



Statement before the House Committee on Rules

On “Examining China’s Coercive Economic Tactics”

Detering Chinese Economic Coercion

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The global impact of the loss of Russian energy and other commodities after its invasion of Ukraine shows that a number of countries can potentially engage in economic coercion. But the People's Republic of China (PRC) deserves the most attention due to its economic size and breadth, dwarfing nearly all of the partners it might seek to harm. Examples of Chinese economic coercion reveal a willingness to target US treaty allies, and thus call for consideration of American policy responses on those occasions.

For the purposes of this testimony, coercion is international - one country using economic means to pressure another to change its behavior. It can be a two-edged sword, with opportunities lost on both sides. Possibly the most important feature of Beijing's coercion to date is economic costs to the PRC have been tiny (due in part of course to size). One implication is that the US can deter China in at least some instances by threatening to raise its costs to a noticeable level. Our intervention to do so would have to be seen as credible. And this credibility can be established through bipartisan legislation authorizing a flexible set of responses that can be initiated quickly.

Coercion Cases

Before considering PRC economic coercion internationally, it's worth noting that the first and by far still most common type involves access for foreign firms to the Chinese market. This began well before the events listed below, for instance treating Boeing as responsible for American policy as early as 1995 as well as off and on nationalist pressure on Japanese vendors.¹ It continues now with investigations arising out of Beijing's evolving regime of data control.² Coercing enough foreign firms operating within the PRC creates a political lobby in the foreign countries, which can affect their policies similarly to the way international coercion does. Many countries have groups of companies lobbying to try to avoid being coerced within the PRC.

China's external coercion has affected far fewer countries, thus far, and most high-profile instances have been discussed at length.³ The incomplete set briefly summarized below is six actions aimed at US treaty allies and three involving Taiwan.

Japan and rare earth exports: in 2010 during a diplomatic dispute, the Chinese government discouraged some rare earth element exports to Japanese customers. The immediate impact was small and this was chiefly a signal of possible future coercion. As such, it definitely backfired, causing Japan to take steps to reduce its vulnerability to any future Chinese rare earths actions.⁴

¹ David E. Sanger, "Two Roads to China: Nice, and Not So Nice," *The New York Times*, June 9, 1996, <https://www.nytimes.com/1996/06/09/business/two-roads-to-china-nice-and-not-so-nice.html> and China Daily, "Shops Called to Boycott Japanese Goods," April 6, 2005, https://www.chinadaily.com.cn/english/doc/2005-04/06/content_431773.htm.

² Joe McDonald, "Foreign Companies in China Face Growing Scrutiny, Pressure," Japan Today, May 1, 2023, <https://japantoday.com/category/business/foreign-companies-in-china-face-growing-scrutiny-pressure>.

³ For example, see Matthew Reynolds and Matthew P. Goodman, *Deny, Deflect, Deter: Countering China's Economic Coercion*, Center for Strategic and International Studies, March 2023, https://csis-website-prod.s3.amazonaws.com/s3fs-public/2023-03/230321_Goodman_CounteringChina%27s_EconomicCoercion.pdf?VersionId=UnF29IRogQV4vH6dy6ixTpfTnWvftd6v.

⁴ Keith Bradsher, "Amid Tension, China Blocks Vital Exports to Japan," *The New York Times*, September 22, 2010 <https://www.nytimes.com/2010/09/23/business/global/23rare.html> and Eugene Gholz and Llewelyn Hughes, "Market Structure and Economic Sanctions: The 2010 Rare Earth Elements Episode as A Pathway Case of Market

Norway and some imports: the PRC was more open about 2010 coercion against another US ally, punishing Norway for hosting the award of the Nobel peace prize to dissident Liu Xiaobo. Norwegian exports were inhibited and various diplomatic steps taken. Norway seemed to change behavior over time to placate China. Trade was normalized by 2014, diplomacy by 2016.⁵

The Philippines and (just) banana imports: In 2012, Beijing instigated a confrontation over fishing rights and *de facto* occupied Scarborough shoal in the South China Sea. This included briefly banning Filipino bananas. It was similar to the Japan case with economic coercion more a signal, in this case perhaps pertaining to Chinese investment in the Philippines.⁶ The PRC also won this “battle,” though the small economic component could not have contributed much.

South Korea and tourism. In 2017, Beijing responded to missile defense deployment by South Korea by discouraging travel there, targeting conglomerate Lotte for being peripherally involved, and limiting multiple other exchanges.⁷ This was a sea change from 2012, in the comprehensive nature of actions and that the original dispute did not principally involve China but North Korea. It failed to change South Korean behavior but showed the PRC as willing to be aggressive.

Canada and canola. After Canada detained Huawei executive Meng Wanzhou in late 2018, the PRC retaliated in several ways, including extended restrictions on billions in Canadian canola.⁸ Eventually Meng was released and the disruption ended, but the involvement of the US raised questions about both the use and success of coercion. How could pressuring Canada work when the US precipitated the dispute? Sino-Canadian relations are worse than they were in 2017.

Australia and (not iron ore). In 2020, Australia called for an independent inquiry into Covid’s origins, triggering Chinese trade restriction on barley, coal, wine and more. The inquiry could

Adjustment,” *Review of International Political Economy*, November 25, 2019, https://ndisc.nd.edu/assets/344352/market_structure_and_economic_sanctions_the_2010_rare_earth_elements_episode_as_a_pathway_case_of_market_adjustment.pdf.

⁵ Walter Gibbs and Gwladys Fouche, “China Steps up Retaliation against Norway for Nobel,” Reuters, October 11, 2010, <https://www.reuters.com/article/us-nobel-peace-china/china-steps-up-retaliation-against-norway-for-nobel-idUSTRE6971XY20101012> and Ivar Kolstad, “Too Big to Fault? Effects of the 2010 Nobel Peace Prize on Norwegian Exports to China and Foreign Policy,” *International Political Science Review* 45, no. 2 (2020): 207-223 <https://www.cmi.no/publications/6354-too-big-to-fault>.

⁶ Ketian Zhang, “Chinese Coercion in the South China Sea: Resolve and Costs,” *International Security*, January 2020, https://www.belfercenter.org/sites/default/files/files/publication/KetianZhang_PolicyBrief_January2020.pdf. and Madhu Sudan Ravindran, “China’s Potential for Economic Coercion in the South China Sea Disputes: A Comparative Study of the Philippines and Vietnam,” *Journal of Current Southeast Asian Affairs* 31, no. 3 (2012): 105-132, <https://journals.sagepub.com/doi/pdf/10.1177/186810341203100305>.

⁷ Jenna Gibson, “China’s One-Two Punch: Beijing Targets Korean Tourism and Soaps to Protest THAAD Deployment,” Korea Economic Institute of America, March 3, 2017, <https://keia.org/the-peninsula/chinas-one-two-punch-beijing-targets-korean-tourism-and-soaps-to-protest-thaad-deployment/> and Andray Abrahamian and Daekwon Son, “Moving On: China Resolves THAAD Dispute with South Korea,” Stimson Center, November 9, 2017, <https://www.38north.org/2017/11/abrahamianson110917/>.

⁸ Gordon Corera, “Huawei’s Meng Wanzhou Flies Back to China after Deal with Us,” BBC, September 25, 2021, <https://www.bbc.com/news/world-us-canada-58682998> and Tony Seskus, “Farm Groups Hope End of Meng Wanzhou Case Leads to Resolution of Canola Dispute with China,” CBC, September 28, 2021 <https://www.cbc.ca/news/business/canada-china-canola-trade-1.6191706>.

not be meaningful without Beijing's cooperation and there was little chance Canberra would withdraw its statement. Trade actions are now being unwound,⁹ having accomplished little. The PRC again showed it is willing to act, but exempting mainstay iron ore trade was also telling.

Economic coercion related to Taiwan has picked up recently:

Lithuania and most imports. In 2021, Lithuania allowed Taiwan to open a representative office under its name (not Chinese Taipei or the like). Over 90 percent of exports to the PRC were then halted. Lithuania has not changed its position and the EU has been largely supportive.¹⁰ While Beijing's isolation of Taiwan proceeds, the event has contributed to worse relations with Europe.

Taiwan and (not electronics). After then-Speaker Pelosi's visit to Taiwan in 2022, the PRC suspended import of some Taiwanese food products, and conducted military exercises. When President Tsai met with Speaker McCarthy in 2023, the only economic step was to investigate Taiwanese trade practices.¹¹ China has attempted low-intensity economic coercion of Taiwan at other times. It has never been productive, and Beijing may have learned this particular lesson.

America and a few firms. On top of long-standing coercion of multinationals within the PRC, Beijing in 2023 introduced a wrinkle: putting Lockheed Martin and Raytheon Missiles on its new "unreliable entities" list for selling arms to Taiwan.¹² This will have almost no effect, but China is still determining exactly how it wants to proceed. More firms will find themselves on the list.

What to Expect from the PRC

These examples show a few things fairly clearly. Taiwan is now the principle motive for China's economic coercion, but domestic politics and military objectives can matter. The coercion rarely works in the short term but the PRC also wants to send a clear signal. While Beijing is not known for honesty, what is presented as the reason for coercion is usually in the ballpark. Agriculture is featured, thanks to China's leverage as by far the world's largest importer. More tentatively, Xi Jinping has been more aggressive than his predecessor Hu Jintao, though the number of cases is small. And the US has been largely avoided, even when an obvious target.

Xi's China in particular has been almost eager to coerce foreign and domestic private companies

⁹ Michael Walsh, "Australia Called for a COVID-19 Probe. China Responded with a Trade War," ABC News, January 2, 2021, <https://www.abc.net.au/news/2021-01-03/heres-what-happened-between-china-and-australia-in-2020/13019242> and China Briefing, "Australia and China Resolve Barley Dispute, Improving Trade Ties," April 17, 2023, <https://www.china-briefing.com/news/australia-and-china-resolve-barley-dispute-improving-trade-ties/>.

¹⁰ Luke McGee, "How a Tiny European Country Took on China over Taiwan," CNN, January 30, 2022, <https://www.cnn.com/2022/01/30/europe/lithuania-took-on-china-intl-cmd/index.html> and Finbarr Bermingham, "Lithuanian Exports Nearly Obliterated from China Market amid Taiwan Row," *South China Morning Post*, January 21, 2022, <https://www.scmp.com/news/china/diplomacy/article/3164170/lithuanian-exports-nearly-obiterated-china-market-amid-taiwan>.

¹¹ Joe McDonald, "China Blocks Some Taiwan Imports but Avoids Chip Disruptions," AP News, August 3, 2022, <https://apnews.com/article/taiwan-technology-health-asia-china-4e66d6d2944204a5261b4bfbe0048688> and *Taipei Times*, "China Uses Probe as Political Tool: Researchers," April 17, 2023, <https://www.taipetimes.com/News/taiwan/archives/2023/04/17/2003798088>.

¹² PRC State Council Information Office, "China Adds Two Companies to Unreliable Entities List," February 17, 2023, http://english.scio.gov.cn/pressroom/2023-02/17/content_85111530.htm.

in the home market, diplomatically venomous, open about its suspicion of the US and allies, and has not shied away from military posturing, from Taiwan exercises to Indian border clashes. Xi himself may be personally sensitive, as suggested by the country's reaction to the 2019 Hong Kong protests and Australia's Covid call. It's certainly wise to anticipate more economic coercion, including possibly sweeping actions against American allies.

Yet even Xi's China has been fairly restrained to now in economic coercion specifically, with a partial and important exception (as always) for Taiwan. Excluding Taiwan, three major incidents involving American allies in 10 years is not an acceleration compared to previous Party leaders, despite Xi being more aggressive in nearly all other ways and the PRC becoming progressively more global in its economic range. While simple prudence argues for preparing for more coercion, it would not be surprising if no there was no surge in non-Taiwan cases.

Whatever the number of actions seen in the second decade of Xi's interminable regime, some coercion features can be anticipated. The first is a warning: the most basic things can upset China. Seeming to give Taiwan greater recognition, of course, but also pursuing one's own national interests and, increasingly, just saying the PRC made a mistake of some sort. All have been shown to provoke a coercive response. If Xi becomes more sensitive to domestic political challenges as he ages, that last mistake "trigger" could be important for several years.

Related, Chinese actions may not be short-term rational from an outside view and may thus be hard to predict. There could be little chance to force the target country to reverse the offending stance and actions could seem excessive in scope or intensity. Beijing has long been sensitive to broad multilateral groups arrayed against it, even if they are symbolic. One of its top objectives in bilateral economic coercion, perhaps the top, is to deter third parties from similar behavior.

While the PRC is not necessarily able to successfully balance too weak actions that do not deter against too strong actions that alienate others, signaling will therefore play a large role compared to successful resolution of the individual case. When China says it cannot tolerate "X," it often means it cannot tolerate others seeing "X" as acceptable. This is another reason why coercion incidents may not come fast and furious: if the PRC wants to send a clear signal, that would be muddled by multiple events in close proximity. Exceptions to this will be cases that are related to each other or if Beijing sees a second foreign action as more egregious than the first.

Finally, it's possible to partly anticipate the nature of sanctions. First, the PRC's preferred weapons of economic coercion are the agriculture exports so many of its partners value. Second, even under Xi, China has never accepted anything like a serious direct cost for itself from its own coercion. This is partly because the economy is so large -- a billion here, a billion there and you're still not talking about real money. Beijing has options to hurt smaller countries that are too minor to be noticed in the PRC. Against larger economies, it picks goods or services that do not hurt at home, for example in the protection of Australia iron ore and Taiwanese electronics.¹³

Future Chinese Coercion, A Profile

¹³ Derek Scissors, "China's Economic Vulnerabilities," American Purpose, Apr 4, 2022
<https://www.americanpurpose.com/articles/chinas-economic-vulnerabilities/>.

- The coercion incident is separated in time by some months, at least, from both the previous incident and the next.
- The motivation is politics, rather than economics or security. If Taiwan is involved, it concerns the island's political status, not a direct change in China's security options.
- The PRC suspends purchases of some foreign agriculture products.
- There is no forecast impact on the Chinese economy.
- China fails in its short-term goals of reversing foreign behavior but nonetheless announces a success because the world has recognized its rights, which may or may not be accurate.

What the US Should Do

While the number of attempts is not large, the PRC has repeatedly demonstrated its willingness to coerce American treaty allies. Meanwhile, it has stepped back from sanctioning the US, most notably in South Korean missile deployment and the arrest of Huawei's Meng. An immediate implication is that, though protection of American prosperity and security is paramount, the most pertinent concern for the US with regard to Chinese economic coercion is helping close friends rather than ourselves. The US could then consider whether to assist in other coercion cases, but establishing a set of responses to Chinese coercion of treaty allies should come first.

This limited project nonetheless faces multiple obstacles. Perhaps the first is that American credibility on international economic issues is not ideal. Countering economic coercion is likely to require some form of temporary liberalization of trade with allies, which would have been a minor matter a decade ago. Since then, Congress declined to consider the (quite flawed) Trans-Pacific Partnership, the Trump administration applied various tariffs and did not spare allies, and the Biden administration has loudly excluded market access from trade talks. If there's coercion, both China and our friends must believe the US will act on trade, despite domestic opposition.

The executive branch can only be credible in this respect if the timing of coercion and election happens to be right. Far better would be formal Congressional endorsement of support against economic coercion, through legislation. The more the US can put into law the better, for credibility and as a model for other countries that might also prepare for economic coercion if they can follow our lead in this area. Features:

- 1) If at all possible, the endorsement should be bipartisan.
- 2) Legislation should authorize a quick response. While implementation can be gradual, the US should be able to immediately show the process of assisting friends has begun.
- 3) It should be flexible – it's impossible to anticipate all facets of coercion cases and the best response cannot be crafted in advance.
- 4) It should differentiate between American allies and other possible targets of coercion, where allies should see a presumption of assistance in some form.

Combining 3) and 4) above, the question of who the US should support cannot be entirely settled in advance. Any target of Chinese coercion deserves *consideration* of American support, but whether they receive it should depend on our formal relationship, such as a defense alliance, but also their record of behavior with regard to the PRC. Countries have a less persuasive claim if they have declined to participate in American initiatives concerning China or otherwise have

treated better relations with the PRC as more important than better relations with the US. These factors should also influence the extent of any support the US offers.

In terms of legislative content, there are two dimensions, both intended to deter: help the target and hurt the aggressor. The multiple trade liberalization options in H.R. 1135, for example,¹⁴ represent exactly the right approach to bolstering victims of coercion. With regard to deterrence, new duties and quotas on Chinese goods can serve, as can revocations of export licenses, investment restrictions, suspensions of personnel movement, and the emerging option of data controls. The PRC's unwillingness to accept costs in its own actions to date makes clear that threatening it with higher costs can reduce the chances of coercive behavior.

Given the limited sweep of Chinese coercion thus far, our initial response to actions at that scale will affect American companies and individuals but will not be sizable enough to affect the US economy. A last consideration, then, is escalation. There have been no clear instances of escalation in Chinese economic coercion, in part because our allies have had few options of their own and the US role has been limited. But escalation is possible in a future case, either against an ally or against the US, and it is more likely if Taiwan is somehow involved. The obvious target for Chinese escalation is agriculture, implying a direct or indirect burden on American farmers. It would add to our credibility if the US was prepared for this contingency.¹⁵

¹⁴ Countering Economic Coercion Act of 2023, H. 2023, 118th Cong., 1st Sess., § 1135, <https://www.congress.gov/bill/118th-congress/house-bill/1135/text?s=4&r=1>.

¹⁵ I oppose perpetual farm subsidies.