

MARCH 2023

Deny, Deflect, Deter

Countering China's Economic Coercion

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Matthew Reynolds

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A Report of the CSIS Economics Program

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The authors alone are responsible for the report's findings and recommendations and any errors of fact, analysis, or omission.

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Executive Summary

As China has grown economically, so too has its propensity to engage in acts of economic coercion against both its neighbors and more distant countries. Beijing's persistent use of economic coercion challenges the rules-based international order—of which China has been one of the greatest beneficiaries—and is costly for firms and sectors in the countries it targets. Beijing's actions divide U.S. allies and likely deter countries from adopting positions and policies that may draw the ire of the Chinese Communist Party (CCP). This could complicate Washington's ability to push back on problematic Chinese behavior in other domains, including, but not limited to, its human rights abuses in Xinjiang and Hong Kong and its expansive territorial claims in the South China Sea.

While problematic, China's economic coercion should be viewed with a sense of perspective; indeed, Beijing's behavior provides an opportunity to advance U.S. interests in multiple ways. A careful analysis of eight cases of Chinese economic coercion since 2010—against Japan, Norway, the Philippines, Mongolia, South Korea, Australia, Canada, and Lithuania—reveals that the most salient characteristic of China's economic coercion is that it simply is not very effective. Granted that there is likely a deterrent effect on third countries—albeit hard to quantify—China's economic coercion nevertheless has a poor track record of achieving its immediate policy aims, and when it does, it often carries long-term costs for China. While Beijing has shown an ability to adapt and escalate when its initial response fails, it also has demonstrated an aversion to incurring costs, at times abandoning coercive measures that become too costly. This may, in part, explain why China's economic coercion did not impose significant macroeconomic costs on the targeted country in any of the cases examined.

China's economic coercion can also counterintuitively work in the interest of the United States. For example, Beijing's bullying has harmed China's image around the world, pushing countries closer to the United States. It also creates the perception that China is an unreliable economic partner, which in

some cases has prompted allies and firms to adjust their supply chains away from China. A strategy to counter China's economic coercion should incorporate these nuances.

Deterrence theory suggests two possible paths for a counterstrategy: punishment and denial. While punishment through tit-for-tat retaliation is superficially appealing, it has several problems. First and foremost, it faces an acute credibility challenge. Because China has so far resisted imposing significant costs on targeted countries, the threat of a proportional response from the United States would be unlikely to impose sufficient costs to alter Beijing's calculus. However, if the United States threatened an escalatory response, the threat would quickly become noncredible. Retaliation might also unintentionally enhance the legitimacy of China's economic coercion, which is often presented to the Chinese population in nationalistic terms, and might deprive the United States of the diplomatic moral high ground. Importantly, retaliation is likely not the response that targeted countries want from the United States, as China's preference for coercing smaller countries means that targeted countries, not the United States, would bear the brunt of any escalation on the part of Beijing.

Deterrence by denial—focused on resilience and relief for targeted countries—is more likely to mitigate, and over time deter, China's problematic behavior by decreasing its likelihood of success, frustrating Beijing's intent. That is, where deterrence by punishment seeks to prevent an action through threat of retaliation, denial achieves its deterrent end by conveying the infeasibility of an action. A counterstrategy premised on deterrence by denial has several advantages over one based on punishment. Most importantly, it is more credible, for two primary reasons: First, a deterrence-by-denial strategy allows the defender to act first, eliminating the advantage China gains from informally implementing its coercive measures and putting the defender on the back foot. Second, providing relief does not require the United States to directly harm its own firms or consumers, as punishment implies. In addition, a strategy premised on deterrence by denial is easier to multilateralize, promotes decoupling where appropriate, provides the United States a more effective diplomatic message, and better aligns with the norms of the international rules-based system the United States aims to uphold.

The counterstrategy proposed in this report is based on the logic of deterrence by denial and has two mutually reinforcing components: preemptive “denial” policies that aim to harden vulnerable economies against Chinese economic coercion, and reactive “deflection” policies that aim to negate China's coercion by providing targeted relief to accelerate market adjustments, minimizing the political and economic pressure China can impose on the target. Together these resilience and relief measures are designed to frustrate Beijing's intent by making targeted countries less likely to comply and, over time, to deter Beijing from its coercive behavior.

More specifically, this report recommends that the United States take the following preemptive denial steps:

- 1. Establish an interagency CoerCom.** To pool knowledge and resources, coordinate, and centralize U.S. counter-coercion strategies and initiatives, the U.S. government should establish a new interagency committee known as the Committee on Countering Economic Coercion, or CoerCom.
- 2. Build a coercion-denial coalition.** The United States should take the initiative by unilaterally setting up its own counter-coercion policies but encourage other Group of Seven (G7) advanced countries to follow suit, emphasizing denial over punishment. While broadly signaling support for coerced partners, the G7-centered coalition should be cautious about explicitly extending an economic security umbrella too widely, at the risk of losing credibility.

3. **Review vulnerabilities.** Governments and firms at risk of coercion should conduct economy-wide reviews to identify potentially vulnerable industries and sectors. The United States can aid allies and partners by providing technical assistance with their vulnerability reviews.
4. **Reinforce supply chain resiliency.** The United States and allies should make defending against China's economic coercion an explicit objective of supply chain resilience initiatives such as those that emerged in the wake of the Covid-19 pandemic.
5. **Negotiate free trade agreements.** Washington can help strengthen resilience to China's economic coercion by negotiating trade agreements that offer meaningful market access to allies and partners. This would reduce China's market power vis-à-vis the United States while also speeding market adjustments in cases of economic coercion.
6. **Establish a U.S. anti-coercion instrument (USACI).** The United States should establish an anti-coercion instrument similar to the one under development in the European Union but comprised of new and existing relief tools, including a new coercion compensation fund.
7. **Encourage partners to develop their own authorities.** Countries vulnerable to economic coercion should preemptively expand the authority of relevant domestic agencies to provide relief to sectors and firms affected when coercion occurs.

The following “deflection” steps after an act of coercion are also recommended:

8. **Define actionable coercion.** The U.S. president should be given the authority to determine what constitutes an act of economic coercion on a case-by-case basis. CoerCom would provide the president with a recommendation to inform that decision, while Congress would have the ability to overrule the president's decision with an up-or-down vote.
9. **Deploy the USACI:** Once an incidence of Chinese economic coercion has been positively identified, CoerCom would provide the president with a recommended set of relief policies authorized under the USACI. CoerCom should also be tasked with identifying possible opportunities to incentivize and speed decoupling of the targeted country from China in critical-technology and other strategic sectors.
10. **Support World Trade Organization (WTO) cases.** Whenever possible, the United States should encourage the targeted state to bring a case against China to the WTO, which the United States and other G7 members would sign onto as third parties. Rather than solve the problem by themselves, these cases would signal disapproval by the United States and its partners.
11. **Enhance diplomatic messaging.** In both its denial and deflection efforts, the United States needs to employ robust public diplomacy. Preferably in coordination with other G7 countries, Washington should make public its efforts to build resiliency against China's economic coercion and to offer relief to targeted partners, causing Beijing to update its assessment of the likelihood of success.

The key to an effective U.S. deterrence-by-denial strategy is maintaining credibility: offering real incentives to vulnerable countries to strengthen their economic resilience; not overcommitting to respond in all cases or in ways that neither China nor partners find plausible but following through with relief quickly when actionable coercion occurs; and ensuring domestic political support for counter-coercion measures, while visibly working to secure broader allied support. The counterstrategy proposed here may be less immediately satisfying than tit-for-tat retaliation, but it is more likely to deter Beijing from its disruptive behavior over time, while preserving the moral high ground for the United States.

Introduction

When the Dalai Lama visited Ulaanbaatar in 2016, Beijing canceled bilateral meetings with Mongolia on finance and infrastructure. That same year, Seoul approved deployment of U.S. Terminal High Altitude Area Defense (THAAD) missile batteries to Korea, prompting Beijing to force approximately 90 percent of Lotte supermarkets on the mainland to close over “fire safety violations.” In 2020, after Canberra called for an investigation into the origin of Covid-19, China restricted imports of Australian wine, beef, and other commodities.

As China has grown economically, so too has its propensity to engage in economic coercion. Although Beijing’s behavior has often been met with criticism, there has been little coordinated response from the United States or the broader international community. However, even without a response, the effectiveness of China’s economic coercion against states has been decidedly mixed.¹ While Mongolia mostly gave in to Beijing’s demands, apologizing and promising the Dalai Lama would not visit again, the current administration in Seoul has stated it will not abide by the previous administration’s promise to limit certain military activities. Australia remains defiant in the face of China’s coercion and has aligned even more closely with the United States, as seen in the September 2021 announcement of the Australia–United Kingdom–United States (AUKUS) trilateral security agreement.²

That is not to say that China’s use of economic coercion has not been damaging. The deterrent effect of Beijing’s behavior is difficult to quantify. Governments may be less likely to challenge malign Chinese policies—such as military aggression in the South China Sea or human rights abuses—if they believe they will suffer economic losses in key industries.

China’s coercive economic measures also have divided allies and cleaved domestic politics in targeted nations. When exports from one country are blocked, a third country often stands to benefit, as was

the case when U.S. coal exports to China increased at Australia's expense.³ At the same time, private sector industries, which bear the brunt of Chinese economic coercion, lobby their home governments to avoid making statements or implementing policies that might anger Beijing, even at the expense of liberal values and national security. Moreover, China's behavior undermines the norms that govern the international economic system. Beijing's capriciousness erodes the trust that underpins international commerce while at the same time damaging the legitimacy of multilateral institutions, which are ill equipped to handle China's destabilizing economic policies.

Developing and deploying a comprehensive counterstrategy to China's economic coercion presents an opportunity for the United States to strengthen its image on the global stage; uphold the norms and rules of the international economic system; improve its strategic position vis-à-vis China; and mitigate—and over time deter—China's problematic behavior. Based on insights derived from a careful 16-month review of eight historical and ongoing cases of Chinese economic coercion, two expert roundtables, and a crisis simulation, this report proposes a counterstrategy grounded in the deterrence literature and built upon the two mutually reinforcing components of denial and deflection. Together, these will help the United States deter China's problematic use of economic coercion.

Economic Coercion: A Form of Economic Statecraft

Economic statecraft is the “use of economic means to pursue foreign policy goals.”⁴ The tools of economic statecraft vary but most commonly involve leveraging control over the flow of capital or goods to affect the decisions of other states or bolster strategic competitiveness. Out of normal international economic activity emerges economic interdependence, which states can weaponize to achieve strategic rather than commercial ends.⁵

Economic statecraft policies may be divided into two primary categories: those that induce and those that punish.⁶ Inducements might take the form of trade agreements that offer nations market access or provide development financing to enhance stability. By contrast, punishments are implemented to coerce or corrode the target. In the case of the former, the aim is to influence the actions of the targeted entity and, in the latter, to erode its capabilities.⁷ Threats of punishment may also be used to deter adversaries, while their implementation can signal resolve and enhance the credibility of future threats.⁸

In practice, the line between inducement and punishment is blurry, as interdependencies produced by inducements can create new vulnerabilities to punishments.⁹ For example, China can foster warm diplomatic relations by granting access to its large domestic economy or coerce other countries for perceived affronts to Beijing's prerogatives, while the United States can leverage the global position of the dollar to punish rogue nations and nonstate actors through sanctions or offer development assistance to induce countries to follow Washington's lead.

Economic coercion, then, is best understood as a subcategory of economic statecraft and entails, according to Daniel Drezner, a “threat or act by a sender government or governments to disrupt economic exchange with the target state, unless the target acquiesces to an articulated demand.”¹⁰ It is difficult to measure the effectiveness of economic coercion, but according to the literature on sanctions, the effectiveness of a coercive economic measure weakens after implementation as alternative markets are found, costs rise over time, political coalitions within the sending state fracture, and views of the sending state harden within the target state.¹¹

Both the United States and China employ instruments of economic statecraft in coercive ways to achieve desired strategic outcomes, and both have increased their employment in recent years, consistent with the ever-greater precedence placed on geoeconomic competition in the international system. However, there are important distinctions between when, how, and why the two great powers engage in economic coercion (discussed further below).

Part I

Economic Coercion with Chinese Characteristics

Overview

China's history of economic statecraft stretches back centuries. The tributary system, developed under the Ming dynasty (1368–1644) and maintained by the Qing dynasty (1644–1912), defined China's foreign relations on a hierarchical basis and was largely sustained by trade and economic interests. Under the tributary system, economic relations were intimately linked with politics: to access China's market, foreign envoys were required to pay tribute and kowtow to the Chinese emperor.¹ As the Qing dynasty weakened in the latter half of the nineteenth century, and as the treaty system emerged in the middle of the century, China's tributary system broke down.²

Even on the brink of collapse in the early twentieth century, with the tributary system dissolved, the Qing dynasty still attempted to use coercive economic measures to achieve foreign policy goals. In 1905 the Qing boycotted U.S. goods in response to U.S. immigration policy.³ The Republic of China (1912–49) pursued the same policies, and between 1919 and 1930 there were numerous boycotts of foreign powers.⁴

In the late twentieth and early twenty-first centuries, China experienced rapid export-driven growth and underwent significant social and economic change. International trade boomed due to reform and opening policies, and China assumed a central role in the globalized economy. It is no surprise that the People's Republic of China (PRC) (1949–present) continues to employ economic statecraft, including coercion, in pursuit of political goals, especially given China's comparative advantages in the economic domain. For Beijing, economic coercion offers a relatively low-risk way of asserting its influence and standing up on the international stage for what it perceives as its core interests; coercion is a tool of statecraft that the CCP is actively seeking to sharpen.⁵

To better illuminate the drivers and characteristics of China's economic coercion, eight cases were examined in this study; they are summarized below and spelled out in more detail in the annex. The covered cases span roughly the past decade and were chosen because they vary in cause, method, severity, duration, notoriety, and outcome. As such, the cases do not represent a randomized sample.

Box 1. Cases Not Studied

Cases in which Beijing threatened but did not implement coercion are not included in this study, nor are cases where China's coercion was aimed solely at private firms as an end in itself rather than as a means to affect the policy of a government. The former were omitted because without implementation, there are no data to collect on what coercive tools China prefers, their cost, or their effectiveness. With coercion implemented, it is more straightforward to trace not only China's but also the targeted government's decisionmaking. Still, it is important to note that China has a propensity to issue empty threats of economic coercion.⁶

Cases of China's targeting of private firms for perceived offenses are omitted because they represent a different problem set in need of a different solution. Although private firms may be more likely to cave to Chinese economic pressure than governments, they do not formulate public policy.⁷ By contrast, governments formulate policy, but they are more insulated from China's economic coercion. For example, Beijing might target the National Basketball Association (NBA) because of a policy choice of the U.S. government in an effort to manipulate the NBA into pressuring the U.S. government to amend the policy. If successful, this coercion of a private firm would have a real effect on U.S. policy toward China. However, China's coercion in this case would need to satisfy two conditions to have that effect: first, the NBA would have to acquiesce and pressure the U.S. government, and second, the United States would have to amend its policy because of this pressure. Thus, it does not strictly matter in this case if the NBA acquiesces to Beijing's position, so long as it does not affect U.S. policy, which it did not in the real-world case in 2019.⁸

Therefore, a counterstrategy aimed at deterring China's economic coercion of governments is not only more consequential but also does not necessitate preventing firms from acquiescing to Beijing's demands to be successful. Instead, the objective should be to prevent targeted firms from swaying the targeted government's position in a direction contrary to U.S. interests—a seemingly trivial but important distinction. That said, China's targeting of firms for their own perceived transgressions is a common occurrence and, though not the subject of this study, it carries its own different set of costs and is deserving of attention.

Case Study Summaries

The following are brief summaries of the eight case studies examined in this study, in chronological order of the start of each incident. A more complete description of the incidents and their resolutions can be found in the annex.

JAPAN: FISHING BOAT CAPTAIN ARREST (2010)

In September 2010, a Chinese fishing boat crew was detained by Japan's Coast Guard and its captain arrested following a chase near the contested Senkaku/Diaoyu Island chain in the East China Sea. After releasing the rest of the crew, Tokyo threatened to indict the captain over his belligerent post-

detainment behavior, which challenged agreed protocols between Japan and China over Senkaku-related issues. China implemented a diplomatic freeze, canceled tourism to Japan, and tightened inspections on Japanese imports. China also reportedly began blocking exports of rare earth minerals to Japan. Notably, China had announced in July 2010 that it would curb global exports of rare earths. Four Japanese nationals were also arrested in China, though Tokyo denied that the cases were related. Japan released the captain without charging him. China demanded an official apology, which never came, but lifted the rare earths export ban shortly after. In the wake of the incident, Japan commenced efforts to diversify its rare earths supply chain. Today, the islands remain a source of contention between Japan and China.

NORWAY: LIU XIAOBO NOBEL PRIZE (2010)

In October 2010, the Oslo-based Nobel Peace Prize committee, composed of five members appointed by Norway's parliament, selected imprisoned Chinese dissident Liu Xiaobo as the recipient of the Nobel Peace Prize. Seeking to preempt Chinese anger, Norway emphasized the Nobel committee's independence. Before the Nobel ceremony, China sent letters to foreign dignitaries asking they not attend. China also expressed opposition to the committee's decision and instituted a diplomatic freeze against Norway, including ceasing free trade talks and blocking the issuance of visas to officials. Afterwards, Norwegian salmon imports to China fell drastically, and Norway was excluded from a program of visa-free travel to Beijing available to all 27 EU members plus Switzerland and Iceland. Salmon exports were largely rerouted through third countries like Vietnam. Relations were normalized in 2016, with China lifting its diplomatic freeze, salmon restrictions, and most other measures. The two countries resumed free trade talks in 2018, but the talks have stalled.

PHILIPPINES: SCARBOROUGH SHOAL (2012)

In April 2012, Chinese and Philippine ships were entangled in a standoff over the Philippines' attempted arrest of Chinese fishing crews near the contested Scarborough Shoal in the South China Sea. Manila called for international adjudication of the dispute, but Beijing refused. China began turning away shipments of Philippine bananas, leaving them to rot in port. The refusals, ostensibly related to a pest issue, were also extended to other fruits. China also cut off tourist flows to the Philippines. While an agreement was soon brokered to de-escalate tensions near the shoal, China's ships did not leave the area. Manila filed suit with the Permanent Court of Arbitration in the Hague. China responded with an import ban on pineapples and bananas, a diplomatic freeze, an enhanced travel advisory, and a fishing ban near the shoal. In 2016 the Hague ruled in the Philippines' favor, but China rejected the decision. Manila was unable to rally support from the Association of Southeast Asian Nations (ASEAN), and the Philippine president opted not to press the matter. Relations warmed in 2016, though Chinese-promised investments in the Philippines never materialized. The current Philippine president has voiced stronger opposition to China's South China Sea status and has increased ties with the United States, but he has also shown interest in boosting bilateral economic engagement with China.

SOUTH KOREA: THAAD DEPLOYMENT (2016)

In July 2016, South Korea and the United States announced a plan to install THAAD in South Korea. The purpose of the missile defense system was to guard against the North Korean threat, but China expressed concerns about the system's potential impact on Chinese national security. Chinese media called for the use of economic measures against Korea, including boycotts of Korean manufacturers Hyundai and Kia. China curbed South Korean cultural exports and reduced tourism. The THAAD batteries were ultimately installed in April 2017 on land procured by the Korean government from Korean conglomerate Lotte.

China responded by forcibly closing almost all Lotte stores in China over alleged fire code violations, issuing enhanced travel advisories, halting subsidies for electric vehicles powered by Korean-produced batteries, and restricting commodity imports. Seoul responded by working to boost trade ties with ASEAN and India and by supporting its affected industries and encouraging reshoring.

Relations were normalized following Korea's October 2017 announcement of the Three Nos: no additional THAAD deployment, no participation in the U.S. missile defense network, and no trilateral alliance with the United States and Japan. The current Korean president campaigned on a harder stance toward China and has downplayed the Three Nos policy, while also working to expand Korea's trade ties with ASEAN and India.

MONGOLIA: DALAI LAMA VISIT (2016)

In November 2016, the Dalai Lama visited Mongolia and indicated that a Buddhist patriarchal reincarnation had occurred there. China strongly opposes any visits by the Dalai Lama to foreign countries and maintains a strict system overseeing Buddhist reincarnation matters. Ahead of the 2016 visit, China warned Mongolia not to allow the Dalai Lama a visa. After the visit, China ceased talks covering soft loan negotiations, infrastructure investments, and a debt repayment loan. China also instituted fees and transit costs on commodity shipments at a major border crossing, leading to massive delays. Mongolia soon expressed regret over the situation and indicated it would not invite the Dalai Lama back.

AUSTRALIA: ANTI-FOREIGN INTERFERENCE LAW/CALL FOR COVID-19 INVESTIGATION (2017/2020)

In December 2017, legislation was introduced in the Australian parliament to combat foreign interference in Australian politics. In announcing the legislation and indicating that it was aimed at China, former prime minister Malcolm Turnbull used a famous Mao Zedong saying: "The Chinese people have stood up." Following complaints from the Chinese government, he repeated it two days later in Mandarin. Beijing responded with a diplomatic freeze, along with reported trade restrictions against Australian beef and wine. Australia-China relations subsequently deteriorated further, with China responding with various trade and diplomatic measures over Canberra's 2018 blocking of Huawei from domestic 5G infrastructure, the filing of a 2020 World Trade Organization (WTO) antidumping case, and a public call for an independent investigation into the origins of the Covid-19 virus in 2020. China's measures have included import suspensions or delays of a swath of Australian products, including beef, barley, cotton, wine, timber, lobster, and coal. A list of 14 grievances that Beijing provided Canberra was also leaked in late 2020. The diplomatic freeze ended in November 2022, but trade tensions remain.

CANADA: MENG WANZHOU EXTRADITION (2018)

In December 2018, Huawei chief financial officer (CFO) Meng Wanzhou was arrested in Canada over a U.S. warrant related to charges of Huawei's alleged efforts to evade Iran sanctions. The arrest prompted a strong response from Beijing, which detained two Canadian citizens; summoned Canada's ambassador to China; issued enhanced travel advisories covering Canada; and introduced delays and import curbs on Canadian peas, soybeans, pork, and beef. China also revoked the import licenses of two leading Canadian canola exporters. In response, Canada enhanced its travel advisory covering China, launched a campaign to bring attention to the detention of its citizens, and provided support to its domestic industries. The situation was eventually resolved in 2021 when the two countries swapped prisoners. China also lifted its canola restrictions in 2022.

LITHUANIA: TAIWANESE REPRESENTATIVE OFFICE (2021)

In July 2021, Taiwan announced that it would open a Taiwanese Representative Office (TRO) in Lithuania's capital, Vilnius. Including Taiwan, instead of Taipei, in the name of the office challenged an established norm imposed by Beijing for relations with Taiwan. Lithuania had also recently challenged China in several ways, including withdrawing from the so-called 17+1 initiative. Between the TRO's announcement and opening, China ceased providing permits for Lithuanian food imports, cut off freight to Lithuania from state-owned company CRCT (though Chinese state media denied that an order had been relayed), and pressured foreign investors operating in Lithuania to lobby against Vilnius' plan. Lithuanian firms also reported having trouble renewing and closing contracts in China.

After the TRO's opening, China downgraded diplomatic relations with Lithuania and effectively instituted an embargo. Lithuania's export-oriented laser industry was especially exposed, and its companies lost market share to competitors from Germany, France, and the Netherlands. In addition, some German firms that sourced components from Lithuania reportedly had their exports to China blocked. The European Union requested consultations at the WTO, and China soon instituted official bans on Lithuanian beef, milk, and beer. EU views toward China have hardened due to the dispute, and Lithuania-Taiwan relations have grown stronger. The European Union has also fast-tracked its anti-coercion instrument (see Box 2).

Box 2. EU Anti-coercion Instrument

The European Commission released the European Union's proposed anti-coercion instrument (ACI) in December 2021. It aims to deter third-party coercive economic measures leveled against EU member states. To do so, the ACI would authorize the commission to retaliate with a set of punitive economic tools. Potential retaliatory measures include, but are not limited to, restrictions on exports, imports, financial market access, and intellectual property protections, as well as possible increased tariffs and new quotas.⁹

Under the negotiating position of the EU Council that was released in November 2022, the ACI currently stands as follows: The commission first determines whether a member state is experiencing economic coercion based on the legal definition set out in the proposal. The council then affirms the commission's determination by qualified majority voting.¹⁰ If the council agrees with the commission's determination, the commission proposes a set of proportional retaliatory measures, which the council votes on for adoption by qualified majority.¹¹ Throughout the process, the commission must seek or remain open to negotiation with the coercing country. The countermeasures remain in place until the coercion ceases.¹²

The EU Council's negotiating position represents a dilution of the commission's power as laid out under the first version of the ACI proposal, which would have granted Brussels authority to unilaterally determine whether coercion is occurring and unilaterally implement countermeasures.¹³ The revisions come after some member states expressed concerns that too much centralization in Brussels creates a moral hazard whereby smaller member states less exposed to China's market may be incentivized to take overly antagonistic positions vis-à-vis Beijing.¹⁴ Supporters of the commission's position fear that diluting the power of the commission will erode the deterrent effect of the instrument. The EU parliament and the council now must come to an agreement on the ACI before it is implemented through the normal legislative process.¹⁵

Case Study Key Takeaways: Characteristics of Chinese Coercion

While each instance of China's economic coercion is unique, there are certain distinct patterns that emerge across the cases studied:

- China's use of economic coercion is typically triggered by challenges or threats to territorial integrity, domestic political legitimacy, national security, economic security, and PRC citizens.
- Beijing's coercive economic measures are almost always deployed informally and are often accompanied by noneconomic measures, including diplomatic freezes and military posturing.
- China typically employs economic coercion against smaller economies and in sectors where it possesses an asymmetric advantage.
- However, China's economic coercion does not impose significant macroeconomic costs on the targeted countries.
- Throughout and between coercive campaigns, Beijing will often adapt, repurpose, and even withdraw coercive measures.
- Consistent with the academic literature on economic sanctions, China's economic coercion has generally proven unsuccessful. Where it has led to concessions, Beijing's tactical success is often accompanied with strategic setbacks.

Discussion of each of these characteristics follows.

FIVE TYPES OF TRIGGERS

The Chinese government typically deploys economic coercion in response to perceived provocations rather than direct harm. These triggering events typically fit within one or more of five overlapping categories of perceived challenges or threats: threats to territorial integrity, threats to domestic political legitimacy, threats to national security, threats to economic security, and threats to PRC citizens (Table 1).¹⁶ For example, Japan's detainment of a Chinese fishing boat captain after a collision with a Japanese coast guard vessel in the contested Senkaku Islands both challenged a Chinese territorial claim and, from Beijing's perspective, threatened a PRC citizen. Beijing perceived both Norway and Australia as actively undermining the CCP's political legitimacy when the Oslo-based Norwegian Nobel Committee awarded Chinese dissident Liu Xiaobo the Nobel Peace Prize and when Prime Minister Turnbull used what Beijing perceived as inflammatory language in paraphrasing Mao when justifying the anti-foreign interference bill targeting China.

Likewise, Beijing perceived another Australian challenge to its legitimacy in 2020 when Prime Minister Scott Morrison called for an investigation into the origins of the Covid-19 virus. Beijing viewed South Korea's deployment of THAAD, equipped with radar systems capable of peering into the Chinese mainland, as a threat to its national security.¹⁷ Further, China perceived the arrest of Meng in Vancouver not only as an attack on an important PRC citizen but also part of a larger attack on a national champion critical to China's economic security, Huawei.

Table 1. Triggers and Relevant Cases of Chinese Coercion

Trigger	Cases
Territorial integrity	Japan, Lithuania, Mongolia, Philippines
Political legitimacy	Australia, Lithuania, Mongolia, Norway
National security	South Korea
Economic security	Canada
PRC citizens	Canada, Japan

Source: Authors' research and analysis.

Violation of one or more identified triggers is not necessarily sufficient to trigger a coercive response. In fact, many challenges go unmet with coercion from Beijing. Although outside the scope of this report, Ketian Zhang makes the case that this variation in response comes down to a cost-benefit analysis on the part of Beijing. China weighs the trade-off between the need to demonstrate resolve and the economic and geopolitical costs of coercion. In cases where the need to establish resolve on an issue of national interest is high and the economic costs are low, China is most likely to use coercion. When the risk of geopolitical backlash to coercion is high, Beijing prefers to use nonmilitary tools such as economic coercion. This helps explain why, though China's military has become stronger and more capable over time, China's use of military coercion has declined while its use of economic coercion has become more frequent.¹⁸

INFORMALITY OF IMPLEMENTATION

Although China has in recent years begun to develop more formal coercive tools, Beijing has demonstrated a preference for exercising its economic coercion through informal channels. China relies primarily on administrative tools, as well as its influence over domestic state-owned enterprises (SOEs), media, and public opinion. Consequently, its economic coercion is frequently carried out through plausibly deniable means such as the selective enforcement of regulations by customs officials, informal notices to commercial actors encouraging them to undertake particular courses of action, tourism advisories, state-promoted boycotts of foreign corporations, or nationalistic threats from state media outlets such as the *Global Times*.¹⁹

An informal approach to economic coercion carries several advantages. It allows China to take rapid action while retaining an element of ambiguity in its methods and intentions. The plausible deniability afforded by informal measures also allows China to avoid legal challenges, mitigate diplomatic costs, and quickly recalibrate should its coercive measures prove ineffective or too costly. Informality complicates the response of the targeted state, as it can be difficult in legal terms to distinguish state-sanctioned informal coercion from market forces and legitimate policy concerns. This frustrates states that seek recourse through the WTO's dispute settlement mechanism, which has proven largely inadequate in addressing economic coercion.²⁰ Advantages aside, it may also be the case that China simply lacks the formal regulatory mechanisms through which to implement its coercive measures, leaving it to rely on informal means.²¹ (See discussion below of Beijing's recent development of more formal tools.)

Despite the benefits afforded by an informal approach, informality also has its disadvantages. Most acute is that informality exacerbates the already difficult problems of implementation and enforcement of sanctions. With no clear legal authority or regulatory prohibition, opportunistic firms, or those with the right connections, may decide to ignore or circumvent Beijing's dictates, diluting

the effect of China's economic coercion.²² For example, Lithuanian laser firms reported that orders of equipment needed for scientific work were still being placed by major Chinese universities.²³ A related problem is that without formal processes to justify its policies, China's informal sanctions lack the imprimatur of legitimacy that formal measures carry.

The informality of China's approach is present across all of the cases explored above. After Canadian authorities arrested Meng, Beijing justified its restriction and enhanced inspections of Canadian canola imports on the detection of pests, while the trade restrictions placed on Norwegian salmon and Philippine bananas were likewise justified on sanitary and phytosanitary grounds.²⁴ In the 2012 Japanese rare earths case, China appeared to place an unofficial embargo on rare earths exports to Japan just one day after Japanese prosecutors announced their intention to prosecute a Chinese fishing boat captain. While officials in Beijing flatly denied the existence of an embargo, flows of rare earth materials to Japan reportedly resumed five days after the captain's release. Likewise, when the TRO opened in Vilnius, Lithuania simply disappeared as an option in China's customs database.

Although China tries to maintain an element of plausible deniability in its implementation of coercive economic measures, Beijing will often obliquely link its coercive policies to the perceived offense. In cases where the offending policy decision was telegraphed beforehand, such as in Mongolia, Lithuania, Norway, and Japan, Beijing warned that taking the action in question would harm relations. Likewise, in some cases, China will communicate to the targeted country what it could do to normalize relations, as in the case of the 14 grievances with Australia and after Canada's arrest of Meng, when Foreign Ministry spokesman Zhao Lijian suggested that releasing Meng would help resolve "the situation of the two Canadians."²⁵

Recently, Beijing has unveiled a number of formal economic coercion instruments. These include the Chinese Ministry of Commerce's (MOFCOM) 2019 announcement of an unreliable entities list,²⁶ mirroring the U.S. entity list; a unified export control law passed by the National People's Congress Standing Committee (NPCSC) in October 2020; foreign sanctions blocking rules issued by MOFCOM in January 2021; and a more comprehensive Anti-foreign Sanctions Law passed by NPCSC in June 2021.²⁷ While Beijing has thus far largely refrained from deploying its new economic coercion instruments, their existence threatens to put multinational corporations with a footprint in China in a legal bind that could raise the perceived cost of additional sanctions targeting China.²⁸ They may also signal China's desire to bring more formality to its economic statecraft. In January 2023, MOFCOM and the Ministry of Science and Technology (MOST) reportedly began "seeking public comment on adding some manufacturing methods key to producing advanced solar wafers on to its list of technologies it prohibits exporting," indicating that Beijing may be edging closer to using its formal instruments, at least in a defensive manner.²⁹

DEPLOYMENT OF NONECONOMIC COERCIVE MEASURES

Beijing often deploys a portfolio of various noneconomic coercive techniques, both symmetric and asymmetric, in its efforts to pressure target countries. Among these are hostage diplomacy, nonviolent military/paramilitary coercion, diplomatic sanctions, and cyberattacks (Table 2).

Hostage Diplomacy

China has demonstrated a troubling pattern across several cases of mixing economic coercion with hostage diplomacy. In addition to restricting Canadian agricultural imports, China detained Michael Spavor and Michael Kovrig shortly after the arrest of Meng and released them nearly three years later only after the Huawei CFO obtained permission to return to China.³⁰ Likewise, after detaining the fishing boat captain,

Japan not only found its rare earth imports curtailed but also saw four Japanese businessmen barred from returning to Japan until Beijing deemed the issue resolved with the captain's release.³¹ More recently, in the case of Lithuania, some have speculated that Beijing timed its reaction to the opening of the TRO in Vilnius with the return of the Lithuanian ambassador to Beijing. The ambassador then underwent a weeks-long Covid-19 quarantine that carried the implicit threat of further detention.³² Over the course of its years-long dispute with Canberra, Beijing detained two Australian citizens on suspicious grounds and upgraded the sentence of an Australian citizen imprisoned for drug trafficking to death.³³

Nonviolent Military/Paramilitary Coercion

China has also flexed its military might alongside its economic power. During the 2012 dispute with the Philippines over the Scarborough Shoal, Beijing dispatched Chinese maritime surveillance ships as well as an armed coast guard vessel to the disputed waters while simultaneously blocking Philippine banana exports to China on sanitary grounds.³⁴ After Japan detained the Chinese fishing boat captain, Beijing increased the number of Chinese maritime law enforcement patrols in the vicinity of the disputed Senkaku Islands.³⁵ South Korea witnessed increased Chinese military aircraft incursions into its air identification zone as well as live fire drills and a Chinese missile weapons test in Bohai Sea after the deployment of THAAD.³⁶ While not included in the case studies above, Beijing responded to U.S. house speaker Nancy Pelosi's August 2022 visit to Taiwan with both import bans on agriculture products and unprecedented military exercises in the waters surrounding Taiwan.³⁷

Diplomatic Sanctions

China's economic coercion is often accompanied with some form of diplomatic sanction. In the case of Norway and Australia, this amounted to a complete diplomatic freeze.³⁸ Lithuania saw its diplomatic status downgraded from ambassadorship to chargé d'affaires, and Beijing recalled its own ambassador from Vilnius. After the Dalai Lama visit, China postponed upcoming bilateral meetings with Mongolia, and in the Senkakus dispute with Japan, China first suspended East China Sea oil and gas negotiations and then canceled parliamentary exchanges before suspending bilateral exchanges altogether.³⁹ During the dispute over the Scarborough Shoal, China canceled high-level bilateral visits and held no formal meetings with the Philippine foreign ministry between 2013 and 2015.⁴⁰ China also reportedly recalled its invitation to Philippine president Benigno Aquino for the China-ASEAN trade fair. In addition, Beijing canceled high-level meetings with South Korean officials, including the defense minister, following the 2016 THAAD deployment.⁴¹

Cyberattacks

Cyberattacks have been another coercive tool deployed by Beijing alongside economic coercion. In the months following the opening of the TRO, Lithuanian intelligence reported, "China is increasingly using its cyber capabilities against Lithuania."⁴² In the Scarborough Shoal dispute, Chinese hackers defaced the websites of the University of the Philippines, the Department of Budget and Management, and the Philippine News Agency.⁴³ Just three weeks after awarding the Nobel Peace Prize to Liu Xiaobo, the Nobel Committee's website was hit with a cyberattack.⁴⁴ In the years that followed the decision, Norway was also targeted more frequently by cyberattacks originating in China than its Nordic neighbors; however, it is unclear how much of that was the result of the Nobel Peace Prize decision.⁴⁵ South Korea and Canada likewise saw upticks in cyberattacks following the former's decision to permit the deployment of THAAD and the latter's arrest of Meng.⁴⁶

Table 2. Tools and Relevant Cases of Noneconomic Coercion

Tool	Case
Hostage diplomacy	Australia, Canada, Japan
Nonviolent military/paramilitary coercion	Japan, Philippines, South Korea
Diplomatic sanctions	Australia, Japan, Lithuania, Mongolia, Norway, Philippines, South Korea
Cyberattacks	Canada, Lithuania, Norway, Philippines, South Korea

Source: Authors’ research and analysis.

PREFERENCE FOR TARGETING RELATIVELY SMALL ECONOMIES

Based on the cases surveyed, China displays a preference for using economic coercion against relatively small economies. With the exception of Japan, no coerced country’s gross domestic product (GDP) exceeds 15 percent of China’s, while two of the countries—Mongolia and Lithuania—do not even amount to 1 percent of China’s GDP combined (Table 3). China’s preference for targeting smaller countries is likely a consequence of several factors. The targeting of smaller countries helps ensure the secondary impact of China’s measures on its own industries is limited. In addition, smaller countries are often more vulnerable to Beijing’s measures, as trade accounts for a greater share of their GDP. Finally, from a deterrence and credibility perspective, it is more important that China demonstrates resolve in disputes with small countries so as to not appear weak.⁴⁷

Table 3. Size of Targeted Economies Relative to China

Target country	Year of initial targeting	Target country GDP at time of targeting (current USD, billions)	China GDP at time of targeting (current USD, billions)	Target country GDP as a percentage of China’s GDP
Mongolia	2016	11	11,233	0.1%
Lithuania	2021	66	17,734	0.4%
Philippines	2012	262	8,532	3%
Norway	2010	429	6,087	7%
Australia	2018	1,429	13,894	10%
Canada	2018	1,725	13,894	12%
South Korea	2016	1,500	11,233	13%
Japan	2010	5,759	6,087	95%

Source: “World Development Indicators,” World Bank, <https://databank.worldbank.org/source/world-development-indicators>.

China’s targeting of Japan is a notable deviation from the pattern demonstrated across the other seven cases. However, there are several possible explanations for why China would turn its coercive measures on Japan, despite the size of its economy. First, the atrocities committed by Japan’s military regime against China during World War II makes Sino-Japanese relations uniquely sensitive. When Japan, from Beijing’s perspective, challenged a Chinese territorial claim and mistreated PRC citizens, China could not be seen to back down or would risk domestic nationalist backlash. Therefore, the need

for resolve was high. At the same time, Japan was highly dependent on Chinese rare earth exports, which China was already looking to curtail for economic, strategic, and environmental purposes unrelated to the Senkakus dispute.⁴⁸ Therefore, the economic cost of curtailing rare earth exports to Japan was to some degree already factored into Chinese policymaking.

It is worth mentioning that China has shown a particular aversion to targeting the United States with its economic coercion. The United States has on numerous occasions taken actions that could have triggered a coercive response from Beijing, but instead the response was weak, nonexistent, or aimed at a smaller ally or partner of the United States. For example, when Pelosi traveled to Taiwan to demonstrate Congress's support for the island and its democracy, it was Taiwan, not the United States, that bore the brunt of China's coercive measures.⁴⁹ China's sole direct response to the United States was limited to canceling channels of engagement on issues like climate and counternarcotics trade.⁵⁰ Even other large economies, like France, have faced higher costs than the United States for similar actions Beijing perceives as an offense. For example, in 1992, the PRC government closed the French consulate and French Trade Commission in Guangzhou and excluded French firms from contract bidding in response to the French transfer of frigates to Taiwan.⁵¹ In that same span of time, Beijing appeared to have restrained itself from taking similar actions toward the United States despite the latter's more frequent and expansive history of defense transfers to Taiwan.⁵²

Another example is the 2019 addition of Huawei to the U.S. Department of Commerce entity list under the administration of U.S. president Donald J. Trump.⁵³ The move directly challenged the core business operations of the Chinese telecoms giant, and while Beijing condemned the listing, it did not retaliate against the United States directly.⁵⁴ Instead, China threatened coercion against foreign companies (not just those based in the United States) by announcing a notional unreliable entities list, analogous to the U.S. entity list.⁵⁵ Likewise, Beijing's response to the recent spate of export controls that the administration of U.S. president Joe Biden has placed on semiconductors and semiconductor manufacturing equipment has been similarly muted—though the aforementioned recent reporting suggests China may be considering retaliating against the United States by placing export restrictions on solar technologies.⁵⁶

TARGETED AT POLITICALLY INFLUENTIAL OR SYMBOLIC INDUSTRIES

Beijing appears to target industries as much for their political importance as for their economic impact. By targeting industries with influential lobbies, Beijing aims to put political pressure on the target, increasing the likelihood of acquiescence to Beijing's demands.

In the case of the Philippines, China targeted Philippine banana exporters through inspection delays and suspensions. For the Philippines, bananas are a strategic export, and banana farmers, largely based on the southern island of Mindanao, wield significant political influence.⁵⁷ The import suspensions threatened farmers' livelihoods by interrupting strict business cycles. The banana lobby urged the Philippines government to appease Beijing in order to alleviate the situation.⁵⁸ By putting economic pressure on influential industries, Beijing translates its economic leverage into domestic political pressure in the target country. Even if the economic impact of a coercive measure can be weathered by a target country, it may be more difficult for that country to withstand the increased domestic political pressure from powerful interest groups.

In the case of Lithuania, the Chinese government pivoted to targeting German firms in an effort to exert greater political pressure on Vilnius to acquiesce.⁵⁹ Meanwhile, Norway found its globally prominent farmed

salmon industry in China's crosshairs. Australia's wine industry, one of the largest in the world, was hit with tariffs of over 200 percent, losing access to its most lucrative market in China.⁶⁰ Wine grapes are grown across Australia, and Australia's powerful agriculture lobby represents their growers.⁶¹ In general, agriculture and commodities lobbies are politically influential. In addition to the Philippines, Norway, and Australia, China targeted agricultural products and commodities in Canada, Mongolia, Australia, and Lithuania.

INSIGNIFICANT COST AT THE MACROECONOMIC LEVEL

Despite its size advantage, China so far has proven unwilling—or possibly unable—to impose significant economy-wide costs on the targeted country. That is not to say that China's economic coercion has not imposed any costs. It has been costly for targeted firms such as South Korea's Lotte, which suffered an estimated \$1.78 billion in damages due to China's coercive actions.⁶² The reduction in Chinese tourist visits also hit Korea's tourism sector particularly hard, with some estimates placing the cost as high as \$15.6 billion, as fewer Chinese tourists spent money shopping, dining, and lodging in South Korean establishments.⁶³ However, there is reason to believe this estimate is overstated, as the underlying study fails to account for potential increases in non-Chinese tourism. For example, another study found that although arrivals of Chinese tourists to Jeju Island declined by 46 percent in March 2017, an influx of domestic tourists led to an increase in the total number of tourists visiting Jeju for that month.⁶⁴ In addition, the Bank of Korea estimated South Korea's GDP growth was just 0.4 percent less than it would have been absent China's coercive economic measures.⁶⁵ For context, the sanctions literature points to 2 percent of gross national product (GNP) as the threshold cost for sanctions to begin to have effect on the target.⁶⁶ The U.S.-led multilateral sanctions regime that brought Iran to the negotiating table during the administration under U.S. president Barack Obama cut Iran's GDP by 17 percent.⁶⁷

China's import restrictions have also led to decreases in trade in the targeted sectors between China and the targeted state. For example, the value of Canada's exports to China declined \$4 billion in 2019.⁶⁸ Australia's exports to China also decreased by approximately \$4 billion dollars in the targeted sectors in the year following the call by Canberra for an investigation into the origins of the Covid-19 virus.⁶⁹ Likewise, Norway saw a reduction in total exports to China of between \$780 million and \$1.3 billion between 2011 and 2013.⁷⁰

However, while these declines may be costly for the affected sectors, the costs represent only a fraction of each country's total value of exports. For context, Canada's total exports were valued at \$447 billion in 2019, while Australia's were valued at \$245 billion in 2020.⁷¹ Norway's total exports reached \$160 billion in 2011.⁷² In addition, trade diversion helps further offset the macroeconomic costs of China's economic coercion. Canadian canola found its way to China via the United Arab Emirates; Norwegian salmon made an additional stop in Vietnam; and Australian coal was rerouted to markets in India, Japan, and South Korea.⁷³ In fact, the Australian Department of the Treasury estimated that Australian exporters offset the \$4 billion decline in exports to China with an increase of \$3.3 billion of exports to new markets.⁷⁴ Thus, the net loss due to China's coercion was just 0.25 percent of the value of Australian exports.⁷⁵

Unsurprisingly, China's coercion also has had little impact on the overall bilateral structure of trade with the target country. What is surprising is that in some cases trade between China and the target country actually increased during the coercive campaign. For example, South Korean exports to China went up by approximately 14 percent in 2017 amid the dispute over the THAAD deployment.⁷⁶ In addition, a \$7 billion investment by Samsung in its Xi'an operations was allowed to go through unimpeded.⁷⁷ Indeed, China largely avoided targeting Korea's export of intermediate inputs, which account for approximately

70 percent of Korea's exports to China.⁷⁸ Likewise, the overall value of Australian exports to China increased by 10 percent following Australia's call for an investigation into the origins of the Covid-19 virus, and Norwegian trade with China reached a historic high in 2015.⁷⁹ As was the case with Samsung, China also did not block ChemChina's \$2 billion purchase of a Norwegian silicon producer.⁸⁰

DEPLOYED IN CASES OF ASYMMETRIC ADVANTAGE

Beijing prefers to target sectors where it has both an asymmetric advantage in the structure of trade and in which protectionist measures can directly benefit domestic constituencies. At the time China cut off its rare earth exports to Japan in 2010, Japan depended on China for more than 90 percent of its rare earth imports.⁸¹ The move to curtail rare earth exports appeared to garner domestic political support in China, as it corresponded to state initiatives to limit production that had preceded the Senkakus incident as part of a broader rethink of the environmental, economic, and strategic benefits of a more disciplined export strategy.⁸²

Beijing also appears to settle on imports for which it can easily find substitutes. Although China depended on Canada for more than 90 percent of its canola imports, it managed to make up for its losses by increasing imports from Russia, Ukraine, and the United Arab Emirates, and by dipping into its strategic agricultural reserves.⁸³ Beijing also may have hoped the embargo would spur increased domestic production of rapeseed.⁸⁴

China tends to target commodities in which it enjoys relatively low import dependency and can access an abundance of global suppliers while avoiding escalation in areas where it relies heavily on a handful of trading partners. Here the contrast between Beijing's treatment of Australian coal and iron ore is instructive. China occupies near-monopsony status for Australian exporters of iron ore, accounting for nearly 80 percent of all Australian export sales in 2021.⁸⁵ But although Australia cannot afford to lose the Chinese market, Beijing appears reluctant to exploit this interdependency—perhaps aware of the risks to economic growth, especially in the critical downstream infrastructure and property sectors, that a sudden halt to iron ore imports could pose for China. The global iron ore market is dominated by a handful of large producers in Australia and Brazil, who collectively dwarf Chinese domestic supply.⁸⁶ From 2016 to 2020, China's import dependency on iron ore averaged a staggering 80 percent, with Australian imports accounting for well over half of the total.⁸⁷ In 2021, even amid heightened trade tensions, Australia continued to supply over 60 percent of China's overseas iron ore purchases.⁸⁸

By contrast, from 2007 to 2019, China's import dependency in coal consistently remained below 10 percent.⁸⁹ Moreover, China produces by far the most coal of any country in the world, with ex-China supply divided up among a long tail of smaller producing countries, among which Australia is an important but not indispensable provider.⁹⁰ Even during a period of spiking demand and energy rationing in late 2020, the Chinese government allegedly persisted in blocking large quantities of Australian coal from entering its ports.⁹¹ That Beijing refrained from meddling with shipments of Australian iron ore implies certain limits to the Chinese leadership's risk tolerance in weaponizing its buying power. Even when it holds a dominant share of global demand for a particular commodity, China may avoid direct confrontation if it lacks sufficient flexibility to ensure continued access for itself—especially if the commodity in question is vital to its investment-centric economic model.

A 2017 editorial in the *Global Times* made explicit the case for asymmetrical targeting, arguing in response to South Korea's announcement of THAAD deployment: "To the greatest extent possible,

sanctions towards Korea must identify the areas where [we] can deliver significant unilateral losses to Korea, or those where the particular scope of damage to Korea is disproportionately larger than damage to China.”⁹² This asymmetry was reflected in Chinese targeting of Lotte stores, for which Chinese alternatives on the mainland existed, and tourism, as Chinese tourists made up the largest number of foreign visitors to South Korea.⁹³

INNOVATION, ADAPTABILITY, AND RISK AVERSION

As China has increasingly turned to economic coercion, Chinese policymakers have shown a propensity to experiment, refining their coercive tools and applying the lessons learned from one coercion campaign to the next. As a result, China has developed an expansive repertoire of coercive measures, which are often used in various combinations to affect the same target (Table 4).⁹⁴

Table 4. Tools and Relevant Cases of Chinese Economic Coercion

Type	Tool	Cases
Trade	Import delays and suspensions	Australia, Mongolia, Philippines
	Private and SOE contract suspensions and refusals	Lithuania, Norway
	Enhanced inspections and technical barriers	Australia, Canada, Japan, Lithuania, Norway, Philippines, South Korea
	Key export restrictions	Japan
	License revocations and refusals	Australia, Canada, Lithuania
	Warnings to/restrictions against third-country firms working with target country	Lithuania
	Increased tariffs/fees	Australia, Mongolia
	Punishments to target country firms operating in China	South Korea
Diplomacy	Diplomatic contact freezes	Australia, Japan, Lithuania, Norway, Philippines
	Diplomatic warnings	Australia, Canada, Japan, Lithuania, Mongolia, Norway, Philippines
	Trade negotiation and economic dialogue suspensions	Australia, Mongolia, Norway, Philippines
	Warnings to third countries	Norway
	Diplomatic relations downgrades/ambassador withdrawals	Lithuania
	Diplomatic protests and démarches	Canada, Japan, Norway, South Korea
	Visa issuance suspensions and exclusions	Australia, Norway
Capital	Cancellation of negotiations of development agreements/finance	Mongolia
	Cancellation of negotiations of concessional loans	Mongolia

Travel	Travel advisories and warnings	Canada, Philippines, South Korea
	Tourist package curbs	Japan, Philippines, South Korea
Propaganda	Calls for popular boycotts by state-affiliated media	Australia, South Korea
	State media propaganda	Australia, Philippines, South Korea

Note: This list is not exhaustive. It covers a sample of the tools employed by China in the cases addressed in this report.

Source: Authors' research and analysis.

China has demonstrated risk aversion in its deployment of its coercive economic measures. Indeed, China's preference for economic tools over military tools is in part driven by a desire to limit escalatory risk.⁹⁵ Likewise, when selecting sectors to target, China will often choose sectors in which it has some prior experience of manipulating commercial flows. For instance, prior to the Meng case, China had restricted Canada's canola exports in both 2009 and 2016.⁹⁶ Similarly, Chinese inspection authorities first flagged Philippine banana exports for sanitary concerns in March 2012, a month before the Scarborough Shoal dispute began in earnest.⁹⁷ Philippine officials noted that the timing of China's import stoppage was well planned and was likely indicative of the use of a targeting "template."⁹⁸ In focusing its coercive measures on previously targeted imports and commodities, Beijing gravitates toward tactics that proved effective in the past at an acceptable domestic cost.⁹⁹ There is also the added benefit of enhanced plausible deniability: Beijing can better distance its actions from the political dispute at hand by pointing to a track record of prior regulatory interventions against a given class of imported product.

China avoids implementing coercive tools that are costly domestically.¹⁰⁰ For example, despite Australia's asymmetric dependence on China's market for its iron ore exports, China did not put restrictions on this critical sector of the Australian economy as it would have proven extremely costly for Beijing as well. When the domestic costs of coercive policies grow too expensive, China has adapted by dialing back or abandoning coercive measures, as was the case when Beijing lifted restrictions on Canadian pork imports after African swine fever decimated China's domestic swine herds.¹⁰¹ However, when its coercive economic policies fail to achieve their intended effect, China has also shown willingness to escalate, both vertically and horizontally, and to experiment with novel tactics. The ongoing dispute with Lithuania exemplifies both characteristics.

In the lead-up to the Lithuanian government's decision to open a TRO in Vilnius, China had been slowly applying economic pressure, first by cutting off credit insurance for Lithuanian counterparts of Chinese firms and then by blocking timber and grain exports.¹⁰² After the offending office finally opened, China intensified the pressure by effectively cutting off all trade with Lithuania. However, China's initial punitive measures exerted little economic pain owing to the minimal amount of direct trade between the two countries: Lithuania's exports to China account for just 1 percent of its total exports, and its imports from China make up just 3 percent of total imports.¹⁰³ Beijing adapted by threatening informal secondary sanctions—a novel tactic—on European, primarily German, firms that sourced products from Lithuanian suppliers. This tactic led some European voices to call for Lithuania to back down and prompted the Lithuanian president to express regret over the name choice.¹⁰⁴ However, Vilnius ultimately held firm.

SOME TACTICAL VICTORIES BUT FREQUENT STRATEGIC SETBACKS

Lithuania's refusal to back down reveals a final characteristic of China's economic coercion: its frequent ineffectiveness. The TRO in Vilnius still bears its name.¹⁰⁵ Australia likewise remains defiant and has only

more closely aligned its foreign policy with U.S. policy through the creation of AUKUS. Where countries have acquiesced to China's demands, China's tactical victories have proven ephemeral and often come with a strategic cost for China. South Korea's current president, for example, has criticized the Three Nos policy that his predecessor used to distance himself from the United States and has promised to pursue a tougher line against China while continuing the former administration's initiative to reduce Korea's economic dependence on China.¹⁰⁶ Japan continues efforts to reorient its rare earth supply chains away from China, while Canada's government has blocked Huawei from entering its 5G networks.¹⁰⁷

Mongolia and the Philippines represent two cases where China's coercion achieved some mixed success. However, neither campaign was costless for Beijing. Even though Mongolia was facing an economic recession and is located precariously between Russia and China, it was not deterred by China's initial threats of economic coercion and still allowed the Dalai Lama to visit. Likewise, although Mongolia quickly capitulated to Beijing's demands after the visit, China's coercive campaign seems to have contributed to the election of the more anti-China candidate in Mongolia's 2017 presidential election.¹⁰⁸

China's economic coercion was arguably more successful against the Philippines, preventing the arrest of Chinese crew members and securing control of the Scarborough Shoal. However, China's coercion prompted the Philippines to challenge China's territorial claims at the Hague, which ruled against China, undermining the legitimacy of its activities in the South China Sea. More recently, the Philippines announced it would allow the U.S. military access to four additional bases, reflecting a balancing back toward the United States in the face of an increasingly assertive Beijing.¹⁰⁹ In addition, the mixing of military and economic tools makes it difficult to tease out causality, a task made even more difficult by the radical foreign policy shift toward greater engagement with China initiated by then-president Duterte.

Table 5 offers a summary assessment of Beijing's success in advancing its tactical and strategic interests in the eight cases of coercion studied. A narrative explanation of these assessments is included in the annex.

Table 5. Case Studies: A Summary Assessment of Outcomes from China's Perspective

Case	Tactical outcome	Strategic outcome	Overall assessment
Japan	Mixed	Loss	Mixed loss
Norway	Mixed	Mixed	Mixed
Philippines	Win	Mixed	Mixed win
South Korea	Mixed	Loss	Mixed loss
Mongolia	Mixed win	Mixed win	Mixed win
Canada	Mixed	Loss	Mixed loss
Australia	Loss	Loss	Loss
Lithuania	Loss	Loss	Loss

Note: See the annex for narrative explanation of assessments.

Source: Authors' research and analysis.

FEATURES MAKING CHINESE COERCION LESS EFFECTIVE

The literature shows that sanctions, in general, tend to be ineffective regardless of the country of origin.¹¹⁰ Moreover, many of the elements that contribute to sanctions' effectiveness are not present in China's use of economic coercion. In fact, several features of Chinese coercion undermine its effectiveness:

Unilateral instead of Multilateral

China deploys its economic coercion unilaterally. Without multilateral buy-in, markets eventually adjust, eroding the impact of China's sanctions. In contrast, sanctions implemented multilaterally are more effective, as it makes it more difficult for the targeted state to find new markets, increases the magnitude and duration of the cost, and grants the sanctions greater legitimacy.¹¹¹

Low Cost Imposed

Although "there is no one-to-one correlation," the greater the costs imposed by sanctions, the more likely they will be effective, especially if deployed against a weaker country.¹¹² However, China's economic coercion thus far has not imposed severe economy-wide costs on the target country—in part because of its unilateralism but also due to China's own risk and cost aversions.

Economic and Political Strength of Target

While China targets smaller countries, these countries are not necessarily weak. The majority of the countries surveyed for this report have healthy economies and political systems. The two exceptions, arguably, are Mongolia, which was facing a recession at the time of the Dalai Lama's visit, and the Philippines, which suffers from systemic political corruption. These are also the two cases in which China's economic coercion was most successful at achieving its policy goal.

Targeting of Adversaries

The effectiveness of China's economic coercion is also likely muted by its propensity to target adversarial countries rather than friendly ones. Sanctions are typically less effective against the former than the latter.¹¹³ On the one hand, when aimed at adversaries, sanctions tend to entrench the targeted countries' negative views of the sanctioning regime, strengthening resolve.¹¹⁴ On the other hand, friendly countries value maintaining their relationship with the sending country and, therefore, are more likely to acquiesce.¹¹⁵

Poor Signaling

The informal nature of China's economic coercion complicates signaling. Coercion is most effective when demands are clearly linked to reasonable and limited goals.¹¹⁶ However, if China explicitly ties its coercion to a trigger, this could undermine its plausible deniability. The informality of China's coercion also seems to complicate its deterrent effect, as China is unable to say explicitly what the punishment will be for a transgression, instead preferring to speak in generalities about the damage an unwanted act or policy will do to bilateral relations with the target state. To be sure, the opposite could also be argued, in that the ambiguity surrounding the triggers of economic coercion may make countries more cautious about violating China's core interest. China also has proven consistent in ceasing its coercion when desired concessions are made. In fact, the lack of clear signaling about what those concessions are may give China more room to negotiate.

Lack of Adequate Inducements

Coupling sanctions with inducements can increase their effectiveness.¹¹⁷ China has attempted to do this but not always with great effect. For example, in the Norway case study, it was arguably the opportunity to resume free trade negotiations with China that prompted Oslo to issue the apology rather than the import restrictions on salmon, which by that time were imposing little, if any, cost on Norway.¹¹⁸ Likewise, after then-president Duterte decided to pursue reconciliation with China, Beijing announced \$24 billion in investments in the Philippines. However, Philippines-China relations soured again after much of this failed to materialize, while Norway-China trade negotiations have since broken down.¹¹⁹

WHY CHINA CONTINUES TO COERCE

If China's use of economic coercion is often inimical to its own strategic interest, the question arises: Why does China continue to engage in this behavior? Economic coercion sends a signal of resolve, and for every country that chooses to maintain its course in the face of Chinese pressure, many others might quietly adjust their policies to remain in Beijing's good graces.¹²⁰ While the counterfactual cannot be known, the CCP may persist in using such techniques despite their seeming ineffectiveness, at least in part because it values their highly intangible deterrent effect. This too would help explain China's preference for disproportionate, rather than measured, responses. An example must be made by "killing the chickens to scare the monkey," to quote the Chinese idiom.

While again recognizing the difficulty of quantifying the effects of deterrence, it is far from clear that China's economic coercion is an effective deterrent. China certainly has success cases. Nineteen states declined to attend the 2010 Nobel ceremony at Beijing's request, for example.¹²¹ Nevertheless, in several cases, states targeted by China's economic coercion have continued to pursue policies that run contrary to Beijing's interests. Australia, for example, banned Huawei from its 5G networks, called for an investigation into the origin of the Covid-19 virus, and joined AUKUS.¹²² Canada likewise banned Huawei from its networks.¹²³ Several other countries followed suit.¹²⁴ While there may be a general, if difficult to measure, perception that states avoid making statements about China's human rights abuses in places such as Xinjiang and Hong Kong out of fear of China's retribution, there is also a measurable decline in public opinion of China around the world¹²⁵—for which Beijing's bullying behavior may be at least partially to blame¹²⁶ and which hypothetically should make it politically easier for politicians to stand up to China, diluting the deterrent effect of its economic coercion.

Given the unclear deterrent effect, China's seemingly counterproductive use of economic coercion might also be understood through the logic of "appropriateness" rather than the logic of "consequence."¹²⁷ States, like individuals, act not just according to expected outcomes but also based on the values they hold, regardless of the consequences. China increasingly views itself as a major power and therefore feels it cannot abide slights or challenges from lesser powers. In Beijing's view, such provocations demand a response. The logic-of-appropriateness framework, in combination with China's risk aversion, also helps explain Beijing's preference for targeting small countries: just as small states are less likely to escalate, insubordination from small states is more intolerable to self-defined great powers.

Along with Chinese president Xi Jinping's centralization of power, China has become more nationalistic.¹²⁸ Its leaders have become even more sensitive to challenges to CCP legitimacy. The triggers of China's economic coercion all relate to the party's declared core interests.¹²⁹ In a more nationalistic domestic political environment, failure to respond with sufficient force could challenge the careers of individual officials as well as the CCP's domestic legitimacy. Therefore, although China's

use of economic coercion may impede its foreign policy objectives, to the extent that it also enhances the regime's domestic legitimacy, Beijing may consider the diplomatic costs manageable.

Looking ahead, Beijing's use of economic coercion is likely to continue. Through its dual circulation strategy, the CCP hopes to enhance China's position in the global economy, deepen its resilience to external shocks, and gain economic leverage over its trading partners by reshaping global supply chains and boosting domestic consumption.¹³⁰ At the same time, Chinese political rhetoric has steadily grown more nationalistic.¹³¹ Bolstered by the ever-improving capabilities of the People's Liberation Army (PLA), and with major political anniversaries looming, the party's sensitivity to challenges to its core interests—especially its one-China principle—will likely increase. If China's power continues expanding, Beijing will find it even less appropriate to tolerate slights from other smaller states. Assuming geopolitical tensions between the United States and China continue apace, a risk-averse Beijing will likely continue to prefer economic tools to more escalatory military ones in its efforts to coerce other states.

If China's use of economic coercion is likely to proliferate in tandem with its economic power, how might its approaches to coercion evolve? First, Beijing may seek to expand its still-limited arsenal of formal coercion instruments, such as the Unreliable Entity List and Anti-foreign Sanctions Law. So far, the effect of such tools has been largely symbolic, with China's leaders seemingly reluctant to antagonize foreign companies at scale—but this could change. While this greater degree of formalization could hinder China's ability to adapt to changing circumstances and constrain its attempts to project ambiguity, increased use of formal measures could also complement informal pressures in ways that amplify the deterrent effect of China's coercion tactics. Formality might also enhance enforcement and provide China's coercive measures with greater legitimacy.

Beijing is also likely to continue to use economic coercion in conjunction with noneconomic tools, as shown in the PLA's ramped-up exercises in the waters around Taiwan following Speaker Pelosi's visit. Further, China may grow more comfortable in challenging the policies of larger countries, as shown by its de facto secondary sanctions against German companies in the case of Lithuania. The dual circulation framework indicates that China will likely continue to seek out sectors of target economies of high political salience where China enjoys an asymmetric advantage and can readily find substitute sources of supply.

Box 3. A Study in Contrasts: U.S. versus Chinese Approaches to Economic Coercion

As the world's largest economy and holder of the world's reserve currency, the United States practices economic coercion. However, the United States' coercive conduct differs from China's in many important ways.

Unlike China, the United States conducts its coercive economic policies through formal legal instruments that typically allow for some form of judicial review.¹³² For example, policy guidance from the U.S. Treasury Department Office of Foreign Assets Control (OFAC) allows, under certain circumstances, sanctioned persons whose assets have been frozen to access a portion of those blocked funds to cover their sanctions-related legal fees.¹³³ Whether economic coercion methods are initiated via executive order, the executive branch's multistep rulemaking process, or congressional action, the U.S. government tends to publicly cite a legal basis and policy rationale, name the affected parties, and offer some form of written guidance for compliance.

In the post-9/11 era, the United States has used financial sanctions as its coercive tool of choice, reflecting

its centrality in the international monetary system.¹³⁴ This contrasts with China's preference for restricting access to its large domestic market, reflecting its comparative advantage in the global economy. Where China's coercion has largely targeted democratic countries and private firms in response to perceived violations of China's core interests, the United States primarily targets authoritarian governments, state sponsors of terrorism, and individuals and groups involved in criminal activity or human rights abuses.¹³⁵ Also unlike China, which acts unilaterally, the United States prefers to act in concert with allies and partners. A recent example is the multilateral sanctions package levied on Russia in response to its invasion of Ukraine. However, it is important not to gloss over the tensions U.S. economic coercion can create between the United States and its allies and the fact that the United States will act unilaterally at times.

Even before the Trump administration launched a trade war against the European Union when the United States placed tariffs on steel and aluminum imports under Section 232 of the Trade Expansion Act, U.S. allies and partners were the target of U.S. economic coercion, primarily via U.S. secondary sanctions. These controversial sanctions target foreign entities that transact with the original subject of a U.S. sanction in an effort to coerce multilateral cooperation and enhance the economic effect of the primary sanction.¹³⁶ Secondary sanctions differ from other types of U.S. economic coercion, not only in their targets but also in that they are designed to have a deterrent effect rather than punish or obtain a change in the target's behavior, which is the primary object in most instances of U.S. economic coercion.¹³⁷ Although President Biden has sought to reemphasize allied cooperation after the unilateralism of the Trump years, with some notable successes, his administration has nevertheless demonstrated a willingness to act alone. The recent sweeping set of export controls blocking the sale of advanced semiconductors and semiconductor manufacturing equipment to China are a notable example.¹³⁸

The export controls on semiconductors and semiconductor manufacturing equipment from October 7, 2022, also highlight the increasing centrality of export controls in U.S. economic coercion.¹³⁹ The Trump administration made use of export controls to target China's techno-industrial base, starting with telecom giants Huawei and ZTE, before eventually deploying them against hundreds of firms with alleged ties to the Chinese military.¹⁴⁰ The Biden administration has systematized and expanded the use of this tactic, with national security adviser Jake Sullivan arguing, "Technology export controls . . . can be a new strategic asset in the U.S. and allied tool kit."¹⁴¹ His remarks followed the Biden administration's use of export controls to deprive the Russian military of technologies and components needed to sustain military operations and previewed the more aggressive turn the administration was about to take against Beijing.¹⁴²

In contrast to the United States, China has rarely used export restrictions in its coercive campaigns. The curtailment of rare earth exports to Japan and, to a lesser extent, the trade embargo of Lithuania are notable exceptions. The United States, thanks to its central position in high-tech supply chains, can also make use of the foreign-direct product rule (FDPR) to strengthen the effectiveness of its export controls.¹⁴³ Much like secondary sanctions, the FDPR allows the United States to coerce multilateral cooperation by threatening to sanction exporters of products that contain U.S. technology or components.

As the world's two largest economies, both the United States and China leverage their economic power to advance strategic goals and defend their national interests. However, there are important differences between why and how these two countries use economic coercion. These differences reflect not only the two countries' differing comparative economic advantages, but also their different values and the United States' access to a strong network of allies. In sum, U.S. economic coercion is more transparent, is grounded in domestic law, and often strives for multilateral implementation, even if that multilateralism requires coercion.

Part 2

Toward a Counterstrategy

The Biden administration has publicly stated a desire to “identify and address economic coercion.”¹ According to Secretary of State Antony Blinken, the United States seeks a future where “countries are secure from coercion and aggression” and work to “stand together with others against economic coercion and intimidation.”² U.S. ambassador to Japan Rahm Emanuel has been a leading voice in the administration on this issue. Commenting for this study, Ambassador Emanuel offered these thoughts on countering China’s coercion:

China is increasingly deploying its economic muscle on behalf of political objectives, and there are no signs it will abandon economic coercion as a tool of statecraft. The evidence is clear. The policy tools vary. The current international response is lacking. Our policy toolkit needs updating. Clarifying authorities to support foreign partners will help us win this battle. By working with a coalition to support victims quickly, we show the value of a rules-based order and U.S. leadership. Economic coercion requires a collective response, and the coalition must be led by the United States.³

Congress too has taken an interest in the issue. In the last Congress, legislation was introduced in both the House of Representatives and the Senate directing the White House to create an interagency task force dedicated to countering China’s economic coercion.⁴ This language was also included in the 2023 National Defense Authorization Act, which will establish a task force led by the National Security Council.⁵ The new Congress has also seen legislation addressing China’s economic coercion reintroduced.⁶ Drawing on the lessons from the case studies in part one, this report contributes to the emerging policy debate on how best to counter China’s economic coercion by putting forward a counterstrategy for the United States.

China's Economic Coercion and U.S. Interests

Any strategy to counter Chinese economic coercion must begin with a clear articulation of how China's coercion impacts U.S. interests. While it is generally assumed China's coercive actions run contrary to U.S. interests, a closer examination reveals a more complex relationship.

China's coercion challenges the rules-based international economic system that has allowed the United States, its allies and partners, and China itself to prosper in the post-Cold War era. China's economic coercion can also divide U.S. allies and partners as firms in friendly countries often stand to benefit commercially from the economic pain inflicted on the targeted country. While it is difficult to know how powerful the deterrent effect is, fear of economic retaliation may make it more difficult for the United States to build coalitions that push back against China's human rights abuses and territorial violations.

Counterintuitively, China's use of economic coercion also intersects with U.S. interests. As China gains strength, its use of that strength to coerce smaller countries has harmed its global image.⁷ In addition, a new consensus in Washington has emerged regarding economic relations with China. During the Trump administration, decoupling in strategic sectors was controversial, but under the Biden administration, targeted decoupling has been formalized, systematized, and expanded.⁸ There is now strong bipartisan consensus that at least some decoupling from China is in the interest of the United States, with the debate shifting to how much and how best to achieve that.⁹ China's use of coercion drives decoupling as countries and firms rethink their dependency on the Chinese market and seek to mitigate risk in the face of Beijing's capricious and arbitrary behavior. Although there are limits to how much noneconomic diversification market forces will bear, China is at least in part playing "bad cop" with its coercive measures, pushing firms and U.S. allies to diversify without the U.S. government having to expend political and diplomatic capital. Further, as this report assesses, China's economic coercion has a mixed record of achieving its tactical aims; even when successful tactically, it often harms China's strategic interests.

China's economic coercion, then, works both for and against U.S. interests. All else equal, Beijing's bullying might enhance the image of the United States vis-à-vis China. However, China's coercion is costly for targeted firms and sectors, and its use can deter allies and partners in ways that violate U.S. interests. In addition, while China's economic coercion may create the perception that China is an unreliable economic partner, such behavior has not been sufficient to spur the level of supply chain adjustments and sensitive technology export limits deemed necessary to protect U.S. national security, in part because China forgoes targeting the critical technologies it needs in its coercive campaigns. Indeed, given the size and importance of China's market, it is not feasible nor advisable for states to eliminate every economic dependency.

China will remain enmeshed in the international economic order for the foreseeable future. Economic coexistence is necessary. The United States should therefore not tolerate China's use of economic coercion. Nevertheless, a comprehensive counterstrategy should account for the ways that Chinese coercion can, at times, align with U.S. interests. In short, it should increase the costs for China due to its own self-defeating behavior while mitigating the harm to U.S. allies and partners and international norms and rules. A counterstrategy can achieve this by accomplishing the following:

- Reduce the economic and political pressure China's economic coercion places on U.S. allies and partners.
- To the extent possible, accelerate the hardening and decoupling of allies' and partners' sectors and supply chains, especially in critical technologies.
- Highlight U.S. efforts to assist targeted nations and draw attention to China's problematic behavior.

A strategy based on the concept of deterrence by denial is best suited to achieve these objectives and, in doing so, deter future acts of economic coercion by China.¹⁰ Unlike deterrence by punishment, which threatens to inflict penalties, deterrence by denial makes an action infeasible by decreasing its likelihood of success. In the context of countering China's economic coercion, deterrence by denial has several advantages over deterrence by punishment.

Deterrence by Punishment versus Deterrence by Denial

Deterrence is most often associated with punishment.¹¹ That is to say, if to deter is “to prevent from action by fear of consequences,” the consequences to be feared, under a deterrence-by-punishment framework, are cultivated through threat of punishment.¹²

The Cold War doctrine of mutually assured destruction is the paradigmatic example of deterrence by punishment. Nuclear war between the United States and Soviet Union was avoided by the recognition that an attack on one would prompt a retaliatory strike by the other, making a first strike in neither's interest. Although some have argued a similar logic of punishment should be applied to deter China's economic coercion, attempting to counter China's economic coercion by threatening retaliation in kind would face several challenges.¹³

PUNISHMENT AND THE WILLINGNESS DILEMMA

Credibility is the foundation of any deterrence policy. For a threat to be credible, the sender must both be willing and able to carry it out.¹⁴ In the context of retaliating against China for its use of economic coercion, the United States, the world's largest economy, with the deepest capital markets and most innovative technology sector, undoubtedly can inflict significant pain on China through the use of economic measures. The Trump administration's trade war and the Biden administration's export controls on semiconductors clearly demonstrate this ability. The issue, then, is not capability but willingness.

In the context of China's economic coercion, signaling willingness to carry out threats is made more difficult by China directing its coercive measures at U.S. allies and partners rather than at the United States itself. It is one thing to threaten retaliation to a direct attack on the homeland; it is another to do so on behalf of a third party, especially when retaliation carries direct domestic costs while the attack on the third party does not. This is especially true in instances of Chinese economic coercion where U.S. firms and producers stand to benefit commercially from an ally's misfortune. In the deterrence literature, expanding deterrence to include allies and partners is known as “extended deterrence” as opposed to “primary deterrence,” which aims only to deter threats on the homeland.¹⁵

For Thomas Schelling, “the difference between the national homeland and everything ‘abroad’ is the difference between threats that are inherently credible, even if unspoken, and the threats that have to be made credible.”¹⁶ French general Charles de Gaulle captured the essence of this willingness dilemma in the context of extended deterrence when he asked U.S. president John F. Kennedy if the United States would, in the context of nuclear war, be willing to “trade New York for Paris.”¹⁷ Thankfully, the stakes are much lower in the economic domain than in the nuclear one. In the case of economic coercion, an analogous exchange might be between wines—Napa Valley cabernet sauvignon for Australian Shiraz—instead of cities. However, the comparatively low stakes complicate willingness and thus credibility in other ways.

A military attack on a treaty ally, or even a friendly non-ally, may have the effect of rallying the American people, making them willing to bear costs even if the United States is not threatened or attacked itself and thereby making a threat of retaliation on behalf of an ally a credible threat. The response to Russia's invasion of Ukraine is a recent, if imperfect, example. At the same time, given the high stakes involved in the military—and especially the nuclear—domain, even if a threat does not seem rational, it still may have a deterrent effect. If the odds were only one in 100 that the United States would have traded New York for Paris, would the Soviet Union still have wanted to wager all of Moscow?

In the context of economic coercion, China could probe the credibility of U.S. economic threats without fear of major consequences. Losing access to U.S.-sourced Napa cabernet seems a small price to pay when defending a core interest, while commercial harm to Australian Shiraz sellers seems unlikely to rouse the sympathies of the American people. Moving up the escalation ladder also does not necessarily represent a solution for the United States. Threats are more credible when they are proportional. If the threat is too extreme relative to the behavior being deterred, the target will dismiss it as unrealistic.¹⁸

As discussed, though China's coercive economic policies may be costly at the sectoral level, they rarely, if ever, have a significant macroeconomic impact on the targeted country. Therefore, if the United States were to threaten retaliation with policies that had a macroeconomic impact on China, it would represent an escalatory response, one that would carry significant economic costs and political risks for the United States due to the size and centrality of China's economy. This strains the credibility of such a threat, especially when U.S. firms are not in Beijing's crosshairs.

Even if the threat of retaliation were limited to a proportional response, it is still unclear if the United States would be willing to follow through. The punitive economic measures the United States has implemented against China during the trade and technology war have been justified on the grounds of direct threats to U.S. national and economic security.¹⁹ Would these policies, which carry economic, diplomatic, and political costs, be accepted on the grounds that, for example, Norwegian salmon farmers need U.S. protection?

Even if the United States follows through with similar policies in response to China's economic coercion, it is unclear if this would alter Beijing's behavior. Given that China has not abandoned its industrial policies in the face of U.S. tariffs and export controls, is it reasonable to assume China would acquiesce to perceived challenges to core interests? On the contrary, retaliation may actually help Beijing legitimize its coercion, which is often justified to the Chinese people in nationalistic terms, enhancing the resilience of its policies and maybe even their deterrent effect.²⁰

In threatening to retaliate, then, the United States faces a catch-22. If it responds proportionally, the additional cost incurred by China is unlikely to alter Beijing's calculus. But if it threatens an escalatory response, it becomes more difficult to credibly signal willingness.

The informal nature of China's economic coercion poses another challenge to the credibility of a U.S. threat of retaliation. One strategy for demonstrating commitment to a threat is to ensure the adversary has the "last clear chance" to change their mind.²¹ This is often conceptualized as an army burning the bridge behind it to demonstrate it cannot retreat and to force its opponent to decide whether or not to attack.²² Through the Cold War to today, the United States has signaled its commitment to retaliate in response to an attack on an ally by stationing troops in allied countries where they would be in harm's way in the event of an attack, making it more likely the United States would respond.²³

In masking its economic coercion through the use of informal measures, China is in effect ensuring the United States has the last clear chance to avert confrontation, giving Beijing an advantage in instances of informal economic coercion. Because it is nearly impossible to come up with a definition that clearly captures China's economic coercion, the United States can always back out of its commitment to retaliate by simply agreeing with China's assertion that economic coercion is not taking place. In addition, if a definition of economic coercion were put forward to bind the United States to a response, Beijing could simply find ways to engage in coercion without violating the letter of the law. It is therefore unclear how the United States could metaphorically burn the bridge. Private firms, unlike soldiers, cannot be positioned where coercion is likely to occur. Even if they could, it is unclear if they would even be a target, let alone trigger a response.²⁴

In short, identifying China's economic coercion in practice will always involve some discretion, an element of "you know it when you see it." This discretion is necessary to give policymakers flexibility in their response, but in that discretion, there is also always a path for retreat.²⁵

COALITIONS AND THEIR DISCONTENTS

Attempting to build a coalition to retaliate faces its own set of challenges, not least of which is again the difficulty of establishing credibility. Every country in a hypothetical anti-coercion coalition would face its own willingness dilemma, making achieving consensus on retaliation more difficult than if the United States acted alone.

Moreover, if a targeted member country could simply trigger a coalition response, akin to NATO's Article 5 provision, a moral hazard is created. Members that are relatively unexposed to China's market may be incentivized to take unnecessarily provocative positions vis-à-vis China at the expense of members that are deeply economically intertwined with China, thereby exposing them to substantial risk in a retaliation scenario. Indeed, creation of a moral hazard has emerged as a primary concern among some member states as the European Union moves to implement its anti-coercion instrument.²⁶

The creation of a moral hazard also highlights another related potential problem with a retaliation-oriented coalitional approach: uneven costs and leverage. Not only are countries varied in their dependence on China's market, but China is also varied in its dependence on different countries for different items. So not only are some countries at greater risk of China's retaliation, but there are also countries that could be called upon to incur greater costs to punish China than others. Australian iron ore, for example, has been identified as a Chinese vulnerability that an anti-coercion coalition could exploit.²⁷ China imports around 60 percent of its iron ore from Australia.²⁸ In its coercive campaign against Canberra, Beijing did not target iron ore due to the prospective domestic economic cost. However, Australia also did not cut off iron ore exports to punish China, as that would likewise carry significant domestic costs for Canberra. Nor did Australia need to take this step: Canberra has not acquiesced to Beijing's coercion, and China is now even beginning to make diplomatic overtures as tensions enter their sixth year.²⁹ If Canberra is unwilling to cut off iron ore exports to China when directly targeted by Beijing, why would Australia be willing to do so when a third country is being coerced?

Credibility challenges aside, it is not clear that U.S. allies and partners would be interested in joining a coalition with a mission of retaliating against China. As competition between the United States and China has intensified, U.S. allies and partners have resisted choosing between Washington and Beijing.³⁰ The new multilateral economic groupings and frameworks established by the Biden

administration, such as the U.S.-EU Trade and Technology Council (TTC) and the Indo-Pacific Economic Framework for Prosperity (IPEF), have largely reflected this reality, with the White House refraining from explicitly linking their establishment to concerns about a more confrontational China.³¹ Even the Trans-Pacific Partnership (TPP), which was presented as the economic component of the Obama administration's broader pivot to Asia, kept the door open for Chinese membership should Beijing meet the agreement's high standards.³² In addition, when deciding whether to join such an arrangement, countries would face a window of vulnerability during which China might try to coerce them. The formation of a retaliatory coalition would also play into PRC talking points about U.S. efforts to contain China and undermine its legitimate interests, again legitimizing Beijing's coercive tactics.³³ All of these factors may make third countries less than willing to join a U.S.-led coalition.

Finally, there is the higher-level question of whether deterrence by punishment is the policy path that coerced countries themselves prefer. When facing China's economic coercion, officials from coerced countries generally have expressed a preference for de-escalation and have speculated that U.S.-led retaliation could lead to escalation by Beijing—escalation that likely would not be directed at the United States but again at smaller U.S. allies and partners.³⁴

THE CASE FOR DETERRENCE BY DENIAL

Deterrence by denial offers an alternative better suited to countering China's use of economic coercion than deterrence by punishment. It not only is more credible and conducive to coalition building but also provides the United States with a superior diplomatic message. It faces fewer operationalization barriers and allows the United States and allies to capitalize on the self-defeating aspect of China's behavior in a way that a deterrence strategy based on the logic of punishment fails to account for.

Deterrence by denial aims to prevent an adversary from taking an unwanted action not through fear of punishment but rather through fear of failure.³⁵ Importantly, especially in the context of countering China's economic coercion, deterrence by denial shifts the onus of action from the defender onto the attacker, making it easier for the deterrer to signal willingness. It is the adversary that now has the last clear chance to avoid confrontation.

Where retaliation is by definition taken after the fact, policies aimed at denying China success in its economic coercion can be implemented preemptively. Examples of such policies might include supply chain resiliency initiatives, identification and reduction of asymmetric dependencies in the terms of trade (to the extent possible), and deeper economic integration with allies and partners through the negotiation of free trade agreements to reduce the relative importance of China's market. None of these measures need wait for an instance of Chinese economic coercion to be implemented, and no formal definition of Chinese economic coercion need be agreed on beforehand, depriving China of one of the primary advantages of the informality of its coercive measures.

For deterrence, both by denial and by punishment, to be most effective, the deterrer must clearly communicate its threats or, in the case of denial, its defensive measures.³⁶ Telegraphing defensive steps, or possible punishments, allows the adversary to update their cost-benefit assessment of the action the defender is seeking to deter. In the military domain, if you want to deter an adversary from launching a missile strike, the adversary needs to know that you have a missile defense system before it attacks in order to update their assessment of the likelihood of success. Applying the analogy to the economic domain, knowing that a state is taking steps to reduce the likelihood of economic

coercion being successful allows China the opportunity to update its cost and benefit analysis before implementing coercive measures rather than after the fact.

A deterrence-by-denial strategy has the added benefit of turning what would be a weakness in a deterrence-by-punishment strategy into a strength. It is impossible to guard against every vector of attack. This is especially true in the case of China's economic coercion. Given the size and importance of China's market, it is neither advisable nor possible for states to completely decouple economically. Therefore, China will always have some levers that it can pull in an attempt to influence target states' politics and policies. It should be expected, then, that China will probe for weaknesses in any economic defenses that are constructed.

Under a deterrence-by-punishment framework, failure to respond to Chinese provocation with retaliation would erode U.S. credibility and thus the deterrent effect of the framework. However, under a deterrence-by-denial framework, China can still attempt to coerce a target, but so long as the targeted country does not back down, the framework's deterrent effect is not weakened but instead may be strengthened. Over time, a series of successes where China coerces and the target does not acquiesce can further enhance the deterrent effect as Beijing comes to see the futility of its actions. This is a phenomenon referred to in the literature as cumulative deterrence.³⁷

Another benefit afforded by the deterrence-by-denial approach is that even were it to fail in the sense that Beijing was undeterred, it would still mitigate the impact of China's coercion on the targeted country. In doing so, not only would the costs to China increase, but it would also represent an opportunity for the United States to publicly shame or criticize China for its behavior, a tactic which has been shown effective in the criminology and counterterrorism contexts, where deterrence by denial has had an influential role in policy development.³⁸ In addition, the more Beijing attempts to coerce, the more other potential targets should come to recognize the risks of economic dependence on China and the more willing they should become to work with the United States preemptively to adopt defensive strategies, reducing the effectiveness of future Chinese coercive actions and advancing U.S. efforts to decouple its allies from the Chinese economy in certain sensitive sectors.

Finally, a deterrence-by-denial strategy has distinct advantages for multilateralizing a response to China's economic coercion. Because it does not involve retaliating directly at China, states should be more willing to coordinate their policies, in part evidenced by the interest among allies and partners in U.S.-led supply chain resiliency initiatives, such as those in the TTC and the IPEF. Moreover, unlike in a deterrence-by-punishment strategy, states are not necessarily asked to take an action to help a third country but to take steps that are in their own direct self-interest, such as making their economies more resilient against external shocks. Indeed, Japan and South Korea, both previous targets of China's economic coercion, have undertaken policy initiatives aimed at better insulating their economies from Chinese manipulation via China exit subsidies and the New Southern Policy, respectively.³⁹ As mentioned, allies and partners do not need to agree on a definition of China's economic coercion to coordinate on resiliency initiatives. Instead, all that is needed is mutual recognition that the problem exists.

Box 4. When Is Extended Deterrence by Punishment Warranted?

Should the United States ever pursue deterrence by punishment to counter Beijing's economic coercion of a U.S. ally? A strategy of extended deterrence by punishment faces more acute credibility challenges and could lead to unwanted escalation. It also engenders greater difficulties mobilizing political support

both at home and multilaterally. Still, it is worth exploring whether certain outlier cases might exist—short of a direct conflict between the United States and China—in which Chinese economic coercion may warrant either an ex ante U.S. threat of retaliation or ex post U.S. punishment response.

China's economic coercion could credibly be met with a U.S. threat of retaliation in a scenario where the measures implemented against a U.S. ally are so severe that they cause serious macroeconomic damage. In such a scenario, U.S. interests would be significantly challenged, and the threat of a response that would inflict significant costs on China becomes proportional to Beijing's actions. Further, other countries may be in favor of or in line with a retaliatory response given the scale of the damage.

However, China's economic coercion has never risen to such a level of macroeconomic damage despite arguably having opportunities in the cases of Japan and Australia. In the Japan case, China lifted its rare earths export ban before imposing severe costs to the Japanese economy. In Australia's case, China did not target iron ore due to the domestic costs. Likewise, China opted not to take more severe measures against South Korea when it failed to target trade in "intermediary goods in the IT sector," which also would have incurred domestic costs for China.⁴⁰ This is consistent with Beijing's observed pattern of minimizing costs to its own economy in its implementation of coercive economic measures.

Chinese military writings provide some insight into the conditions under which China's economic coercion might rise to a destructive threshold despite high domestic costs. The PLA's *Course Book on the Taiwan Strait's Military Geography* envisions a seizure of Taiwan enabling blockades of Japan. Military planners speculate, "If we can reduce Japan's raw imports by 15–20 percent, it will be a heavy blow to Japan's economy."⁴¹ Moreover, a reduction in imports by 50 percent "can even create a famine within the Japanese islands."⁴² Obviously, the United States would want to deter a Chinese-imposed famine on the Japanese islands, and the destruction of Japan's "economic activity and war-making potential" would represent a direct challenge to U.S. strategic interests in the Indo-Pacific.⁴³

However, this hypothetical scenario also reveals that to inflict such severe economic damage, China must not only use military means against a U.S. treaty ally but also occupy Taiwan. The former already carries a direct threat of U.S. retaliation, while in the latter case the United States has increasingly signaled it would intervene with economic sanctions, if not militarily. In short, the severe macroeconomic damage that would make a U.S. threat of economic retaliation credible already crosses U.S. red lines and likely also crosses into the military domain—putting it outside the scope of the cases of economic coercion that this report seeks to address.

It is harder to imagine scenarios short of war where China would inflict such severe economic damage, as China has proven itself averse to incurring costs from economic coercion. However, China's central position within the structure of international trade—especially its growing market power over areas such as critical minerals, mature-node semiconductors, and global shipping and logistics—gives Beijing economic leverage over U.S. allies that the CCP is actively seeking to enhance. The CCP's industrial policy goals, as best encapsulated in Xi Jinping's aspiration to "create an enormous gravitational force for international commodities and key resources," appear to envision a future in which China's ever-greater economic centrality translates to a concomitant rise in its geopolitical influence.⁴⁴ At the same time, Beijing is seeking to limit its vulnerability to external economic shocks.⁴⁵ If successful, China may be more willing and able to inflict greater economic costs on states it perceives to have challenged its interests. That said, given the limited economic impact of China's economic coercion observed so far, an escalation by Beijing does not necessarily translate into significant economic damage for a targeted country.

Another scenario where the United States might credibly threaten retaliation is one where a targeted ally requests the United States respond to China's economic coercion with punitive measures. There is likely significant overlap between this scenario and a scenario where China's economic coercion causes severe damage to an ally's economy. In no cases surveyed in this report did an ally appear to request the United States retaliate against China on its behalf, nor did any try to retaliate against China themselves. On the contrary, targeted countries seemed to prefer de-escalation as a response.⁴⁶ In some cases, former officials expressed a belief that U.S. retaliation would only make the situation worse. However, these officials also indicated they sought greater U.S. support amid these crises and were frustrated when support did not materialize.⁴⁷ Any strategy aimed at helping U.S. allies and partners should take into consideration the views of those allies and partners.

Operationalizing a Deterrence-by-Denial Strategy: Recommendations

This study proposes a counterstrategy premised on deterrence by denial rather than by punishment. The counterstrategy has two mutually reinforcing components: preemptive actions focused on building partner resilience (denying the coercer targets of opportunity), and reactive steps focused on providing relief to victims once coercion has occurred (deflecting the coercer's intent). Together these components work to mitigate and over time deter China's economic coercion. The counterstrategy considers the characteristics of and motivations behind China's economic coercion. It acknowledges that China's economic coercion is problematic but also recognizes that China's coercion is not an insurmountable challenge and has a poor track record of success. It focuses on building resilience and providing relief to affected firms and nations instead of directly punishing China and in doing so mitigates costs to potential target countries while maximizing reputational and economic costs for Beijing. Over time, the aim of the strategy is to demonstrate to China the futility of its coercive actions, prompting Beijing to abandon its disruptive behavior.

PREEMPTIVE DENIAL POLICIES

The first pillar of the counterstrategy is preemptive denial. It involves implementing defensive resiliency measures to reduce partners' vulnerability to Beijing's prospective coercion. Acknowledging it is impossible to completely eliminate all vulnerabilities, countries can nevertheless seek to diversify markets and supply chains and proactively identify potential alternative markets should China attempt to disrupt normal commercial relations. These efforts would raise the cost of economic coercion for China while decreasing its likelihood of success.

Specific policies and tools of denial include the following, which should be put in place before any Chinese coercion:

1. Establish an interagency "CoerCom."

The first step is organizational. To pool knowledge and resources, coordinate, and centralize U.S. counter-coercion strategies and initiatives, the U.S. government should establish a new interagency committee: the Committee on Countering China's Economic Coercion, or "CoerCom." The committee would resemble the Committee on Foreign Investment in the United States (CFIUS) in structure.⁴⁸ It would comprise cabinet members and directors from relevant departments and agencies such as the Departments of State, Treasury, and Commerce; units of the Executive Office of the President, including the Office of the U.S. Trade Representative, Office of Science and Technology Policy, Office of Management and Budget, Council of

Economic Advisers, National Security Council, and National Economic Council; and relevant governmental and quasi-governmental agencies such as the U.S. Agency for International Development, U.S. International Development Finance Corporation, and Export-Import Bank of the United States. CoerCom would make recommendations to the president on the policies and tools of denial discussed below.

2. Build a coercion-denial coalition.

The United States should take the initiative by unilaterally setting up its own counter-coercion policies. However, Washington should work to encourage the voluntary adoption of similar approaches by Group of Seven (G7) and other advanced industrial countries, with all such strategies focused on denial rather than punishment. As others set up their own counter-coercion programs, relief policies (discussed below) can be coordinated through G7 processes to enhance the quality and amount of relief flowing to a targeted country.

The next question that arises is to which countries should the United States and other G7 countries extend an “economic security umbrella,” offering them the promise of relief if they were to be economically coerced. In deterrence theory, there is often a tension between inclusivity and credibility. China may not find it credible that the United States would be willing to aid states with whom the United States does not have a strong strategic interest at stake. If the United States makes a commitment and then does not follow through, it raises questions about whether aid will be forthcoming if another country finds itself in Beijing’s crosshairs. If states lose trust in the U.S. commitment, then the deterrent effect of China’s economic coercion remains intact, as states will hesitate to challenge China for fear of retribution.

To maintain credibility, an explicit commitment might be limited to a subset of close treaty allies. It could be expanded out from there to include other allies and strategic partners, then perhaps to countries with which the United States has trade agreements. However, as policymakers decide to delineate U.S. commitments, the basic trade-off between inclusivity, on one side, and costs and credibility, on the other, should be kept in mind. Where the United States does not explicitly commit to providing relief to all countries, it could signal that in special cases where the coercion of a state outside the explicit “economic security umbrella” could still be eligible for relief should an interest of the United States be challenged.

3. Review vulnerabilities.

Governments and firms in countries at risk of coercion should conduct economy-wide reviews to identify potentially vulnerable industries and sectors. Vulnerable industries and sectors can be in part identified by considering patterns of China’s coercive behavior identified in the case studies. Such sectors include those in which China has an asymmetric advantage, has a strategic interest or domestic competitors or interest groups that benefit from protectionism, can readily find substitutes, and will not incur high costs, as well as sectors that are politically important in the targeted country.⁴⁹ Table 6 offers a possible framework for assessing a given sector’s vulnerability.

Table 6. Assessing a Sector’s Vulnerability to Chinese Economic Coercion

Category	Questions to ask
Domestic political influence or symbolic importance in target country	<ul style="list-style-type: none"> ▪ Is the sector represented by influential interest groups? ▪ Does the sector have outsized symbolic significance for national or cultural identity?

Asymmetric advantage for China	<ul style="list-style-type: none"> ▪ Does the sector rely on China for a sizable portion of sales, whereas China has access to alternative suppliers? ▪ Does the sector rely on China for key inputs that are not easily accessed elsewhere? ▪ Would restrictions on trade/commercial activity hurt the target more than China?
Economic, strategic, and/or environmental benefit for China	<ul style="list-style-type: none"> ▪ Would measures targeting the sector benefit Chinese competitors? ▪ Are there environmental benefits for China to shut down or reduce the sector? ▪ Are there strategic benefits for China to develop the sector domestically?
Substitutability	<ul style="list-style-type: none"> ▪ Can China readily find alternatives to the sector? ▪ Are possible alternatives located in countries where China has influence?
History of manipulation	<ul style="list-style-type: none"> ▪ Has China previously targeted or raised concerns about the sector?
Low cost for China	<ul style="list-style-type: none"> ▪ Would China incur little cost from import or export restrictions?

Source: Authors' research and analysis.

The United States can aid allies and partners by providing technical assistance with their vulnerability reviews. CoerCom can provide subject matter experts and coordinate efforts among partners. In addition to identifying vulnerabilities, potential disruptions can be modeled to help inform mitigation strategies. Preemptively identifying alternative markets should speed adjustments during a coercive campaign, reducing costs. Although China has rarely made use of export restrictions, it may look to do so in the future. Therefore, limited stockpiling of critical components by vulnerable firms may be advisable to limit disruption to operations and allow time to identify new suppliers. Much of the knowledge about the structure of supply chains rests in the private sector, so governments should provide incentives and share information so firms can undertake many of these mitigation strategies themselves.

4. Reinforce supply chain resiliency.

The flurry of supply chain resiliency initiatives that were launched amid the supply chain disruptions caused by the Covid-19 pandemic and then accelerated by the war in Ukraine provide a model and a platform for states guarding against China's economic coercion. China exercises its coercive economic leverage largely through other states' dependencies on its market. Therefore, supply chain resiliency initiatives should factor vulnerability to Chinese economic coercion into their assessments when seeking to build resilient supply chains. Efforts to build supply chains less vulnerable to China's economic coercion can be embedded in recently created and ongoing multilateral initiatives such as the TTC and the IPEF, both of which have dedicated supply chain resiliency components. In fact, the TTC has already explicitly stated its members seek to "build resilience to economic coercion."⁵⁰

Separate supply chain resiliency initiatives could be established to address China's coercion, but there is a benefit of couching counter-coercion initiatives within broader ongoing supply chain resilience initiatives. Such positioning provides states with some diplomatic cover, making it less likely China will attempt to deter their participation. That said, it is important that China's economic coercion receive dedicated attention as China tends to target items that ongoing supply chain resiliency initiatives may not cover. For example, there has been significant attention placed on securing semiconductor supply chains,⁵¹ but China has proven reluctant to target high-technology goods in its coercive campaigns, as doing so would harm its own economic development. Instead, China has shown a preference for targeting substitutable commodities and consumer goods that may not receive attention in a narrowly scoped supply chain resiliency context, which tends to focus on goods critical to national security and emergency preparedness. Likewise, ongoing supply chain resiliency initiatives that emerged after the Covid-19 pandemic also primarily focus on possible disruption of access to critical goods and inputs, whereas China, except for in the cases of Japan and Lithuania, prefers to block imports rather than restrict exports.⁵²

Even with government incentives, it can take years and be very costly for firms to diversify their supply chains. Japan's diversification of its rare earth supply chain away from China following the Senkakus fishing boat incident is emblematic. In what may be the most ambitious supply chain relocation effort to date, Japan's move required tens of billions of yen of state investment and a high level of state capacity and intervention in the market.⁵³ After nine years and several setbacks, Japan has made a sizable dent in its dependency on China for rare earths. In 2020 Japan relied on China for 58 percent of its rare earths, down from 85 percent in 2009. Tokyo aims to further reduce that reliance to below 50 percent by 2025.⁵⁴

Japan's efforts draw attention to the difficulty and costs of achieving even moderate levels of resilience and diversification. Japan's case is also unique for a couple of important reasons. China's export restriction on rare earths represented a severe threat to Japan's economy.⁵⁵ It therefore made economic and strategic sense for Japan to devote a large amount of resources to develop alternative sources. In most cases, however, China's economic coercion has not proven extremely costly for the targeted country. Therefore, states considering diversifying their supply chains away from China to mitigate risk of economic coercion by Beijing need to ensure the cure is not worse than the disease. In some cases, the cost of diversification could be greater than the economic pain China is willing or able to inflict via economic coercion. In those cases, it is likely better to be prepared to provide relief to affected firms and sectors after coercion begins (the second component of this strategy, discussed below) than devote significant resources to preemptively diversify supply chains that may or may not be targeted in the future and, if targeted, likely would not significantly harm the economy.

Japan also benefited from unique state institutions, such as the Ministry of Economy, Trade and Industry (METI) and especially the Japan Organization for Metals and Energy Security (JOGMEC), which led and managed Japan's diversification operations.⁵⁶ Other states may lack the capacity to replicate such an ambitious endeavor. Moreover, a broader shift to managed trade is not one that should be undertaken lightly. Japan's dependency on China for rare earths represents a critical vulnerability. There may be other critical vulnerabilities that likewise require large initiatives to diversify. But these efforts should be narrowly targeted. In seeking to counter China's coercion, it is important not to violate the very norms and rules of international commerce that the counter strategy is seeking to protect.

5. Negotiate free trade agreements.

The United States can help strengthen resilience to China's economic coercion by negotiating trade agreements that offer meaningful market access to signatories. Opening U.S. markets to allies and partners can help reduce dependence on China's market and speed market adjustments in cases of coercion. Trade negotiations also present an opportunity for allies and partners to identify and mitigate vulnerabilities to China's economic coercion. In addition, trade agreements offer the opportunity to proactively implement coercion-specific measures. Creative policy solutions might include temporary and additional tariff reduction by signatories on certain goods targeted by China if a signatory finds itself a victim of Chinese economic coercion.⁵⁷

The current unwillingness of the United States to negotiate free trade agreements cedes the economic arena to China, which through its own trade efforts is seeking to shape the international economic environment to one that increases foreign countries' investment in China while insulating the Chinese economy from exogenous shocks—potentially enhancing its ability to carry out economic coercion campaigns against U.S. allies and partners.

6. Establish a U.S. anti-coercion instrument (USACI).

Just as the European Union's proposed ACI would empower the European Commission to put together a portfolio of proportional retaliatory policies in response to an instance of economic coercion, the United States should establish its own anti-coercion instrument. However, instead of being comprised of punishment-oriented tools, the USACI should be comprised of new and existing relief-oriented tools collapsed into a single instrument that can be tailored to respond to the unique circumstances of each specific incidence of Chinese economic coercion. This will provide the United States with the flexibility necessary to respond to China's economic coercion. Specifically, the USACI should be comprised of the following:

a. A new coercion compensation fund

The United States should create and fund a coercion compensation fund. When a case of economic coercion is identified and relief authorized by the president, the funds would be transferred to the targeted country to be distributed to affected industries and firms. CoerCom would recommend how much funding should be released and oversee the distribution of the funds by the targeted government. The funds are not intended to offset the entire cost of China's coercion, but instead to provide some compensation to help cover the costs of finding new markets or suppliers.

It is not expected that this fund would need to be very large to be effective. For example, the two investment support packages that the Canadian government offered its agriculture producers in July 2019 totaled C\$19 million, and given that Canada never relented to Chinese pressure, this amount of support proved sufficient.⁵⁸ The Canadian case also demonstrates that this fund would not be the only relief flowing to affected firms and producers. Instead, U.S. relief would complement relief provided by the targeted country to its domestic industry (see below). In addition, as new markets are found, the need for funding would decrease over time. That said, more research is needed to provide an estimate of the appropriate size of a coercion compensation fund.

b. Existing relief tools

The United States already has numerous tools at its disposal that could be used to aid a targeted country. Preemptively identifying these tools and providing the authority to deploy them in cases of coercion would allow the United States to quickly provide more economic relief to the targeted country. Apart from providing relief, these tools can also help speed market adjustments, further undermining the effectiveness of China's economic coercion. Their use has the added benefit of raising costs, both economic and reputational, for Beijing.

Again, CoerCom would be responsible for recommending which tools to use depending on the specifics of the ongoing case of coercion and the needs of the targeted country. A sample of some existing policy tools that could be deployed includes but is not limited to the following:

- *U.S. Export-Import Bank (EXIM) products:* The EXIM has several financing tools at its disposal to promote U.S. exports. These include working capital loan guarantees, loan guarantees for foreign buyers of U.S. exports, and export credit insurance for U.S. exporters.⁵⁹ Eligibility for these tools could be expanded to include a targeted country's buyers of U.S. exports and U.S. exporters seeking to increase their presence in or enter the market of a targeted country.
- *Sovereign loan guarantees:* The Foreign Assistance Act of 1961 provides the President the authority to provide sovereign loan guarantees, under which the United States guarantees the repayment of loans made to a foreign government.⁶⁰ This allows the foreign government cheaper and easier access to international capital, which, in the case of coercion, the targeted country could use to aid affected firms and producers.
- *Tariff reductions:* Under the U.S. Constitution, authority to adjust tariff rates is vested in Congress. However, Congress often cedes that power to the president to negotiate trade agreements through Trade Promotion Authority (TPA). Likewise, authority could be granted to the president to temporarily reduce tariffs on goods from a targeted country that are facing import restrictions in China. Eligibility for goods could be based on eligibility under Generalized System of Preferences as proposed under the recently introduced Countering Economic Coercion Act of 2023.⁶¹
- *Political risk insurance:* The U.S. International Development Finance Corporation (DFC) currently provides coverage of up to \$1 billion against losses resulting from political risk.⁶² This authority could be expanded to provide political risk insurance coverage to U.S. and foreign investors investing in sectors and firms in targeted countries that have been adversely affected by China's economic coercion.
- *Legal services funding:* The Department of State maintains the Transaction Advisory Fund, which provides funding to government agencies in eligible Indo-Pacific countries for legal advisory services in support of infrastructure projects.⁶³ Funding under this program could be authorized to be made available in cases where China violates the terms of a contract to economically coerce a targeted country.

Deployment of these tools would be case dependent. For example, if China restricted the export of a key commodity or good, it would be appropriate to make use of EXIM tools to encourage U.S. exporters of the same or substitutable products to backfill demand. At the same time, under that scenario, it would not make sense to lower U.S. tariffs on goods exported from the targeted country. Instead, the use of tariff reductions would be appropriate in instances where China restricts its imports from a targeted country. In practice, import restrictions are China's preferred coercive tools, and by reducing U.S. tariffs on those targeted goods, market adjustments can be accelerated, limiting the impact of China's coercion on the targeted country's exporters. Sovereign loan guarantees and political risk

insurance could hypothetically be employed in either cases of import or export restrictions. Both would also be applicable if China were to restrict financing to the targeted country, as was threatened in the case of Mongolia with Beijing's cancellation of negotiations surrounding Chinese loans and funding for infrastructure projects. In such a scenario, the United States could also release legal services funding to help affected countries negotiate or address violations of contracts.

7. Encourage partners to develop their own authorities.

Countries vulnerable to economic coercion should preemptively expand the authority of relevant domestic agencies to provide relief to sectors and firms affected when coercion occurs. As mentioned, Canada leveraged existing authorities to provide its agriculture industry with investment support packages to cover costs of finding alternative markets, and the European Union offered financing for affected Lithuanian firms.⁶⁴ Identifying such tools ahead of time would allow targeted states to respond even faster. Where authorities to provide such relief do not exist, vulnerable countries should preemptively adopt them. Examples might include establishing a program of political risk insurance provided at a discounted rate to vulnerable firms, or concessional loans for affected industries to cover costs until new markets can be found.⁶⁵ The latter would have been particularly helpful in the Philippines case, as banana farmers rely on revenue from harvest to buy seeds for the following year's crop.⁶⁶ When China blocked imports, the business cycle was disrupted, not only harming the current harvest but also affecting the producers' ability to plant the following year. However, an injection of capital to provide farmers the funds to plant the next year's crop would have limited the disruption caused by China's action. Again, the United States could offer technical assistance to help partners develop their own relief instruments.

REACTIVE "DEFLECTION" POLICIES

While the preemptive denial measures described above should reduce China's incentives to coerce vulnerable countries, coercion is likely to continue to occur. Therefore, a second pillar of a deterrence-by-denial strategy is necessary: providing economic relief and other support to a targeted country or sector once coercion has occurred. By reducing the costs of China's economic coercion and relieving political pressure on the targeted government, relief measures should make it easier for the targeted country to resist complying, "deflecting" Beijing's intent. U.S. offers of relief also signal to other countries that if they challenge China, and China retaliates, they will receive support from the United States. This has the added benefit of reinforcing the resiliency-enhancing policies of the first component of this strategy, as reactive relief speeds market adjustments away from China, reducing targeted countries' vulnerability to China's economic coercion in the future. It also provides a means of raising the costs of coercion for Beijing, allowing the United States to indirectly punish China for its behavior without the downsides of direct punishment discussed above.

Recommended post-coercion "deflection" policies include the following:

8. Define actionable coercion.

To release economic relief to a targeted country, an instance of economic coercion must first be identified. This is easier said than done. While the academic definition of economic coercion is straightforward, China cloaks its economic coercion in informality, pointing to alternative explanations for the decline in commercial activity such as sanitary and phytosanitary violations. This makes it difficult to set out a strict definition of economic coercion that would implicate China's behavior. As soon as a definition is set, China could find ways to coerce around it. Instead, to paraphrase Supreme

Court justice Potter Stewart in *Jacobellis v. Ohio*, there will always be an element of “you know it when you see it” when seeking to define China’s economic coercion.

To address the definitional challenges posed by China’s economic coercion, the U.S. president should have the discretion to declare an instance of economic coercion. The process could look something like this: The targeted state would request U.S. assistance in countering China’s economic coercion. CoerCom would then have a short timeline to investigate and submit a recommendation to the president, much as CFIUS does when making a recommendation to the president on a foreign investment in the United States. The recommendation would then inform the president’s decision as to whether coercion is occurring. Congress would have the opportunity to overturn the president’s decision through an up-or-down vote. Moreover, if relief is provided, Congress would have the ability to halt aid at any time through an up-or-down vote. This would ensure congressional oversight and help secure domestic political support for the relief.

9. Deploy the USACI.

Once an incidence of Chinese economic coercion has been positively identified, CoerCom would provide the president with the specific set of relief policies authorized under the USACI (see recommendation 6 above) that the United States can implement to help an ally. The size, composition, and the duration of the aid package would be case-dependent, allowing the United States to tailor its response to the severity and diversity of measures that China employs in its coercive campaigns.

The relief provided to the targeted country does not need to offset the total cost of China’s economic coercion—nor should it, as this might create a moral hazard where the risks of doing business with China are not fully factored into firm-level and state-level decision making. Instead, the goal of relief is to ensure that political pressure from affected sectors and firms on the targeted government is reduced to a level that the targeted government does not acquiesce to China’s demands.

Beyond immediate relief, CoerCom should be tasked with identifying possible opportunities to incentivize and speed decoupling of the targeted country from China in critical technology and other strategic sectors. Although Beijing has avoided targeting high-tech firms, it blocked the import of certain advanced lasers needed for both materials and biotech research as well as advanced manufacturing when it placed a de facto embargo on Lithuania.⁶⁷ During the dispute with South Korea over the deployment of THAAD, it was reported that the South Korean government asked Samsung to reconsider its \$7 billion investment to build a second memory fabrication facility in Xi’an.⁶⁸ However, Samsung went ahead with the investment, and today Samsung’s operations in Xi’an account for 15.3 percent of the global output of NAND flash memory products.⁶⁹ This seems like a missed opportunity to reduce dependency on China.

In the Lithuania case, Taiwan responded by setting up a \$200 million investment fund as well as \$1 billion in credit to incentivize joint ventures between Lithuanian and Taiwanese firms, mainly focusing on synergies between Lithuania’s laser industry and Taiwan’s semiconductor industry.⁷⁰ The United States could consider setting up an additional dedicated fund to incentivize either joint ventures with U.S. firms or investment in the United States by foreign technology firms targeted by China’s economic coercion. The funding might also be attached to restrictions on future investment in China similar to the restrictions included in the CHIPS Act.⁷¹ In cases where a high-tech firm is not directly targeted, such as in South Korea, there is still an opportunity for the United States to advocate for the redirection of pending investments and publicize the risks of doing business with China.

Leveraging China's economic coercion to speed decoupling in critical and emerging technologies has the additional advantage of imposing costs on China that Beijing has proven sensitive to, adding an element of retaliation to an otherwise relief-oriented counterstrategy. It also spares the United States from playing bad cop, expending diplomatic capital to convince reluctant allies to decouple from China in certain sensitive sectors.

10. Support WTO cases.

Whenever possible, the United States should encourage the targeted state to bring a case against China to the WTO. Then the United States and other G7 members should sign on as third parties, which is allowed under WTO rules even in cases where the third parties' economic interests are not directly challenged, if the case represents a broader challenge to the integrity of the global trading system. For example, both Australia and Canada brought cases to the WTO in response to China's coercive economic actions. China's informal approach and the WTO's broken appeals process mean that such legal cases are not an effective response to China's economic coercion by themselves, especially because speed is an essential element of an effective sanctions-busting strategy. However, filing cases, in conjunction with the other steps recommended here, is a low-cost way to signal multilateral support for both the targeted country and international norms.⁷²

11. Enhance diplomatic messaging.

For deterrence by denial to be most effective, the coercer needs to be aware of the upgraded defenses of its targets so that its cost-benefit calculation can be updated. Therefore, the United States and other G7 advanced economies should make statements about, and otherwise publicize, their efforts to build resilience against China's economic coercion. This messaging campaign need not be limited to the G7, but smaller more vulnerable states also need not be pressured to make statements that could be construed as taking a position against China.

Deflection policies should be accompanied by a robust diplomatic messaging campaign with three priorities:

a. Deflecting the psychological impact of China's economic coercion

China's economic coercion has not imposed significant macroeconomic costs on targeted countries. However, the psychological impact can be large, potentially causing targets to acquiesce to Beijing's demands when a more cool-headed analysis of the coercive measures' effects would have reassured policymakers of their ability to absorb the costs.⁷³ Beginning even before China threatens vulnerable/protected states and continuing throughout China's coercive campaign, the United States should message its intention to provide, and highlight its provision of, aid and assistance to targeted countries. In doing so, it can erode the concern China's coercion inspires in vulnerable countries, strengthening the resolve of the targeted state and weakening the deterrent effect of the threat of China's economic coercion.

b. Shaming China by drawing attention to its problematic behavior

Providing relief instead of retaliating affords the United States the diplomatic moral high ground. The United States should take advantage of this opportunity to draw attention to China's problematic behavior and juxtapose it with U.S. efforts to provide economic relief to targeted countries. In theory,

this should increase the reputational costs China incurs from its use of economic coercion and accelerate Beijing's already declining image around the world. At the same time, drawing attention to China's arbitrary and capricious actions may encourage firms to reconsider dependencies on China's market, aiding diversification efforts. If, by contrast, the United States were to pursue retaliation against China, it would surrender the moral high ground and potentially help the PRC legitimize its coercive actions domestically.

c. Highlighting the ineffectiveness of China's coercion

China's coercion is already frequently ineffective. Providing relief will make it even less effective. Drawing attention to this should enhance deterrence by denial by both demonstrating to vulnerable countries they have little to fear from China and signaling to China that its policies do not achieve their intended effect and instead, in some cases, work against Beijing's own interests.

ADDITIONAL FEATURES OF AN EFFECTIVE DETERRENCE-BY-DENIAL STRATEGY

Intertwining Components

Denial policies can encourage states to adopt their own deflection policies, decreasing the burden on the United States and enhancing the sanctions-busting power of the counterstrategy. Supply chain resilience initiatives and free trade agreements, in particular, provide useful platforms. For example, trade agreements could include commitments by signatories to establish their own coercion compensation funds with clear processes for when and how they are deployed. Signatories might also commit to preemptively authorizing relative agencies and departments to provide concessional loans, export credit, political risk insurance, and so on to help speed market realignments in instances of coercion. Embedding such policy discussions in the context of a free trade negotiation or a multilateral supply chain resilience initiative has the added benefit of ensuring coordination and allowing for dissemination of best practices to prevent abuse.

Avoiding Moral Hazard

One theoretical risk to providing relief to firms targeted by China's economic coercion involves placing firms in positions of moral hazard. Firms may not accurately price the risk of doing business in China because they assume the U.S. government will bail them out if they are coerced. This assumption could encourage firms that would have otherwise had incentive to diversify away from China to remain overly dependent on China's market, thus preserving China's economic leverage, which Beijing could translate into future geostrategic influence.

At the same time, states under the U.S. economic security umbrella might also be placed in a position of moral hazard. Again, the expectation of U.S. aid could encourage states to take positions on China that might be popular with domestic political constituencies but are nonetheless overly antagonistic. This could create needless diplomatic tension, constraining U.S. ability to engage with China when needed and expending U.S. resources in an unproductive manner.

However, despite the theoretical arguments for these moral hazards, it is unlikely that either hazard would emerge under the proposed counterstrategy. The amount of relief provided is not intended to offset the total cost of China's coercion; it is only meant to help speed market adjustments and decrease the amount of political pressure targeted firms might place on their home governments. It therefore seems unrealistic to expect that firms would not factor in the possible cost to their

operations due to China's propensity to engage in economic coercion. Likewise, the counterstrategy seems unlikely to encourage states to take overly aggressive positions vis-à-vis China for the same reason. The relief provided is not sufficient to remove all risks. Moreover, the processes in place for identifying instances of economic coercion should guard against frivolous claims of economic coercion. Unlike in a punishment-oriented strategy, there is little risk for unnecessary escalation.

Domestic Political Support

Any effective counterstrategy should have domestic political support. Without this, the credibility of the U.S. response could be undermined if targeted countries and China believe the United States will not follow through with promised relief due to domestic political opposition. The most likely stakeholders from which domestic political opposition could arise are U.S. firms and producers that stand to benefit from China's economic coercion of foreign rivals and could be harmed by the proposed U.S. response.

A paradox of China's economic coercion is that while firms in the targeted countries are harmed, rival firms in the United States and in other allied countries can benefit. For example, exports of Californian and French wine to China reportedly increased after China restricted imports of Australian Shiraz.⁷⁴ Providing relief to Shiraz producers in Australia then could rouse accusations from domestic producers of subsidizing foreign competitors. Likewise, reducing tariffs on targeted goods could cause domestic competitors to object. However, despite the possibility of some domestic political opposition, there is reason to believe that the counterstrategy would receive broad political support.

First, countering China has become a point of bipartisan consensus in Washington. Even though some U.S. firms and producers may see their interests undermined by the counterstrategy, their opposition would likely be muted, as members of Congress are loath to look weak on countering China. This dynamic can be seen in the Biden administration's recent export controls on semiconductors and semiconductor manufacturing equipment. Despite the costs for domestic industry due to loss of access to China's market, there has been no vocal opposition from Congress.⁷⁵

Second, the counterstrategy is designed to be both narrowly targeted and subject to congressional oversight, which should help ensure strong domestic political support. Again, the strategy is not intended to offset all costs of China's economic coercion, just to provide sufficient relief to reduce political pressure on the targeted country by helping firms find new markets quickly. The limited nature of the relief should mitigate concerns that domestic industry might have that the U.S. government is subsidizing their foreign competitors. Likewise, the CoerCom review process for coercion claims should guard against free-riding concerns, while congressional oversight throughout the process is designed to ensure domestic constituencies potentially harmed by relief policies have an opportunity to raise concerns through their elected representatives.

Finally, on the denial side of the counterstrategy, there is strong bipartisan support for supply chain resilience initiatives. Although the current protectionist sentiment in Washington has impeded U.S. negotiation of new free trade agreements, most Americans still view free trade as a net positive for the economy.⁷⁶ At the same time, with Americans increasingly supportive of efforts to counter China, positioning free trade agreements with allies as a key component of that effort, especially as a counter to malign Chinese economic influence, may represent a path back to a more robust trade policy.⁷⁷ Moving forward on the preemptive denial components of the counterstrategy has the added benefit of signaling U.S. commitment, as discussed previously.

Speed

The economic sanctions literature indicates that sanctions lose their bite over time as new markets and work-arounds are found, political coalitions within the sending state fracture due to rising costs, and views of the coercing state harden within the target state.⁷⁸ Therefore, it is imperative that relief reaches the targeted country quickly. This means that even if other G7 members adopt similar counter-coercion policies and commitments to aid targeted countries, the United States should still retain the ability to act unilaterally rather than waiting until consensus is achieved among partners on whether a case of coercion merits a response. After the United States acts, it should encourage allies to follow suit, beginning with G7 members.

Iterative Action

To be successful, the counterstrategy does not have to deter China as soon as it is unveiled. Instead, its deterrent effect can be strengthened by each instance of China's economic coercion. Over time, China will come to see the futility and costs of its actions. At the same time, the counterstrategy will signal to allied and partner governments that the United States stands ready to support them. Moreover, each time China coerces, it represents an opportunity for the United States to help a partner country harden its economy to coercion by removing leverage that China might be able to exploit in the future. The two components of the counterstrategy—denial and deflection—effectively reinforce each other this way. Even if complete deterrence is not achieved, the strategy is flexible enough to promote U.S. interests by simply raising the costs and lowering the efficacy of China's problematic behavior.

Credibility

Credibility is essential to any deterrence policy. As discussed above, in the context of countering China's economic coercion, a deterrence-by-denial strategy is more credible than a deterrence-by-punishment approach. However, there are still steps that policymakers should take to enhance the credibility of the outlined counterstrategy, especially the reactive deflection component. Specifically, the relief must be released in clear instances of Chinese economic coercion. The counterstrategy's credibility will be enhanced even more if that relief effectively prevents the targeted country from backing down. If, however, relief is not forthcoming or is ineffective, then China, as well as targeted countries, may come to question U.S. commitment. The result in this case may be that China is not deterred, while third countries self-censor to avoid provoking Beijing. The question of whether the United States will provide relief can be addressed by legislating that the United States must respond, as outlined in this proposed counterstrategy.

Conclusion

U.S. policymakers should be objective about the threat posed to U.S. interests by China's economic coercion. A careful examination of cases of China's economic coercion over the past decade reveals that, while problematic, it has largely been ineffective. It imposes costs on the targeted sectors, but China's own aversion to costs and risks, combined with the power of markets to adapt, limit Beijing's ability to impose significant economy-wide costs on the targeted economy. That said, China's economic coercion provides Beijing with an avenue through which to signal resolve and possibly deter third countries from adopting policy positions that run contrary to the party's perceived interests.

However, even if China's coercion does achieve some deterrence, it is still not in the interest of the United States to exaggerate the threat posed by China's behavior. In fact, doing so may paradoxically play into Beijing's hands. It could enhance the psychological impact of China's coercion or the threat thereof, making the targeted state more likely to acquiesce and vulnerable states less likely to challenge Beijing. If the United States is tempted to employ tactics similar to China's in an effort to deter Beijing's problematic behavior, it may unintentionally legitimize China's economic coercion while also upsetting allies and partners and further undermining the norms of the international rules-based order that the United States is seeking to protect and uphold.

This is not to say that China's behavior should be tolerated. On the contrary, it should be deterred—and deterrence by denial, rather than by punishment, provides the United States with the best way to do that. As operationalized above, a counterstrategy centered around deterrence by denial would deter China's economic coercion over time by raising the costs for China while also demonstrating to Beijing the futility of its actions. It would accomplish this by both proactively hardening states' economies to China's economic coercion through a combination of diversification away from China and closer economic integration with the United States (denial) and by setting up mechanisms that would enable

the United States to provide financial relief to affected firms in targeted countries, thus speeding up market adjustments (deflection).

A deterrence-by-denial approach has several advantages over a deterrence-by-punishment approach. First and foremost, it is much more credible, and without credibility, deterrence fails. It has the benefit of being more easily multilateralized. It allows the United States to maintain the diplomatic high ground while also avoiding the needless and counterproductive risk of escalation between Washington and Beijing. It also factors in the preferences of allies and partners that are targets of China's economic coercion. Further, deterrence by denial plays to the United States' comparative advantage, using the power of the market to bust China's sanctions.

Perhaps most importantly, in resisting the temptation to retaliate, the United States remains true to its values, upholding the norms of international commerce that have enabled an era of prosperity. As U.S. diplomat George Kennan states in the final paragraph of his 1946 "long telegram":

Finally, we must have courage and self-confidence to cling to our own methods and conceptions of human society. After all, the greatest danger that can befall us in coping with this problem of Soviet Communism, is that we shall allow ourselves to become like those with whom we are coping.¹

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Annex

Case Studies

Japan: Fishing Boat Captain Arrest (2010)

BACKGROUND

On September 8, 2010, a Chinese fishing vessel rammed two Japanese coast guard boats during a chase in the contested Senkaku/Diaoyu island chain. Japan is the effective administrator of the seas around the islands as per a 1997 fishery agreement between Tokyo and Beijing, making the islands subject to Japanese domestic law.¹ As a result, the Chinese crew was detained and the captain arrested on suspicion of obstructing Japanese law enforcement due to alleged malicious behavior. While the crew was released after questioning, the captain remained in custody as Japanese prosecutors considered whether to indict him.² On September 20, Japanese prosecutors announced a 10-day extension of the captain's detention.³ Prior to this case, Japan had detained "Chinese-origin intruders" but had never threatened indictment. In considering an indictment in this case, Japan challenged the mutually understood 1997 agreement and note verbale precedent that the two countries would separate fishery disputes from territorial disputes, and that flag state law, not coastal state law, would apply to fishing activities.⁴

CHINESE MEASURES

Following the arrest, China lodged diplomatic protests, ceased intergovernmental contacts, and tightened customs inspections on Japanese imports.⁵ Chinese netizens called for a boycott of Japanese goods, and Chinese travel agencies canceled package tours to Japan.⁶

Rare Earths

On September 20, China's foreign ministry spokesperson warned China would "take strong counter measures if the Japanese side clings obstinately to its own course and doubles its mistakes, and Japan

shall bear all the consequences.”⁷ The next day, Chinese customs officials began blocking shipments to Japan of rare earths, which had previously accounted for about half of China’s global rare earth exports.⁸ In July, China announced a 72 percent cut in global rare earth export quotas.⁹ While China justified the July cut as part of its efforts to improve environmental protection and bolster domestic supply, Japan, the United States, and the European Union faced market disruptions.¹⁰ Chinese premier Wen Jiabao emphasized in the days before the September 21 cutoff that Japan would face consequences for potentially detaining the fishing boat captain, but after the administrative block he (and MOFCOM) denied that an embargo was in effect.¹¹ Without an explicit comment or pronouncement from China of an export ban, Japan opted not to file a WTO case.¹²

Arrests of Japanese Nationals

On September 23, Chinese state media reported that four Japanese nationals had been arrested in China’s Hebei Province on September 21 for illegally entering a military zone without proper authorization and filming military targets.¹³ The four businessmen, all employees of a Japanese construction company, were in China working for a Japanese government project to reclaim World War II-era chemical weapons left by the Japanese Imperial Army. The Japanese government stated that the incident was unrelated to the captain’s arrest.¹⁴

JAPANESE RESPONSE

On September 23, the Japanese prosecutor announced it was dropping the case “in consideration of the Japan-China relationship.” The fishing boat captain returned to China on September 24, accompanied by officials from China’s foreign and agriculture ministries.¹⁵

AFTERMATH

On September 25, after the captain returned home, China’s foreign ministry demanded an apology and compensation from Japan.¹⁶ Japan responded that the request was “completely groundless and unacceptable.”¹⁷ On September 28, China lifted the de facto rare earths export ban on Japan. The day before, Japan’s trade minister stated Japan should diversify its rare earth imports.¹⁸ Tightened Chinese inspections of Japanese imports were eased until 2012, when a dispute between the two countries over Japan’s nationalization of the disputed islands reignited tensions.¹⁹ On September 30, China released three of the four arrested Japanese nationals after they admitted wrongdoing and apologized; the fourth Japanese national was released on bail on October 9.²⁰ Today the islands remain a source of contention between Tokyo and Beijing, with the two countries acknowledging since 2014 that “different positions exist” on the islands’ sovereignty.²¹

Japanese Policy toward Rare Earth Supply Chains

In 2011, following China’s 2010 trade coercion efforts, the Japanese government announced a \$1.3 billion public-private initiative on rare earths to diversify sources, develop new materials, and reduce waste.²² As of July 2022, Japan had decreased its domestic share of Chinese rare earth imports from 90 percent to 58 percent. It intends to reach 50 percent in the next three years.²³ The public-private initiative also led to Japan’s 2016 rescue of Australia-based Lynas Corporation. Lynas, the only non-China rare earths producer at the time, faced major debt and was poised to collapse just one year after its sole non-China competitor, U.S.-based Molycorp, folded. Japanese entities, including state-owned JOGMEC and trading company Sojitz Corporation, slashed Lynas’ loan interest rates and extended its payment deadlines from 2018 to 2020.²⁴ Today, Lynas is the world’s largest non-China producer of separated rare earth materials.²⁵

Reappraisal

In the years following the 2010 incident, some questioned whether any coercion had occurred.²⁶ Two studies argued that the disruption in rare earth exports observed by Japanese industry in September 2010 more likely resulted from China's July 2010 plan to curb global exports than from the fishing vessel incident.²⁷ However, the timing of the reported import slowdown clearly affected Japan's perception of the situation, even if statistics are inconclusive.

Norway: Liu Xiaobo Nobel Prize (2010)

BACKGROUND

On October 8, 2010, the Norwegian Nobel Committee, composed of five members appointed by Norway's parliament, selected Chinese dissident Liu Xiaobo as the recipient of the Nobel Peace prize.²⁸ The committee selected Liu "for his long and non-violent struggle for fundamental human rights in China."²⁹ At the time, Liu was imprisoned in China after having been convicted in 2009 of "inciting subversion of state power."³⁰ The king and queen of Norway attended the ceremony on December 10, 2010, where Liu's seat sat empty.³¹

CHINESE MEASURES

Ahead of the ceremony, in November, the Chinese embassy in Oslo sent letters requesting foreign dignitaries not attend (ultimately, 19 countries did not send a representative).³² The day before the December 10 ceremony, China's foreign ministry took aim at the Norwegian government, with a spokesperson stating, "By openly supporting the extremely erroneous decision by the Nobel Committee, the Norwegian Government has destroyed the political foundation and environment for cooperation in bilateral relations."³³ At a December 11 press conference, Chinese foreign ministry spokesperson Jiang Yu discussed the prize ceremony at length, further criticizing the Norwegian government.³⁴ China then commenced an implicit diplomatic freeze that continued until 2016, ceasing free trade discussions and the conveyance of visas to Norwegian officials.³⁵ In October 2011, the Chinese embassy in Oslo released a statement saying, "The current Sino-Norwegian relations [are] in difficulty because the Norwegian Nobel Committee granted last year's Nobel Peace Prize to a Chinese criminal serving jail term in China, and the Norwegian Government supported this wrong decision."³⁶

Salmon-Related Restrictions

On December 13, 2010, the Chinese government instituted new inspection and quarantine procedures for Norwegian aquaculture imports.³⁷ On January 20, 2011, China's inspection and quarantine authority released a notice to safeguard Chinese consumers by strengthening inspections and quarantines on imported salmon.³⁸ Norwegian salmon fell from 94 percent of China's salmon imports in 2010 to just 2 percent in 2016.³⁹ Former diplomats also reported that Norwegian SOEs faced unjustified difficulties in obtaining contracts in China.⁴⁰ In June 2012, a former Norwegian prime minister was denied a visa for a visit to China in what was assumed, but not explicitly confirmed, retaliation for the Nobel Peace Prize.⁴¹ In December 2012, China excluded Norway from a policy that allowed visa-free trips to Beijing for visitors from all 27 EU members plus Switzerland and Iceland.⁴²

NORWEGIAN RESPONSE

On October 8, 2010, Norwegian foreign minister Jonas Gahr Stoere attempted to preempt China's anger by emphasizing the independence of the Norwegian Nobel Committee.⁴³ In June 2011, the

Norwegian government reached out to China through the WTO to obtain clarification on the Chinese government's salmon-related directives. China's responses emphasized that the measures were not targeted at Norway specifically and that it had seen evidence of contaminants in Norwegian salmon.⁴⁴ To bypass China's strict and untimely salmon checks, Norwegian salmon exports to China were rerouted through Vietnam, with Norwegian salmon exports to Vietnam growing 17-fold between 2010 and 2013.⁴⁵ In May 2013, there was speculation Norway might block China's application for an observer seat at the Arctic Council, but China was ultimately admitted.⁴⁶

In May 2014, high-ranking Norwegian officials explicitly declined to meet with the Dalai Lama when he visited Oslo that same month. Critics accused the Norwegian government of bowing to Chinese pressure, but the Norwegian government justified the decision to restore diplomatic relations with Beijing on the basis of advancing progress on human rights and climate change rather than a desire for economic gain.⁴⁷ On September 11, 2014, with Chinese restrictions on salmon imports ongoing, Norway's education ministry withdrew approval for a largely China-funded radar antenna in Svalbard, designed for research purposes, based on a holistic assessment of the technology's potential uses.⁴⁸

AFTERMATH

On December 19, 2016, Norwegian foreign minister Børge Brende visited Beijing to hold talks with Premier Li Keqiang.⁴⁹ The two countries' foreign ministries issued a joint statement, with Norway expressing respect for China's "development path and social system" and promising "not to support actions that undermine [China's sovereignty and territorial integrity]."⁵⁰ Following Brende's visit, China and Norway announced that bilateral relations were again normalized.⁵¹ In July 2018, China lifted its restrictions on Norwegian salmon.⁵² While Norwegian citizens remain excluded from China's 72-hour and 144-hour visa-free transit policies, China agreed to resume bilateral free trade discussions in 2017.⁵³ However, progress on negotiations seemed to stall in 2022.⁵⁴ As of early 2023, the most recent talks were held in March 2021.⁵⁵

Philippines: Scarborough Shoal (2012)

BACKGROUND

On April 10, 2012, two Chinese surveillance ships intervened to prevent a Philippine navy warship from arresting the crews of eight Chinese fishing vessels that had dropped anchor near the contested Scarborough Shoal, an island chain in the Philippines' exclusive economic zone (EEZ) in the South China Sea.⁵⁶ The motivation for the attempted arrest stemmed from the Philippine navy's alleged discovery of illegally held aquaculture on one of the fishing boats. The incident led to a standoff between the Chinese patrol vessels and the Philippine warship. Although the warship departed on April 12, a Philippine coast guard vessel soon arrived on the scene to continue the standoff, and the two Chinese vessels were joined by a third.⁵⁷

CHINESE MEASURES

In March 2012, before the shoal incident, China's import inspection and testing authority raised concerns with the Philippines regarding mealybugs in Philippine banana exports. On May 2, following the incident, the same inspection authority expressed concerns about mealybugs in Philippine papayas and pineapples, even though Philippine shipments to Japan and South Korea had reportedly been cleared without issue.⁵⁸ On May 7, China's vice foreign minister warned the Philippines that prolonging the shoal standoff

would tarnish bilateral relations between the two nations.⁵⁹ Two days later, the Chinese military's official newspaper published an editorial warning against efforts to undermine China's claims to the shoal.⁶⁰ On May 10, China refused 1,200 containers of Philippine bananas, again over mealybug concerns, leaving the fruit to rot at customs and—according to Philippine business leaders—causing the Philippine agricultural sector to lose hundreds of thousands of dollars in sales in a few days.⁶¹ At the time, China purchased more than 30 percent of Philippine banana exports.⁶² China's enhanced quarantine measures soon extended to papayas, pineapples, and other fruits including mangoes and coconuts.⁶³

Also on May 10, it was reported that China had paused tourism packages to the Philippines and had issued a travel advisory for its citizens traveling to Manila. At the time, Chinese tourists represented about 9 percent of Philippine tourism arrivals.⁶⁴ On May 16, China enacted a seasonal 10-week fishing ban in the waters surrounding the Scarborough Shoal, ostensibly to limit overfishing.⁶⁵

PHILIPPINE RESPONSE

In the days following the April 10, 2012, incident, the Philippines requested China agree to an international court adjudication of the territorial dispute. China refused.⁶⁶ In May, the then-Philippine economic planning secretary said in response to curbs on tourism and fruit exports to China, "We are likely to see modest effects (on the economy), but we need to intensify our efforts to diversify our trade with other countries."⁶⁷

AFTERMATH

In June 2012, the United States brokered an agreement to resolve the standoff. Although the Philippines withdrew as part of the resolution, Chinese vessels remained in the area in apparent violation of the deal, which a top Chinese diplomat would later claim had never existed.⁶⁸ Beginning in July 2012, China blockaded Philippine access to the Scarborough Shoal and drove Philippine fishermen away, asserting full maritime control of the area.⁶⁹ In September, during the fishing off-season, a Philippine coast guard surveillance flight observed Chinese marine surveillance ships and Chinese law enforcement vessels near the shoal.⁷⁰

Diplomatic Dispute

At a July 2012 ASEAN ministerial, Philippine efforts to ensure the joint communiqué reflected concerns over the 2012 shoal incident were stymied by then-chair Cambodia, a close ally of Beijing.⁷¹ On January 22, 2013, the Philippines unilaterally initiated proceedings at the Permanent Court of Arbitration in the Hague, challenging China's sovereignty over the Scarborough Shoal and the legality of China's de facto occupation of the area.⁷² In April 2013, following the appeal, officials in Beijing warned of negative ramifications for Philippine industries if the arbitration process progressed.⁷³ Making good on the promise, China applied pressure on the Philippines through continued food safety accusations, which escalated into an import ban on Philippine bananas and pineapples.⁷⁴ These measures ultimately caused a more than two-thirds decline in Philippine banana exports to China 2014 to 2016.⁷⁵ In August 2013, China appeared to disinvite President Aquino from attending the China-ASEAN trade fair.⁷⁶ In February 2014, Aquino called on the international community to increase support for the Philippines as it resisted China's South China Sea policy.⁷⁷ China issued yet another travel advisory against the Philippines in September 2014.⁷⁸

Hague Court Ruling

In July 2016, the Permanent Court of Arbitration concluded the China-Philippines case, ruling unanimously in favor of the Philippines and finding that China's claims of sovereignty over the area bounded by the nine-dash line were invalid and unsupported and that Chinese physical obstruction of Philippine vessels in the region was unlawful.⁷⁹ While Australia, Japan, and the United States issued a joint statement urging China to comply with the court ruling,⁸⁰ ASEAN in its 2016 ministerial joint communiqué ignored the ruling entirely, instead calling for self-restraint and urging the negotiation of a code of conduct.⁸¹

China rejected the Hague's legally binding court ruling, which lacked an enforcement mechanism, and continued to assert its sovereignty in the area.⁸² Following the ruling, Chinese tourist arrivals to the Philippines dropped by 20 percent.⁸³

Rapprochement

In 2016 the Philippines elected a new president, Rodrigo Duterte, who as mayor of Davao City had been denied a visa to the United States for his controversial war on drugs.⁸⁴ Duterte took office in June 2016 after promising on the campaign trail to both defend the Philippines' territorial claims and reopen bilateral dialogue with China.⁸⁵ As president, he went on to pursue a more aggressive pivot toward China, ultimately dismissing the Hague ruling.⁸⁶ On a visit to Beijing in October 2016, Duterte stated that the Philippines and the United States were now separate and that a bilateral reconciliation with China was underway.⁸⁷

During the October visit, China and the Philippines signed 13 bilateral agreements, with China pledging \$24 billion in investments toward infrastructure, transportation, renewable energy, urban development, tourism, and more.⁸⁸ In addition, the two leaders struck a deal allowing Philippine fishermen access to the Scarborough Shoal.⁸⁹ Following Duterte's visit, China-Philippine relations rapidly warmed: Philippine banana exports to China soared, and Chinese tourists returned in large numbers.⁹⁰ However, little of China's promised \$24 billion investment ever materialized.⁹¹ In addition, in 2017 China expanded its presence in Scarborough Shoal and resisted Philippine efforts to build shelters on Sandy Cay near the contested Spratly Islands.⁹²

At the end of President Duterte's term, it remained unclear whether China exerted de facto control over Sandy Cay, despite Duterte asserting it remained in Philippine control.⁹³ In September 2022, Duterte's successor, President Ferdinand Marcos Jr., expressed interest in negotiating an agreement with China over oil and gas exploration in the South China Sea.⁹⁴ In November 2022, U.S. vice president Kamala Harris visited the Philippine island Palawan, which borders the South China Sea and is close to the disputed Spratly Islands, in a show of support for the Philippines "in defense of international rules and norms as it relates to the South China Sea."⁹⁵ A week prior, the Philippines announced plans to increase the number of U.S.-Philippine joint military facilities from five to ten. Harris's visit came just days after a Chinese and Philippine military confrontation over a piece of Chinese rocket debris that a China coast guard vessel seized from a Philippine navy ship.⁹⁶ In addition, on February 3, 2023, Manila announced the United States would station military equipment at four more locations in the Philippines.⁹⁷

South Korea: THAAD Deployment (2016)

BACKGROUND

On July 8, 2016, the United States and South Korea announced an agreement to deploy the THAAD missile system in South Korea. Designed to intercept ballistic missiles, the installation was aimed

at countering the growing threat posed by North Korea's ballistic missile program.⁹⁸ However, China opposed the deployment, raising concerns that it would undermine its nuclear deterrent by degrading its second-strike capability. Beijing also expressed concerns that the system's radar would be able to peer deep into China's territory. At a higher level, Beijing felt that Seoul's decision represented a South Korean alignment with what it perceived as a U.S.-led effort to contain China.⁹⁹

On September 7, 2016, the South Korean government announced it had selected land owned by Korea's fifth-largest conglomerate, Lotte, as the installation site for the batteries.¹⁰⁰ The government reached a land-swap deal with Lotte in November 2016, and United States Forces Korea delivered the THAAD system's key components in the early morning hours of April 26, 2017.¹⁰¹

CHINESE MEASURES

South Korea's decision to pursue THAAD installation despite the PRC's official and unofficial opposition and threats led to a series of trade restrictions and consumer boycotts on Korean imports. Beginning in August 2016, Chinese regulators imposed new restrictions on South Korean cultural exports, including movies, television shows, video games, and musical performances.¹⁰² In March 2017, the PRC National Tourism Administration warned Chinese citizens to "recognize the risks of outbound tourism and carefully select [their] travel destinations" following PRC allegations of Chinese nationals being "obstructed" from entering South Korea's Jeju Island, presumably by South Korean customs or immigration officials at Jeju International Airport.¹⁰³ That same March, the China National Tourism Administration reportedly instructed travel agencies to halt the sale of group tour packages. This came after the agency had initially urged them to curtail the number of tourists by 20 percent the October prior.¹⁰⁴ The result was that Chinese visitors to South Korea—who accounted for roughly half of overseas visitors to South Korea in 2016—dropped by more than 60 percent from March to October 2017 compared with the same period the year prior.¹⁰⁵

A February 2017 editorial published in the *Global Times* argued that, due to WTO obligations and the PRC–South Korea free trade agreement, Chinese consumers, not the government, should act as the main forces in sanctioning Korea, and that companies like Hyundai would "face disaster sooner or later" should "PRC–South Korea conflicts continue to escalate."¹⁰⁶ The following month, South Korean automakers Hyundai and Kia blamed a 52 percent year-on-year drop in March sales in China, which ultimately led to a 30 percent year-on-year drop in 2017 China sales, on low "consumer sentiment" in a joint statement.¹⁰⁷

On December 29, 2016, the PRC Ministry of Finance (MOF), Ministry of Industry and Information Technology (MIIT), MOST, and National Development and Reform Commission issued a joint statement announcing the government would subsidize 498 electric vehicle models, including some with batteries produced by South Korean firms LG and Samsung. However, the same day, the ministries inexplicably retracted their support for five models with these firms' batteries.¹⁰⁸

Owing to its involvement in the THAAD land-swap deal, Lotte experienced the brunt of Beijing's wrath through both consumer boycotts and stepped-up arbitrary inspections.¹⁰⁹ As coercive pressures on Lotte intensified, the retail conglomerate found itself forced to close 87 of its 99 stores in China in response to alleged fire code violations.¹¹⁰ Chinese authorities also published a formal travel advisory against South Korea, and customs officials increased arbitrary inspections of Korean commodity imports.¹¹¹ China largely refrained from initiating major new coercive policies after the May 2017 election of President Moon Jae-in, who had campaigned on restarting dialogue with China.¹¹²

KOREAN RESPONSE

Hampered by a political crisis that culminated in the impeachment of President Park Geun-hye, Seoul initially took time to formulate its response. In March 2017, it launched a campaign to reduce export reliance on China by expanding its trade relationships with ASEAN and India.¹¹³ Shortly thereafter, the South Korean Ministry of Culture, Sports and Tourism announced measures to support the culture industry, including by expanding eligibility for subsidized loans to include companies suffering “damage from protectionism.”¹¹⁴ Seoul also filed a WTO complaint against China on March 19, though it ultimately elected not to pursue it further for fear it might hinder cooperation with Beijing over constraining North Korea’s nuclear weapons program.¹¹⁵ In April 2017, President Trump met with President Xi to clarify the U.S. position on THAAD and relieve pressure on South Korea.¹¹⁶ The following month, President Moon accepted a last-minute invitation to attend the Silk Road summit in Beijing.¹¹⁷ In July, Moon promised to extend to Korean manufacturing businesses that chose to reshore their facilities the same benefits as it gives foreign investors.¹¹⁸ South Korea’s trade minister also met with major Korean tech firms in September, reportedly recommending that Samsung’s management team review its planned \$7 billion expansion in Xi’an.¹¹⁹

The dispute over THAAD thawed significantly after an October 30 speech in which South Korean foreign minister Kang Kyung-wha promulgated her government’s Three Nos policy of simultaneous opposition to additional THAAD deployment, participation in the U.S. missile defense network, and any future trilateral alliance with the U.S. and Japan.¹²⁰ Just days before, the Moon administration had announced its plans to approve billions of dollars in new foreign direct investment from South Korean companies in China, including Samsung, as part of a “surprise package” intended to help ameliorate tensions.¹²¹ Moon met with Xi in November 2017 on the sidelines of the Asia-Pacific Economic Cooperation (APEC) summit in Vietnam, during which the two sides formally agreed to normalize relations.¹²²

AFTERMATH

In late October 2017, the Chinese and South Korean foreign ministries published statements agreeing to bring relations between the two countries back to normal.¹²³ Although the THAAD batteries would remain in South Korea, Chinese tourism flows soon revived, Korean exports to China recovered, investment in China picked up pace, and the two governments renewed their \$56 billion bilateral currency swap arrangement.¹²⁴ Lotte, however, failed to recover from the episode and has since closed its last store in China.¹²⁵ Following the dispute, the Moon administration unveiled its New Southern Policy, an effort to strengthen South Korea’s resilience to threats of economic coercion through trade diversification. Under President Yoon Suk Yeol, the New Southern Policy has transformed into the ABCD strategy (shorthand for Advance human capital, Build health security, Connect cultures, and Digitize Asian infrastructure), which seeks to expand South Korean economic and cultural engagement with Southeast Asia and India.¹²⁶ Having campaigned on a promise to activate the as-yet unused THAAD system, he has also downplayed his predecessor’s Three Nos policy, saying it was “not a promise or agreement we made with China, but an explanation of our position.”¹²⁷

Mongolia: Dalai Lama Visit (2016)

BACKGROUND

During a November 19–23, 2016, visit to Mongolia, the Dalai Lama told press that the rebirth of the Tenth Patriarch of Mongolian Buddhism, a sect of Yellow Hat Buddhism, had taken place in Mongolia.¹²⁸

CHINESE MEASURES

The CCP views the Dalai Lama as a “splittist” who seeks Tibetan independence.¹²⁹ China maintains that any hosting of the Dalai Lama by a foreign country constitutes interference in China’s core interests. Previously, Mongolia, due to its extensive cultural and historical ties with the leader of Tibetan Buddhism, had “ignored Chinese condemnation for Dalai Lama visits.”¹³⁰ Prior visits in 2002 and 2006 saw China close its border and cancel flights from Beijing.¹³¹ Ahead of the Lama’s 2016 visit, the Chinese government urged Mongolia to deny the Lama’s visa to maintain “sound and steady ties.”¹³² Mongolia responded to Chinese warnings that the visit was a religious event and that the religious leader would not meet with government officials.¹³³ In addition, the CCP’s United Front Work Department maintains a system to oversee and manage the reincarnation of Buddhist lamas.¹³⁴ The Dalai Lama’s declaration challenged that system.¹³⁵

On November 25, China indefinitely postponed bilateral meetings scheduled for the following week, which were set to cover soft loan negotiations and joint infrastructure projects.¹³⁶ A week after the visit, China imposed fees and transit costs on Mongolian commodity shipments into China at a major border crossing, leading to major delays.¹³⁷ China also canceled ongoing negotiations for a \$4.2 billion loan to assist Mongolia with debt repayment.¹³⁸ At the time, Mongolia depended on China for 84.1 percent of its exports and faced economic pressure exacerbated by currency depreciation, stark FDI downturns, and low global commodities prices.¹³⁹ China’s foreign ministry spokesperson refused to draw a connection between the tariffs and the Dalai Lama’s visit.¹⁴⁰

AFTERMATH

On December 21, Mongolia foreign minister Munkh-Orgil Tsend conceded, “The government feels sorry for this. . . . The Dalai Lama probably won’t be visiting Mongolia again during this administration.”¹⁴¹ In January 2017, China ceased its coercion efforts. A readout of a phone call between the two countries’ foreign ministers stated that Beijing “hoped Mongolia had taken this lesson to heart.” Tsend stated, “Mongolia . . . consistently holds that Tibet is an inseparable part of China, that the Tibet issue is China’s internal affair.”¹⁴² In February, the two foreign ministers met in Beijing to discuss future cooperation. Tsend reiterated that Mongolia would no longer permit visits by the Dalai Lama.¹⁴³ However, the July presidential runoff election saw the election of the more anti-China candidate, Khaltmaagiin Battulga, who in August cast doubt on Mongolia’s commitment to its promise to prohibit visits by the Dalai Lama in the future.¹⁴⁴

Australia: Anti-foreign Interference Law/Call for Covid-19 Investigation (2017/2020)

BACKGROUND

On December 7, 2017, Australian prime minister Malcolm Turnbull introduced legislation to Parliament aimed at countering foreign interference in Australian politics.¹⁴⁵ The legislation followed the delivery of a classified Australian Security Intelligence Organization report addressing foreign influence in Australia’s political system. The anti-foreign interference bill, titled National Security Legislation Amendment (Espionage and Foreign Interference) Bill 2017, included an update to the legal definitions of treason, espionage, and sabotage; a ban on foreign political donations; and the institution of a foreign influence registry, among other measures.¹⁴⁶ In a speech about the bill, Turnbull addressed media reports about interference by the CCP and vowed to target “covert, coercive

or corrupting behavior.”¹⁴⁷ Turnbull also explicitly referenced a 1949 speech delivered by China’s founder Mao Zedong, stating the people of Australia would “stand up.”¹⁴⁸ After China’s foreign ministry criticized Turnbull’s statement, the prime minister repeated the phrase on December 9 in Mandarin.¹⁴⁹

CHINESE MEASURES

On April 12, 2018, several months after the anti-foreign interference law’s introduction, Prime Minister Turnbull acknowledged that Australia-China relations were suffering.¹⁵⁰ Turnbull’s comments came the day after the Boao Forum for Asia, a major Chinese-hosted international conference, had concluded.¹⁵¹ No Australian ministers had received an invitation. Beyond Boao, contemporary media reports stated that China had instituted a broader diplomatic freeze, effectively blocking the issuance of visas to Australian diplomats by failing to issue formal invitations. The freeze extended to interactions between the Chinese government and the Australian embassy in Beijing, which took on a tone of “extreme formality.”¹⁵²

China’s response also included trade restrictions. In May, a deal between China and Australian beef producers worth \$500 million was halted.¹⁵³ On May 22, the Chinese state-run outlet *Global Times* called for Beijing to cut imports of Australian beef and wine.¹⁵⁴ On May 17, Australian wine producer Treasury Wine Estates reported its products faced heightened customs hurdles entering China.¹⁵⁵

AUSTRALIAN RESPONSE

Australia’s anti-foreign interference law was assented to on June 29, 2018, and became law on December 10.¹⁵⁶ Australia-China bilateral relations have remained on unstable ground since the dispute, and Australia continued to challenge China on several issues in the face of Beijing’s economic coercion.

Further Disputes

Huawei. Despite the threat of economic coercion, Australia again challenged China in August 2018 when it became the first country to exclude Chinese telecommunications giant Huawei’s equipment from domestic 5G infrastructure.¹⁵⁷ China’s commerce ministry warned the move would have a “negative impact on the commercial interests of Chinese and Australian companies.”¹⁵⁸ In February 2019, Chinese ports temporarily curbed coal imports from Australia, with ports in Dalian instituting a ban; a connection to the Huawei exclusion was posited at the time but not confirmed.¹⁵⁹

Trade and investment actions. Australia blocked Chinese investment in its largest gas pipeline on national security grounds in November 2018.¹⁶⁰ In February 2020, Australia initiated an antidumping investigation into Chinese steel and aluminum products.¹⁶¹

Covid-19 origins investigation. In April 2020, Australian prime minister Scott Morrison again challenged China by calling for a WHO-led investigation into the origins of the Covid-19 virus.¹⁶² China responded by instituting import suspensions or delays of a swath of Australian products, including beef, barley, cotton, wine, timber, lobster, and coal.¹⁶³ In June 2020, Morrison stated, “I’m never going to trade our values in response to coercion.”¹⁶⁴ On November 18, 2020, a Chinese government document was “deliberately leaked” to the Australian press outlining 14 Chinese grievances against Australia.¹⁶⁵ The list included reference to the anti-foreign interference legislation, the Huawei ban, a call for an independent investigation into the origins of the Covid-19 virus, and more. In December 2020 and June 2021, Australia brought cases to the WTO over Chinese measures against Australian barley and wine, respectively.¹⁶⁶ China responded in June 2021 with a WTO case of its own over Australian remedial duties on several Chinese products, including railway wheels and wind towers.¹⁶⁷ All three cases are ongoing.

AFTERMATH

In November 2022, China's diplomatic freeze toward Australia, which began in 2018 following the anti-foreign interference law's introduction and continued in 2020 following Canberra's calls for a Covid-19 investigation, ended when President Xi Jinping met with Australian prime minister Anthony Albanese on the sidelines of the G20. Albanese described the meeting as "warm" but stated it would not lead to an immediate resolution of the ongoing trade dispute.¹⁶⁸ Albanese's meeting with Xi was followed a month later by Australian foreign affairs minister Penny Wong's visit to Beijing; Wong was the first Australian minister to do so in three years.¹⁶⁹ It appears Australian-Chinese relations may be thawing slightly, without Canberra altering its policies.

Canada: Meng Wanzhou Extradition (2018)

BACKGROUND

On December 1, 2018, the Royal Canadian Mounted Police arrested Meng, the CFO of Chinese telecommunications giant Huawei.¹⁷⁰ At the time, Meng was in Vancouver during a transit stop. Her arrest was prompted by a U.S. warrant on charges of financial fraud linked to the company's alleged efforts to evade Iran sanctions and set up an extradition battle in the Canadian courts.¹⁷¹ The Chinese government considered the arrest an infringement on Meng's rights, an abuse of the extradition treaty between the United States and Canada, and a politically motivated attack on a major Chinese company.¹⁷²

CHINESE MEASURES

Shortly after Meng's arrest, Beijing made diplomatic protests demanding the United States and Canada "correct their wrong behavior" and free Meng.¹⁷³ On December 8, China's Ministry of Foreign Affairs summoned Canada's ambassador in Beijing and warned his country would face "grave consequences" if Meng were not released.¹⁷⁴ Within a week, Chinese authorities had detained two Canadian citizens, Michael Kovrig and Michael Spavor, on charges of "engaging in activities that endanger China's national security."¹⁷⁵ Although Beijing officially denied any connection with Meng's extradition case, a spokesman for China's foreign ministry later linked the two cases by suggesting the release of Meng could lead to the release of the detained Canadians.¹⁷⁶ A month after the arrest of the two Michaels, an appeals court in Dalian made the unusual decision to increase the drug smuggling sentence of Canadian citizen Robert Schellenberg from 15 years imprisonment to death.¹⁷⁷

On January 15, 2019, China released a statement advising against travel to Canada, resulting in a precipitous decline of Chinese immigration and tourism visa applications.¹⁷⁸ In March 2019, China revoked the import licenses of two of Canada's leading canola exporters, leading to a 70 percent decline in Canada's annual canola seed exports to China.¹⁷⁹ According to one study, the combined effect of lost business and lower prices cost Canadian canola producers between C\$1.54 billion and C\$2.35 billion from March 2019 to July 2020. Canada is the world's largest canola seed exporter, and in 2018 China imported 94 percent of its canola seeds from Canada, accounting for 35 percent of Canada's total exports of the commodity.¹⁸⁰ To make up for the foregone supply, Chinese buyers increased canola seed purchases from Russia, the United Arab Emirates, and Ukraine.¹⁸¹ Beijing also curbed imports of Canadian peas and soybeans, while Canadian pork shipments encountered new administrative barriers in Chinese ports.¹⁸² The initial measures against Canadian pork and beef were expanded in June to include a suspension of all Canadian meat exports after inspectors allegedly found falsified customs certificates.¹⁸³ China only lifted the ban on Canadian pork in November 2019 in response to a devastating African swine flu outbreak.¹⁸⁴

CANADIAN RESPONSE

Following the arrest of the two Michaels, the Canadian government issued a travel advisory citing the risk of subjective law enforcement faced by visitors to China.¹⁸⁵ On December 22, Ottawa launched an international campaign to free Kovrig and Spavor, with the United States, European Union, United Kingdom, and Australia all issuing statements in support.¹⁸⁶ In July, the Canadian agriculture minister announced new investment support packages for the country's pork, grain, and oilseed industries aimed at helping domestic exporters find new markets.¹⁸⁷ In August 2020, it was reported that crop shortages had boosted the price of Canada's canola seed exports despite China's coercive measures and that China continued to import Canadian canola indirectly through third countries.¹⁸⁸ In July 2021, the WTO agreed to establish a panel at Canada's request to examine China's use of import barriers without having provided adequate scientific evidence of their stated rationale.¹⁸⁹

AFTERMATH

Beijing finally released Kovrig and Spavor on September 24, 2021, as part of a U.S.-Canada-China diplomatic swap for Meng.¹⁹⁰ Although Meng had been released on bail and kept under house arrest since December 2018, it was not until September 25, 2021—after her lawyers had brokered a deferred prosecution agreement with U.S. officials in which Meng accepted some responsibility for the fraud claims against Huawei—that Canadian authorities allowed her to return to China.¹⁹¹ When the requested WTO dispute panel convened that same month, Chinese and Canadian officials shared they had agreed to open additional communication and to allow for an arbitrator to rule on potential appeals of the resulting panel report.¹⁹² In May 2022, Beijing finally lifted its three-year ban on imports from Richardson Oilseed and Viterra, Canada's two largest canola producers.¹⁹³ Ottawa requested the suspension of the WTO dispute settlement panel in August 2022, and as of October 2022 the bilateral canola trade appeared to have rebounded, with monthly shipments to China up 21 percent year-on-year.¹⁹⁴ Canada has not softened its stance toward China following the dispute. In December 2022, Canadian foreign minister Mélanie Joly stated, "We will challenge China when it comes to international order being respected."¹⁹⁵

Lithuania: Taiwanese Representative Office (2021)

BACKGROUND

In July 2021, Taiwan announced it would open a TRO in Lithuania's capital, Vilnius.¹⁹⁶ Although Taiwan maintains representative offices in other countries, including the United States, all other offices operate under the name Taipei in lieu of Taiwan, meaning the Vilnius office challenged an established norm.¹⁹⁷ Under a center-right government formed after the October 2020 elections, Lithuania had taken other actions against China, including postponing a Beijing-supported deep-water port project, withdrawing from the 17+1 initiative, banning a Chinese state-controlled company from supplying Lithuanian airports with X-ray scanners, and amending laws to exclude "unreliable" digital telecommunications manufacturers and suppliers from Lithuania's market.¹⁹⁸

CHINESE MEASURES

In July 2021, following the TRO announcement, China's Taiwan Affairs Office warned Lithuania "not to 'send the wrong signals to Taiwan independence forces.'"¹⁹⁹ On August 10, Beijing demanded Lithuania recall its ambassador to China, promising to withdraw its own ambassador from Lithuania as well.²⁰⁰ That same month, China reportedly ceased providing permits for Lithuanian food imports.²⁰¹ Freight

from China's state-owned rail operator CRCT to Lithuania also ceased, though Chinese state media denied that an order had been relayed.²⁰²

It was also reported in August that China had pressured U.S.-based Thermo Fisher Scientific, a major investor in Lithuania, to lobby Vilnius to reconsider its plan.²⁰³ In September, Lithuanian media reported that domestic companies in timber, grain, and other industries were encountering difficulties renewing and closing contracts with Chinese partners to purchase raw materials.²⁰⁴ In November, just before the TRO opened, China's foreign ministry spokesperson stated, "The Lithuanian side shall be responsible for all the ensuing consequences."²⁰⁵ Soon after the TRO opened on November 18, China downgraded its diplomatic relations with Lithuania and further restricted trade, effectively instituting an embargo, with Lithuania disappearing from China's custom's list.²⁰⁶ Customs data showed that trade in goods from Lithuania to China dropped 90 percent month-on-month and year-on-year.²⁰⁷ In December, the president of a major Lithuanian trade association said 60 companies were having trouble exporting products to China.²⁰⁸

LITHUANIAN RESPONSE

In January 2022, amid ongoing pressure, Lithuania's government blocked its state-owned rail operator from contracting with a Chinese-owned Spanish bridge-building company due to national security concerns.²⁰⁹ In late January, the European Union, of which Lithuania is a member, lodged a complaint at the WTO over China's de facto embargo.²¹⁰ Following the European Union's request for consultation, China officially suspended imports of Lithuanian beef, milk, and beer without presenting cause.²¹¹ Also in January, German companies began to pressure Lithuania after China began blocking German imports over Lithuanian components, prompting the German-Baltic Chamber of Commerce to request that Lithuania seek a "constructive solution."²¹² Lithuanian president Gitanas Nausėda admitted that the TRO name issue had been a mistake but did not call for a name change.²¹³

Lasers

Although Lithuania's exports to China only accounted for around 1 percent of total exports prior to the restrictions, the slowdown had an outsized effect on Lithuania's export-oriented industrial and scientific laser sector. Lithuania produces about 50 percent of the world's ultrashort scientific lasers, and China accounts for 30 percent of the country's total laser exports to manufacturing customers.²¹⁴ After restricting imports from Lithuania, lasers produced in other countries, including Germany, France, the United States, and the Netherlands, were substituted in, hurting the Lithuanian industry's competitiveness.²¹⁵ Apart from its economic importance, the laser industry is also a politically influential industry in Lithuania that enjoys popular support for its work with the Lithuanian military and NATO.²¹⁶

AFTERMATH

China's apparent embargo against Lithuania led to vocal support and investment commitments from Taiwan, the United States, and the European Union.²¹⁷ For example, in January 2022, Taiwan announced it would establish a \$200 million fund for investment in Lithuania, stating laser technology as a priority.²¹⁸ However, it was unclear how much funding had reached Lithuanian firms by the end of 2022.²¹⁹ That said, more recent reporting indicates that Taiwan remains committed to aiding Lithuanian firms.²²⁰ Despite acknowledgement from the Lithuanian government that China's aggressive reaction to the TRO was unanticipated, Vilnius has not shifted its stance.²²¹ Along with requesting consultation at the WTO (the case is ongoing), the European Union has fast-tracked its proposed ACI—a framework designed to deter coercion through engagement and, as a last resort, to

retaliate with restrictions.²²² While Russia’s invasion of Ukraine in February 2022 shifted attention away from the dispute, Lithuania has remained close to Taiwan, with Foreign Minister Ingrida Šimonytė saying, “I don’t know whether this is something that, you know, that China can dictate.”²²³ In October 2022, Lithuania and Japan upgraded their diplomatic ties and launched a security dialogue.²²⁴ In November 2022, German Chancellor Olaf Scholz made oblique reference to Lithuania during a trip to Beijing, saying, “Economic measures against individual EU member states are directed against the entire EU single market.”²²⁵ Also in November, the head of the TRO in Vilnius stated Taiwan would invest around €10 million in Lithuanian company Teltonika to develop Lithuania’s semiconductor manufacturing capabilities.²²⁶

Table 8. Outcomes of Chinese Economic Coercion: A Summary Assessment

Case	Tactical outcome	Strategic outcome	Overall assessment
Japan	Mixed	Loss	Mixed loss
	Japanese prosecutors quickly dropped the legal case against the Chinese fishing boat captain and authorized his release, but Tokyo did not give in to demands to apologize or compensate China. ²²⁷	China’s alleged restrictions of rare earth exports to Japan kickstarted a concerted policy effort to develop new sources of rare earth supply and rare earth substitutes for Japanese industry that continues to the present. Meanwhile, Japan has continued to exert its jurisdiction over contested areas of the East China Sea. In 2012 the Japanese government angered China by purchasing the Senkaku/Diaoyu Islands. Although the move may have been intended to prevent hardliners in Japan from developing the islands, Japan continues to exercise administrative control, and the United States has since affirmed the disputed islands are covered under Article 5 of the U.S.-Japan defense treaty. ²²⁸	Japan’s loss of faith in China as a supplier of rare earths galvanized a decade-long push to reduce its exposure and create alternative sources of production across the supply chain. Although expensive and time-consuming, this effort seems to have succeeded at significantly reducing China’s share of Japanese rare earth imports and opening new opportunities for Europe and the United States to follow suit. Despite veiled threats to curtail rare earth exports in subsequent years, China has so far refrained from doing so. ²²⁹ While Japan acknowledges “different positions exist” on the Senkaku/Diaoyu ownership question, it continues to exercise de facto control over the islands. ²³⁰

<p>Norway</p>	<p>Mixed</p> <p>Despite China's informal import restrictions, exports of Norwegian salmon continued to find their way to China via third countries such as Vietnam. Norway continued to affirm the Nobel committee's independence, and while declining to meet with the Dalai Lama, Norwegian officials canceled the Chinese-funded research antenna in Svalbard.²³¹ The joint statement on normalization of relations struck a conciliatory tone but may be merely symbolic. It took six years for China to extract. Norway never issued the apology China demanded.²³²</p>	<p>Mixed</p> <p>Since China has removed its salmon import restrictions and certain visa rules targeting Norway, relations between the two countries have warmed somewhat, with Norway and China in ongoing negotiations on a bilateral free trade agreement. However, given the apparent ease with which Norway's salmon industry adapted to Beijing's controls, the direct causal link between China's coercive tactics and subsequent détente is ambiguous. Although Norway did not officially ban Huawei, it opted to contract with Erickson for its 5G network.²³³</p>	<p>Mixed</p> <p>The overall effectiveness of China's coercion campaign is mixed. Norway's domestic salmon producers appear to have largely circumvented the trade controls, but Beijing's strong negative response destabilized the relationship and may have induced some nominal concessions from Oslo. However, it is difficult to contribute those minor concessions directly to China's economic coercion. In fact, the possibility of restarting negotiations on the free trade agreement and restoring diplomatic channels of communication may have asserted a stronger pull on Norwegian officials than the ineffective trade restrictions. The concessions seem largely symbolic and did not deter Norway from choosing a provider other than Huawei for its 5G networks. The free trade negotiations may now be stalling due to Norwegian concerns about China's intentions.²³⁴</p>
<p>Philippines</p>	<p>Win</p> <p>China prevented the arrest of the Chinese crew members and ultimately gained control of the Scarborough Shoal.</p>	<p>Mixed</p> <p>The 2016 Hague ruling undermined the international standing of China's South China Sea claims, but since it was unenforceable, the Scarborough Shoal remains under Chinese control.²³⁵</p>	<p>Mixed win</p> <p>The Philippines is deepening its economic ties with China.²³⁶ China has successfully increased its holdings throughout the South China Sea, though it does not maintain exclusive control.²³⁷ The 2016 Hague ruling has not reshaped the South China Sea status quo. More recently, the Philippines announced it would be deepening its military cooperation with the United States by allowing the U.S. military access to more bases on Philippine territory.²³⁸</p>

South Korea	Mixed	Loss	Mixed loss
	<p>The South Korean government agreed to the Three Nos, but the THAAD deployments remained in place. Trade between Korea and China actually increased during this period.</p>	<p>China’s economic coercion contributed to a decline in the Korean public’s perception of China.²³⁹ President Moon initiated the New Southern Policy to decrease economic dependence on China. President Yoon campaigned on a more hawkish China policy and has insinuated that his administration may not continue to abide by the Three Nos.</p>	<p>China failed to compel South Korea to renege on its agreement to allow the United States to deploy the THAAD missile systems. The concession in the form of the Three Nos that China did extract from Korea may not outlast the Yoon administration. In the long term, the United States succeeded in deploying the missile systems, which remain in place, while China damaged its image with the Korean public and further incentivized the Moon administration to decrease Korea’s economic dependence on China via the New Southern Policy, a policy the Yoon administration seems set to continue, if under a different name.²⁴⁰ China’s bullying behavior also pushed Korea into greater strategic alignment with the United States, a grave strategic error given that in the 2000s there were conversations in Seoul about deepening the relationship with Beijing.</p>

<p>Mongolia</p>	<p>Mixed win</p> <p>Mongolia quickly conceded to Beijing's demands after the visit took place, with a Mongolian minister quoted as saying, "Mongolia firmly supports the one China policy, consistently holds that Tibet is an inseparable part of China, that the Tibet issue is China's internal affair."²⁴¹ However, China's threats of economic coercion in the run-up to the visit were insufficient to prevent the visit from happening in the first place. Likewise, President Battulga quickly raised doubts about Mongolia's commitment to never allowing a future visit by the Dalai Lama after his election in July 2017.²⁴²</p>	<p>Mixed win</p> <p>China's economic coercion likely contributed to the election of President Battulga in July 2017, the more anti-China candidate.²⁴³ However, Battulga was barred from a second term due to changes to the Mongolian constitution, and his successor Ukhnaagiin Khurelsukh has sought engagement with Beijing.²⁴⁴ On November 27-28, 2022, Xi Jinping received Khurelsukh for a state visit, where the two leaders issued the Joint Statement on Advancing the Comprehensive Strategic Partnership in the New Era between the People's Republic of China and Mongolia.²⁴⁵</p>	<p>Mixed win</p> <p>China's economic coercion partially achieved its objective. Mongolia still allowed the visit to happen but quickly apologized. Likewise, though Mongolia has made good on its promise not to invite the Dalai Lama back, President Battulga's comments raise questions about the commitment's long-term resilience. Although there have been reports Mongolia is trying to distance itself from China, this does not seem attributable to the case of coercion but instead larger structural forces.²⁴⁶ Moreover, a November 2022 state visit and deepening bilateral economic relationship suggest Mongolian-Chinese relations are improving, not deteriorating. But, again, there are larger structural forces driving this trend.²⁴⁷</p>
<p>Australia</p>	<p>Loss</p> <p>Neither China's threats of coercive action nor its implemented controls on Australian imports appear to have swayed Australian policy or political rhetoric in a direction favorable to Beijing. Recent reporting suggests that China may be backing down.²⁴⁸</p>	<p>Loss</p> <p>Australia has responded to China's economic coercion campaign by persisting in its offending policy positions (the Huawei 5G ban, the anti-foreign influence law, calls for an investigation of the origins of the Covid-19 virus) while more closely aligning itself with the United States through plurilateral partnerships such as the Quad and AUKUS.</p>	<p>Loss</p> <p>The China-Australia trade dispute is still ongoing at the time of writing, but Beijing's attempts to squeeze Australian imports have thus far failed to extract meaningful policy concessions. If anything, Beijing's actions appear to have backfired by causing a hardening of attitudes both among policymakers in Canberra and the Australian public, with a more widespread perception taking hold of China as a strategic threat.²⁴⁹ Now it appears China may even be attempting to improve relations without Canberra backing down.</p>

<p>Canada</p>	<p>Mixed</p> <p>Canadian authorities released Meng after the U.S. Justice Department agreed to defer judgment in exchange for Meng entering a “statement of facts,” in which she effectively admitted responsibility without pleading guilty.²⁵⁰</p>	<p>Loss</p> <p>Canada later banned Huawei from its 5G networks, and in December 2022, the Canadian foreign minister stated, “We will challenge China when it comes to international order being respected.”²⁵¹ The Canadian public’s perception of China also fell sharply after Meng’s arrest and China’s retaliation.²⁵²</p>	<p>Mixed loss</p> <p>Canada and the United States have insisted politics did not interfere in the case. However, deferred judgments are reportedly rare when the defendant is a high-profile individual.²⁵³ This could indicate the United States felt its case was weak or that it simply hoped to relieve pressure on Canada. Nevertheless, Meng’s statement of facts could still be used in a future case against Huawei, and it seems China’s hostage taking, rather than its coercive economic measures, had the greatest political effect.²⁵⁴</p>
<p>Lithuania</p>	<p>Loss</p> <p>The Lithuanian president conceded the name change may have been a mistake.²⁵⁵ The German-Baltic Chamber of Commerce, along with the German auto parts firm Continental, pressured Vilnius to change the name, and the Lithuanian laser industry was broadly unhappy with the decision.²⁵⁶ However, the name of the representative office remains unchanged.</p>	<p>Loss</p> <p>Lithuania had been trending more hawkish toward China prior to the naming incident. Although a survey conducted several months after the name change showed a majority of Lithuanians disagreed with Vilnius’ decision, China’s aggressive response accelerated EU support for the ACI, ironically refocusing a policy debate that had its origins in the Trump administration’s trade policy.²⁵⁷ China’s coercion of Lithuania has also raised Lithuania’s profile in Washington.</p>	<p>Loss</p> <p>China’s coercion prompted the Lithuanian president to express regret. However, in the Lithuanian political system, the president has little power and, unlike the prime minister, is directly elected, making the office more beholden to public opinion.²⁵⁸ Interestingly, public opinion in Lithuania seemed opposed to the decision to provocatively name the representative office. That said, the Lithuanian government has expressed opposition to authoritarian systems, informed in part by Lithuania’s history as a Soviet republic, and it is doubtful China’s coercion has done anything to bolster Lithuanian perceptions of China.²⁵⁹ Should the European Union adopt the ACI, this would represent a rare speedy adoption of a major piece of policy by the commission.²⁶⁰</p>

Endnotes

Introduction

- 1 This report examines only China’s coercion against states. Studies show that when a single firm is targeted for a heretical statement, China’s economic coercion is quite effective. Fergus Hanson, Emilia Currey, and Tracy Beattie, *The Chinese Communist Party’s Coercive Diplomacy* (Canberra: Australian Strategic Policy Institute, September 2020), <https://www.aspi.org.au/report/chinese-communist-partys-coercive-diplomacy>.
- 2 “Fast-Thawing China-Australia Ties Raise Hopes for Trade Easing,” Bloomberg, December 22, 2022, <https://www.bloomberg.com/news/articles/2022-12-22/fast-thawing-china-australia-ties-raise-hopes-for-trade-easing?sref=VZPf2pAM>.
- 3 James Thornhill, “Record U.S. Coal Shipment to China Highlights Australia’s Pain,” Bloomberg, July 21, 2021, <https://www.bloomberg.com/news/articles/2021-07-22/record-u-s-coal-shipment-to-china-highlights-australia-s-pain?sref=VZPf2pAM>.
- 4 David A. Baldwin, “Economic statecraft,” Encyclopedia Britannica, updated January 21, 2016, <https://www.britannica.com/topic/economic-statecraft>.
- 5 Daniel W. Drezner, Henry Farrell, and Abraham L. Newman, eds., *The Uses and Abuses of Weaponized Interdependence* (Washington, DC: Brookings Institution Press, 2021); Darren J. Lim and Rohan Mukherjee, “What Money Can’t Buy: The Security Externalities of Chinese Economic Statecraft in Post-War Sri Lanka,” *Asian Security* 15, no. 2 (2019): 73-92; William J. Norris, *Chinese Economic Statecraft: Commercial Actors, Grand Strategy, and State Control* (Ithaca: Cornell University Press, 2016); and Edward N. Luttwak, “From Geopolitics to Geo-Economics: Logic of Conflict, Grammar of Commerce,” *National Interest* 20 (1990): 17-23.
- 6 David A. Baldwin, *Economic Statecraft: New Edition* (Princeton: Princeton University Press, 2020), 40-41.
- 7 William Norris, “Thinking Clearly about China’s Economic Statecraft,” MIT Center for International

Studies, *Précis* (Spring 2009), <https://cis.mit.edu/publications/magazine/thinking-clearly-about-chinas-economic-statecraft>.

- 8 Daniel W. Drezner, “The Hidden Hand of Economic Coercion,” *International Organization* 57, no. 3 (2003): 643-59, <https://www.jstor.org/stable/3594840>.
- 9 Drezner, Farrell, and Newman, *Uses and Abuses*.
- 10 Drezner, “The Hidden Hand of Economic Coercion.”
- 11 Gary Clyde Hufbauer, Jeffrey J. Schott, Kimberly Ann Elliott, and Barbara Oegg, *Economic Sanctions Reconsidered*, 3rd Edition (Washington, DC: Peterson Institute for International Economics, June 2009), 171-172; Robert A. Pape, “Why Economic Sanctions Do Not Work,” *International Security* 22, no. 2 (1997), 90-136; and Sean M. Bolks and Dina Al-Sowayel, “How Long Do Economic Sanctions Last? Examining the Sanctioning Process through Duration,” *Political Research Quarterly* 53, no. 2 (2000), 241-265. Note: In some cases, the mere threat of coercion is successful in changing target state behavior, and concessions are extracted without the need for any implementation. These cases are not typically accounted for in the analysis of sanctions literature, suggesting possible selection bias. The cases analyzed in this report all involve implemented coercion, not merely threats. However, this distinction is worth noting. Drezner, “The Hidden Hand of Economic Coercion.”

PART 1: ECONOMIC COERCION WITH CHINESE CHARACTERISTICS

- 1 J. K. Fairbank and S. Y. Têng, “On The Ch’ing Tributary System,” *Harvard Journal of Asiatic Studies* 6, no. 2 (1941): 170-71, <https://doi.org/10.2307/2718006>; and David C. Kang, “Trade: International Economic Relations,” in *East Asia Before the West: Five Centuries of Trade and Tribute* (New York: Columbia University Press, 2010), 107-38.
- 2 Yongjin Zhang, “The Tribute System,” Oxford Bibliographies, April 22, 2013, <https://www.oxfordbibliographies.com/view/document/obo-9780199920082/obo-9780199920082-0069.xml>.
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PART 2: TOWARD A COUNTERSTRATEGY

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