

**Analysis of Chinese Economic Statecraft
and its Methods through Four Case Studies**

Kína gazdasági hatalomgyakorlásának és módszereinek
elemzése négy esettanulmányon keresztül

ZOLTÁN BÁN



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Reviewed by:

Tamás Péter Baranyi

Typesetting:

Tamás Lévárt

Editorial office:

H-1016 Budapest, Bérc utca 13-15.

Tel.: + 36 1 279-5700

E-mail: info@ifat.hu

<http://kki.hu>

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Abstract: In the past decade, China has employed its economic statecraft more frequently, possibly due to its more advanced economic capabilities and its more assertive foreign policy. Four case studies (South Korea, Australia, Canada, and Lithuania) are analysed from the past few years regarding the Chinese economic statecraft methods in order to get a better understanding of the methods used and to derive useful conclusions and recommendations for potential future cases of economic coercion. An analysis of the four cases to identify similarities in the methods utilised by Beijing shows that success rates vary at best, and many adverse effects for China are also found. Countries should be aware of such coercion methods, although building resilience seems to be more successful in easing tensions than does all-out deterrence.

Keywords: economic statecraft, coercion diplomacy of China, informal unilateral economic sanctions, plausible deniability.

Absztrakt: Az elmúlt évtizedben Kína sűrűbben használja a gazdasági hatalomgyakorlási képességét, mint korábban. Ez magyarázható azzal a ténnyel, hogy egyre nagyobb a gazdasági potenciálja és asszertívabb a külpolitikája. Négy esetet választottam ki az elmúlt évekből – név szerint Dél-Korea, Ausztrália, Kanada és Litvánia – amelyeken keresztül a kínai módszereket elemzem a szakirodalomra támaszkodva. A cél a jobb megértés, következtetések és ajánlások megfogalmazása a jövőbeli gazdasági nyomásgyakorlások idejére. Miután elemeztem a négy esetet, igyekeztem hasonlóságokat azonosítani a kínai módszerekben és arra jutottam, hogy a módszerek a sikeresség terén vegyes képet mutattak – sőt Peking számára negatív hatásokat is okoztak. Minden országnak figyelemmel kell lennie a hasonló kényszerítő eszközök használatára, ugyanakkor a belső védekezés kiépítése inkább vezet a feszültség csökkentéséhez, mint egy elrettentő mechanizmus kiépítése.

Kulcsszavak: gazdasági hatalomgyakorlás, kínai kényszerítő diplomácia, informális egyoldalú gazdasági szankciók, hihető letagadhatóság

INTRODUCTION

There have been several [incidents](#) between China and other countries where diplomatic, military, or economic disputes emerged. These include (1) South Korea and its plan to deploy the THAAD system, (2) Australia and its call for an investigation into the origins of COVID-19 and previous events, (3) Canada and its detention of Huawei leader Meng Wanzhou, and (4) Lithuania and its (nem ismerte el, ezért semi-recognition vagy quasi recognition) recognition of Taiwan. These cases are used to classify the methods of Chinese pressure based on the existing theoretical frameworks, employing the division of sovereignty-related and

economic-related backgrounds (gazdasági és szuverenitásbeli felosztás, vajon eltérően reagálnak-e a Kínaiak ha más a kiváltó ok) when considering the cause, scope, and severity of coercion.

Previous literature identifies instruments of positive and negative economic incentives, and the case studies are analysed to draw common subsets (közös pontokat akartam találni az eltérő esetekben, közös halmazokat ábrázolni egy táblázatban), built on similarities and differences regarding the four cases. The scope of the research is limited to the use of economic tools, focusing on the ways China exercises economic statecraft, i.e. its use of economic means to pursue national objectives abroad. The conclusions are supplemented with policy recommendations regarding the ways to cope with Chinese assertiveness when disputes unfold.

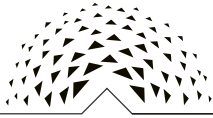
RESEARCH QUESTIONS

1. Why does China use harsh methods of economic leverage in the cases of South Korea, Australia, Canada, and Lithuania?
2. How do the target countries try to defend themselves?
3. Which segments of the industry are targeted and for what reasons?
4. Are causes of coercion related to sovereignty and security (South Korea and Lithuania) more successful in terms of reaching the desired goals than economic reasons (Canada and Australia)?

LITERATURE REVIEW

The broader theoretical framework used in this research is [geoeconomics](#), which has taken the place of geopolitics in the sense that economic leverage has become the main sphere in which states can utilise their power to subvert other states' policies. Economic statecraft has tools to further a nation's strategic goals in the economic realm (some [say](#) that geoeconomics and economic statecraft are synonymous). Although David A. Baldwin [uses](#) economic sanction and economic coercion as two different concepts, in this paper they are used synonymously (economic statecraft is a broader concept, since there are many instances when positive "sanctions" are utilised and yet they are politically motivated). This paper mainly focuses on the toolkit itself and not on the long-term goals wanted to achieve by using them. (magával az eszközökkel foglalkozok és nem az elért célokkal).

Concerning the tools of geoeconomics, it is important to understand the theoretical basis of asymmetric interdependence, which means that taking part in trade and other activities related to the economy with other countries [generates](#) different



amounts of leverage over one another. The more wealth a country generates via trade with a certain country, the more likely this beneficiary country will grant it certain advantages in the fields of the military, politics, and the economy to be able to further generate more wealth for itself. If one actor is more dependent on the other, this [induces](#) asymmetries in favour of the less dependent country, although in case of a standoff both parties would [suffer](#) from cutting the existing trade channels.

Evidence [shows](#) that sanction sender countries decide based on their dependence on the economy of the country receiving the sanction when to initiate sanctions. Following the footsteps of Baldwin, this paper uses [economic statecraft](#) over economic diplomacy or foreign economic policy due to its extended range of goals. Blackwill and Harris point out that two variables [define](#) the success of coercion, namely the share of the global market (power of monopolies) and the size of the domestic market (fear of losing market). They also describe geoeconomic endowments such as the ability to control outbound investment. All these instruments can be [utilised](#) so as to “weaken or strengthen the leadership of another state, changing the domestic or foreign policies of another state, deterring, changing the rate of economic growth in another state, changing the level of economic welfare in another state”.

In recent decades, China has mainly [used](#) its economic leverage in a positive manner, for gathering support from the developing world, and it has been traditionally [opposed](#) to unilateral sanctions since its century of humiliation, which has been an identity-forming narrative strongly advocated by the Chinese Communist Party (CCP). Beijing tries to [reconcile](#) the inconsistency of its coercion method and its history of being a victim of it; therefore, there is no official procedure for imposing sanctions (although a black list was [created](#) in 2020 September that is similar to that of the US). Sanctioning as a legitimate method has been employed openly by great powers such as the EU and the US, thus the Chinese coercion activity is not unique, and it is expected to intensify as its power grows.

In recent years, China’s ability to use its economic leverage over other countries has grown significantly. Not only did interconnectedness get stronger, [interdependence](#) did so as well, resulting in asymmetries in favour of Beijing, explained by its sheer wealth surplus compared to all other countries around the world. In terms of the tools that states can apply to obtain advantages, Davidson and Shambaugh [show](#) that negative sanctions are more effective against allies due to stronger economic relations. However, China is not an ally of the examined countries, and it still has strong economic leverage, thus it can use negative sanctions effectively. Sanctions can also be perilous to senders in case of a resistant target who can resist effectively, sending signals to other countries about the impotence of the sender’s capability to inflict damage on the target, raising the bet for the sender in terms of achieving complete success. Third-party countries that are motivated to help targeted countries can also [influence](#) the outcome of the coercion by opening their market and sending economic assistance, and

therefore, it is also important to examine the actions of countries that are indirectly involved. China intends not only to defend its economic interest but also to change the political discourse and foreign policy trajectory of other countries. Baldwin, beside differentiating between positive and negative tools, enumerates a range of instruments in the hands of states (embargo, boycott, tariff increase, blacklist, license denial, etc.), which are used in the present analysis to identify the Chinese economic toolset.(kínai eszköztár vizsgálata)

METHODOLOGY

Lim and Ferguson [point out](#) that Chinese informal sanctions are somewhat similar to grey zone military activities in the sense of maintaining plausible deniability, thus the emergence of a sanction can be detected via analysing the target country's communication about it, along with the Chinese communication. Examining data regarding economic activity regarding the states and their affected sectors, and collecting data about FDI flows are also crucial, along with the loss in trade and judicial barriers established by the sender. Due to the nature of the Chinese economic pressure (semi-denied and fundamentally unilateral), the research does not analyse the attitude towards multilateral sanction regimes.

Inasmuch as Chinese coercion is the cause, it is referred to as the independent variable, while its effects are the change in the politics of the target country, the economic effects, the reactions to these acts, and the overall result of the coercion, constituting the dependent variables of the present research.

Writing this research requires using primary and secondary sources to generate plentiful reliable data, while employing the existing theoretical literature is also important. Limiting the scope of the research paper to the use of economic tools and their effects, the Chinese strategic goals are only analysed briefly to help decide what caused the Chinese actions.

Regarding operationalisation, data from Comtrade, Statista, OECD, and OEC has been used. The products analysed were selected based on a general evaluation of various news reports and research events. It is also important to examine the overall export to China to establish the extent of the damage. Assessing the strength of interconnectivity is important to set up an order regarding the cases, and the total export and import values vis-à-vis China and the given numbers were analysed to determine the level of exposure.

CASE STUDIES

Since South Korea, Australia, Canada, and Lithuania are all formal allies of the United States, the analysis will be limited to exploring how China behaves with nations allied to the US.

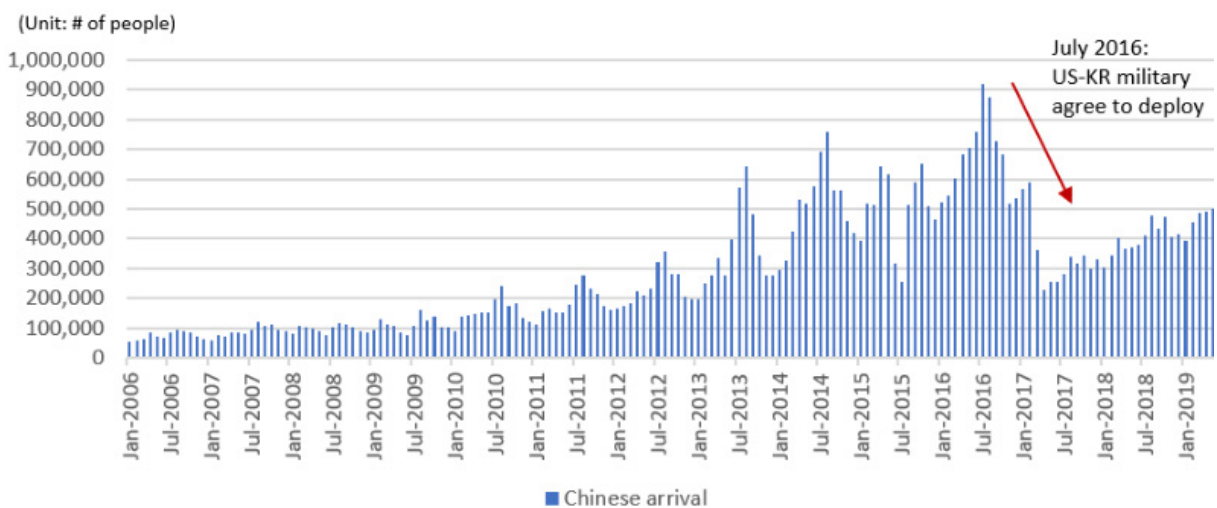


SOUTH KOREA

South Korea is in a unique situation, since it is a firm ally of the US while also having strong economic relations with China. The two Asian countries have [built](#) a complementary manufacturing industry, which has led to a high level of integration between the two. In 2013, the media [reported](#) about possible Terminal High Altitude Area Defense (THAAD) system installations in South Korea as a defensive act against the North Korean nuclear threat. Despite strong opposition from Beijing, the US and South Korea [announced](#) the deployment in July 2016, and the system began its operation in 2017.

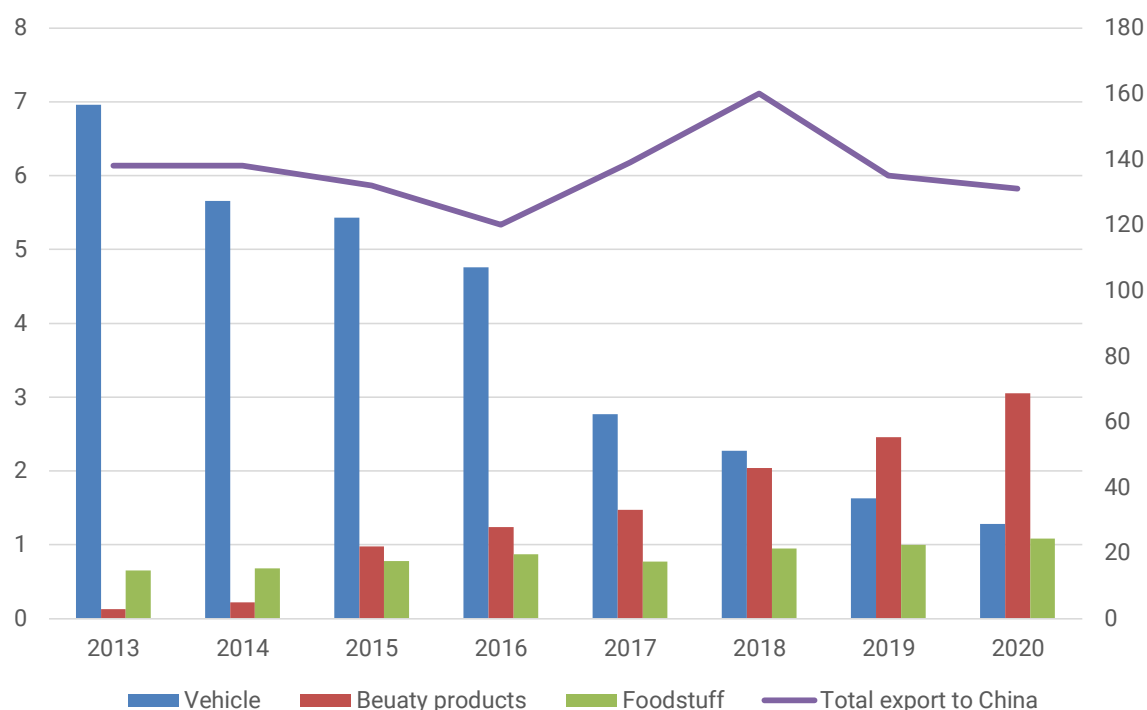
Beijing reacted forcefully and expressed its formal protest against the planned weaponry, citing the fact that the radar capability of the weapon can access deep into Chinese territory, thus [reducing](#) the second-strike capability of the Chinese nuclear arsenal. A good example for sovereignty related cause which was induced by a security problem. (Itt megemlíttettem, hogy ez egy biztonsági kérdés, tehát a szuverenitásh típushoz tartozik) In March 2017, the China National Tourism Bureau [banned](#) travel agencies from organizing tourist groups to visit South Korea, and the Chinese government reduced the number of flights to South Korea. All this led to a shrinking number of tourists, which had already started in November 2016 as a result of agitation in the Chinese media against South Korea. There was a 40% [drop](#) in tourist numbers in March 2017. According to 2016 data, tourists spent USD 20 billion in South Korea, leaving a loss of USD 7.7 billion in 2017. The Korean Ministry of Commerce fenced off USD 349 million to support tourism, and although the number of tourists started to increase in 2018, it did not [reach](#) 2016 levels. China [denied](#) the involvement of the government, which fits in with the idea of plausible deniability.

Figure 1.
[Chinese tourist travels](#) to South Korea.

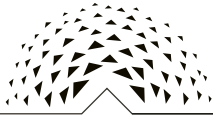


Other segments were also targeted, such as cosmetics, foodstuff, and vehicles. Some of these were victims of [a public boycott](#), according to Beijing, for example Hyundai and Kia products, while others fell victim to safety concerns. Beijing also [refused to certify](#) Korean batteries for electric vehicles, which hampered any vehicle equipped with cells made by LG Chem and Samsung SDI being sold in China. Companies such as Lotte were [targeted](#) directly, since it provided the land for the defence system in Seoul, and the firm eventually had to close all of its 112 stores in China. Initially, the [cause](#) was said to be breaches of fire regulations, although Lotte also reported cyber-attacks, and its subsidiaries were also [targeted](#) by the authorities. In 2017, the number of Korean vehicles sold in China plunged by more than 50%, and only 429,000 vehicles were sold in the first half of the year, which was a [return](#) to 2009 levels. However, as Figure 2 shows, decreasing vehicle sales has been a trend since at least 2013, so although the Chinese actions were harmful, the structure of Chinese imports has also been changing on its own. Although beauty products were also targeted, the demand was so high that the year-on-year data does not show any fallback. An overall reduction of 10% in export values can be seen in 2016, which recovered a year later and reached an all-time high in 2018.

Figure 2.
Export to China (USD billion)
The y-axis on the right shows the total export volume.



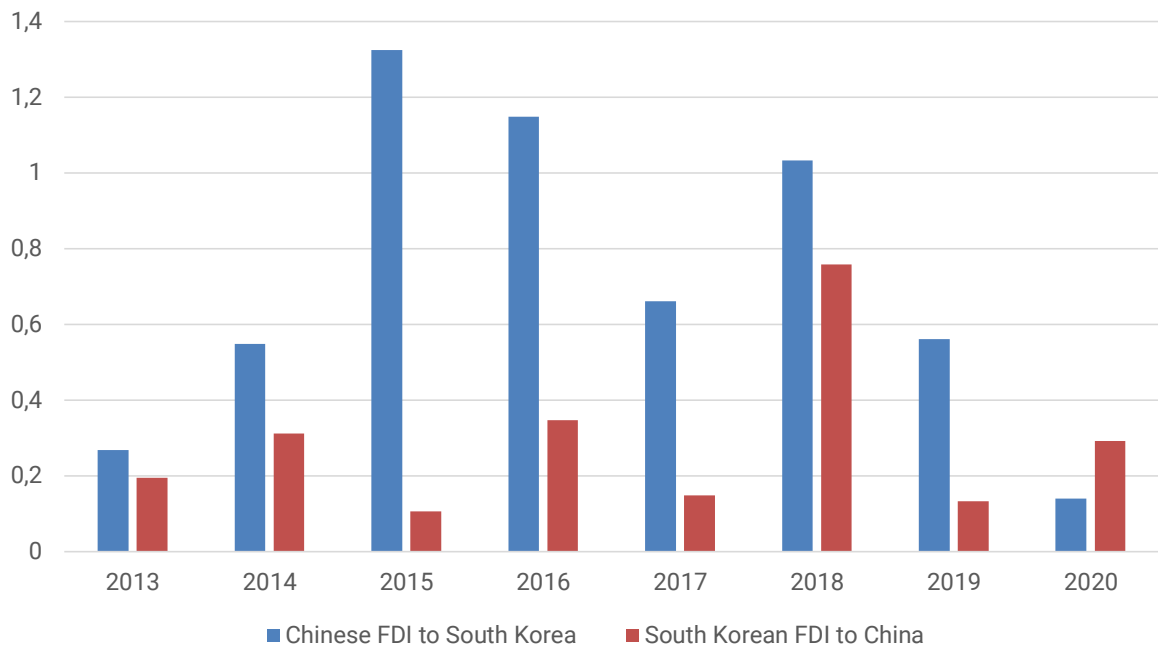
Based on the [CEA](#) database.



China also made diplomatic offensives, postponing high-level diplomatic bilateral meetings with South Korea and suspending military-to-military exchanges with Seoul. Beside the direct economic consequences, one of the diplomatic results was suspending the negotiations of the China-Korea Free Trade Agreement. Before the dispute, bilateral relations were quite positive, thus many Chinese people felt betrayed. Security dialogues [restarted](#) in 2017, and inter-governmental meetings also began to resurface, even if their extent has not reached that of the pre-THAAD period. Seoul [filed](#) a formal complaint with the WTO, although it was [difficult](#) to prove that China deliberately broke the commitments made earlier in the agreements.

Concerning FDI flow, after having reached a high level in 2015, Chinese investments began to drop, only to increase again in 2018. South Korean investments were relatively low for this period and only increased significantly in 2018, after the conflict had eased. Since the Korean wave and the entertainment sector was also on the [target list](#), concerts and events were also cancelled, and several Chinese investors (e.g. Alibaba) suffered losses.

Figure 3.
FDI flow (USD billion)



Based on the [Statista](#) and [OECD](#) databases.

Nevertheless, the pressure was intense, and Beijing eventually did not achieve its goal of preventing the THAAD installations. China [lifted](#) its economic sanctions on the Lotte Corporation in 2019.

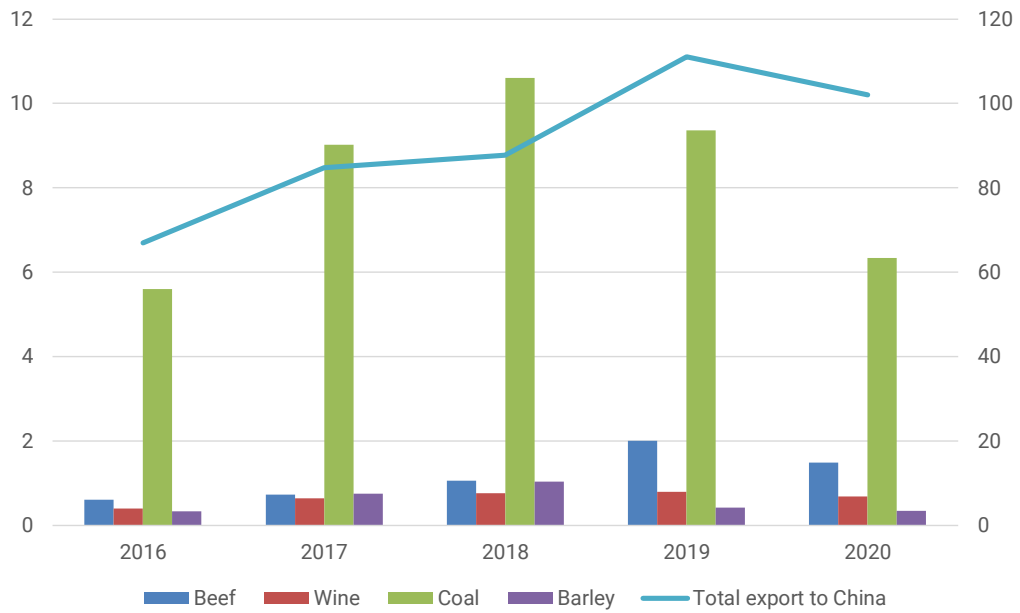
AUSTRALIA

The relationship between Canberra and Beijing has been deteriorating since 2017, when the Australian Security Intelligence Organisation warned domestic parties that the Chinese Communist Party was influencing Australian politics through various private persons. On the grounds that Australia has a transparent public life and close alignment with Western countries, these lobby activities [sparked](#) controversy. To combat these influencing techniques, a new law was implemented to monitor foreign influence on domestic politics, and a year later Canberra [excluded](#) Huawei from building 5G infrastructure in the country. In this period, positive “sanctions” had been established to influence a foreign country being important in the Chinese geopolitical thinking until it was substituted due to its revelation. (pozitív szankciókat alkalmaz Kína egy számára fontos országgal szemben, amikor ez kiderül felfüggeszti a pozitív szankciókat, amik így negatívként érzékelődnek. Holott az engedmény megadása nem alap, az egy plusz dolog – substitute helyett helyett cancelled kellene). The causes are now less security-related than economic, yet there is also a geopolitical goal to make Australia a more neutral country in the Indo-Pacific.

In terms of the Chinese countermeasures, the Chinese authorities suspended market access for several Australian meat processing plants in July 2017 as a reaction to Australian comments on the South China Sea. This inflicted a 25% loss in August, although it was quickly recovered. In May 2018, Chinese authorities added new verification requirements for Australian wines, seemingly only applying to them. There was again a quick recovery, and Australian wine increased its market share in the Chinese market in 2018. In February 2019, officials banned Australian coal. Official statistics show that in that month there was a 45% [dip](#) in coal trade, while on a year-on-year basis, the value of coal export was 12% lower (Figure 4). In the case of barley, the Ministry of Finance and Commerce launched an investigation against the Australian barley dumping method in May 2020. After the investigation, an 80.5% tariff was implemented on barley, which led to an almost complete collapse of export that month, although on an annual basis the value was 19% lower. In May 2020, authorities suspended imports from four Australian meat processors, invoking health certificate problems. Before this happened, the Australian government had expressed its [desire](#) to push for an independent COVID-19 inquiry, which Beijing could not tolerate. Figure 4 shows a 26% drop in beef export to China in 2020.

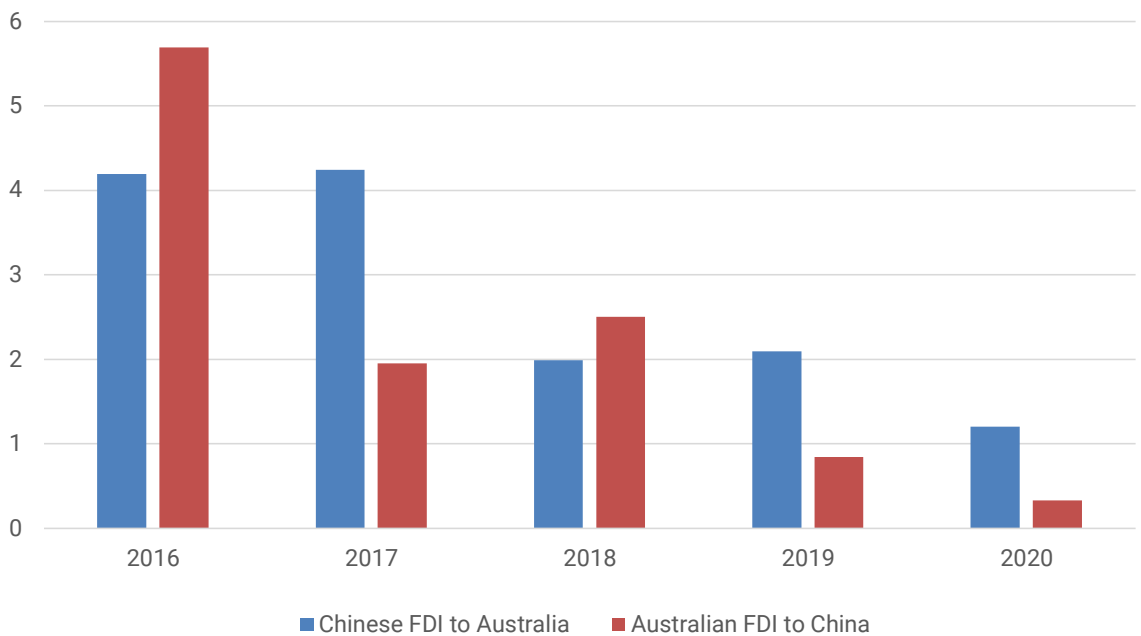


Figure 4
Export to China (USD billion)
The y-axis on the right shows the total export volume.



Based on the [CEA](#) database.

Figure 5
FDI flow (USD billion)



Based on the [Statista](#) and [OECD](#) databases.

Regarding FDI dynamics, investments decreased as political disturbances emerged, both China and Australia acted similarly. Although China has more power in determining where investments should go, Australian private investors also decreased their exposure, possibly due to the political risks. As Figure 5 shows, the data on a yearly basis does not show a significant effect for the Chinese actions in these cases because they were mostly short-lived. In terms of Chinese-Australian bilateral trade, it is evident that Beijing could have wreaked more havoc on its counterpart, since the total value of imports was USD 87.7 billion in 2018, of which USD 67 billion accounted for raw materials, especially iron. Yet the sanctions were short, targeting smaller segments of the trade composition, mainly due to the Chinese dependence on Australian iron ([60% of iron](#), without immediate substitutes). Self-restriction also likely played a part, since too much pressure could lead to trade diversification, a tool for lowering dependencies. Although these coercion actions were harmful to individual firms and industry segments, the overall Australian export to China increased from USD 67 billion in 2016 to USD 102 billion in 2020, a staggering [52% increase](#).

Beijing has tried to connect the decrease in its import with [consumer sentiment](#) changes to avoid admitting its own actions. This fits into the plausible deniability strategy of the Chinese sanctions. In November 2020, Beijing made Canberra [responsible](#) for their deteriorating relationship, due to its unfriendly stances on COVID-19, Taiwan, and Xinjiang, as well as hindering Chinese investments. This is a tactic of depicting themselves as victims, along with a constant denial of having taken any measures. Concerning the defensive reactions, producers have been successful in diversifying especially in the case of coal, copper, barley, and cotton. As a countermeasure, Canberra has [turned](#) to the WTO, while also leaving the door open for reconciliation.

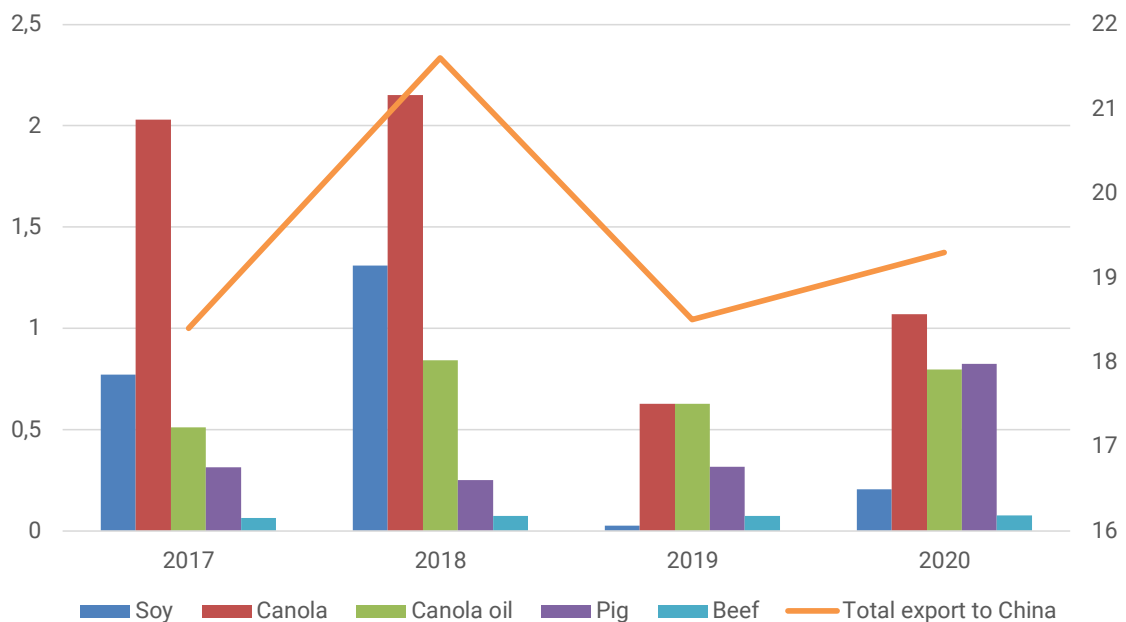
CANADA

In December 2018, Huawei CFO Meng Wanzhou was [arrested](#) in Canada on allegations of fraud committed in Hong Kong. As a countermeasure, ten days later Beijing arrested Michael Kovrig and Michael Spavor for espionage, and it [imposed](#) agricultural sanctions on soy, canola, and pig and beef products, leading to a 16% drop in Canadian export to China, which amounted to an USD 3.5 billion loss. Regarding beef export, the official justification was inadequate quality assurance, such as inappropriate use of preservatives, thus it was officially a non-retaliatory action. Plausible deniability serves again as a good sign describing the coercion method. (nem tudom erre mi a magyar megfelelő, de ez a letagadás aktusa, tehát praktikus előrásbeli indokokkal tiltanak, nem hivatalos szankciókkal) When swine fever devastated China in 2019, the central government [lifted](#) the decision banning the import of Canadian pork.



At that time, the Huawei case was still unresolved, but the increasing price of pork overwrote the punitive measure. Two years after their arrest, Meng, Kovrig, and Spavor were [released](#). Meng made a deal with the US authorities, and the two Canadians were sentenced and expelled; however, Beijing [denied](#) that the two cases were linked, again trying to refute the political will behind the decision of its judiciary system. Later Canada [turned](#) to the WTO regarding the blocks on its canola export. This case was mainly economic in nature, due to the distinguished position Huawei plays in Chinese foreign economic expansion.

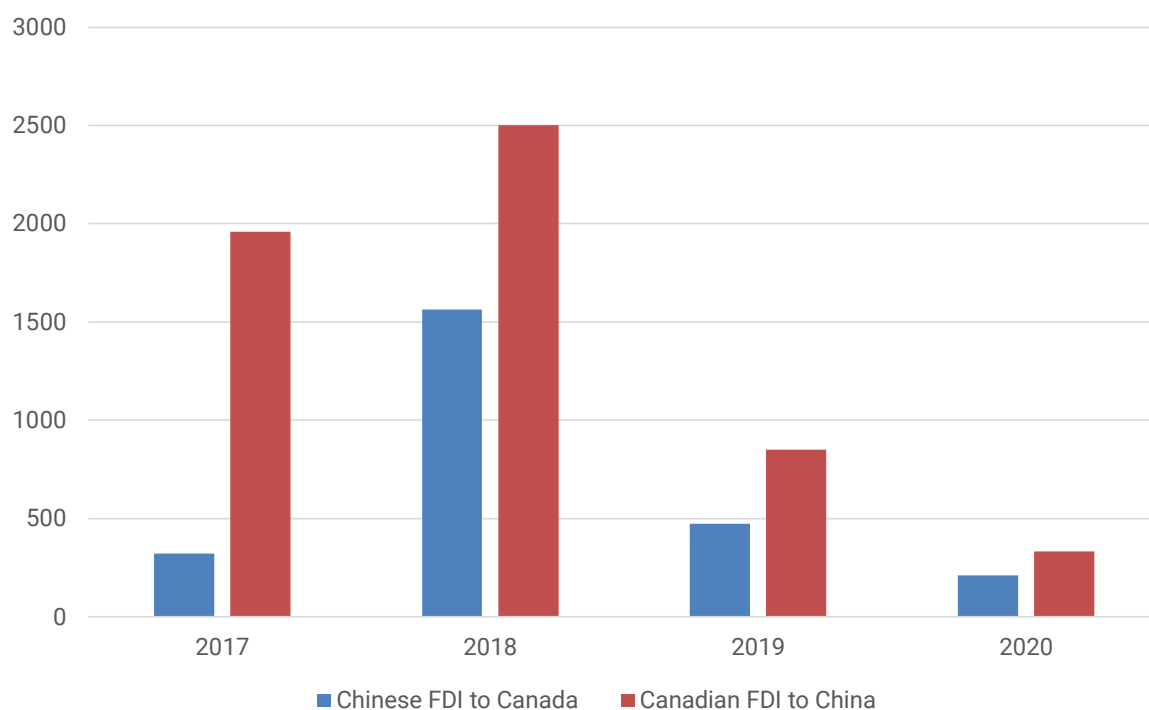
Figure 6
Export to China (USD billion)
The y-axis on the right shows the total export volume.



Based on the [OEC](#) database.

Figure 6 shows a huge dip in 2019 on a year-on-year basis. Apart from this 16% fall, the value of individual products also plummeted, especially in the case of canola, which fell from USD 2.1 billion in 2018 to USD 627 million in the next year, which is a 29% fall. Soy was also targeted heavily, since it fell from USD 1.3 billion to just USD 25 million the next year, which is a 99% dive. It should be added that Canadian soybean [was](#) also in the centre of the trade war between the US and China, so the Meng case did not cause all the harm.

Figure 7
FDI flow (USD billion)



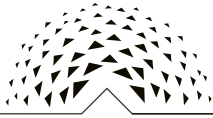
Based on the [Statista](#) and [OECD](#) databases.

FDI intensity indicates that the two countries mutually lowered their investments in each other given the increased tensions between them.

LITHUANIA

As the [first](#) European country to allow “Taiwan” to be used in the name of the country’s foreign outpost (establishing a “Taiwanese Representative Office” in Vilnius), Lithuania sparked a diplomatic standoff with China in 2021. This moving away from the status quo on the “One China policy” could harm economic and trade relations between the Baltic states, the EU, and China.

The tension first increased in July 2021, when the opening of the Taiwanese Representative Office was first [announced](#), a clear example of hurting Chinese sovereignty and its core interests. In November 2021, China [downgraded](#) its diplomatic ties with Lithuania and asked it to recall its ambassador, stating its objection to the issue. A month later China [delisted](#) Lithuania from its customs system, making bilateral trade nearly impossible between them. The Chinese authorities claimed that Lithuania [failed](#) to provide the required documents on beef products and therefore banned its import, along with

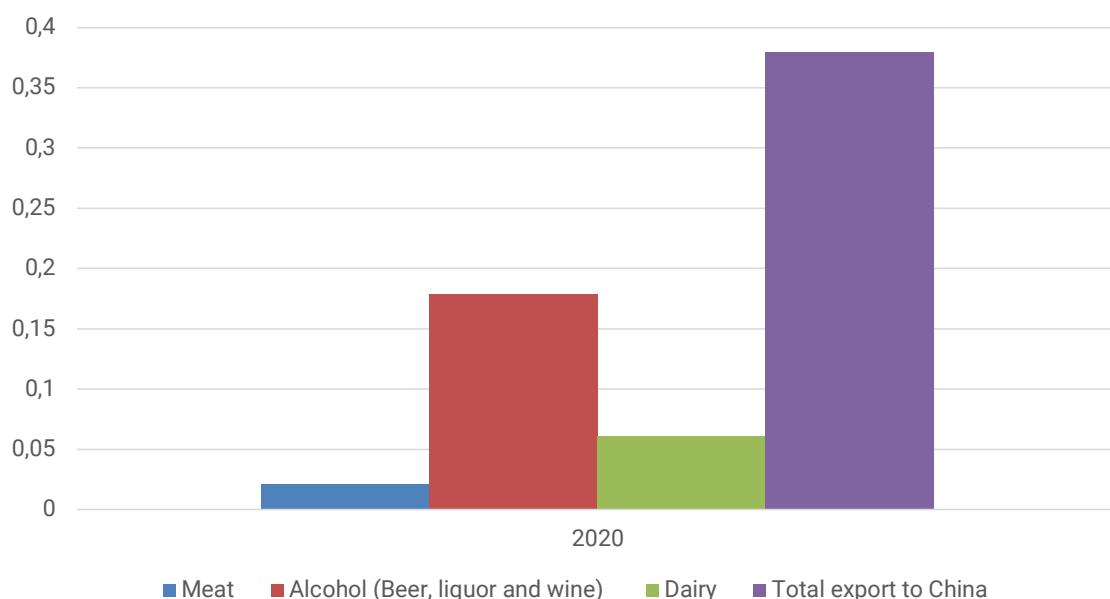


dairy and alcohol products. Seeing that their actions were ineffective, China employed the new tactic of [secondary sanctions](#), which resemble those often used by the US. This means that the firms that source products from Lithuania will find their commercial liaisons with China obstructed. Later it became clear that those German firms that sourced parts from Lithuania were also [denied](#) clear customs in China. Although the trade value [is not significant](#) in absolute numbers, Lithuanian export to China [plunged](#) 76.6% on the year.

The Lithuanian Central Bank [estimated](#) that the country's GDP growth could decrease from 0.1 to 0.5 in 2022 and 0.3 to 1.3 in 2023. The reason behind this number is that although the bilateral trade is insignificant, secondary sanctions can also hurt foreign investment inflow, damaging the overall investor sentiment. Although indirect political pressure from German companies could multiply the Chinese coercion capacity, the EU has sided with Lithuania and [filed a complaint](#) to the WTO in January 2022, and it has also [agreed](#) to fund the firms that are affected by the coercion. Taiwan has also made pledges to [bring more](#) investment to Lithuania, while the US has [initiated](#) an export credit agreement to ease the pressure on its ally. In addition, the European Commission published a proposal for the [adoption](#) of the Anti-Coercion Instrument (ACI). Even though China has less direct leverage over the Lithuanian economy, secondary sanctions can cast a long shadow if companies in third countries follow their economic rationale and punish Vilnius so that they can continue their business with China.

Vilnius does not seem to be [backing down](#) with its stronger dialogue based on liberal values; moreover, as part of balancing the costs of this policy, it has signed numerous agreements with Taiwan on issues such as semiconductors and financial technologies. An [article](#) by Global Times has warned Vilnius that if it continues its actions, "the Baltic country's economy will surely have to pay an even greater price", sending informal signals about further coercion. Regarding the complaint filed to the WTO, China has [expressed](#) that it has always followed the rules and that it has not imposed any trade sanctions or restrictions. Having left the China-CEE 17+1 in 2021, Vilnius [urged](#) other members to follow their path and leave the cooperation, indicating that the end of this dispute is far. If a sanction receiver can endure the pressure, it can provoke or encourage others to be more confrontational, for example, Czechia is also [considering](#) leaving the 17+1 format.

Figure 8
Export to China (USD billion)
The y-axis on the right shows the total export volume.



Based on the [OEC](#) database.

Overall, Lithuanian export to China is minimal both in absolute and in relative numbers (its export to China is 1.1% of total export values), as is its FDI. However, secondary sanctions can still cause harm.

COMPARING THE FOUR CASES

Tables 1 and 2 describe the export and import from China in the four analysed countries at the time they were targeted. The percentages in Table 1 show the ratio to total trade based on which the level of exposure to Chinese trade is determined in Table 2. This is a relative order in relation to the exposure of the other countries involved.

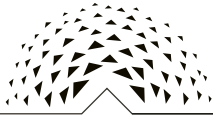


Table 1

	Export to China (ratio to total trade)	Total export to other countries
South Korea 2016	USD 120 bn (23%)	USD 505 bn
Australia 2017	USD 84.8 bn (33%)	USD 251 bn
Canada 2020	USD 18.5 bn (4%)	USD 431 bn
Lithuania 2020	USD 0.38 bn (1%)	USD 33.3 bn
	Import from China	Total import from other countries
South Korea 2016	USD 90 bn (22%)	USD 396 bn
Australia 2017	USD 47.2 bn (22%)	USD 212 bn
Canada 2020	USD 46.6 bn (10%)	USD 441 bn
Lithuania 2020	USD 1.58 bn (5%)	USD 31.5 bn

Based on the [OEC](#) database.

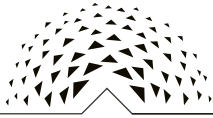
Overall, the four cases show that interconnectivity has been used as leverage to accomplish political goals. South Korea has given [assurances](#) to China that it will not consider more THAAD deployment, no other US missile defence system will be employed, and Seoul is not going to join an alliance with the US and Japan (South Korea and Japan are not allies, they are connected through the US). Due to its informality, the agreement can hardly be considered a huge success, since the news has emerged that Washington intends to [enhance](#) the effectiveness of THAAD, which would increase tensions again. China has leverage over South Korea, thus its sanctioning potential is great, but it has to be careful, since cutting trade relations would reduce its leverage. Therefore, they have targeted sectors where Korean dependencies cannot decrease or where they were symbolic, such as K-pop. As an adverse effect of coercion, China's image has been damaged in South Korea, since the number of people wary of China [soared](#) from 27.6% to 50.3% in 2017. Australia has resisted, and it joined [AUKUS](#), which has the semi-official goal to contain China. The pressure continues, but since it does not affect iron imports, it seems that the geopolitical goal of reaching Australian neutrality is no greater than the acquisition of raw materials and economic interest. Beijing is

well aware that trade curbs can create media spectacles and have a psychological impact on the targeted society, so it can provoke large companies and business associations to [lobby](#) their governments for foreign policy changes. In the Canadian case these lobby activities led to resolving the dispute, since the detention of two Canadian citizens was more important than curbing trade. It is interesting that although Taiwan stated its support for Vilnius, it did not allow Lithuanian [grain](#) to enter the country, invoking a lack of phytosanitary export certificate, a case stunningly similar to that of China. The case [was mentioned](#) in the Global Times as proof of a lack of solidarity and a mistaken policy in the sense that Lithuania has not even received positive benefits from Taiwan. This highlights the importance of differentiating between sanctions and ordinary restrictions.

Table 2

Target country	Issue	Type of sanction	Counteraction	Exposure to Chinese trade
South Korea (2016)	Deploying THAAD	Fire safety inspections, ban on tourist flights, restricting Hyundai, Kia, LG Chem, and Samsung SDI, diplomatic actions	Considered turning to the WTO, ultimately focusing on de-escalation	High
Australia (2017-)	Actions against Huawei, Canberra becoming increasingly unfriendly	Meat import restriction, wine, coal, barley, beef	Turning to the WTO, further strengthening ties with the US and other allies	High
Canada (2019-2020)	Huawei leader's detention	Soy, canola, canola oil, pig, and beef import restriction	Turning to the WTO, successful "hostage exchange"	Moderate
Lithuania (2021-)	Steps towards recognising Taiwan	Meat, alcohol, and dairy import restriction, delisting from the customs system, secondary sanctions which is a new element	Turning to the WTO with the EU, subsidies to firms, reacting with new anti-coercion policy, urging others to weaken relations with Beijing	Low

For effective asymmetric economic statecraft, strong interconnectedness is [needed](#). As Tables 1 and 2 suggest, China had immense leverage over Australia and South Korea; however, its success was dubious at best. It was capable of initiating tremendous economic pressure but chose not to do it, either fearing huge costs or possibly losing its leverage as a consequence. It also seems that the Chinese



sanctions worked more effectively earlier, for example in the case of the [Dalai Lama's](#) visit. This can be partly [explained](#) by the fact that recent issues are more important to the countries receiving sanctions than to the sanction senders. Although China has initiated more negative unilateral sanctions since 2008 than ever [before](#), their intensity has not increased substantially compared with the intensity of Chinese economic growth. These sanctions tend to be more symbolic and sectoral, not having the goal to inflict great harm on the sanctioned economy. Lim and Ferguson [point out](#) that the Chinese informal sanctions are somewhat similar to grey zone military activities in the sense of maintaining plausible deniability, and so they could be part of a broader strategy for China. Concerning effectiveness, security and sovereignty-related causes (South Korea and Lithuania) have sparked strong reactions, although in the two other cases, the inflicted damage was similar. Lithuania's case is different in that China has weak leverage over them, which prompted Beijing to improve its technique by using secondary sanctions, showing its determination.

Since there is no official pattern for implementing the Chinese sanctions, and their methods are informal, the Chinese actions can send mixed signals to other countries, leading to inefficient influencing. On the other hand, using double-speak helps mitigate the risks of being exposed as breaching the rules of the WTO. Moreover, informality provides [broader room to manoeuvre](#), since the question of escalation and de-escalation is left to the discretion of CCP leadership. China posing as a [victim](#), supported by the pattern of the century of humiliation, is in radical contrast to its method of exerting economic pressure.

Overall, China regularly frames its actions in terms of need and reaction. This is complemented by the practice of denial, which seeks to obscure the responsibility and involvement of the central government. Furthermore, China generally reacts to the changing behaviour of other countries and does not pre-emptively use negative economic incentives. Threatening with sanctions while avoiding actual repressions is often used (as is avoiding the word itself), meaning that the cost of threatening decreases, along with its weight. China targets individual companies and industries rather than entire countries. Indirectly, it wants to put pressure on the target governments in a [bottom-up manner](#). Unlike Western sanctions, which often respond to the domestic political situation of the target, China usually imposes appropriate responses to interstate problems.

As to the mixed success rate of these sanctions, either the issues are more important to the Western countries, or they are less important to Beijing. Based on the present analysis of countries that are part of the US-led alliance system, China's main goal seems to be to deter other countries from hostile behaviour. Since these countries are well integrated into the alliance system, it is difficult to imagine that huge policy changes can be attained via trade restrictions. In the case of Canada, both countries considered themselves a winner after the hostage exchange, so it is different from the other cases. It is dangerous for Beijing to draw red lines concerning its core interests, since it will be obliged to react vehemently even on smaller issues, like it did in the case of Lithuania.

China will continue to build on informal sanctions, but the intensity and targets of these may vary. If its economic power and weight grows in the global monetary system later, it can [lead](#) to switching to the style of the US sanctioning policy.

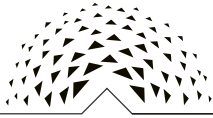
RECOMMENDATIONS

After the Lithuanian affair, the EU Commission started to think about a new policy targeting third parties that employ economic coercion. The main goal of the Anti-Coercion Instrument is deterrence through dialogue and engagement, along with (as a last resort) retaliating with counter-coercion [comprising](#) (1) tariff concessions suspension and imposition of duties and new charges on goods; (2) import or export restrictions; (3) restrictions on trade in goods, including measures on transiting goods or other internal measures applying to goods. It was also added that the intensity, severity, frequency, duration, breadth, and magnitude of the coercion all should be taken into consideration when thinking about retaliation.

Critics [state](#) that ACI could lead to escalation, since similarly to China, it draws red lines, the violation of which forces the EU into escalation, leading to a spill-over effect. An alternative solution could be strengthening inner interconnectedness to absorb damage through rapid cooperation in case of sanctions.

Thoughts on the future:

- Australian companies have diversified successfully, and governments should help companies if coercion is experienced.
- The intelligence and pundit community should closely monitor Chinese coercion activities.
- Closer cooperation is needed between allied states, and their firms should be warned if sanctions are utilised.
- Some countries may [join](#) forces to set up common funds to prevent a possible trade measure; a lending mechanism needs to be set up for targeted companies and industries.
- Deterrence is difficult, while mitigating damages could ease tensions and show resilience.
- Cancelling existing interconnectivity is also part of smaller states' toolbox, whether it is before the sender's actions (act of preparation), or after the sender's actions (minimizing the effects).
- Identifying Chinese warnings not to provoke coercion unless a government is determined to affront China's core interests. In this case, preparations should be made before acting. [Core interests](#) are sovereignty-related, such as the



territorial integrity of China, its security environment, the political power of the Chinese Communist Party, and development rights, although economy-related issues can also provoke retaliation.

Trade diversification is an important element in building resilience, both in exports and in imports. This should not be completely separated from China, but it may also be important to acquire secondary markets and suppliers. It would be a good starting point to reform the WTO, although the American trade war, as well as unilateral sanctions and measures also have negative consequences that make it difficult to reform unanimously.