoyu islands.⁶ Other recent cases that have drawn public attention include coercive economic measures against Norway in 2011, against the Philippines in 2012, against Taiwan in 2016, and South Korea in 2017. The Case Study Summary on pages 9-10 provides a brief summary of all of the cases studied as a part of this project, and the annex provides additional background on the cases.

Chinese economic coercion can have significant economic impacts. After South Korea deployed a Terminal High-Altitude Area Defense (THAAD) missile defense system in 2017, China retaliated by curtailing group tours to South Korea, temporarily limiting imports of certain Korean products into China, and quietly threatening South Korean companies with additional restrictions. The Bank of Korea estimated the actions shaved almost half a percentage point off of South



Chinese economic coercion can impose significant costs on targeted countries. The tourism restrictions imposed on South Korea after the deployment of the Terminal High-Altitude Area Defense (THAAD) missile system, pictured here, could cost Seoul over \$15 billion if fully enforced. (Handout/Getty Images)



After the 2016 election of Tsai Ing-wen as president of Taiwan, pictured here at her inauguration, China retaliated by cutting tourism to the island and pressuring universities. (Ashley Pon/ Stringer)

Korean 2017 growth.⁷ A South Korean research institute estimated in September 2017 that the cost to South Korea of the tourism restrictions alone could be over \$15 billion.⁸ The Japanese government has informally estimated that Japan was forced to spend at least \$1 billion on mitigation and diversification initiatives to compensate for China's restrictions on rare earths exports after the 2010 dispute.⁹

Even in cases where Chinese coercive economic measures have had negligible or difficult-to-quantify macroeconomic impacts, China shaped the political views of specific constituencies in target countries. For example, after Tsai Ing-wen was elected president of Taiwan in 2016, China curtailed the flow of tourists to the island, with an estimated 22 percent fewer Chinese tourists traveling to Taiwan in 2017 than did so the year before.¹⁰ By engaging in an aggressive tourism marketing initiative, Taiwan was able to partially offset the loss of tourism revenue by attracting visitors from other countries.¹¹ But the sharp decline in Chinese tourism contributed to protests by tourism-sector workers in late 2016.¹² Similarly, in 2012 China was widely seen as restricting imports of Filipino bananas as punishment for a territorial dispute in the South China Sea. There is debate in the literature about whether some of the Chinese import restrictions actually predated the territorial dispute¹³ and about the economic damage these cuts caused.¹⁴ Nonetheless, China succeeded in pushing Filipino banana producers to pressure the government to resolve the South China Sea dispute.¹⁵

Finally, China has achieved symbolic victories even when the practical impacts of coercive economic measures appear to be limited. For example, after the Norwegian Nobel Committee awarded Chinese dissident Liu Xiaobo the Nobel Peace Prize in 2010, China retaliated by banning imports of Norwegian salmon. The import ban appears to have had little real-world impact, as Norway found alternative markets and appears to have routed fish to China via third countries.¹⁶ Yet, as part of restoring normal relations with Beijing in 2016, Norway nonetheless issued a public statement acknowledging China's "sovereignty" and "core interests" while Beijing hoped that Oslo had "deeply reflected" on how it had harmed mutual trust.¹⁷

China will likely rely primarily on economic inducements such as trade agreements and concessional lending as the central tools of Chinese economic statecraft. However, economic coercion is today a poorly understood part of China's broader economic statecraft.

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Additionally, many suspect that Beijing will expand its use of this tool.

To help policymakers understand and address Chinese economic coercion, this study examines nine cases of China's use of coercive economic measures since 2010. Based on these cases, this report analyzes the following issues: (1) the circumstances in which China uses coercive economic measures; (2) the nature of the tools that China deploys in its coercive economic toolkit and China's potential coercive leverage; (3) how China engages in targeting; (4) how China's use of coercive economic measures is likely to evolve in the near term and midterm; and (5) potential implications for the United States. This report also offers preliminary recommendations to U.S. and allied policymakers to shape an initial response.

Scope of this Study

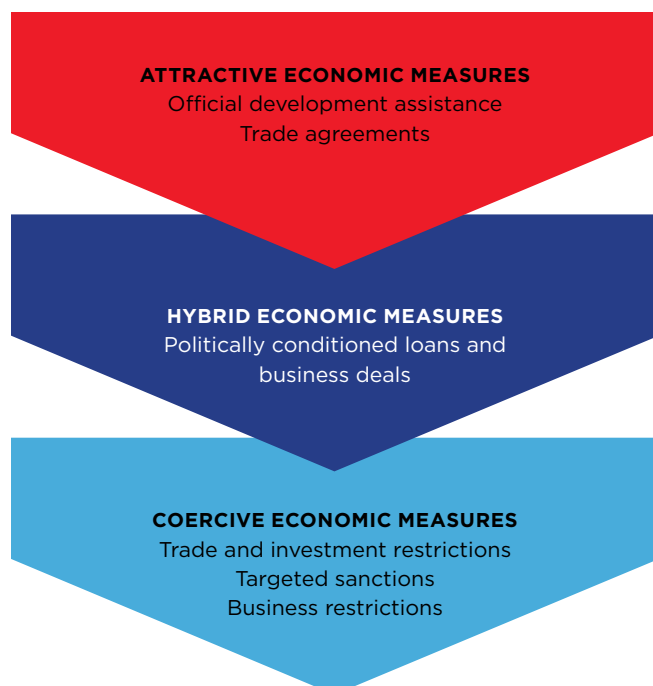
This project focuses on coercive economic measures, defined above, that China uses to pursue foreign diplomatic, political, and security objectives. This project does not cover the coercive economic measures that China uses to pursue trade policy and other economic policy objectives. Therefore, this study does not focus on China's recent threats to impose tariffs on imports

from the United States in retaliation for President Donald Trump’s planned tariffs on \$50 billion of Chinese exports, nor does it discuss Chinese efforts to coerce U.S. and Western firms into transferring intellectual property and technology to China, common elements of Chinese economic policy.

Coercive economic measures sit on a continuum of Chinese economic tools used to advance Chinese foreign policy objectives. Other tools include official development assistance, concessional lending and favorable business terms, and trade agreements. Figure 1 illustrates where coercive economic measures fit in the range of Chinese tools of economic statecraft.

For the purposes of this study, the authors have not included as coercive economic measures China’s practice of attaching political conditions to certain overseas lending and development projects, such as China’s well-known practice of requiring that governmental recipients of Chinese development loans support the “One China” policy and refrain from offering diplomatic relations to Taiwan. While there is clear overlap between politically conditioned lending and the coercive economic measures studied in this report, in the authors’ view, politically conditioned lending ultimately represents an economic inducement—China granting a new loan in exchange for the recipient agreeing to certain political conditions—rather than a coercive economic measure in which China

Figure 1: Tools of Chinese Economic Statecraft



China regularly uses coercive economic measures in the context of trade disputes. Recently, China began retaliating against proposed U.S. Section 301 measures. In March 2018, President Donald Trump signed the Section 301 memorandum that called out China’s unfair business practices and threatened to impose tariffs on Chinese products. (Mark Wilson/Getty Images)

is depriving a target of an economic resource that the target had access to prior to the Chinese action.

This study examines six recent cases where China used unilateral coercive economic measures in pursuit of Chinese national interests and which were not part of a larger multilateral pressure campaign. The specific cases studied were selected because they represent the most publicized, documented, and clear-cut examples of Chinese economic coercion over the last decade, and sufficient information was available on each to allow a full study. The authors assess that these cases represent the majority of cases of Chinese coercive economic measures during the last decade, while acknowledging that there is some debate among experts about whether there have been other cases as well.

The cases studied are (1) Chinese restrictions on rare earths exports and other measures directed at Japan after a collision between a Chinese fishing boat and a Japanese coast guard ship near the disputed Senkaku/Diaoyu islands in 2010 as well as subsequent tensions between China and Japan in 2012;¹⁸ (2) Chinese restrictions on imports of Norwegian salmon after Liu won the Nobel Peace Prize in 2010; (3) Chinese reductions of imports of bananas and other agricultural goods from the Philippines as well as cuts in tourism from China after a dispute over the South China Sea from 2012 to 2016; (4) Chinese reductions in tourism and other measures against Taiwan in response to the election of Tsai in 2016; (5) Chinese tourism reductions and restrictions on certain trade with South Korea after Seoul agreed to



China has made exceptions to its noninterference policy to support certain U.N. Security Council sanctions. Here, Chinese Deputy U.N. Permanent Representative Ambassador Wu Haitao discusses new sanctions on North Korea. (Spencer Platt/Getty Images)

deploy a U.S. THAAD missile defense system in 2016; and (6) temporary Chinese restrictions on cross-border trade with Mongolia after it allowed the Dalai Lama's visit in 2016. (China has a decadeslong history of retaliating against countries that host the Dalai Lama; this study uses Mongolia as a recent example that included significant coercive economic measures).

Coercive economic measures sit on a continuum of Chinese economic tools used to advance Chinese foreign policy objectives.

The report also examines an ongoing case of Chinese economic coercion that has emerged during the research for this report: potential threats that China may reduce the number of students studying in Australia due to recent heightened political tensions between the two countries. In addition, the researchers have examined recent Chinese efforts to encourage individual U.S. and European companies to modify websites and social media accounts to reflect Chinese policy views.

The study examines two recent cases where China used coercive economic measures in support of broader international pressure campaigns intended to constrain rogue nuclear activities: China's participation in international sanctions against Iran between 2006 and 2016, and against North Korea since 2006.

Finally, the authors reviewed several cases of potential Chinese economic coercion but where on balance China does not appear to have engaged in coercive economic measures as defined in this report, including Vietnam in 2014 and Chinese threats against U.S. companies engaging in arms sales to Taiwan starting in 2010. These cases were considered but were not formal case studies.

Concise summaries of the case studies are included in the next section, and more detailed descriptions are included in the annex of this report.

CASE STUDY SUMMARY

Japanese Maritime Dispute, 2010–2012

In September 2010, a Chinese trawler collided with a Japanese patrol boat in the disputed Senkaku/Diaoyu island chain, and the Japanese detained the Chinese skipper. After the confrontation, Beijing halted exports of rare earths, a key technology input, to Japan. Though some have argued that China had already taken steps before then to curtail the exports sharply, and therefore the ban was not politically motivated, the Japanese government assesses that it was targeted for political reasons and responded to the dispute as a foreign policy matter. Japan approved mitigation and diversification strategies for its affected companies and collaborated with the United States and European Union on a World Trade Organization (WTO) case against China, which the challengers won in 2014. The island dispute flared up again in 2012, when the government of Japan bought some of the islands from a private owner. This time, China took the lesser step of encouraging popular boycotts against Japanese goods and allowing protests that damaged Japanese companies in China.

Norwegian Nobel Prize Dispute, 2010–2016

China used coercive economic measures against Norway after the awarding of the 2010 Nobel Peace Prize to Chinese dissident Liu Xiaobo. Beijing cut off diplomatic relations and trade talks and used a series of sanitary and regulatory measures to significantly cut Norwegian salmon imports to China. Norway asked for some clarification at the WTO, with no result. A study has argued that the cut in salmon was economically only symbolic, given that Norway was able to reroute many of its exports to China through third countries.¹⁹ After initially rejecting Chinese requests for both a public and a private, more strongly worded apology, Norway reached a resolution with Beijing on the matter in 2016. Norway acknowledged China's "sovereignty" and "core interests" and admitted it had harmed "mutual trust." Salmon exports to China quickly resumed as did trade talks between the two countries. During the economic coercion campaign, Norway declined to meet the Dalai Lama in 2014, and upon Liu's death in 2017 it issued a muted statement noting the passing.

Philippines Maritime Dispute, 2012–2016

In 2012, China and the Philippines clashed over the disputed Scarborough Shoal in the South China Sea.

Although China had already begun applying extra sanitary controls on Filipino banana imports before the rise in tensions and there is no consensus on the full economic effect of the banana checks, the Philippines saw the step-up in controls on its agricultural exports as a political move. A restriction on Chinese tourists to the Philippines compounded this impression. Because the Philippines chose to solve the maritime dispute through an international tribunal, over the wishes of China, tensions flared up with regularity through 2016. As the decision neared (which the Philippines won), China again limited banana exports and tourism plummeted. The two countries moved closer together after the election of Filipino President Rodrigo Duterte and his more conciliatory policy toward Beijing in late 2016.

Taiwan's Elections, 2016

China has a long track record of using coercive economic measures against Taiwan. Since the 1990s China has also tried to influence Taiwanese elections and use economic coercion to gain support from Taiwanese business leaders. Beijing recently employed these tools after the election of President Tsai Ing-wen and her pro-independence Democratic Progressive Party. In response to her election, China cut off group tourism to the island. Through a series of diversification initiatives, Taiwan succeeded in replacing the lost Chinese tourists, primarily with visitors from Southeast Asia, though it did not fully replace the revenue lost from Chinese visitors. In addition to the tourism measures, China may have used leverage afforded by the large number of tuition-paying Chinese students in Taiwan to pressure university presidents to issue pro-Beijing statements. In 2018, China complemented its coercion campaign with an aggressive set of economic inducements meant to make the two countries more interdependent and presumably increase Beijing's leverage over Taipei.

Mongolia Dalai Lama Visit, 2016

China has a lengthy history of retaliating in various ways against countries that host the Dalai Lama, and Mongolia is a recent example. In November 2016, the Dalai Lama visited Mongolia to hold public events. Beijing, which sees the Tibetan leader as a separatist, responded to this visit by raising fees on Mongolian mining products, creating backups at a key border crossing, suspending bilateral interactions, and cutting off talks regarding a major loan. The Chinese cutoff of assistance loan talks, in particular, exacerbated the

coercive effect on Ulaanbaatar and accelerated the country's deteriorating fiscal situation, to which the International Monetary Fund (IMF) eventually responded with a bailout. Although it initially stood up to Chinese coercion, the Mongolian government eventually offered a public apology to Beijing, including a promise not to host the Dalai Lama in the future. The long-term deterrent effects of China's coercion on Ulaanbaatar's decisionmaking around hosting the Dalai Lama remain unclear given that Mongolia's subsequent leader reneged on this assurance.

South Korea THAAD Deployment, 2016–2017

In 2016 and 2017, South Korea announced and deployed the U.S. Terminal High-Altitude Area Defense (THAAD) missile system to counter potential North Korean missile activity. China saw this system as a threat and retaliated by imposing a range of coercive economic measures on Seoul and South Korean entities. Beijing curbed tourism, cut imports of cultural products such as cosmetics and popular music, and targeted auto companies. China also used regulatory measures, including alleged fire code violations, to close almost 90 Korean-owned Lotte Mart stores in China. Lotte Group, the parent company, had provided the land for the deployment of THAAD in Korea. China did not target all South Korean sectors; for example, it left exports of Korean semiconductors, key intermediate goods for Chinese companies, untouched. South Korea chose not to file a WTO complaint because of insufficient proof of the coercive campaign and out of fear of losing Chinese cooperation over North Korea. Seoul relented in October 2017 by issuing a list of assurances, the so-called three no's, meant to clarify to China that Seoul would not expand the scope of THAAD.

Chinese Students in Australia, 2017–Present

Recent revelations about Chinese influence in Australian politics, and the legislative measures to counter this influence, have fostered growing tension between the two countries. In response, China may be in the process of broadening its coercive toolkit by using Chinese tuition-paying students in Australia as a means of coercion akin to cutting off tourism. Education is Australia's third-largest export. Chinese students are almost 40 percent of foreign enrollees in Australia and account for almost a third of the revenue. The Chinese Foreign Ministry has, for example, issued a warning for Chinese students to exercise special vigilance in Australia. Chinese media fanned these flames. Much

like Asian countries cut off from tourism, Australia has looked to Southeast Asia as a means of diversifying its foreign student body.

Iran's Nuclear Weapons Program, 2006–2016

While China engaged in economic coercion against Iran in response to its nuclear program, it adopted an ambivalent approach. Beijing voted for multiple U.N. Security Council resolutions starting in 2006. This move represented a break, since China had refused to support prior U.N. Iran sanctions resolutions. However, China also recurrently criticized the imposition of new sanctions and called for diplomacy while steadily increasing bilateral trade with Iran despite the U.N. sanctions. China adopted a similarly divided approach toward U.S. unilateral sanctions. Numerous Chinese companies violated U.S. sanctions and incurred U.S. penalties, and China critiqued unilateralism and extraterritoriality of the U.S. measures. At the same time, however, China lowered its imports of Iranian oil by more than 20 percent in 2012 and 2013. Similarly, Chinese state-owned firms appeared to reduce their work in Iran.

North Korean Nuclear Weapons Program, 2006–Present

As North Korea's largest trade partner and the supplier of key commodities, China holds significant leverage over Pyongyang. Beijing has chosen to use—and not use—this power at different moments. In a multilateral framework, China has supported periodic U.N. resolutions against North Korea since 2006, with an accelerating number of resolutions in 2016 and 2017. At the same time, at key moments, China has lobbied to water down the toughest U.N. measures. With regard to implementation, China has recently improved its legal frameworks to comply with U.N. sanctions, and it has alerted its companies and banks on the need to follow international regulations.²⁰ It appears to have dramatically reduced imports of North Korean coal. China has also previously engaged in unilateral economic coercion with North Korea, including allegedly shutting down a key oil pipeline in 2006.²¹

CHAPTER 2

Methodology of China's Coercive Economic Measures

KEY TAKEAWAYS

- China uses a range of coercive economic measures, including import and export restrictions, popular boycotts, restrictions on Chinese tourism, investment restrictions, restrictions on specific companies, and informal pressure on companies.
- China typically implements coercive economic measures using informal and/or extralegal measures, rather than formal financial sanctions. For example, China will selectively apply fire safety or food safety regulations on a targeted country or company, rather than placing the target on a formal, public blacklist. This gives China plausible deniability and greater flexibility to escalate and de-escalate.
- Most Chinese coercive economic measures rely on the size and importance of the Chinese market as the source of coercive leverage.
- Many cases of Chinese coercive economic measures have targeted democratic states. In these cases, China has typically targeted politically influential constituencies, even when the targets have no direct relationship to the policy China seeks to change.
- Countries have responded to Chinese coercive economic measures by working to identify alternative markets and through diplomacy and concessions.
- China is likely to expand its use of coercive economic measures in the midterm. The types of measures used are likely to remain similar to those used in recent cases, though there is a chance that China may formalize some of these tools and may develop new ones.

China's use of coercive economic measures is not new, and one of the first modern attempts was directed against the United States. In May 1905, the Shanghai Chamber of Commerce, a government-registered local business organization, called for a boycott of American goods after reports of mistreatment of Chinese immigrants and U.S. laws restricting Chinese labor. Though the boycott spread quickly, the Chinese government reversed its initial support for the movement under heavy U.S. government pressure and the movement quickly faded. Popular boycotts continued, though targeting Japanese goods, until the early days of the Mao Zedong era. Then, China's use of economic coercion, like China's broader international economic policies, faded and the country turned inward and isolated itself economically.

During its political and economic opening starting in the 1970s, the Chinese government generally opposed most coercive economic measures as tools of statecraft. Chinese officials have regularly opposed unilateral sanctions by the United States and other countries. Beijing has criticized the use of "long-arm jurisdiction" to penalize foreign companies for engaging in business that was authorized by local law.²² This rhetorical opposition to coercive economic measures reflects China's commitment to Westphalian principles of noninterference in

the domestic affairs of foreign states. It also stems from Beijing's own experience as a target of U.S. and European coercive economic measures, notably an arms embargo, imposed after the 1989 Tiananmen Square massacre. Beijing has made exceptions to its stated noninterference policy to embrace coercive measures enacted in international law by the U.N. Security Council. However, China has frequently used its seat on the U.N. Security Council to oppose international sanctions as well.

Despite this continuing rhetorical opposition, however, China has employed coercive economic measures in support of its foreign policy objectives in earnest since at least 2010, when it restricted rare earths exports to Japan. Since then it has used coercion regularly, becoming, as Jennifer Harris and Robert Blackwill have written, "the world's leading practitioner of geoeconomics."²³

Studying cases of Chinese unilateral coercive economic measures since 2010 reveals several patterns of use.

First, China has primarily imposed unilateral coercive economic measures under a narrow set of circumstances: when it perceives a challenge to its territorial claims, its domestic political system, or to other of its explicitly articulated "core interests." The Japan and Philippines cases involved disputed territorial claims over islands

and maritime areas. The Taiwan and Mongolia cases reflected Chinese concern over regional separatism. Similarly, China viewed the award of the 2010 Nobel Prize to the dissident Liu, and Norway’s tangential connection to the award, as an intervention in Chinese domestic politics. In the THAAD case, China perceived a threat to its sovereignty and freedom of action. Though South Korea and the United States consistently argued that the missile defense system did not threaten Chinese territory, the Chinese People’s Liberation Army and other key Chinese officials worried that the THAAD’s radar could penetrate well into Chinese territory.

China appears to be expanding the criteria or circumstances for deploying coercive economic measures. In recent months Beijing has signaled that it may curtail the number of Chinese students studying at Australian universities. Doing so would not be in response to a territorial dispute or perceived foreign meddling in domestic Chinese politics. Instead, limiting students would be an example of China reacting to heightened political tensions between Beijing and Canberra after revelations of Chinese influence in Australian politics.²⁴ An expanding set of circumstances in which China employs coercive economic measures is consistent with its overall move toward a more assertive foreign policy, its gradual enlargement of its self-identified “core interests,” and the expanding array of economic levers as its economy and international economic connectivity grow.

China appears to be expanding the criteria or circumstances for deploying coercive economic measures.

China has not used unilateral coercive economic measures to defend global norms regarding the proliferation of weapons of mass destruction (WMD), international sovereignty and self-determination, human rights, or humanitarian catastrophe. For example, China has not implemented coercive economic measures on Syria or its enablers after President Bashar al-Assad’s use of chemical weapons, on Russia after Moscow’s territorial aggression against Ukraine, or on Myanmar in response to widespread political violence that has displaced hundreds of thousands of citizens.

Second, China generally deploys unilateral coercive economic measures in response to specific triggering events. In the Japan, Philippines, Mongolia, Taiwan, South Korea, and Norway cases, China used coercive economic measures after discrete precipitating decisions



China uses economic coercion against perceived challenges to territorial claims, including in its maritime dispute with the Philippines over the Scarborough Shoal. In 2017 about 6,000 U.S. and Filipino forces participated in the annual Balikatan exercise. (Dondi Tawatao/Getty Images)

by the target countries. Even China’s willingness to use coercive measures against North Korea has often shifted after triggering events such as missile or nuclear tests. Conversely, China has refrained from using coercive economic measures without a particular target country provocation, even when bilateral relations between the two were in overall decline. Here, the emerging Australia case offers a potential exception. Alternatively, China’s willingness to act without a specifically defined catalyst may be growing and a deteriorating bilateral relationship may be adequate provocation.

Third, China typically deploys unilateral coercive economic measures against smaller countries, rather than against larger or more advanced economies. China quickly punished Mongolia after the Dalai Lama’s visit but was more circumspect after then-U.K. Prime Minister David Cameron met with the Tibetan leader. Rather than restricting ongoing, existing trade, Beijing canceled bilateral diplomatic contacts and made clear that the visit would impact future Chinese investment. Similarly, China has mostly refrained from targeting the United States. Even though THAAD is a U.S. defense system and it required significant U.S. pressure for South Korea to deploy it, Beijing directed its retaliation against Seoul.

China also appears to have acted out of “hybrid motivations” in several of the cases, deploying measures that both advance Chinese domestic economic policy goals and foreign policy goals. For example, China appears to



Although Vietnamese protests against a Chinese oil rig in the Vietnamese exclusive economic zone of the South China Sea damaged Chinese-run factories and caused worker evacuations, Beijing generally refrained from retaliating with coercive economic measures. (VCG/Stringer via Getty)

have initially implemented its rare earths export restrictions before its dispute with Japan in 2010, likely as an effort to advantage Chinese electronics manufacturers compared with foreign rivals. Then, after the dispute, China may have stepped up enforcement of the restrictions, causing both Japan and other countries to view the restrictions as economic coercion and treating the issue as a foreign policy matter.

Three instances since 2010 when China could have used coercive economic measures, but refrained from doing so, suggest an important additional consideration in the country's decisionmaking: Beijing weighs coercive economic measures' potential long-term negative impacts on China when deciding whether and how to deploy them. In some instances Beijing does not appear to see enough potential benefit, or the necessity, to deploying coercive economic measures and therefore does not do so.

In May 2014, a state-owned Chinese oil company deployed an oil rig to explore for oil in a portion of the South China Sea that falls within Vietnam's exclusive economic zone (EEZ). The drilling triggered a tense diplomatic and maritime standoff and prompted anti-Chinese protests in Vietnam that damaged a number of Chinese-run factories before the Vietnamese government took steps to quell the protests.²⁵ Moreover, in the dispute, China actually had more economic leverage over Vietnam than it did over the Philippines when Beijing and Manila had their own South China Sea disagreement

two years earlier.²⁶ However, contemporaneous accounts generally do not indicate that China systematically threatened or imposed economic sanctions against Vietnam as part of the dispute,²⁷ and an in-depth study of the clash published in 2017 that included interviews with Vietnamese officials argued that Chinese officials had quietly informed their Vietnamese counterparts that they wanted to maintain normal trade ties.²⁸ China has, however, recently used other types of threats and diplomacy to convince Vietnam to largely drop its own plans to drill in the disputed area, the timing of which may reflect an assessment that China faces fewer collateral costs from engaging in such coercion today than it did in 2014.²⁹

China also refrained from using coercive economic measures—aside from popular boycotts—against Japan since the 2010 rare earths restrictions, despite periods of escalated territorial tensions. For example, in 2012 the Japanese government agreed to purchase three of the Senkaku/Diaoyu islands from the private owners. The action triggered sharp criticism from Beijing, anti-Japanese protests that resulted in damage to Japanese-owned facilities in China, and popular boycotts of Japanese products.³⁰ However, interviews with Japanese officials and experts indicate that China did not appear to apply more direct coercive economic measures, such as restrictions on Japanese corporate operations in China.

In a third set of circumstances of Chinese restraint, from 2010³¹ and 2015,³² China publicly threatened to



China did not use formal coercive economic measures after the 2012 Japanese purchase of the disputed Senkaku/Diaoyu islands, but it did allow and possibly encouraged popular boycotts and protests such as the one in front of the Japanese Embassy in Beijing. (Getty Images)

impose sanctions on U.S. companies that participated in arms sales to Taiwan, but then withdrew. Even though Beijing ultimately refrained, the episode is a rare instance of China explicitly announcing its intent to impose coercive economic measures in the context of a foreign policy dispute. This lack of Chinese follow-through almost certainly reflects Beijing's limited leverage over U.S. defense contractors given that the United States banned most defense exports to China in 1989. But no publicly available evidence indicated that China has, in fact, retaliated against civilian products made by U.S. defense firms that sold arms to Taiwan. For example, Sikorsky has continued to sell civilian helicopters in China, including a small number of sales to Chinese government entities (Sikorsky's market share in China is relatively small).

In implementing import restrictions, China has generally targeted products that it can either source from alternative suppliers or that it produces domestically.

Each of these instances appears, on the surface, to represent a situation when China would at least have considered deploying coercive economic measures. In each case, however, China could have risked significant adverse, long-term collateral impacts. The Vietnam case occurred while Washington and Hanoi were negotiating to allow expanded U.S. arms sales to Vietnam. China likely worried that further escalating the Sino-Vietnamese oil drilling dispute would have pushed Vietnam closer to the United States.³³ Similarly, interviews in Japan suggest that China likely refrained from imposing stronger coercive economic measures in 2012 because China was (and is still) actively seeking high-tech Japanese investment, and it likely worried that coercive economic measures would deter Japanese companies from locating facilities in China. Moreover, the forceful Japanese response in 2010 seems to have, according to Japanese experts, deterred further coercion. In 2010 and 2015, China likely decided against following through on threats of sanctions against U.S. companies in order to avoid exacerbating tensions with the United States, a relationship that was showing significant strain.



China often uses selective implementation of domestic regulations, such as sanitary checks on Filipino banana imports, to create costs for targeted countries. (Jes Asnar/Getty Images)

Types of Chinese Coercive Economic Tools

Since 2010, China has relied on a range of tools to implement its measures. Broadly, these tools fall into two major categories: inbound restrictions and outbound restrictions. The former limit foreign access to the Chinese market, including pressuring individual foreign companies or encouraging Chinese consumers to reject goods from targeted countries. The latter category involves cutting off targeted countries from China, whether its tourists or, in the case of Japan, its raw materials.

The primary Chinese inbound restriction tools have been:

IMPORT RESTRICTIONS

Multiple cases of Chinese coercive economic measures involve restrictions on imports of foreign products into China. These include restrictions of Norwegian fish into China; Philippine bananas and other fruit; South Korean cosmetics and cultural products; North Korean coal and other products; and Iranian oil. Chinese restrictions on Chinese tourists traveling abroad, which would be classified as import restrictions in most economic analyses of Chinese imports and exports, are discussed separately.

In implementing import restrictions, China has generally targeted products that it can either source from alternative suppliers or that China produces domestically. China has not imposed restrictions on products, such as component parts for manufactured goods, when doing so could adversely impact Chinese companies, even when such restrictions could impose significant

economic costs on the targets. For example, during the 2017 dispute with South Korea, China targeted imports of cosmetics and cultural products but not semiconductors, for which imports rose during the height of the dispute.³⁴ Similarly, during its pressure campaign on Manila, Beijing did not target Filipino-produced intermediate electronics goods, including semiconductors, even though the Chinese market accounted for up to half of the purchases of these exports, giving China significant leverage.³⁵

POPULAR BOYCOTTS

Popular boycotts played a significant role during the Chinese disputes with Japan and South Korea and have a lengthy history in China.³⁶ Contemporary boycotts exhibit genuine grass-roots support by the Chinese people and companies and are not solely directed by the Chinese government. However, China's tight control of state media and strict censorship standards give the government a strong set of levers to either encourage or discourage popular boycotts against a target country during a foreign policy dispute. In late 2017, Chinese officials threatened Australia with a potential popular boycott of certain Australian products as retaliation for new Australian laws restricting Chinese political activity in Australia. This suggests that Chinese officials themselves assess that they are able to launch and facilitate popular boycotts as a coercive economic tool.³⁷

Popular boycotts differ from import restrictions in several ways. First, popular boycotts may target foreign-branded products produced inside China, as well as imported goods. Second, import restrictions generally include some legal or regulatory measure, such as targeted food safety inspections, where popular boycotts include public calls for consumers to refrain from purchasing a targeted good, but without a legal or regulatory measure.

Popular boycotts do, however, carry some risk for China of adverse collateral consequences, particularly if Chinese citizens reduce purchases of foreign-branded goods that are actually manufactured in China. For example, in 2017 China's retaliation for Korea's THAAD deployment included popular boycotts of several Korean goods, including Korean cars that were made in China—adversely impacting Chinese workers at the Korean-linked automotive plants.³⁸

INVESTMENT RESTRICTIONS

Historically, China has required Taiwanese businesses seeking to invest in China to support the “One China” policy and to restrain open support for Taiwanese

independence. However, in the unilateral coercion cases studied, Beijing has avoided such investment restrictions. This caution reflects (a) China's already relatively strict limits on foreign investment into the country for domestic economic reasons, and (b) China's domestic economic policy reasons for allowing foreign investment where it does—e.g., Beijing's support for investment (through joint ventures) in certain high-tech sectors. As a result, there are likely few areas of foreign investment in China that Beijing could restrict as a coercive economic measure unless it were willing to accept collateral economic costs for its own economy. If China liberalizes its economy and allows additional foreign investment, it may increasingly use restrictions as coercive economic measures.

PRESSURE ON SPECIFIC COMPANIES

In recent years, China has increased its pressure on specific foreign corporate interests operating inside China. During the Sino-South Korean dispute Beijing used alleged fire-code violations to close the vast majority of South Korean conglomerate Lotte Group department stores in China after Lotte transferred land to the South Korean government for the THAAD deployment.³⁹ The restrictions reportedly cost Lotte approximately \$46 million per quarter, and after about half a year of pressure, Lotte announced plans to sell its Chinese stores.⁴⁰ Though not a formal case examined in this report, in early 2018 China directly pressured Western companies, including Delta, Marriott, and Daimler, to stop listing Taiwan as a “country” on their websites, or, in Daimler's case, to apologize for supporting the Dalai Lama in a corporate social media feed. These actions in some ways parallel China's



As part of its response to the South Korean THAAD deployment, China targeted Lotte Mart stores, a Beijing location pictured above, forcing Lotte to close almost 90 stores over alleged fire code violations. (螺钉/Wikimedia Commons)

long-standing practice of engaging directly with Taiwanese companies operating in China to ensure that the business and executives support the “One China” policy and do not support Taiwanese independence.⁴¹

The primary outbound restrictions China has used to target countries include:

EXPORT RESTRICTIONS

China’s rare earths exports ban represents the only case of unilateral sanctions studied in this project that included restrictions on exports of Chinese products, though both the Iran and North Korea cases also included restrictions on the export of certain items to North Korea and Iran as required by U.N. Security Council resolutions and under U.S. pressure. (China also maintains regulations governing the export of certain controlled items, such as chemical, biological, and nuclear-related items. In 2017, it proposed a new, comprehensive Export Control Law that is discussed later in this report).

The relative paucity of export-related Chinese coercive economic measures likely reflects several factors. Exports comprise roughly 20 percent of China’s gross domestic product (GDP) and the country wants to maintain its reputation as a reliable supplier of goods and services to the global market rather than encouraging other countries to diversify supply chains away from China. Beijing’s rare earths export ban experience may also have discouraged further export-related coercive economic measures. In 2014, the World Trade Organization (WTO) concluded that the ban violated national treatment requirements, and China had to abandon its restrictions that year. By then, the ban had

also encouraged Japan, the United States, and other countries to develop alternative sources of rare earths supplies in Australia and other countries.

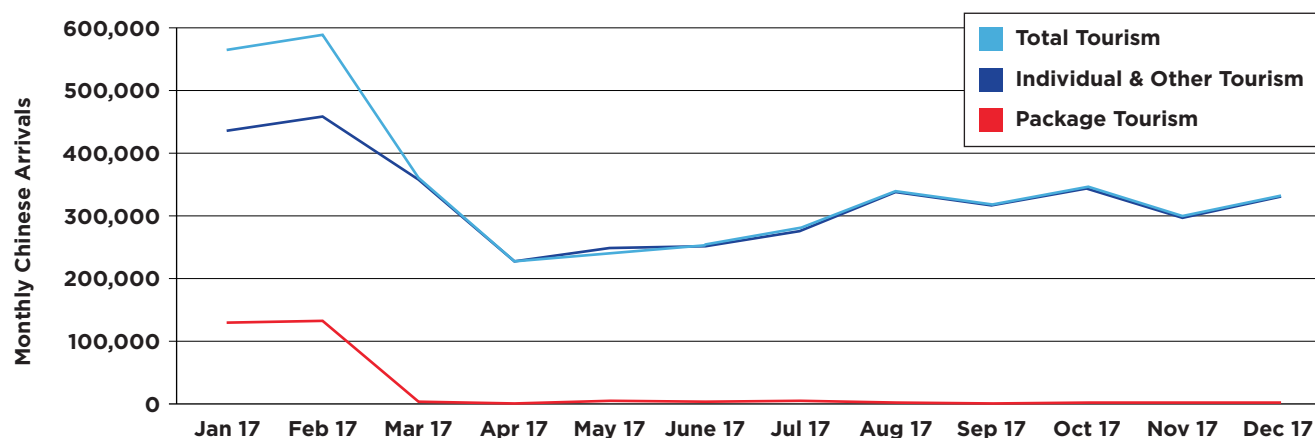
China may, however, return to export restrictions. This could occur if China determines that it could do so without facing adverse trade remedy consequences or that foreign purchasers could not find alternative suppliers (thereby simply transferring purchases of the goods from China to other countries). China’s efforts to move up in the value chain and to master the transformative technologies of the future—from robotics to electric vehicles—may not only protect Beijing from foreign attempts to coerce it but may also give it new export restriction levers to pull to coerce adversaries.

RESTRICTIONS ON CHINESE TOURISM

Restrictions on Chinese package tourism played a significant role in the coercive economic measures imposed on both Taiwan in 2016 and on South Korea in 2017, as well as in an early example in the Philippines starting in 2012 and then again in 2016. For example, according to South Korean government data, overall tourism from China to Korea fell by 48 percent in 2017 compared with 2016, with the majority of the decline being in Chinese group tourism, which fell from approximately 130,000 visitors per month in January and February of 2017 to an average of fewer than 3,000 per month for the remainder of the year.⁴² Tourism appears likely to be an attractive Chinese coercive economic tool in the coming years, given that Chinese tourists are now the world’s largest-spending overseas tourists.⁴³ Restrictions on tourism are also likely appealing because they can impose meaningful economic costs on target countries with few collateral costs on China.

Chinese Tourism to South Korea⁴⁴

The fall in package tourism from China to South Korea was particularly stark during the tension over THAAD deployment.



(Ministry of Foreign Affairs, Republic of Korea)

Chinese overseas students may emerge as a related, effective coercive economic tool for China, given the similar ability for Beijing to impose costs on a target country but sustain relatively limited collateral costs at home. For example, in late 2017 and early 2018 China threatened to curtail attendance at Australian universities by Chinese students,⁴⁵ who make up almost 40 percent of foreign students and supply a significant source of revenue for Australian higher education.⁴⁶

TARGETED FINANCIAL MEASURES

Beijing has generally avoided imposing targeted financial sanctions within the context of Chinese unilateral sanctions. However, China has apparently issued directives to Chinese financial institutions instructing them to implement U.N. sanctions on North Korea and to take a generally cautious approach to any business related to North Korean commerce.⁴⁷ Similarly, in 2010 the Chinese government published regulatory guidance establishing and implementing a terrorist finance sanctions blacklist.⁴⁸

Figure 2: Chinese Coercive Tools by Case

| COUNTRY NAME | CASE | POPULAR BOYCOTTS | IMPORT RESTRICTIONS | EXPORT RESTRICTIONS | CORPORATE PRESSURE | TOURISM RESTRICTIONS |
|--|--|------------------|---------------------|---------------------|--------------------|----------------------|
| Unilateral Chinese Economic Coercion | | | | | | |
| Japan | Territorial dispute over Senkaku/Diaoyu Islands | ● | | ● | | |
| Norway | Nobel Peace Prize award to Chinese dissident Liu Xiaobo | | ● | | | |
| Philippines | Territorial dispute over Scarborough Shoal in South China Sea | | ● | | | ● |
| Taiwan | Election of pro-independence President Tsai Ing-wen and Democratic Progressive Party | | | | ● | ● |
| Mongolia | Hosting the Dalai Lama | | ● | | | |
| South Korea | Deployment of U.S. THAAD anti-missile system | ● | ● | | ● | ● |
| Australia | Potential measures to counter Chinese influence in Australian politics | ● | | | | ● |
| Chinese Participation in Multilateral Economic Coercion | | | | | | |
| Iran | Nuclear and missile proliferation | | ● | ● | | |
| North Korea | Nuclear and missile proliferation | | ● | ● | | |

China's Preference for 'Informal' Coercive Economic Measures

To date, China has not developed a formal, legal or regulatory framework for its unilateral coercive economic measures. U.S. coercive economic measures involve a highly formalized approach. For example, a U.S. sanctions executive order establishes a foreign policy concern and goal in the service of which sanctions will be deployed, the coercive economic mechanism, or formulation of sanctions, to achieve such ends, as well as the legal authority permitting the action. By comparison, China has relied largely on informal mechanisms such as its control of the media and state-owned enterprises and the selective application of domestic regulations. This informality gives Beijing's actions a degree of plausible deniability. China is certainly not unique in its use of informal measures. Even in the United States, for example, Congress has urged telecommunications companies to refrain from entering into deals with Chinese telecommunications companies and Congress has repeatedly pressed companies to refrain from doing business with Iran, even when such business is legally allowed.⁴⁹ China is, however, unequaled in the strength of its political and administrative control, from the media to regulators, giving its informal economic coercion an unparalleled breadth and power.

China used domestic environmental regulations to implement its 2010 restriction on rare earths exports. It used food safety inspections on Norwegian salmon in 2010 and on Filipino bananas in 2012. In 2017, China appears to have informally pressured package tour operators, including through text messages, to cut trips to South Korea.⁵⁰ China also used product safety regulations to curb imports of South Korean cosmetics in 2017 and cited fire code violations as the basis for closing South Korean-owned Lotte department stores in China. China used stepped-up border inspections and increased fees as the primary mechanisms for slowing export truck traffic from Mongolia to China in late 2016 and early 2017. Across several of the cases, China used state media to encourage or discourage popular boycotts of target country goods.

China's preference for informal tools such as use of the state media and for selective application of domestic regulations to implement coercive economic measures reflects several factors and provides China with multiple policy benefits.

First, at a basic level, China uses these types of measures because it has never established a broad legal regime to implement sanctions and trade controls. Although Beijing maintains a terrorist finance blacklist

and has maintained several export control rules governing exports of WMD-sensitive products, it does not have a general system of export regulations, U.S.-style sanctions regulations, or import regulations that are explicitly designed to be invoked in the context of foreign policy objectives or concerns. (In 2017 China did publish a draft Export Control Law that could, if adopted, be used in the future to implement certain coercive economic measures).

Second, China's informal measures and selective implementation of domestic laws give it public plausible deniability when imposing coercive economic measures. While China generally makes target countries aware of the intent of its coercive economic measures through their timing and private messaging, by not establishing a legalized sanctions regime Beijing can maintain its declared public opposition to unilateral sanctions as a foreign policy tool.

This plausible deniability also gives China flexibility on when to lift coercive economic measures. Because China does not formally implement coercive economic measures in response to a foreign policy dispute, China can reduce or terminate them even when it achieves only a partly successful resolution to the underlying issue. For example, when China first retaliated against South Korea, Chinese public statements indicated that Beijing hoped Seoul would remove the THAAD system. Seoul, however, was extremely unlikely to remove the system after its deployment given the ongoing North Korean nuclear threat and the strong U.S. interest in maintaining the system. China ultimately reached a diplomatic agreement short of its original goals. Seoul reiterated that South Korea would not expand the THAAD system and would not connect South Korean air defense systems to Japanese air defense systems. In exchange, Beijing indicated that it would ease the coercive economic measures. Given that China achieved an incomplete objective, it might have had a more difficult time loosening its measures had it formally promulgated them as a response to the THAAD deployment.

Third, China's use of informal measures and selective application of domestic legal regimes match its regulatory practice across domestic economic policy. For example, in recent years China appears to have used selective enforcement of its anti-monopoly law and other domestic economic measures to favor Chinese national companies against foreign competitors and to advance national economic policies.⁵¹ U.S. and international companies also report numerous examples of dealing with informal requirements imposed by Chinese government officials.



Beijing's loss at the WTO in 2014 after China's 2010 ban on rare earths exports to Japan may have discouraged China from using export restrictions as coercion in subsequent cases. This suggests that China's membership in the organization, demonstrated here by Chinese President Hu Jintao's address to the WTO on the 10th anniversary of China's accession, can restrain China's conduct. (Pool/Getty Images)

Finally, China may assess that informal measures and the selective application of domestic regulations reduce the risk of WTO or other trade remedy challenges to its actions. China's domestic economic policies regularly draw WTO challenges, and Japan, the European Union, and the United States brought a successful WTO case against China's restrictions on rare earths exports. Informal measures such as the use of state media to encourage popular boycotts and selective, temporary application of customs inspections and other measures, however, are much more difficult to challenge under current WTO rules.

China even uses informal measures when participating in multilateral economic pressure campaigns. For example, in 2012 and 2013 China reduced Iranian crude oil imports in response to U.S. pressure. Similarly, anecdotal reports indicate that in 2017 Beijing significantly stepped up customs and other checks along the Chinese-North Korean border as part of the U.N. sanctions campaign against Pyongyang's nuclear program. However, in both these cases China also relied more heavily on formal regulatory measures than in its unilateral coercive economic measures. In 2017, China's Ministry of Commerce published formal directives ordering Chinese companies to cease importing certain North Korea-origin products prohibited by U.N. Security Council resolutions.⁵² Similarly, the People's Bank of China has reportedly circulated notices to Chinese banks directing them to comply with Security Council financial sanctions on North Korea.⁵³ In both these cases, though, the financial regulations do not appear to have been released publicly.

Methodology of Chinese Targeting

China typically targets its unilateral coercive economic measures at politically and economically sensitive constituencies in target countries—even if the targets themselves have little direct connection to the activity China finds objectionable. Chinese targeting therefore differs from U.S. and European coercive economic measures, which at least initially tend to target officials, government entities, and companies involved in the objectionable behavior, and their facilitators.⁵⁴

Several examples illustrate this point. China's 2010 rare earths export restrictions targeted certain Japanese electronics and high-tech manufacturing companies, even though the affected companies had no connection to the underlying Senkaku/Diaoyu dispute. Similarly, the Norwegian salmon producers targeted by China's import restrictions had no involvement with the Norwegian Nobel Committee's honoring of Liu. Indeed, virtually none of China's coercive economic measures in the cases studied involved direct pressure against officials involved in formulating and executing the policies to which China objected, though separate Chinese diplomatic moves often have directly targeted decisionmaking constituencies. In only a handful of cases did Beijing direct coercive economic measures against specific companies that facilitated the policies Beijing opposed.

China's targeting of politically and economically influential constituencies in offending countries, rather than targeting the entities directly responsible, appears



China targeted Norwegian salmon exporters rather than any of the parties directly involved in the awarding of the 2010 Nobel Peace Prize to imprisoned Chinese dissident Liu Xiaobo. At the award ceremony, an empty chair marked his absence. (Marta B. Haga/MFA, Oslo)

based on multiple factors often related to the nature of the target. Most of Beijing's unilateral coercive economic measures aim at democratic states. In part, China uses coercion against these states because bribery, corruption, and positive inducements China uses to influence authoritarian states are harder to use against constituencies in a democracy and are less likely to succeed.⁵⁵ Chinese officials expect that they can sway democratically elected policymakers in target governments by pressuring influential constituencies. China also likely recognizes the greater coercive economic leverage it has over influential business interests compared with officials and ministries that formulate policies objectionable to China. Because China has historically restricted investments inside China in many sectors, generally speaking most targeted democratic governments likely have little state-owned business in China, though that general trend will change if China continues to open itself to greater foreign investment.

China's focus on influential, often commercial, constituencies also allows it to deploy targeting expertise it has already developed in the context of trade disputes. For example, in 2000, after South Korea restricted imports of Chinese garlic, China retaliated with far more aggressive measures against cellphones and polyethylene, two leading South Korean products.⁵⁶ More recently, in response to the U.S. tariffs on Chinese products announced in early 2018, China has included politically sensitive products on its list of potential retaliatory measures.⁵⁷ As a consequence, targeting politically salient constituencies is a methodology that Chinese policymakers are already broadly familiar and comfortable with.

Additionally, Chinese coercive economic measures often appear designed to economically benefit Chinese companies concurrently with giving the government leverage over a target country in a foreign policy dispute. Since many of the countries targeted by Beijing embrace a liberal economic model, China's coercive economic measures that also advantage Chinese domestic companies will likely impact foreign private companies that may not benefit from state credit and bailouts in the manner of some Chinese firms. This can give Chinese firms a leg up in direct competition with foreign competitors.

China's rare earths export restrictions illustrate both a foreign policy and Chinese domestic economic benefit. Several experts have pointed out that China actually began restricting exports of rare earths prior to the Sino-Japanese dispute that was seen as triggering the restriction.⁵⁸ In this narrative, the restrictions after

the Senkaku/Diaoyu clash largely took the form of stepped-up enforcement of the ban, combined with greater popular attention to the issue. Chinese officials may have decided that increased enforcement of the ban would send a useful coercive message to Japan while economically benefiting Chinese users of rare earths vis-à-vis their foreign competitors. Similarly, China's 2017 restrictions on imports of South Korean cosmetics provided benefits to competing Chinese cosmetics producers.⁵⁹ And Beijing's decision to close most Lotte department stores in China as part of its response to South Korea's THAAD deployment provided a direct benefit to domestic Chinese competitors.

China's focus on influential, often commercial, constituencies allows it to deploy targeting expertise it has already developed in the context of trade disputes.

To date, most unilateral Chinese coercive economic measures have targeted categories of products, such as bananas or salmon, rather than specific companies. That may be changing. China may be beginning to target specific companies that it sees as supporting policies it objects to. China targeted Lotte because it provided land to the South Korean government to deploy the THAAD missile defense system. Moreover, China has been pressuring Western companies such as Delta, Marriott, and Daimler directly, insisting that statements on websites and social media accounts accord with Chinese policies on Taiwan and the Dalai Lama. This pattern appears to be accelerating, with United Airlines and American Airlines receiving similar threats from China over their listing of "separatist" entities such as Taiwan in their public-facing promotions.⁶⁰ The U.S. administration's forceful response criticizing China's "threatening and coercion" may represent an evolution in U.S. posture toward these Chinese measures.⁶¹

Reasons for Increased Chinese Economic Coercion

There are several reasons for China's increasing use of coercive economic measures as a foreign policy tool. The first is simple economics: China's scale in terms of its raw economic size, importance as a trading partner and source of investment, and centrality as a market for global firms give Beijing the capacity to use coercive



China is likely to increase its use of coercive economic measures as a result of its overall more aggressive foreign policy under the leadership of President Xi Jinping, pictured above addressing the 19th National Congress of the Communist Party of China. (Etienne Oliveau/Getty Images)

economic measures that it lacked until recently. China's GDP reached \$12 trillion in 2017 (at nominal exchange rates), making China the world's second-largest economy—with a GDP nearly 2.5 times that of Japan, the world's third largest. By various measures China has equaled or surpassed the United States as the world's most important trading nation.⁶² China is estimated to be the single largest trading partner of 130 countries in 2017, including countries as diverse as South Korea, Vietnam, Australia, Germany, the United States, and Brazil.⁶³

Moreover, Chinese overseas investment has also grown rapidly in recent years and has comprised at least 10 percent of total global outbound foreign direct investment (FDI) each year since the 2008 global financial crisis.⁶⁴ The country is also an important market for multinational firms that sell services in China or make products within China for the Chinese market. Ford Motor Co., for example, sold nearly 1.2 million cars in China in 2017, and all but 19,000 of those were made there.⁶⁵ Similarly, about 20 percent of Apple's worldwide sales are in China.⁶⁶ While these products are made in China, any effort by China to discourage the sale of U.S.-owned products inside China relative to Chinese-owned competitor products would have a significant impact on the profitability of the targeted U.S. firms.

In addition, the high prevalence of state-owned enterprises (SOEs) in China and strong Chinese control, including through informal mechanisms, of the country's economy provide the Chinese government and the

Communist Party ample levers to engage in economic coercion. If China wants to coerce a neighboring country or a company, it does not need to enact new laws or regulations; a simple call from senior authorities to step up customs enforcement, or for state-owned enterprises to curtail purchases of certain products, will suffice.

Against this backdrop, China's ambition and creativity to harness its economic leverage are expanding. As a government-connected Chinese think tank recognized in 2009, "Given the fact that our nation has increasing economic power, we should prudently use economic sanctions against those countries that undermine world peace and threaten our country's national interests."⁶⁷

Second, China has increased its use of coercive economic measures in accordance with an expanding, assertive foreign policy posture. This new posture took shape after the 2008 global financial crisis under President Hu Jintao and has become rapidly more prominent and formidable under President Xi Jinping since 2012. Many commentators have argued that this assertive trend will continue.⁶⁸ Previously, Chinese foreign policy was governed by Deng Xiaoping's "24-character" strategy, which generally eschewed use of coercive economic measures out of concern that they would alienate countries and undermine China's rise. Today, China appears far more politically and diplomatically comfortable with measures that make clear to countries that there are costs for crossing Beijing, from a show of military and diplomatic strength to the use of coercive and predatory economic activities.

Third, China's increased use of coercive economic measures may respond to and be intended to build upon Chinese nationalism and domestic political considerations. Several scholars have persuasively argued that there is a significant domestic political component to China's use of coercive economic measures: James Reilly, for example, has argued that Chinese coercive economic measures often let Beijing show domestic audiences that China is "doing something" about a diplomatic or foreign policy dispute that grabs headlines and popular attention in China.⁶⁹ Even if the measures are informal and the government may deny a link to the foreign policy dispute at hand, foreign governments' protests and the targets' economic hardship may satisfy nationalistic impulses within China. William Norris has also argued that Chinese domestic political considerations play a prominent role across both China's global trade and investment strategy and its coercive economic statecraft.⁷⁰

Target Country Responses

Countries targeted by Chinese unilateral coercive economic measures have generally adopted one or more of three major policy responses to Beijing's actions.

WTO TRADE REMEDY CHALLENGES

To date, Japan is the only country targeted by Chinese coercive economic measures to bring a WTO challenge in response. Japan, joined by the United States and the European Union, won its WTO challenge against China's rare earths export restrictions when the body concluded that Beijing's measures violated global trade rules.⁷¹ As discussed elsewhere in this report, China implemented the rare earths restrictions using Chinese domestic environmental laws, and the WTO concluded that the application of the law to exports, but not to Chinese domestic users, violated WTO national treatment obligations.

WTO challenges are likely to provide little relief to countries targeted by Chinese coercive economic measures going forward.

However, WTO challenges are likely to provide little relief to countries targeted by Chinese coercive economic measures going forward. This is largely because China has adapted its measures to specifically insulate them from WTO challenges. For example, though South Korea considered bringing a WTO challenge in 2017 according to both public press reports⁷² and private interviews, it ultimately chose not to. This decision was partly the result of the South Korean government's focus on de-escalating tensions with Beijing and its fears that a WTO challenge might have worsened diplomatic relations. But the decision was also based on the South Korean government's calculation that it would be challenging to win a WTO case given the absence of sufficient, formal Chinese directives or legal guidance associated with the measures. Exacerbating the difficulty, one of Beijing's most prominent measures, the restriction on tourism, is not prohibited by WTO rules. Other recent Chinese coercive economic measures, such as China's slowing of trucks crossing the Mongolia-China border and the potential slowdown in Chinese students sent to study in Australia, would be similarly difficult to challenge at the WTO.

DIVERSIFICATION OF BUSINESS RELATIONSHIPS

Countries targeted by Chinese coercive economic measures have sought to diversify their economic relationships, driven in part by concerns about how excessive economic reliance on China gives Beijing undue leverage. After the 2010 Senkaku/Diaoyu dispute, Japan worked with the United States and other governments to diversify its rare earths supplies, and within several years these efforts had largely broken China's monopoly on rare earths mining.⁷³ Even outside reliance on specific Chinese products or commodities, officials in Japan, South Korea, and Taiwan all cite potential Chinese economic coercion as a motivating factor behind their respective initiatives to diversify their business relationships: Taiwan's "New Southbound Policy," Korea's "New Southern Policy," and Japan's "Free and Open Indo-Pacific" strategy.

Diversifying business relationships can soften the impact of Chinese economic coercion. After China's curbs on tourism to Taiwan in early 2016, Taipei launched an aggressive effort to attract tourists from other countries, mitigating the blow of China's measures. Along with South Korea, for example, Taiwan has worked doggedly to draw tourists from among the world's 1.8 billion Muslims, who reside primarily outside of China.⁷⁴ Similarly, reducing reliance on the Chinese market diminishes China's relative economic leverage and, over time, hardens a country as a target of Chinese coercive economic measures. Japan's aggressive diversification of rare earths not only served as a successful response to an immediate crisis but also foreclosed future Chinese coercion attempts in this economic area.

However, the sheer size and importance of China's economy make it difficult for foreign countries and companies to achieve truly defensive diversification. China, with its 1.4 billion population, is and is likely to remain the world's largest consumer of numerous minerals, materials, and component goods. China will continue to overshadow most other countries as a potential end market for goods and services. While diversification can reduce short-term vulnerability to coercion by providing alternative supplies and outlets, many countries and companies will always look to China as a dominant market. As a consequence, China will maintain its coercive economic leverage over the near term, midterm, and long term.

NEGOTIATION AND DIPLOMATIC CONCESSIONS

Finally, in most of the cases studied, target countries have sought to negotiate with China and several have offered diplomatic concessions to restore economic



Most countries have relied at least in part on negotiation and diplomatic concessions to address Chinese economic coercion. In the case of the Philippines, the meeting between Presidents Xi Jinping and Rodrigo Duterte in 2016, led to China announcing an end to the pressure campaign. (Pool/Getty Images)

ties with Beijing. South Korea, for example, ultimately reiterated several diplomatic commitments regarding limits on the THAAD missile deployment in exchange for China reducing its coercive economic measures and improving bilateral ties generally.⁷⁵ Several weeks after China restricted Mongolian trucks carrying Mongolian products into China, the Mongolian government issued a public apology for hosting the Dalai Lama and committed to refrain from hosting him again.⁷⁶ Norway ultimately issued a statement acknowledging Chinese core interests and national sovereignty.⁷⁷ And after the Philippines elected Rodrigo Duterte in 2016, Duterte acquiesced to some, though not all, Chinese claims in the South China Sea as part of a broader initiative to restore relations with China and obtain relief from China's restrictions on imports of Filipino bananas and other products.

Diplomatic concessions offered by the targets of China's coercion have rarely represented a complete capitulation to Chinese demands.

As part of these concessions, China has dictated the terms of diplomatic engagement. During the peak of the THAAD tensions, South Korean officials noted an inability to communicate with their counterparts in

Beijing, a roadblock that impeded a resolution. This track record of diplomatic resolution and display of some Chinese flexibility in negotiation likely inhibited large-scale shaming campaigns against China. In the cases covered by this report, no country adopted all-out initiatives to confront China and gather global support as an alternative to engagement and diplomacy. Instead, the most vigorous responses came from Japan, which brought its case to the WTO.

Diplomatic concessions offered by the targets of China's coercion have rarely represented a complete capitulation to Chinese demands. South Korea did not shut down the THAAD missile defense system, and Norway did not commit to never again award a Nobel Prize related to Chinese dissidents. In Taiwan, Tsai has generally refrained from taking deliberately provocative stands on independence issues, but she has also refrained from taking a particularly conciliatory attitude toward Beijing.

In addition, Chinese economic coercion was often just one of the factors prompting diplomatic concessions. Norway, for example, was at least as concerned about the prospect of long-term diplomatic isolation from China as it was about the lost salmon exports, which ultimately did not have a major impact on the Norwegian salmon industry. Author interviews in Korea suggest that while economic coercion likely factored in Seoul's desire to improve relations with Beijing after the THAAD deployment, its goal of keeping China engaged to press North Korea to freeze and reverse its nuclear program was just as relevant.

Future Evolution of China's Use of Coercive Economic Measures

China is likely to expand its use of coercive economic measures in the near and medium term. The reasons for this will mostly track those that have motivated China to employ coercive economic measures with growing frequency over the past decade. Going forward, China's economy will only grow in relative strength—and with that so will Beijing's global economic leverage. In fact, even if China's clout in the financial system does not increase, its overseas lending and investment as part of initiatives such as BRI will give it further potential for economic coercion. Similarly, China and Xi's foreign policy assertiveness will also continue to grow, making Beijing less concerned about potential diplomatic blowback from its coercion. Finally, the domestic popular support associated with deployment of economic coercion is an ongoing dynamic that may become more prominent, with growing nationalist sentiment

encouraging the broader and more forceful use of these tools in the future.

The major building blocks and methodology of Beijing's coercive economic measures will likely remain stable over the next decade. The size of its economy will remain central to its coercion. China will also continue to use informal measures and selective implementation of regulation as its primary tools. Beijing is familiar with these tools, they offer China key advantages, and there is plenty of space for evolution in the criteria for use and scope of deployment to satisfy China's expanding global posture.

China appears unlikely to adopt U.S.-style financial sanctions.

However, there are also several additional coercive economic tools that China may deploy over the midterm. In mid-2017 China announced a draft Export Control Law that would significantly overhaul China's current ad hoc export control regime. China is likely to adopt it in 2018. While the Export Control Law is primarily designed to improve the regulation of sensitive exports, such as WMD-related and dual-use exports, the draft law also includes an authorization to impose export controls in response to foreign policy disputes.⁷⁸ China will probably use this law in implementing U.N.-backed trade restrictions and embargoes, and perhaps even in some of its unilateral coercive economic measures. With this law, China may again use export restrictions as a coercive economic measure if it can identify other cases where it controls a product that a target country needs and for which it cannot easily find an alternative supplier, and where Beijing faces manageable WTO and other trade remedy costs.

Notwithstanding its expanding legal authorities and comfort with declaratory and interventionist foreign policy forays, China appears unlikely to adopt U.S.-style financial sanctions. China's position in the international financial system remains relatively small and U.S.-style measures would require Beijing to formally, publicly embrace coercive economic measures, something it has been reluctant to do. (China could, however, adopt U.S.-style financial sanctions over the longer term as China becomes a more dominant player in international finance.) However, China could weaponize its capital controls in the context of a foreign policy dispute. Beijing typically requires companies seeking to move money out of China to first obtain authorization from the People's Bank of China or the State Administration of Foreign



The Belt and Road Initiative (BRI) is a globe-spanning set of projects that will likely give China additional economic leverage for coercion over the next decade. The 2017 Belt and Road Forum for International Cooperation brought together attendees from more than 130 countries. (Pool/Getty Images)

Exchange. These requirements have already periodically impaired Japanese and American companies' ability to receive payments from subsidiaries and joint ventures in China. So far, the impairments appear to be related to China's policy of slowing capital outflows rather than to foreign policy considerations.⁷⁹ In the future, China could deny requests to transfer payments from Chinese subsidiaries and joint ventures to their overseas parent companies as a coercive economic tool.

Though it has mostly refrained from using foreign policy-motivated restrictions on inbound and outbound investment to date, China may increasingly turn to such coercive economic measures going forward. It could expand on its practice of requiring that governments adhere to certain political conditions, such as supporting the "One China" policy, as a condition of receiving Chinese government loans and other assistance. As Chinese overseas direct investment by private Chinese companies and by Chinese SOEs grows, Beijing may expand the conditions attached to investment and threaten to curtail planned investments in countries that confront China with a foreign policy or diplomatic challenge. The suspension of loan talks in Mongolia after the Dalai Lama visit may point to greater use of this practice.

The importance of investment as a source of coercive economic leverage may increase as the Belt and Road Initiative expands China's global economic footprint. BRI will encompass roughly 70 countries⁸⁰ accounting for

over 60 percent of the world's population, 40 percent of global land area, and 32 percent of global GDP.⁸¹

BRI projects will give China further coercive economic leverage in several ways beyond simple political conditions attached to BRI project finance. Once a BRI project is under way, China may be able to defer loan disbursements or seek early repayment of loans as a coercive economic tool. Beijing's ability to do this will depend on the specific terms of BRI loans and on potential collateral impacts to China from using this leverage—e.g., withholding disbursement of a loan for a project being built by a Chinese infrastructure company could impose collateral economic costs on China. In general, the expanded global lending that China will engage in through the BRI will increase China's coercive economic leverage.

Additionally, China may gain economic leverage from operating BRI projects after their completion. For example, a Chinese company operating a BRI-built port might be able to modestly slow transit to send a coercive signal about China's control over a target country's trade flows. BRI may also provide the platform for Beijing to build a constricting set of international norms that may codify its leverage. China's proposed "BRI Courts" as the preferred dispute resolution mechanism for disputes with partner countries over BRI projects—as opposed to traditional international dispute resolution forums—suggest such a threat. The courts raise concerns that China will face few legal checks on the coercive use of BRI projects since disputes will be resolved in a parallel judicial system independent of the international arbitration system.

Finally, despite the suggestion by several commentators, including at least one Chinese general, China is unlikely to weaponize its holdings of U.S. debt as a potential coercive tool against the United States.⁸² As discussed above, China carefully weighs collateral costs when deciding to implement coercive economic measures. China's sudden sale of its holdings of U.S. debts, estimated to be worth more than \$1 trillion, would have significant collateral costs, including raising the value of the renminbi, devaluing the value of China's remaining U.S. holdings, and rattling investors. In addition, Chinese policymakers would expect the U.S. government to take steps to mitigate the impact of a Chinese fire sale of U.S. bond holdings, for example by directing the U.S. Federal Reserve bank to step in to purchase the bonds to stabilize the market.

Risks to China from Use of Coercive Economic Measures

In recent years, some commentators have argued that China's use of economic coercion is likely to be self-defeating. They argue that such activities undercut global perceptions of China and are likely to make China less popular in the very countries and regions where Beijing is seeking to expand its influence.⁸³ Commentators have also argued that countries can typically adapt to Chinese economic coercion and that while China may be able to impose short-term costs within the context of a specific diplomatic dispute, over the longer run China is likely to bear a significant cost from its use of economic coercion.⁸⁴

There is some evidence that China's generally more assertive posture in East Asia has hurt its regional perception. For example, the percentage of Japanese citizens who had a favorable view of China fell from 26 percent in 2009, before the 2010 Sino-Japanese Senkaku/Diaoyu dispute, to a low of 5 percent in 2013.⁸⁵ Similarly, in South Korea the percentage of citizens reporting a favorable view of China fell from 61 percent in 2015, before the Sino-Korean dispute over THAAD, to 34 percent in 2017.⁸⁶

These statistics indicate that, unsurprisingly, diplomatic disputes between China and its neighbors have hurt popular perceptions of China. However, publicly available survey data make it difficult to determine the role of China's coercive economic measures in affecting popular opinion of China isolated from the broader disputes that triggered Chinese economic coercion. In Japan, for example, favorable views toward China actually rose from 2010 to 2011, a period when attention was focused on China's rare earths export restrictions, before collapsing in 2012 and 2013. During this latter period, China does not appear to have engaged in new unilateral coercive economic measures. Instead, Beijing primarily responded to the renewed 2012 Senkaku/Diaoyu dispute through diplomatic pressure and the encouragement of popular anti-Japanese protests in China.

Even if the reputational costs are real, China appears increasingly unconcerned by them. To be sure, China continues to want to be seen as a responsible actor in both East Asia and around the world. In early 2018, China budgeted a 15 percent spending increase on diplomacy and "soft power."⁸⁷ Yet, China's increasingly assertive stands on issues from the South China Sea to its own domestic political repression clearly show that it is less

concerned about the negative diplomatic ramifications of economic coercion than it was some years ago.

In addition to potential reputational costs, China's use of coercive economic measures has also contributed to the plans of several countries to diversify their trade and business relationships to avoid perceived over-reliance on the Chinese market. Author interviews with officials in Taiwan, South Korea, and Japan, for example, indicated that concern about Chinese economic leverage is a factor in initiatives by all three to encourage trade and investment relationships with other countries.

However, the reality of China's economic size and expected pace of economic growth makes it highly likely that China's importance as a market—the core economic leverage China has been able to use coercively—will likely expand over both the near and medium term. Consequently, absent significant policy interventions, China's ability to use coercive economic measures will likely increase, despite national efforts to reduce economic dependency on China.

CHAPTER 3

China's Successes and Failures and the Future of Chinese Coercive Economic Measures

KEY TAKEAWAYS

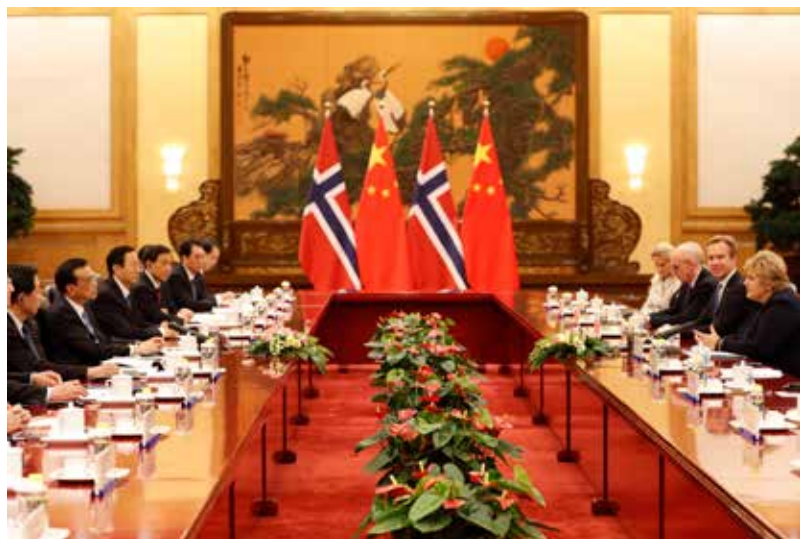
- China appears to have achieved several successes from its use of coercive economic measures. Even if the measures have had limited economic impact, they have served an important signaling function. China also appears to be learning across cases.
- The United States is virtually certain to face greater effects and constraints due to Chinese coercive economic measures in the future, even if the measures will remain primarily targeted against U.S. allies rather than directly against the United States or U.S. firms.

Ancedotal and qualitative analysis suggests that China has experienced multiple successes from its exercise of unilateral coercive economic measures, including asserting territorial and sovereign interests to both domestic and foreign audiences. Cases of targeted economic measures demonstrate that China can successfully use this toolset to help shape foreign political and corporate outcomes in its favor and to insert a consideration of, or deference to, Beijing's priorities in the minds of countries engaged in (or indeed those considering) foreign policy disputes with China.

Evaluating Accomplishments and Failures

China has achieved particular success in extracting public statements of contrition or other public deference to China in exchange for easing or terminating coercive economic measures. Norway, Mongolia, the Philippines, and corporations such as Marriott have all, to varying degrees, publicly expressed contrition as part of a diplomatic process intended to obtain relief from Chinese economic coercion.

China also appears to be successfully using coercive economic measures, along with its suite of other economic inducements and security, legal, and diplomatic measures, to obtain more meaningful concessions. While South Korea refused to remove the THAAD missile defense system, the diplomatic commitments that South Korea appears to have offered in late 2017 signal deference to Beijing's interests and could constrain future U.S.-South Korean military cooperation if the United States recommended installing another THAAD missile system.



China has been successful in extracting apologies from the countries it targets. Norway's public apology to China led to the resumption of salmon exports to China and restored diplomatic relations, with Prime Minister Erna Solberg later visiting Beijing in 2017. (Pool/Getty Images)

China's coercive economic measures have also proved effective when part of multilateral pressure campaigns. For example, China's embrace of multilateral measures against North Korea during 2017, including reductions in Chinese imports from North Korea and exports of fuel supplies to North Korea, likely reshaped Pyongyang's strategic outlook. They were among the factors motivating Pyongyang to seek negotiations with the United States in early 2018. Similarly, China's willingness to reduce its purchases of Iranian oil in 2012 and 2013 sent a powerful signal to Tehran that Iran could not count on Chinese support to resist the international pressure campaign. The decision likely contributed to Iran's willingness to agree to the Joint Comprehensive Plan of Action (JCPOA) in 2015.

Chinese accomplishment or success in the use of economic coercion has at least as much to do with shaping perceptions as exacting material, economic consequences. China has correctly perceived that it derives enormous power and indirect involvement in shaping decisionmaking among its neighbors and competitors when they believe that China will create economic consequences. That is, succeeding in creating the perception of China's economic dominance and its capacity to create economic consequences for entities that undermine China's interests is a very powerful source of Chinese leverage.

Tough rhetoric from China about its dominance—like then-Foreign Minister Yang Jiechi's 2010 statement

that “China is a big country and other countries are small countries, and that’s just a fact”⁸⁸—and the use of targeted coercion such as the cases examined in this paper appear to have shaped official and company-level decisions regarding engagement with China. South Korean and Taiwanese policymakers interviewed for this research project expressed resignation, or a sense of fatalism, about China’s influence over bilateral and regional economic activity. So too did a number of Japanese researchers and observers, although Japanese government officials assess that they are unlikely to face effective Chinese coercive economic pressure in the near term or midterm.⁸⁹ Other researchers have observed a version of the same sentiment, noting that China’s neighbors are paying close attention to the threat of Chinese economic coercion even if the macroeconomic impact of many of the cases has been relatively muted.⁹⁰

China approaches economic coercion in the manner of a laboratory for experimentation and with urgency for delivering successful outcomes.

To be sure, it is difficult to measure China’s own view of success in the use of coercive economic measures because Beijing has not publicly articulated criteria for such success. Moreover, China uses an array of tools of statecraft to advance its national interests, so it is difficult, and circumstance-specific, to isolate the success or failure of just the tool of coercive economics. Additionally, China’s national interests are expanding along with the expansion of its economic and political power, and it is likely that China’s own view of success is as dynamic as its political ambitions. Finally, some cases may be intentionally mislabeled as success by vested interests in China to reap nationalist support among domestic constituencies. For example, resumption of Chinese imports of Philippine bananas had more to do with the election of Duterte and his pro-Beijing, and anti-American, agenda than with Philippine capitulation in South China Sea politics. However, China benefits from a narrative of success over the trade interruption that demonstrates its influence in bringing an important neighbor into China’s sphere of influence and boosting China’s growing international prowess.

By contrast to these various success narratives around China’s use of economic coercion in the cases covered by this report, there is no prominent narrative of China’s

failure. Some analysts, as well as findings from author interviews, suggest an overreach or course correction on the part of China, as in its measured and incremental resumption of some economic and diplomatic activity with South Korea in 2018 after the THAAD case. Even when China did not coerce policy change or had to face international consequences for its coercion, as in the Japan rare earths case, most analyses nevertheless view this as a constructive learning experience for China. That is, they ascribe to it a measure of success. This may suggest that perceptions of China’s growing power, and belief—based on limited empirical evidence—in the potential for its successful use of economic coercion, are significant factors in evaluating China’s success or failure.

The most important lesson from the challenge of evaluating China’s success or failure in economic coercion may be that China approaches this statecraft in the manner of a laboratory for experimentation and with urgency for delivering successful outcomes. Formalization of coercive measures or articulation of the steps in a ladder of escalation, which could lead to a more rigorous evaluation of success and failure, does not appear to be China’s focus of development in this area. Nor does China appear to be signaling that it has a specific aperture for target interests, aiming only at near-neighbors or certain economic sectors. In short, China is not tracking a recognizable model for economic deterrence policy or the development of formal principles to guide the evolution and assure success of its coercive economic statecraft. There is no doubt that China’s execution of economic coercion will look different and perhaps incomplete by comparison to more conventional models and that it does not fit neatly into the strategies for evaluating (however imperfectly) economic coercion exercised by the United States and others.

Implications for the United States

China’s use of economic coercion has important implications for the United States now and is likely to be even more significant over the next five to 10 years. Many analysts have pointed out how China’s efforts to bully its neighbors with a show of force and expansionist territorial claims have the effect of degrading U.S. strength abroad and undermining U.S. national interests. This is also true in the economic realm when China delivers economic blows against foreign firms and governments. This directly undermines the economic strength of U.S. allies, as well as the norms of relatively free and unencumbered trade among countries.

Even if China generally refrains from targeting coercive economic measures directly at the United States, China can shape the actions of U.S. allies and individual international and U.S. corporations in ways that adversely impact U.S. interests. For example, Asian countries considering closer military relationships with Washington over the next several years are virtually certain to weigh China's coercive economic measures against South Korea after the THAAD deployment. These countries will have to assess whether they want to bear potential economic costs from China as a price of cooperating with the United States. Even when countries choose to pursue closer U.S. security relationships despite the potential costs (as many will), they will likely factor the possibility of Chinese economic coercion into decisions about the timing and nature of specific defense cooperation. These countries may even begin to expect assurances from the United States of compensation if they are targeted by Beijing, raising costs for Washington's security relationships.

Similarly, Chinese economic coercion might affect the decisionmaking process of individual companies. Already, corporations regularly make internal calculations about how strongly to oppose Beijing's economic policies out of concern over Chinese economic coercion. Companies may increasingly consider the potential for such coercive measures when deciding whether to align themselves, or not, with U.S. interests that run counter to Beijing's. For example, should Beijing decide to take



China has shown its ability to target politically salient constituencies abroad. In its response to U.S. tariffs, Beijing may target states that supported President Donald Trump in 2016, for example by imposing costs on soybean farms in South Dakota. (Scott Olson/Getty Images)

a harder line on Taiwan and discourage international investment on the island, many U.S. companies would likely quietly comply in order to maintain access to the Chinese market.

Given that Beijing is already showing signs of learning from and improving its use of coercive economic measures, over time it is likely to improve its ability to direct and coordinate coercive economic measures with other Chinese economic inducements, or security and diplomatic moves, to shape and influence the decisions of competitors. The South Korea case, where China attacked major corporate players, throttled tourism, and used regulatory maneuvers to weaken Korean exporters, is perhaps the best indication that China will deploy economic pressure on an array of foreign commercial interests, including those close to foreign political elites, and simultaneously limit diplomatic connectivity and escalate the trading of political barbs. China will also likely refine its leveraging of the local political situation to maximize its effect. Already in the South Korea case, China capitalized on the tumultuous domestic situation by making the most of the lame-duck period and impeachment proceedings against President Park Geun-hye and the transition period for President Moon Jae-in.

In the future, China will use its many economic advantages to improve its ability to narrow its targets to the company or institution level, and also apply economic pressure to broader economic sectors and foreign jurisdictions. Beijing will also likely be able to better target



Having witnessed the costs borne by international corporations such as Daimler, the owner of this factory, U.S. corporations may increasingly weigh the potential for Chinese economic coercion when deciding whether to support U.S. foreign policy. (Thomas Niedermueller/Getty Images)

politically salient constituencies abroad, including in the United States. This will no doubt occur around major political decision points, such as elections, or economic milestones, such as trade agreements or investment reviews. For example, in the trade dispute context, China responded to the U.S. administration's 2018 tariffs by targeting products from states that supported Trump in the presidential election.⁹¹ Not only will this Chinese activity continue to influence U.S. corporate decisions, investment trends, and trading activity; there is little doubt it will also influence governance structures.

The United States has several specific economic leverage points that China does not look likely to appropriate or undermine over the next generation.

China's ability to use painful economic measures to advance its core political interests is not limitless and will of course vary depending on the trajectory of the Chinese economy. Should China's economy slow down significantly, Beijing would obviously have somewhat fewer economic levers to use to coerce foreign competitors and persuade its domestic population of its success on the international stage. Nevertheless, given the linkages between China's domestic politics and its use of coercive economic measures, there would be a risk that a weaker China would actually become more aggressive as a way of distracting its citizens from domestic economic problems. That is, an economically weaker China could become more interested and willing to use available coercive levers.

The United States has several specific economic leverage points that China does not look likely to appropriate or undermine over the next generation. This means that the United States will not be powerless, at least in a theoretical sense, to respond in kind to Chinese economic bullying or to create consequences. For example, the United States has escalation-dominance, or clear economic leverage, when it comes to secure and attractive financial markets and currency, and as an engine of creative and disruptive technology innovation. The U.S. dollar is the dominant global currency. Today, the dollar leads in share of global reserves (64 percent), global investment (59 percent of international loans), and global payments (42 percent of all international payments).⁹² This dominance of the U.S. dollar means

U.S. financial jurisdiction is enormous and its size and flexibility will not be easily reduced.

The U.S. role as regulator of the central global financial node will also give it leverage over China. In order to integrate Chinese companies into the global financial system, U.S. regulators have granted them leeway and exemptions in complying with accepted standards. For example, the Securities Exchange Commission (SEC) has lowered auditing transparency standards for Chinese companies listed on U.S. securities exchanges. U.S. efforts to increase transparency and the integrity of its financial system could also offer leverage over China to counter coercion.⁹³

The United States will have to cultivate its advantages for them to continue to give Washington strength and leverage to act in the international arena, including as a check on China. These U.S. economic advantages also form the muscle of the United States' own economic coercive policy that it will likely seek to use against China in the future, from sanctions to limitations on trade and investment. Finally, it confers authority to the United States to form and defend international economic norms that can be used to counter some of China's illiberal economic aims.

Clearly, the United States needs a sophisticated apparatus to track, understand, and draw attention to China's economic coercion, along with its other threatening foreign influence-shaping activities. To date, tracking this activity has been far too limited in U.S. analytical and policy planning circles. It has been insufficiently coordinated within the U.S. government and alarmingly absent from highest-level diplomatic engagement between the United States and its allies.⁹⁴

Beijing has many more decision points in the future on the kind of global economic actor it will be. It will inevitably struggle with the tension of whether to advance policies, and the public impression, of being a free and fair trader, or whether it seeks to shun and coerce its economic partners for what it sees as political misdeeds. Xi's actions support both views. On the one hand, he has presented himself as a staunch defender of globalization, as he did in his 2017 Davos speech when he said that "China will vigorously foster an external environment for opening-up for common development."⁹⁵ On the other hand, Xi has indicated that "[the Party] should make national security its top priority"; he has emphasized the importance of preserving Communist Party rule; and he has shifted away from an "economics-first" approach.⁹⁶ China is embarrassed by accusations of its economic meddling and is undercut internationally when its arbitrary rules and nontransparent financial practices

are laid bare. China wants to be respected and cultivate a strong positive reputation internationally.⁹⁷

The United States has an opportunity to shape and influence Chinese policy by playing on negative public impressions of China's economic system and the ill effects of its use of economic coercion. But Washington is on its back foot when it comes to pushback.

Understanding China's economic coercion of the future is the first step toward a response strategy. To be sure, China is likely to take unconventional and unprecedented steps in its future uses of economic coercion. These developments will make a full and definitive reckoning with Chinese economic coercion more difficult. The past is most certainly not prologue. Yet, frustration and concern should not translate into blunt or punitive U.S. responses. Hampering China's economic activity without a clear strategy or set of desired policy outcomes would be needlessly antagonistic and unproductive. It would not serve U.S. interests to overplay its hand with China around political goals or inadvertently escalate the trading of economic barbs given the damage to U.S. economic interests involved in any strike at a trading partner in a multipolar global economy.

Understanding China's economic coercion of the future is the first step toward a response strategy.

Setting aside these potential missteps, there are options. In fact, the most meaningful boundary in a strategy to limit China's use of economic coercion is one that the United States imposes on itself—that is, a limited capacity for a busy U.S. administration to elevate the focus and attention on Chinese economic (and other forms of) coercion and to develop an effective response. Finding time for busy U.S. policymakers, who for the last year have primarily seen China through the lens of North Korea and the looming U.S.-China trade war, will be a difficult challenge. But if the United States does not overcome these challenges it will miss the chance not just to blunt the effects of Chinese economic coercion, but to influence Beijing's ability to exercise it in the first place.



China's importance in addressing other U.S. policy priorities, such as its role as an intermediary in the North Korean nuclear negotiations, as seen in President Xi Jinping's bilateral meetings with Kim Jong Un pictured here, has diverted U.S. policymakers' focus from countering Beijing's economic coercion. (Chung Sung-Jun/Getty Images)

CHAPTER 4

Recommendations and Conclusion

KEY TAKEAWAYS

- The Trump administration, Congress, and outside experts should focus greater attention on China's use of coercive economic measures by increasing research on and awareness of China's activities, sharing information, and supporting awareness-raising campaigns.
- The Trump administration should also develop trade policy remedies and other tools to more concretely build resilience to Chinese coercive economic measures.
- Private-sector stakeholders should examine their vulnerabilities and take steps to increase their resilience to potential Chinese economic coercion.

U.S. policymakers should embrace several core principles for understanding Chinese economic coercion and framing policy responses to this activity. The immediate priority should be additional monitoring, public disclosure, and international coordination related to China's use of economic coercion. Conducting this work is a matter of core U.S. national interest and is the basis to balancing a global challenger intent on detracting from U.S. global influence and freedom of action. Administration and congressional leaders both have a role to play, as do private-sector executives. Collectively, their measures can reduce U.S. vulnerabilities and create vulnerabilities for China, limiting Beijing's scope for economic coercion. The measures can also serve to support resilience of the U.S. economy, and indeed the resilience of the liberal norms that the United States uses as models for global economic engagement.

There is no realistic way to halt and reverse China's expansive campaign to shape decisions of competitors and its use of economic coercion to do so. However, cultivating a broad understanding of this activity and deepening the costs for China of engaging in it can signal to Beijing and the rest of the world that China will not be allowed to proceed with economic coercion unchecked.

Recommendations for the Trump Administration

The first, most important step of understanding China's economic coercion is for the Trump administration to undertake a broad-scale mapping of examples and share

such information with allies. To the greatest extent possible this should be a transparent activity. The United States and partners should endeavor to publicly disclose findings in a concerted public messaging campaign and not let China's erosion of liberal economic norms go unchallenged. Against the backdrop of this public information campaign the United States can begin to shape a concerted and coordinated policy response. Specific recommendations are:

1. **Task a high-level White House official with coordinating a response to Chinese economic coercion and include this topic in the U.S. National Security Council's (NSC's) ongoing China policy review.** The NSC has, over the last year, conducted extensive work on China, particularly in preparation for increased trade measures on China such as the "Section 301" action focused on Chinese intellectual property theft announced in early 2018. The NSC should assign a senior White House official, potentially the deputy national security advisor for international economics, the responsibility for developing a comprehensive strategy to address China's economic coercion and incorporating this response into the NSC's China policy process.
2. **Initiate and publish broad new U.S. government research projects.** The U.S. intelligence community should initiate a classified National Intelligence Estimate on China's use of economic statecraft to advance its core national interests, including use of coercive economic measures. This should track points of pressure China holds over neighboring countries, and over the United States, and specific vulnerabilities. The U.S. intelligence community should also initiate a long-term study of Chinese strategies for closing Chinese markets to U.S. firms, and via economic pressure on U.S. companies, how much political pressure such closures could have on U.S. decisionmakers.

A prominent goal of the government-led research should be to build an analytical model of Chinese economic coercion. The administration can collaborate with independent groups and collect public data as part of this exercise. The U.S.-China Security and Economic Review Commission study on Chinese retaliation to THAAD offers a valuable example of such work. This effort should be ongoing and not merely focused on a study of Chinese bilateral

relationships. Instead, it should be part of a discrete body of work isolating the phenomenon of Chinese economic coercion in manifestations across the world.

To the greatest extent practical, the Trump administration should summarize its internal research into a published, annual, public report on China's economic statecraft, including coercive measures. This should be published around the U.S.-China Comprehensive Economic Dialogue to draw high-level attention to China's economic activity, including lack of transparency, economic inefficiency, and arbitrary health and safety and phytosanitary decisions, in this venerable forum.

3. **Develop a Chinese economic statecraft intelligence focus.** The intelligence community should expand its ongoing work on China to create a cross-agency group to study Chinese economic statecraft. A primary goal of this group should be operational analysis of economic coercion and scenario planning or war-gaming possible future instances of Chinese economic coercion significant to U.S. interests.

By deepening trade ties between the United States and countries vulnerable to Chinese economic coercion, the United States can offer an important alternative market.

4. **Initiate an international information-sharing and coordination process.** The Trump administration should initiate a formal information-sharing and coordination mechanism with close security partners to gather data on Chinese use of economic coercion and predatory investment or commercial activity. This should include annual ministerial-level meetings, including joint press briefings, and contribute to a multilateral, coordinated process to review Chinese investments in critical economic and defense sectors abroad. Through these initiatives, the United States and allies will build a shared understanding of Chinese economic coercion and a "template" order of response usable by any country. The coordination mechanism should also explore creating an escalation ladder response to Chinese

economic coercion to ensure faster response and greater consensus among partners during a crisis.

5. **Gather company-level data in the field.** U.S. embassies in East Asia should adopt similar methodologies for gathering data on localized instances of Chinese economic coercion and broader tools of this statecraft, including survey outreach at the small- and medium-enterprise firm level and specifically in the tourism industry. The embassies should publish survey comments and data on an array of bilateral commercial activity with China, as well as cases of economic coercion. The data could include: model contracts offered by Chinese partners (with a focus on national security exceptions) and instances of trade and business disruption caused by Chinese regulators or commercial operators.
6. **Explore trade policy remedies to Chinese economic coercion.** There are several ways the Trump administration could use trade policy to build resilience against Chinese economic coercion. By deepening trade ties between the United States and countries vulnerable to Chinese economic coercion, the United States can offer an important alternative market. Also, over time, the United States can use trade policy to encourage the development of global supply chains and other trading flows and relationships in ways that reduce Chinese economic leverage. Moreover, in certain cases WTO and other trade policy remedies can be used to challenge Chinese coercive economic measures, though the structure of many Chinese measures can make WTO challenges relatively difficult.

With respect to bilateral and multilateral trade discussions, including with Asian countries and the European Union, the Trump administration should incorporate measures to build resilience against Chinese economic coercion.

7. **Incorporate strategies to counter economic coercion into regional policy and political engagements.** The NSC should ensure that resilience and countercoercion measures are part of broader U.S. regional and country strategies, particularly for countries bordering the South China Sea and other maritime areas significant to China's projection of sovereignty. The United States should also develop, and share with partners, a substitutability review process to evaluate how to adapt supply

chains in key sectors (contingent on the country) in the case of coercion.⁹⁸ To prevent these analyses from becoming obsolete, reviews should be updated at three-year intervals.

8. Work with allies that are negotiating their own trade agreements with China. The Office of the U.S. Trade Representative and the U.S. Treasury Department should offer to work closely with countries that are negotiating free-trade agreements with China to discuss strategy and external support, and to help them develop legal remedies within the trade agreements that targeted companies and governments could use to fight back against future Chinese economic coercion. For example, South Korea is planning to negotiate an investment and services chapter in its trade agreement with China this year, and South Korea may be able to press for provisions that would enable South Korean companies targeted in the future by Chinese coercive economic measures to challenge the application of those measures before a neutral arbitral panel.

9. Embrace digitization technology as a strategy for securing and diversifying trade. Lack of transparency in global trade data inhibits the full understanding of trade flows and increases the potential for China to use informal trade measures to coerce smaller trading partners, escape detection, and plausibly deny economic coercion. U.S. government officials, in particular in the U.S. Department of the Treasury, should work with East Asian allies who engage in significant trade with China, as well as the private sector active in the United States and East Asia, to establish a dialogue on digitizing trade technology, with special focus on e-records for custom documents and trade finance instruments. This dialogue should seek to bring security leaders and trade regulators on the same page about the use of this technology to understand supply chain and logistics facilitation, and to track contracts and transactions. This constituency should also seek to support broad adoption of such technologies for transparency and coordination around unfair or arbitrary Chinese trade activity. Better data collected through these processes may additionally bolster potential use of the WTO as a recourse mechanism.

10. Encourage countries worldwide to lower regulatory requirements for inbound tourists. The State Department economic section of embassies



Close coordination and information sharing with regional partners, including major economic hubs like Singapore that could be the victim of coercion in the future, will be key to monitoring Chinese conduct going forward. President Donald Trump meets Prime Minister Lee Hsien Loong of Singapore. (Pool/Getty Images)

in countries in China's periphery should encourage host countries to proactively diversify the sources of their tourism by lowering visa requirements for short-term visits to the country or raising the "maximum days" cutoff for a visa exemption.

11. Use the closing of SEC regulatory loopholes, currently exploited by Chinese companies, to counter coercion. China has been wary of giving transparency into its auditing practices to U.S. regulators. Yet, U.S. regulators have allowed Chinese companies to list on U.S. securities exchanges even with this diminished oversight and transparency. The United States should use efforts to increase transparency in auditing these Chinese companies as leverage to counter coercion.⁹⁹ Specifically, the SEC should ensure that either Chinese companies fall in line and submit to the same auditing transparency standards as other countries or risk being barred from listing on U.S. securities exchanges. The administration should consider directing the SEC to require the limitation in scope of activities, or even full delisting, for U.S.-listed Chinese companies that do not comply with U.S. auditing rules.

12. Launch a high-level public messaging campaign. The U.S. treasury secretary should speak publicly about the phenomenon of Chinese economic coercion, including when U.S. firms or leaders appear to be forced into bending to Chinese

objectives. The treasury secretary should signal to U.S. firms and the Chinese government that the United States will not look away if and when China seeks to coerce these firms into specific statements or business decisions.

Recommendations for Congress

Congress should also play an important role in bringing attention to Chinese economic coercion and developing a U.S. policy response. Specifically, Congress should:

1. **Use hearings and other mechanisms to draw attention to Chinese economic coercion.** Congress should hold hearings to give a platform to independent experts and the U.S. administration to discuss the implications of Chinese economic coercion to the United States and draw attention to the issue and to encourage executive-branch action to address the threat. These hearings should be educational and cultivate U.S. policy focus on a high-level security concern. Congress may seek to pursue legislation in the future to bolster or complement administration efforts to promote U.S. economic resiliency, including U.S. technology and financial services innovation. Additionally, Congress should order its Congressional Research Service to publish a survey of Chinese economic coercion, which should be made publicly available.
2. **Encourage robust U.S. involvement in responding to cases of Chinese economic coercion.** The United States has taken a relatively muted response to several of the recent instances of Chinese economic coercion, including the South Korea, Taiwan, and Mongolia cases. A more forceful U.S. diplomatic response might have helped deter some of the Chinese actions and, at the very least, would have increased the cost to China of its economic coercion. Congress should press the Trump administration to respond more aggressively to instances of Chinese economic coercion, including through more concerted collaboration with allied countries to formulate joint messaging or trade remedy measures.
3. **Explore the creation of and appropriation for a U.S. fund to compensate allies and companies for costs imposed by Chinese coercion.** Congress should study how to appropriate funds for a vehicle to compensate countries and companies affected by Chinese coercion. In particular, it should explore how to create parameters to ensure the quick and

flexible disbursement of funds to companies such as Lotte Group in South Korea that find themselves targeted by Beijing. Building on efforts to create a unified understanding of Chinese economic coercion with allies, Congress should also explore how to pool these funds with international partners and should use cooperation among the so-called Quad countries—the United States, Australia, Japan, and India—as an initial pooling step. Congress should study the example of the International Energy Agency, created to respond to efforts to use crude oil exports for coercive purposes, and should consider using proceeds from tariffs imposed on China or from other trade remedies as sources of funding for the proposed mechanism.

4. **Foster U.S. leadership in critical U.S. economic sectors.** U.S. leadership in transformation technologies will insulate the country from Chinese economic coercion by making the United States a key participant in international cross-border supply chains and therefore difficult for China to target with coercion. Congress should engage in targeted regulatory reform to stimulate U.S. primacy in key economic sectors. Congress should hear testimony and request strategy documents from U.S. regulatory bodies to consider tax holidays, or streamlined regulatory processes, for critical technology and financial services startup companies to stimulate their development and continued presence in the United States. Officials should focus near-term emphasis on supporting semiconductor, vehicle and industrial battery storage technology, and blockchain-based financial technology developments, among others. Investing in these sectors, where China is seeking to develop globally dominant “national champion” companies, will help reduce future Chinese coercive economic leverage.

Furthermore, Congress should appropriate and authorize funds for a block grant program to provide startup capital for new businesses, or existing businesses seeking to significantly restructure, with innovative ideas in the technology, financial services, logistics, or other strategic economic sectors. This should specifically seek to support digitization technologies in the shipping, logistics, trading, contracting, and financial services sectors, including using blockchain technology.

- 5. Explore ways to strengthen U.S. anti-boycott statutes.** The United States first enacted an anti-boycott statute in the 1970s to deter U.S. companies from participating in the Arab embargo against Israel, and under current regulations administered by the Commerce Department and the Treasury Department, U.S. companies can face penalties if they comply with certain foreign-sponsored boycotts. However, these regulations have not been modernized in many years, and compliance with the regulations typically continues to focus heavily on issues related to possible boycotts of Israel.¹⁰⁰ Congress and the administration should explore ways to strengthen and modernize U.S. anti-boycott laws to ensure that U.S. companies can cite U.S. law as a basis for refusing to comply with Chinese coercive economic measures against third countries, such as Taiwan and South Korea.

Recommendations for the Private Sector and Nongovernmental Organizations (NGOs)

Private companies and NGOs have a role to play in building resiliency in supply chains and markets and in supporting additional research and awareness on this topic. Specific recommendations for the private sector and NGOs are:

- 1. Private multinational companies should ensure that they are not overly reliant on Chinese suppliers or on the Chinese market.** U.S. and international companies should understand the risks they face from Chinese economic coercion and should work to ensure that they have resilient supply chains and markets if targeted by Chinese economic coercion. Trade associations and chambers of commerce can take a leadership role on this, and companies should work closely with U.S. government officials to discuss and catalog specific vulnerable goods and services. Private-sector leaders should take an active role in educating U.S. government leaders about their experience with perceived Chinese economic coercion and ideas for coordination with the government on resiliency measures.
- 2. Support additional research.** Addressing Chinese economic coercion will be a long-term, labor-intensive undertaking. Foundations and NGOs in the United States should complement governmental efforts to analyze Chinese economic coercion by supporting additional outside research into Chinese coercive economic statecraft. NGOs, specifically

including think tanks and academic institutions, may be particularly well-placed to evaluate Chinese public opinion about the use of Chinese economic coercion.

Conclusion

The next chapter of Chinese economic coercion will be highly dynamic and present fresh challenges and implications for the United States that surely are difficult to conceive of at this point. China's points of leverage and the core national interests it will serve to advance with use of these tools will rapidly expand.

Though this paper is dedicated to the analysis of China's use of a subset of coercive economic tools, it is premised by the assumption that China seeks to intersperse them with economic inducements and additional, noneconomic measures. This most discrete set of punitive economic instruments is now, and in the future will be, only one subset of China's economic shaping activities. They may be some of the most headline-grabbing policy measures, but scholars of the array of Chinese economic inducements may observe that they are not the majority of China's tools in the economic statecraft arena, nor ultimately the most pervasive and powerful.

China seeks to intersperse coercive economic measures with economic inducements and additional, non-economic measures.

In responding to China's economic shaping activities, including economic coercion, to influence its foreign competitors, the United States will be best served by focusing on rigorous, constant monitoring and evaluation and regular public disclosure of examples. Close international coordination and information sharing are important parts of this monitoring. It may also place some limits on what is now a relatively permissive environment for China to exercise economic coercion, thereby discouraging China from proceeding with more such measures.

The collectors and analysts considering this data have their work cut out for them, pursuing an array of issues discussed throughout this report. They may consider questions about the future of China's economic coercion, including: Is there an economic inflection point, such as loss of comparative advantage in a high-tech sector, after which China's neighbors or others will lose resiliency against Chinese economic coercion? Will a potentially

weaker China of the future be more or less likely to use economic coercion and more aggressive actions toward even bigger targets, such the biggest global companies and U.S. government entities? How significant will China's private sector be as a lobbyist against Beijing's use of economic coercion toward foreign firms, which may serve to undercut the commercial options for Chinese firms abroad? Will China create a version of its social credit system to rate U.S. companies and businesses on their friendliness to China, as an economic coercion strategy? Will fears of losing access to the Chinese market encourage U.S. companies to mount a strong lobbying campaign against U.S. attempts to counter Chinese economic coercion?

It will be fundamentally inadequate for the United States to merely track China's coercion, including economic coercion, and publicize it as a strategy for deterrence.

Policymakers will also have to consider questions about potential medium- and long-term responses to China, including: How many costs can the U.S. government's campaign against economic coercion impose on U.S. companies before they reduce their investment in the United States? What role can trade agreements play in responding to Beijing's economic coercion? Can international organization such as the WTO be a useful tool in responding to coercion? What mitigation policies can the United States embrace to limit the threat of China's measures?

The full development of a strategy to counter Chinese foreign policy shaping and coercion, including its economic coercion mechanisms, is beyond the scope of this paper. It surely involves U.S. economic measures, as well as legal, security, diplomatic, and technology measures, and must be a highest-level, whole-of-government enterprise. It must furthermore be oriented not just toward China's foreign targets but also its domestic constituency, which is also subject to Chinese economic coercion and whose support is necessary to the execution of Chinese foreign policy coercion. Moreover, a strategy should seek to use the leverage the United States holds with respect to China in the direct diplomatic process the United States is launching with North Korea.

It will be fundamentally inadequate for the United States to merely track China's coercion, including

economic coercion, and publicize it as a strategy for deterrence. Development of a holistic U.S. policy response will be an important task of the near term and is urgently needed. Independent scholars and strategic planners within government all have a role to play and to address one of the most prominent and significant security and economic issues of the present great-power competition.

ANNEX

Case Studies of Recent Instances of Chinese Economic Coercion over the Last Decade

Japanese Maritime Dispute, 2010–2012

The tension between Japan and China flared up in September 2010 after a Chinese trawler collided with a Japanese coast guard patrol boat in the disputed Senkaku/Diaoyu island chain. In response, Japan detained the skipper of the ship over Chinese protests. At the time of the incident, China had already cut rare earths export quotas by 72 percent for the second half of 2010, citing environmental concerns.¹⁰¹ After the detention, Beijing began to halt rare earths exports to Japan at the port, and Japanese companies complained about lack of access to this resource. At the time, China controlled 97 percent of the world's basic rare earth oxide production and a significant portion of the processing capability.¹⁰²

Japan reacted swiftly to the supply cut, acting both unilaterally and in coordination with global partners. The government approved a \$1 billion budget to adapt to the reduced Chinese export quota. The funds supported measures to reduce rare earths usage, develop new supply globally, and find replacement materials. Japanese officials estimate they achieved a 50 percent reduction in rare earths usage in the first six months of their response.

Crucially, Japanese officials argue that the appropriated funds, combined with frequent interface with affected companies, created a united front between the Japanese public and private sectors. This collaboration ensured buy-in from companies that were initially skeptical of the multilateral—and confrontational—response to Beijing. Throughout the crisis, Japan worked closely with the U.S. Department of Defense, the U.S. Department of Energy, and the U.S. trade representative, as well as with trade policymakers from the European Union (EU). Together, they developed initiatives to diversify supply and seek legal recourse against China. The most notable of the efforts to confront China was the cooperation among Japan, the United States, and the EU that resulted in a case against Chinese quotas at the World Trade Organization (WTO), which the challengers won in 2014.

Japan reacted swiftly to the supply cut, acting both unilaterally and in coordination with global partners.

The swift Japanese response combined with international cooperation appears to have deterred China somewhat from repeating the same extensive coercion attempts against Japan. In July 2012, the Senkaku/

Diaoyu issue flared up again when Japanese Prime Minister Yoshihiko Noda announced the government's plans to buy the disputed islands from a private owner. Although the move would not necessarily have resulted in their change in ownership under international law, China warned Japan that it would treat the transaction as a change in the status quo. In response to the 2012 flare-up, China spurred popular boycotts that caused targeted Japanese companies such as Panasonic to suffer about \$120 million in property damage and Japanese carmakers including Toyota to experience a 40 percent to 50 percent decline in sales.¹⁰³ Though Beijing may well have encouraged, or at the very least acquiesced to, the anti-Japanese demonstrations, it was a more oblique response compared with 2010. The 2012 response appeared to be an indication of China's return to its traditional tactic of boycotts rather than its new coercive approach. In fact, the 2012 events were more similar to the 2005 protest when, angered by Tokyo's attempts to become a permanent member of the U.N. Security Council, Chinese protesters took to the streets and called for boycotts against Japanese goods.¹⁰⁴

Norwegian Nobel Prize Dispute, 2010–2016

In 2010, China retaliated against Norway for awarding the Nobel Peace Prize to dissident Liu Xiaobo. There was a precedent for Beijing's action. In 1989, China threatened Norway for giving the prize to the Dalai Lama. After the 2010 Nobel announcement, Chinese officials called the award an infringement on China's "legal sovereignty."¹⁰⁵ China then embarked on a series of punitive measures against the Scandinavian country, including suspending diplomatic relations and free-trade agreement negotiations. China leveraged both regional and national regulatory entities to hit the Norwegian salmon industry. The Beijing Capital Airport Entry-Exit Inspection and Quarantine Bureau issued a notice calling for better inspections of Norwegian salmon.¹⁰⁶ Then, China's Central Office of Quality Supervision, Inspection, and Quarantine issued a notice on better inspections more generally. Though the latter circular did not specifically target Norway, Chinese importers have suggested that was the aim.¹⁰⁷ A survey found that officials checked all Norwegian imports compared with sporadic checks on other importers, leading to import lags of up to 20 days. Stakeholders polled in the same survey also believed that China approved lower import volumes from Norway, leading to regulatory hurdles for importers who wanted to increase their share.¹⁰⁸

As in the Japan rare earths case, the formal nature of the Chinese directives opened an avenue for recourse.

Norway twice asked for clarification on the central government directive at the WTO in 2011 and 2013 (without result).¹⁰⁹

The drop-off in China's Norwegian salmon imports was drastic. In 2010, Norway accounted for 94 percent of China's salmon imports. That fell to 37 percent in 2011. After a brief 2012 uptick, Norway was on average the source of just 16 percent of China's aggregate imported salmon between 2013 and 2016.¹¹⁰ Notwithstanding the tension, Chinese pressure was uneven. China did not close all avenues for salmon imports. A study has pointed to the possibility that Norway simply rerouted its exports to China through Vietnam.¹¹¹ Moreover, while China targeted the salmon sector directly, overall trade between the two countries improved during the coercion campaign.¹¹²

The economic coercion, coupled with the extended diplomatic cutoff, eventually resulted in a rapprochement between Oslo and Beijing. However, Norway could not undo a prize already conferred, so the Chinese campaign does not appear to have been directed at a discrete change of policy. Instead, the retaliation was primarily punitive—imposing economic costs on specific sectors and creating obstacles to diplomatic engagement to deter Norway and ensure public repentance. Initially, China also requested a secret “nonpaper” with a more strongly worded apology, but then-Prime Minister Jens Stoltenberg denied the request as at odds with Norwegian foreign policy.¹¹³

In its rapprochement with Norway, China achieved both its deterrent and public apology objectives. In 2014, Norwegian officials declined to meet the Dalai Lama.¹¹⁴ When the two countries normalized relations in 2016, China obtained a formal, public apology. Norway acknowledged China's “sovereignty” and “core interests,” while Beijing hoped that Oslo had “deeply reflected” on how it had harmed mutual trust.¹¹⁵ The salmon trade resumed. Upon Liu's death in July 2017, Norway's more muted statement compared to its European neighbors', could be viewed as a sign of the continuing deterrent value of the Chinese policy. A few weeks later, the countries revealed progress in their free-trade agreement negotiations.¹¹⁶ By December 2017, weekly salmon exports to China had jumped 262 percent year over year.¹¹⁷

Philippines Maritime Dispute, 2012–2016

Beijing used economic coercion against the Philippines over the disputed Scarborough Shoal in the South China Sea between 2012 and 2016. Beijing claims the disputed shoal as historically part of its domain and has employed

many tools to assert its claim. China used economic coercion by applying additional sanitary controls on Filipino agricultural exports, throttling the trade between the two countries. It also used harder security measures such as sending Chinese vessels to protect Chinese fishermen and blocking access to Filipino fishing boats.¹¹⁸ China eventually ended its campaign when it found a more cooperative Filipino leader in President Rodrigo Duterte.

China began applying increased controls over Filipino bananas out of alleged sanitary concerns in late March 2012. This move predated the April 2012 flare-up in the dispute caused by a naval standoff between the two countries. After the April confrontation, the Chinese quarantine authority issued a circular on inspecting Filipino shipments. At the time, China accounted for 14 percent of the Philippines' exports, making it its third-largest market¹¹⁹ and one of its largest banana buyers.¹²⁰ As with Norwegian salmon, China subjected the Filipino banana imports to tougher sanitary screening requirements. It also refused to accept certifications from quarantine authorities in Manila, often resulting in bananas rotting in port. Estimates of the action's impact on Filipino banana exports to China offer a range of estimates of the consequences, from a drop of around 30 percent in exports to even a small increase in profits.¹²¹ China also imposed additional controls on other Filipino agricultural exports.¹²²

The initial experience with economic coercion in 2012 did not convince Manila to abandon its South China Sea claims. Instead, the Philippines continued pressing



Chinese tourism to the Philippines declined dramatically after the flaring up of tensions over the disputed Scarborough Shoal. Pictured above, Filipino exhibitors promote the destination at the Beijing International Tourism Expo. (China Photos/Getty Images)

its claims before an international tribunal under the U.N. Convention on the Law of the Sea. In response, Beijing returned to coercion. In the lead-up to the ruling, Filipino banana exports to China fell in 2015 and further in 2016.¹²³ In addition to the banana restrictions, the Philippines has also experienced the swings in Chinese tourism—particularly package tourism—that affected other Asian targets of coercion. In 2012, the China National Tourism Administration suspended air travel to the Philippines.¹²⁴ The pattern repeated itself after the Permanent Court of Arbitration ruled in favor of the Philippines' claim in the South China Sea in 2016. In the month after the decision, arrivals from China fell by 20 percent, month over month, as a result of Chinese tour group cancellations.¹²⁵

It took the election of Duterte and his turn away from Washington and toward Beijing to end China's economic coercion campaign. After Chinese President Xi Jinping and Duterte met in late 2016 and the Filipino president announced a "separation" from the United States, banana exports increased by 30 percent in 2017. Tourism also soared, increasing by 43 percent in 2017.¹²⁶ Concurrently with the announcement, China offered other carrots, including major trade and investment deals.

It took the election of Duterte and his turn away from Washington and toward Beijing to end China's economic coercion campaign.

Iran's Nuclear Weapons Program, 2006–2016

Beijing supported multiple U.N. Security Council resolutions against Iran after 2006, in contrast to its opposition in the U.N. to other sanctions programs, including its vetoes on sanctions against Myanmar, Zimbabwe, and Syria. At the same time, even after passing such measures, China distanced itself from the international effort. During the first three rounds of sanctions in 2006, 2008, and 2010, China increased its economic ties with the country.¹²⁷ Throughout the span of the sanctions regime, Chinese officials emphasized the need for diplomacy while pushing back against the imposition of new measures.

China adopted a similar approach toward U.S. unilateral sanctions—even while it criticized the long reach of the United States, it roughly complied with the sanctions' limitations. After one round, Beijing criticized the measures, saying that the United States was "putting

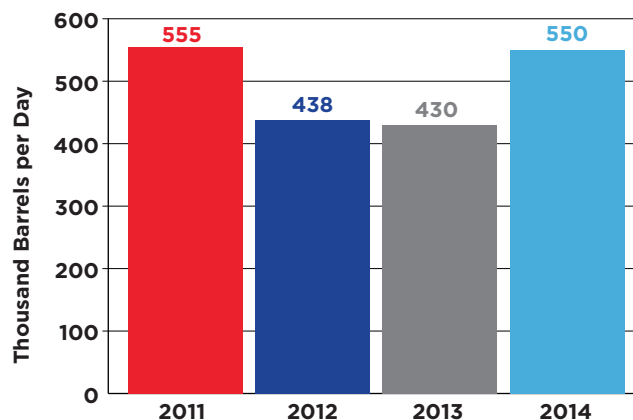
[its] domestic laws above international law."¹²⁸ Facing this skeptical approach to U.S. measures, U.S. policy-makers sanctioned Chinese entities that continued to

engage in ties with Iran. For example, in 2012 the U.S. Treasury Department imposed sanctions under the Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010 on China's Bank of Kunlun. The bank faced the penalties for providing significant financial services to Iranian banks designated for their connection with Tehran's weapons of mass destruction program and its financing of terrorism.¹²⁹

In some instances, China did respond to U.S. pressure and reduced its oil trade with Iran pursuant to U.S. unilateral sanctions. During the peak of U.S. sanctions on Iran's energy sector after the passage the 2012 National Defense Authorization Act, China reduced its energy imports from the country. In 2012 and 2013, Chinese oil imports from Iran were more than 20 percent lower than in 2011. They rose again after progress in the international negotiations with Tehran.¹³⁰ During the same period, China also reduced its investment in Iran's energy sector. Major Chinese state-owned enterprises (SOEs), including CNPC, Sinopec, and CNOOC, responded to the U.S. pressure by either delaying or completely pulling their projects in Iran receiving protests from Tehran.¹³¹

Chinese Crude Oil Imports from Iran¹³²

China also used informal coercive measures when cooperating in multilateral pressure campaigns. In 2012 and 2013, it cut its crude oil imports from Iran in response to U.S. sanctions pressure, though it never publicly joined international oil sanctions.



(EIA)

Taiwan's Elections, 2016

The Taiwanese experience with Chinese economic coercion is unique. The expansive connection between

the two economies gives China significant leverage. Two-thirds of Taiwan's economic output is made up of exports, and China and Hong Kong account for a 40 percent share.¹³³ Notably, China backs up its economic posture against Taiwan independence with a military threat. In 2005 Beijing passed the Anti-Secession Law, stating China would use “nonpeaceful” means to prevent Taiwanese separation from the mainland.

China employed economic coercion against Taiwan after the election in May 2016 of Tsai Ing-wen and the Democratic Progressive Party, which both embrace a pro-independence stance. The month after the election, China suspended tour groups to the island. In 2017, tourism from mainland China declined 22 percent compared with 2016.¹³⁴ Taiwan responded to this decline by diversifying its visitors. Taipei expanded tourism promotion activities across Asia countries, advertised its openness to Muslim tourists, and lowered visa requirements for countries such as Brunei and Thailand.¹³⁵ After these initiatives, the number of tourists from Southeast Asia increased by 30 percent in 2017, though compared with Chinese tourists they spent less money.¹³⁶ This diversification fits into Taipei's broader initiative to expand its markets to reduce Chinese economic leverage, its New Southbound Policy.

The expansive connection between the two economies gives China significant leverage.

Chinese use of economic statecraft to meddle with Taiwanese politics is not new. After the 2000 election, Acer electronic products were removed from shelves and its chairman, who had supported the pro-independence candidate, had to make trips to Beijing to mend the relationship.¹³⁷ Ahead of the 2012 elections, a Chinese company signed large agreements with Taiwanese milkfish farmers, a constituency based in a traditionally pro-independence region of the island. This effort to sway stakeholders did not work, and after the fact, Beijing sent government experts to interview milkfish farmers and refine its policies in the future.¹³⁸ One commentator suggested that China's heavy-handed approach on the milkfish purchase offended Taiwanese sensibilities and backfired.¹³⁹ Reports also offer evidence that China may have pressured Taiwanese universities to issue pro-Beijing statements to continue enrolling large numbers of tuition-paying students from the Chinese mainland.¹⁴⁰



China has a track record of trying to influence Taiwanese elections, for example by signing purchasing agreements with fishermen in traditionally pro-independence regions. Pictured above, Taiwanese fishing crews prepare to set sail. (Billy H.C. Kwok/Getty Images)

Beijing recently reversed course on some of its economic coercion. In 2018, it announced a series of unilateral inducements aimed at entrenching the island's economic dependence on the mainland. China continued its granting of economic concessions to politically influential Taiwanese constituencies. For example, it granted openings to Taiwanese media companies to expand into the large Mandarin-speaking mainland market, incentivizing them to self-censor any pro-independence positions in order to maintain access. The announcement of the inducements bypassed Tsai, continuing the confrontational stance even as Beijing switched from sticks to carrots.¹⁴¹

In addition to targeting Taiwan itself, China has employed economic coercion against anyone who recognizes the island. Beijing has targeted countries that recognize Taiwan and, more recently, has begun to target companies that list Taiwan as a separate entity. In a recent spate of coercive measures, the Chinese Cyberspace Administration ordered the Marriott International website and booking applications to close for a week.¹⁴² Finally, China has used coercion to discourage arms sales to Taiwan. France abandoned the practice after its 1992 sales to Taipei resulted in French companies being barred from bidding on mainland projects.¹⁴³ Thus far, Chinese threats of economic retaliation against U.S. arms sales have resulted in cutting off of certain diplomatic relations and in threats—but no follow-up—to sanction the U.S. companies involved.¹⁴⁴ The 2018 planned sale may represent a change of this pattern.

South Korea THAAD Deployment, 2016–2017

China's application of economic pressure against South Korea in 2016 and 2017 is the most large-scale coercion effort against a significant economic power—and a U.S. ally. China had previously used economic coercion against South Korea for economic ends. In 2000, a year before China's entry into the WTO, Beijing responded to Seoul's tariffs on Chinese garlic by barring imports of Korean cellphones and polyethylene. Again in 2005, China suspended imports of Korean kimchi after Seoul halted imports from China of the same product because of health concerns.

China's application of economic pressure against South Korea in 2016 and 2017 is the most large-scale coercion effort against a significant economic power—and a U.S. ally.

The crisis between the two countries exploded over the deployment in South Korea of the Terminal High-Altitude Area Defense (THAAD), an anti-missile battery aiming to protect Seoul against North Korea's missile threat. The Chinese retaliation over THAAD came after a period of positive South Korea-China relations. Yet, in July 2016, President Park Geun-hye announced, to Chinese surprise, the decision to deploy THAAD, and delivery of the components began in early 2017. Since before the official announcement, Beijing—and Xi in particular—had expressed concerns over THAAD and its alleged threat to China's deterrent capabilities and overall regional military posture.¹⁴⁵ On the day of the announcement, the Chinese government complained officially and summoned the Korean ambassador.¹⁴⁶ Korean officials have argued that Xi's People's Liberation Army advisors' hard position against the system strongly shaped his own opposition and the ensuing campaign of coercion.

Chinese coercion against South Korea followed myriad avenues, focusing primarily on sectors where it could impose costs on Korean businesses without collateral damage on the Chinese population. First, as in other cases, China curbed tourism to the country. The effect was drastic. While overall tourism declined by 48 percent in 2017, group tours declined from 130,000 visitors per month in January and February 2017 to fewer than 3,000 per month on average for the rest of the year, pointing to the Chinese government's ability

to influence group packages in particular.¹⁴⁷ China also targeted other popular Korean exports, including K-pop and cosmetics. Second, China hit individual companies, particularly Lotte Group, the conglomerate that had provided the government with the site for the installation of the THAAD system. Eighty-seven of the 109 Lotte Mart department stores in China were forced to close on safety grounds such as alleged fire-code violations.¹⁴⁸ The rest of the stores faced very poor sales.¹⁴⁹ Continued Chinese pressure has even hampered Lotte's attempt to sell its stores to exit the Chinese market.¹⁵⁰ Third, China supported popular boycotts of Korean exporters such as Kia and Hyundai.¹⁵¹ Finally, China used other forms of regulatory harassment, including filing trade-related complaints against Korean companies, even after it had verbally agreed on settling them. In another regulatory move against Seoul, China stopped subsidizing Chinese producers of electric vehicles that used South Korean batteries.¹⁵² In total, China took 43 retaliatory measures against Korea, not just in the economic arena but in the diplomatic and political arenas as well.¹⁵³ In its overall assessment of the damage caused by the coercion campaign, the Bank of Korea estimated Beijing's actions shaved 0.4 percentage points off of South Korea's 2017 growth.¹⁵⁴

Though China hit certain sectors of the Korean economy, the campaign did not carry over to the entire economic relationship between the two countries. Overall trade between them grew by 14 percent in 2017.¹⁵⁵ Additionally, Beijing made sure not to target Korean sectors where economic retaliation might harm China's own supply chain. For example, Beijing did not target the Korean semiconductor sector, likely motivated by the fact that China still imports 65 percent of its semiconductors and could not afford to harm its own companies as part of its retaliation campaign.¹⁵⁶

The Korean response to the Chinese campaign was tepid. Korean officials and experts have noted that the need for Chinese cooperation in solving the North Korean nuclear issue limited Seoul's room for maneuver.¹⁵⁷ Moreover, divisions among Korean policymakers hampered the response, with the defense policy community more willing to take active measures against Chinese coercion than the more cautious economic policy community. While South Korea contemplated filing a major WTO motion against China (as occurred in the Japanese rare earths case), it ultimately abandoned the idea. After raising concerns with the WTO, Korea did not follow up with a formal complaint, citing insufficient evidence.¹⁵⁸ Observers have also cited concerns from companies over how an overly aggressive reaction might alienate China

as a cause for the weak WTO response. Making a South Korean response more difficult was the lack of communication between counterpart agencies in South Korea and China. South Korean officials have complained about lack of responsiveness from Chinese officials to their appeals for economic relief. Finally, domestic considerations, including the impeachment of Park and the transition of power to President Moon Jae-in, stifled a strong response. Similarly, the United States, while raising the issue with China at a working level, did not engage in a high-profile response, in part because political leaders were occupied with the U.S. political transition after the 2016 election.

South Korea eventually relented to Chinese pressure in October 2017 by issuing a list of assurances, the “three no’s,” on further missile deployment and military alliance with the United States. Korea officials argued that these assurances were a reiteration of long-standing policy, suggesting the advantages China can gain from informal measures that give it flexible off-ramps from economic pressure rather than tying it to specific—and falsifiable—results.¹⁵⁹ Additionally, though China did welcome the development, it still urged Korea to “follow through” on its statement and did not lift the pressure as quickly as it has in other cases of coercion. As of February 2018, more than four months after the rapprochement, tourism was still 42 percent lower than the previous year and Lotte still had not received relief from the regulatory pressure.¹⁶⁰

Mongolia Dalai Lama Visit, 2016

China has a long-standing track record of targeting countries with hostile diplomacy and economic coercion if they host the Dalai Lama. Since the 1990s, China has limited trade with countries, including France, Germany, Chile, Italy, and Brazil, after their officials met with the Tibetan leader. During the Hu Jintao era, meetings between a head of state or head of government and the Dalai Lama led, on average, to a reduction of exports to China of between 8.1 percent and 16.9 percent.¹⁶¹ Trade subsequently recovered during the second year after the visit.

The 2016 economic coercion against Mongolia follows this template. The experience also shows the strength of coercion. Mongolia has historical and cultural ties with the religious leader, unlike France and Italy. Indeed, in the past Mongolia had ignored Chinese condemnation for Dalai Lama visits. But in 2016, 84 percent of Mongolia exports went to China, making it the most China-dependent country in the world.¹⁶²

The Dalai Lama visited Mongolia in November 2016, addressing the public and holding public events. Even though the visit did not include public government meetings, China retaliated. Shortly thereafter, Beijing raised fees on mining products and created backups at a key border crossing.¹⁶³ China also suspended bilateral interactions, including talks over major infrastructure investment as well as a \$4.2 billion loan.¹⁶⁴ Some observers have pointed to Chinese domestic motivations for the border backups and fees.¹⁶⁵ Indeed, the Chinese government never explicitly linked the actions. When asked whether the fees were connected to the Dalai Lama visit, a Chinese Foreign Ministry spokesman did not confirm or deny the linkage but criticized the Tibetan leader’s trip.¹⁶⁶ Yet, whether or not Chinese concerns over the Dalai Lama were the sole motivation for the additional border fees, the Mongolian government reacted to these measures as if they were politically motivated. The Chinese cutoff in assistance exacerbated the coercive effect on Ulaanbaatar. At the time of the suspension, Mongolia was facing a worsening fiscal situation and a declining global commodity environment. In early 2017, the International Monetary Fund bailed out Ulaanbaatar with \$5.5 billion.

China has a long-standing track record of targeting countries with hostile diplomacy and economic coercion if they host the Dalai Lama.

After initially standing up to Chinese coercive measures, Mongolian leaders eventually relented. As part of the rapprochement between Ulaanbaatar and Beijing, Mongolian leaders, like Norway, offered a public apology. They expressed regret for the invitation and emphasized that they would no longer host the Dalai Lama during the government’s term. Chinese leaders said they hoped that Mongolia had taken the lesson of not interfering in China’s “core interests” to heart.¹⁶⁷ Though China succeeded in altering Mongolia’s policy and extracting an apology, the true results of its coercive action are unclear. Coming after the Dalai Lama’s visit, the concession was primarily symbolic. Indeed, after taking office in 2017, the subsequent president expressed interest in reasserting Mongolian independence to invite the Dalai Lama.¹⁶⁸

North Korean Nuclear Program, 2006–Present

Since 2006, China has chosen to use—and refrain from using—economic coercion against North Korea. One scholar has characterized this as “latent” leverage. China has the power to coerce but can choose not to fully use it to shape both Pyongyang’s and Washington’s foreign policies.¹⁶⁹ China’s alternation between increasing and decreasing coercion on North Korea suggests this latent approach.

China is by far North Korea’s largest trading partner. Between 2000 and 2015, trade between the two countries grew tenfold, though it fell after the imposition of tougher sanctions in 2016 and 2017.¹⁷⁰ Throughout, China accounted for 90 percent of North Korea’s trade.¹⁷¹ In addition to its overall trading relationship, China supplies key commodities to Pyongyang and has criticized U.S. attempts to deprive the country of access to oil, coal, machine parts, and other goods. In its support for Pyongyang at key moments, China has shown an unwillingness to fully rely on coercive measures to prevent North Korean acquisition and refinement of missile and nuclear technology.

Since 2006, China has chosen to use — and refrain from using — economic coercion against North Korea.

However, China has deployed limited coercive economic measures against North Korea when Pyongyang’s actions have drawn threats of a forceful international response. China has relied both on informal coercion akin to its other unilateral measures as well as the formalized U.N. multilateral coercion. After Pyongyang’s 2006 missile and nuclear tests, China supported U.N. Security Council Resolution (UNSCR) 1718, placing various sanctions on the country. At the same time, Beijing also allegedly shut off oil exports to the country as a means of pressure.¹⁷²

Even while preserving the option of unilateral coercion against North Korea—such as targeting the country’s oil again—Beijing has continued engaging in multilateral sanctions against Pyongyang. China supported two U.N. resolutions imposing sanctions on North Korea in 2016 and four in 2017. Though it backed these multilateral sanctions, Beijing also lobbied against specific measures—for example, watering down a provision in September 2017 that would have imposed an oil embargo.¹⁷³ In its participation in these internationally

coordinated sanctions programs, China also relied far more on public circulars and policies rather than the informal measures. After UNSCR 2231 (2016), the Ministry of Commerce issued a statement urging its companies to comply with U.N. resolutions.¹⁷⁴ Similarly, in September 2017, the Chinese central bank issued a written document urging banks to strictly enforce financial sanctions against North Korea.¹⁷⁵ The implementation reports issued by the U.N. likely served as an incentive in this regard.¹⁷⁶

Chinese Students in Australia, 2017–Present

The experience of Australian universities dealing with declining Chinese enrollment points to the potentially expanding use of Chinese students abroad as a coercive tool. The Australian episode follows the similar use of universities in Taiwan. Education is a good target for Chinese retaliation against Canberra. Like tourism, it allows Beijing to impose economic costs for targeted countries with few downsides on the Chinese student population, which has alternative schools to choose from. Education is Australia’s third-largest export.¹⁷⁷ China holds significant leverage over Australia, given that it accounts for almost 40 percent of foreign enrollments¹⁷⁸ and 32 percent of education exports.¹⁷⁹ As with tourism, Chinese authorities can relatively easily redirect student flows through soft warning campaigns.

The potential for Chinese targeting of the Australian university sector emerged after increasing Australian concerns over Chinese foreign influence in its politics. Since 2015, intelligence services have highlighted Chinese donations to Australian parties and politicians



Concern over Chinese influence in Australia, including through Confucius Institutes, pictured above, has led to growing tensions between Canberra and Beijing. (Kreeder13/Wikimedia Commons)

and other Chinese influence operations as posing “a threat to [Australia’s] sovereignty, the integrity of [its] national institutions, and the exercise of our citizens’ rights.”¹⁸⁰ Additional reports have pointed to Chinese efforts to monitor Chinese nationals in Australia.¹⁸¹ To counter these threats, Australia announced a series of laws tightening controls on foreign influence. China has responded by criticizing these measures as “McCarthyism” and potentially beginning an economic coercion campaign.¹⁸² In February 2018, Chinese diplomats and the Chinese Ministry of Education issued warnings to Chinese students to “maintain vigilance.”¹⁸³ Nationalist newspapers fanned the popular imagination much as popular boycotts have paralleled government prodding in other episodes of Chinese coercion.¹⁸⁴ Looking to diversify the countries of origin of its foreign students, Australia has looked to Southeast Asia, initiating, for example, an ASEAN-Australia Education Dialogue.¹⁸⁵

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