

China's economic coercion

Evolution, characteristics and countermeasures

SUMMARY

Non-military coercion, which means using economic means to achieve political goals, has become an increasingly serious problem for EU governments and businesses. Experts believe that China, traditionally an opponent of economic sanctions, has been deploying coercive economic practices with growing intensity and scope, particularly since the reappointment of Xi Jinping as the country's president in 2018. Frequently deployed to gain leverage on issues such as territorial and maritime disputes, these measures are criticised for the human rights violations they entail and for contributing to the protection of China's security interests.

China's tactics have become more sophisticated over time, and a combination of different methods has often been used to amplify the impact. Both governments and companies are subjected to coercion, and the methods used depend on the choice of target. Governments are targeted chiefly through trade restrictions, and companies through general public (popular) boycotts. Other measures include administrative discrimination, investment and tourism restrictions and empty threats. The most frequently targeted sectors are 'symbolic' industries that are easily identifiable with the coerced country, and agricultural and consumer goods and services.

A distinct characteristic of Chinese coercion is that it happens 'behind the curtains': the state rarely acknowledges the deployment of measures or the links between them and the country's perceived interest. This makes the task of challenging these practices in forums such as the WTO very difficult or simply impossible, as is often the case. While the short-term effect on affected companies and industries is undoubtedly significant, experts agree that in general China has been rather unsuccessful in changing the long-term stance of targeted countries, and that in the majority of cases it has failed to meaningfully reorient their policies.

The EU is currently expanding its toolkit against such practices. One novel tool is the anti-coercion instrument currently under consideration by the European Parliament and the Council. Experts also suggest other measures, such as creating a dedicated EU resilience office or an export bank, and boosting cooperation with like-minded countries facing the same problems.



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Introduction

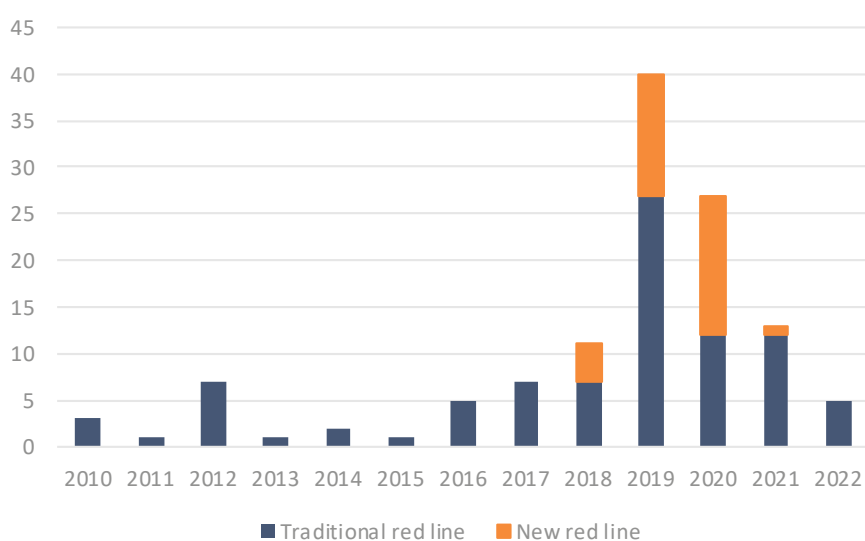
Using economic means to achieve political goals is a practice that has been in use at least since the times of [ancient Greece](#). Historically, such economic pressure targeting foreign countries has been used mainly in times of open military conflict. In the [aftermath](#) of the two world wars, the global consensus – as reflected in the UN Charter – has been to limit the instances when states could legitimately refer to military coercion. It has led to a wider deployment of 'softer' forms of coercion, such as economic sanctions, export controls, boycotts and trade embargoes. This phenomenon has been particularly prominent since the beginning of the 21st century at UN-, [multilateral](#)- and unilateral levels.¹ Consequently, recent analysis has found that open military confrontation has largely been [replaced](#) by economic coercion, which constitutes a new exercise of power among states. In fact, the 2010-2020 decade saw the highest average number of [trade sanctions](#) imposed since the 1950s, increasing by 80% from the previous decade (2000s).

According to the [European Commission](#), economic coercion in the modern, EU-relevant context means: 'interfering with the legitimate sovereign choices of the Union or a Member State by seeking to prevent or obtain the cessation, modification or adoption of a particular act by the Union or a Member State – by applying or threatening to apply measures affecting trade or investment'. Feedback from stakeholders, including businesses, indicates that coercive practices are indeed a [growing problem](#). In particular, the EU has been increasingly targeted by China, to the extent that it currently is the [biggest global recipient](#) of China's coercive diplomacy, including through economic pressure.

Evolution of China's coercive behaviour

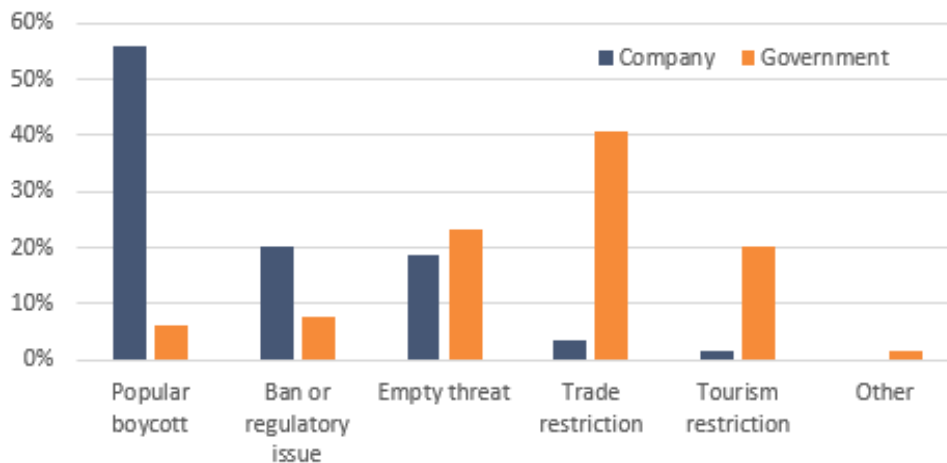
During the Cold War era, China – itself a recipient of economic sanctions by the [Western countries](#) – largely [refrained](#) from using economic coercion and often accused and condemned these countries for using such methods. There were a few notable exceptions, such as China's actions in 1970s and 1980s against [Vietnam](#) (for invading Cambodia) and against [Albania](#) (for its 'anti-Chinese' rhetoric). These involved cutting financial aid and technical assistance, and pulling Chinese staff out of the targeted countries.

Figure 1 – Cases of economic coercion by China, 2010-2022



Source: [Merics](#).

Figure 2 – Types of economic coercion, 2010-2022



Source: [Merics](#).

Traditionally, as a policy choice, China primarily increased its influence by providing various benefits and assistance to developing countries instead of deploying negative incentives.² However, as the country's economic power grew thanks to the economic reforms of the 1980s launched by Deng Xiaoping and its [WTO](#) membership in 2001, its capabilities to reward or penalise other countries with [economic means](#) also grew. China claims that it is the [biggest trading partner](#) of more than 130 countries and regions, and that more countries trade with it than with the [United States](#). Researchers therefore refer to its policy as one of both '[carrots and sticks](#)'.

China's rise on the international scene has increased its interdependence with other countries, while also creating [power asymmetries](#), in favour of China in most cases.³ Growing dependence on the Chinese economy has meant that coercion based on economic tools has become an increasingly [attractive choice](#) for Chinese policymakers pursuing national goals abroad (see Figure 1). A 2020 [book](#) on Chinese diplomacy notes that, according to scholars, ever since China emerged – relatively unscathed – from the 2008 economic crisis, it seems to have been drifting away from Deng Xiaoping's foreign policy strategy of '[keeping a low profile, attaining some achievement](#)'. The focus has shifted to a more proactive pursuit of China's goals: enhancing its strategic capability, while also gaining institutional and normative power. In other words, China increasingly seeks to reshape the regional and global order according to its wishes. One of the tools it is using to that end is economic coercion.

Accordingly, China frequently [deploys](#) economic coercion to increase its leverage on issues such as territorial and maritime disputes (mainly in the East and South China Seas), to retaliate for being criticised for its human rights violations, or to protect its security interests. For instance, countries' decisions to host the Dalai Lama or support Taiwan have provoked an acute backlash by China in the past. China is likely to vehemently defend what it [perceives](#) as national '[core interests](#)': domestic stability, economic and social development, territorial integrity and state sovereignty. While these are 'traditional red lines', that is, triggers for coercion, Beijing is expanding its target area to 'new red lines', recent examples being its international image (such as investigations into the origin of COVID-19) and the treatment of Chinese companies abroad (such as restrictions imposed on [Huawei](#)).

The majority of researchers [believe](#) that since Xi Jinping came to power and particularly since he presented the strategy [for striving for achievement](#) in October 2013, this assertive policy, with all its implications, has become increasingly pronounced. Among the array of tools the current Chinese leader has deployed to boost the country's [geopolitical power](#), he has not hesitated to include economic coercion. An overview of the literature indicates that this trend has intensified even

further after Xi Jinping's second appointment at the helm of his country in March 2018. It can also be concluded that both the intensity and the scope of the triggers are increasing. His [third term](#) is also considered by the experts as conducive to an even greater intensification of the coercion.

Indeed, a study by think-tank [Merics](#) identified 123 coercive cases between 2010 and 2022, with a marked increase over the past 4 years. Arguably, this is only the tip of the iceberg, as many cases remain unreported, because the measures China deploys are often informal and the companies are reluctant to report them, fearing retaliation from the Chinese authorities and the Chinese general public (through measures such as boycotts, although these are also indirectly instigated by the authorities or state-controlled media). These findings are similar to research done by the [Australian Strategic Policy Institute](#), which documented 152 cases of Chinese coercive diplomacy between 2010 and 2020, most of which occurred from 2018 onwards.⁴ As regards China's ambition to become a technology standard setter, the US [Congressional Research Service](#) observed in 2021 that 'China regularly uses economic coercion to advance its economic and industrial goals and to set commercial terms, including forcing technology transfer, setting technology licensing terms, and advocating its objectives through pressure on the business community'.

Types of economic coercion

China's economic coercive tactics have become [more sophisticated](#) over time, and often a combination of different methods has been used to amplify the impact. Both third-country governments and companies are subjected to coercion, and the methods used depend on the choice of the target (Figure 2). A distinct characteristic of Chinese coercion is that it happens 'behind the curtains': both the coercer and the coerced state rarely acknowledge the deployment of measures or even the link between them and China's perceived interest. The measures applied are opaque and informal, and often either [lack legislative justification](#) or are based on deliberate misinterpretation of legislation, 'grey areas' in Chinese legislation or gaps in international trade law. This makes it easy to quickly deploy or terminate these measures, or to altogether deny or justify them on unrelated grounds. At the same time, because of their cryptic and covert character, it is not easy to challenge them in forums such as the WTO.

China and the WTO

China 'tested' the WTO rules in the early period of its membership. It attempted to use its coercive power in the [rare earth industry](#) but lost three cases launched by the [EU](#), [Japan](#) and the [US](#) and had to lift its export restrictions. Learning from this experience, it shifted the focus of its [actions](#) to areas in which potential [infringements of the WTO rules](#) on trade-restrictive measures are less of an issue.

China conveys its discontent with countries through tactics such as timing of restrictions and private or media messaging, but not through a legally based sanctions regime. Below is a broad picture of the types of economic coercion instruments used by China.

Trade restrictions

The measures China most often uses against foreign governments are trade-related. They are essentially meant to disrupt trade flows and restrict foreign access to the Chinese market through import and (to a lesser extent) export restrictions. Measures applied to this end include raising tariff rates, selectively applying domestic and international regulations (for example, [phytosanitary measures](#) imposed over alleged non-compliance with various rules), launching targeted customs inspections, refusing to issue licences, or imposing unofficial embargoes. China has also deployed rare earth [export restrictions](#) in the [past](#) (and has recently been [tightening its control](#) of relevant supply chains), and in 2020 it enacted a new [export control law](#) allowing it to control export of goods, technologies and services to safeguard (vaguely defined) national security and interests.

Lithuania

The opening of a ['Taiwanese representative office'](#) in Vilnius in November 2021 caused [massive friction with China](#), which responded by [slashing its Lithuanian imports](#) by nearly 90 %. One of the most drastic measures imposed was Lithuania's [exclusion](#) from the Chinese customs system, as a result of which Lithuanian exporters were no longer able to file their customs paperwork. Shipments were not being cleared, import applications and business contracts were not being renewed, and supply chains were heavily affected. China escalated its measures by warning the enterprises that sourced products or inputs from Lithuania, that they too may be targeted; some German companies indeed reported that they had experienced [secondary sanctions](#). The EU initiated a [WTO dispute](#) complaint regarding these actions in January 2022. While Lithuania has been [exploring ways](#) to [de-escalate the situation](#), the name of the office has not been changed.

Popular boycotts

The measures most often used against foreign companies are popular boycotts. The government does not usually instigate these in a visible way: instead, they are orchestrated through state-controlled social media, press and television. The mere fact that they are allowed to happen suggests that they enjoy the authorities' tacit support. One such example is the boycott against Italian brand [Versace](#), which reportedly received a threat from the Chinese Central Political and Legal Affairs Commission Versace in the form of a message saying that 'Chinese people's anger is not just verbal but will translate into action.' Propaganda and selective media reports coverage ignite nationalist sentiment, which allows China to claim that an action by a company has offended its people and should be reversed.

European fashion brands

After taking a stand against [forced labour](#) practices in Xinjiang, [H&M and Adidas](#) have been subjected to a popular boycott since 2021, which hurt their [profits](#) and led to some [shop closures](#). In 2019, [Versace and Givenchy](#), faced with a spiralling backlash from social media and celebrity brand ambassadors, swiftly apologised for marketing products that failed to identify Hong Kong as part of China.

Tourism restrictions

Being the world's largest [outbound travel market](#) before the pandemic, China certainly has a leverage in this area. The effects of its tourism restrictions are immediate and substantial. China permits group travel only to countries with which it has an [approved destination status](#) (ADS) agreement; that way the government has oversight of all group travel out of the country. Some [research](#) suggests that Beijing has also shown in the past that it is capable of manipulating ADS negotiations to achieve strategic objectives. Furthermore, the government has successfully blocked outbound tourism by means of issuing official travel warnings, suspending package tours or discontinuing their sale, and refusing permits to independent travellers. The government has also warned students against going to [Australia](#) due to the risk of racist incidents after the country asked for an inquiry into the origin of the coronavirus pandemic. China stopped sending students to [Taiwan](#) in 2020 on account of cross-strait tensions,.

South Korea

After in 2016 South Korea decided to deploy the US Terminal High Altitude Area Defense ([THAAD](#)) system on its territory, China started targeting its [tourism sector](#). Firstly, China's National Tourism Administration (CNTA) discouraged its citizens from visiting South Korea through the issuance of [travel warnings](#). This was followed by an informal ban on the online and offline sale of group and package tours. Prior to these restrictions, Chinese tourists accounted for almost half of all tourist arrivals in the country. After the deployment of THAAD, their number dropped almost by half, which is estimated to have inflicted damages worth US\$15.6 billion to economy. While the merit of the subsequent agreement between the two sides is [debatable](#), South Korea made changes to its policy and the restrictions were gradually lifted.

Administrative discrimination: Bans, fines or regulatory issues

China uses its administrative procedures and regulatory checks [arbitrarily](#) to target enterprises operating on its soil. Such cases often escape litigation, as it is impossible to provide evidence that the authorities' actions were premeditated. The deployed measures are varied and include, for example, exclusion from public procurement procedures or fines for 'violations' of labour or safety regulations that can cause the closure of business operations or raise compliance costs.

Lotte Mart stores

After South Korean conglomerate Lotte Group agreed to [transfer land](#) to the government for THAAD deployment, China forced the [closure](#) of 89 of its 99 stores based in China due to alleged [fire code and other administrative infractions](#). Unable to reopen for months, and with a loss of US\$855 million because of the closures, the company decided to [divest](#) from China.

Empty threats

The presence of threat without any concrete action is enough to coerce a company or a country into changing its behaviour in fear of potential consequences. China has on numerous occasions issued

Huawei and 5G networks

Plenty of security-related [controversies](#) have arisen in recent years around allowing Huawei to take part in the rollout of 5G networks in the EU. Chinese diplomats have responded by warning [France](#) and [Germany](#) against excluding the company from their markets. While not banning Huawei from their 5G networks outright, the two countries have taken [steps](#) that have complicated its involvement in the rollout. In 2021, the EU provided its Member States with a [toolbox](#) to help them shape their national rules to exclude untrustworthy suppliers.

vague warnings and threats.⁵ The Australian Strategic Policy Institute has [registered](#) the use of terms such as 'countermeasures', 'retaliation', 'inflict pain', and 'the right to further react'. This can be through official channels of communication such as diplomats, embassies and government ministries, but also through state-controlled media, and is meant to leverage distress and hesitation among foreign players as a way to apply pressure.

Investment restrictions

China is one of the most [restrictive OECD countries](#) when it comes to allowing foreign direct investments (FDI). It however avoids coercive [investment restrictions](#) in sectors needed for its economic growth (such as high-tech). For instance, it no longer requires that Taiwanese companies investing in the sectors it wishes to develop officially support the [One-China](#) principle. Furthermore, in developing countries, where China is a major investor, it can impose restrictions on its outward FDIs with significant effects on the targeted country. Attaching political conditions to overseas lending and development projects, such as requiring that recipients of Chinese development loans support the One-China principle and refrain from offering diplomatic relations to Taiwan, is also a well-known practice.

Mongolia

The Dalai Lama, the exiled spiritual leader of Tibet, visited Mongolia in November 2016. Mongolia was seeking Chinese investment in mining and infrastructure, but following the visit, Beijing [cancelled](#) talks on a potential loan. China also imposed additional [fees on commodity imports](#) from the country, which was particularly significant given its [dire budgetary situation](#). Following these developments, the Mongolian [government](#) reportedly stated that the Dalai Lama would not be allowed to visit Mongolia even for religious purposes.

Targets

More often than not, China targets the products of 'symbolic industries' that are closely associated with the coerced country. Typical examples include [Norwegian salmon](#), [Philippine bananas](#), and [Australian wine](#). The same applies to sectors, such as the [Korean pop and entertainment industry](#), which are well known in China. Whenever such easily identifiable products and services that enjoy high public visibility are being targeted, this sends a signal to Chinese citizens that the government is taking strong action against a given foreign country. The most frequent targets are the agricultural sector and consumer goods and services. In many cases, the impact of restrictions continues long after they are lifted and the market shares of the affected goods and services remain at low levels. It is also worth mentioning that China does not withdraw the measures [easily](#) – this occurs either when the coerced country complies or when China changes its course of action after the WTO has found its restrictions to be in violation of the WTO's rules.

[An in-depth study](#) by Lim and Ferguson (2021) describes some nuances of Chinese sanctions that have broader implications, to aid its readers in getting a deeper understanding of Chinese policy. The targets of the coercive measures against South Korea in the context of the THAAD dispute, the study observes, were 'actors and industries likely to face higher exit costs from the disruption of economic exchange, relative to their Chinese counterparts. In particular ... South Korean exports that can be easily foregone or substituted by Chinese importers will be particularly vulnerable'. Chinese tourists travelling abroad were redirected to destinations other than the popular South Korea. Similarly, substitutability applied to other affected areas such as motor vehicles, cosmetics, cultural goods, music, television dramas and video games.⁶ Conversely, when the costs of disrupting a given industry are significant for China, and where the diversification of supply is difficult, the likelihood of coercion diminishes (for example, semiconductors have never been affected). China simply avoids interventions that would [hurt its own interests](#), and foreign companies in strategic industries that provide key technologies are therefore rarely targeted. Similarly, sectors providing goods or inputs on which China is dependent are also spared. Companies whose products are technologically sophisticated or hard to replace, or which have made large investments in China that provide local employment and tax income to the Chinese state, are less likely to be targeted. The general state of bilateral government relations and brand visibility also play a role.

Similarly, [Zhang](#) (2012) argues that China 'balances between the need to establish a reputation for resolve and the potential cost of economic vulnerability. When issue importance is the same, China will coerce when the need to establish a reputation for resolve is high and the economic vulnerability cost is low'. China also uses economic restrictions to [benefit domestic firms](#): the boycott against Adidas on Chinese soil resulted in [huge gains](#) for its local rivals Anta Sports and Li-Ning.

Finally, a core feature of Chinese coercive policies is that they can be [scaled down or magnified](#) depending on the nature of the country or target. Harsher treatment is applied to smaller economies and those that have significant asymmetries with China in favour of the latter. Vulnerable countries with strong trade links with China, such as Philippines and Mongolia, have indeed been coerced in the past. Another telling example is that of China freezing imports from [France](#) in 1992 over the latter's arms sale to Taiwan, while the US only received warnings for doing the same.⁷

Effectiveness

Determining the rate of success of coercion is not a straightforward task. Alteration of policy could be one indicator, and China seems to have somewhat influenced [Norway](#), [Philippines](#) and [Mongolia](#) to change their stances. Moreover, by reacting strongly to Dalai Lama visits, China seems to have created certain [reluctance](#) among countries globally to officially receive the Tibetan leader.⁸ However, the prevalent view among scholars is that China has been rather unsuccessful in changing the stance of targeted countries, and in the majority of cases it has failed to meaningfully reorient the policies in question.

[Glaser](#) (2021) examines the cases when China's economic coercion has been successful and the factors behind this success, concluding that the economic pain inflicted is rarely a guarantee for the effectiveness of sanctions. This is because the application of economic pressure is most often aimed at a selected number of companies or industries that do not have a significant impact on China's total trade volumes with the country in question.⁹ Outside the targeted sectors, trade usually continues and the affected companies either find ways to circumvent the restrictions or move elsewhere. Coercion has successfully led to policy changes when the targeted state was geographically close to and highly-export dependent on China, as in the case of Mongolia. [Kuno](#) (2021) found that targeting symbolic industries may also work, as China seeks to maximise public interest in the coerced country and mobilise the targeted industry to exert pressure on its government. This has been the case with Philippines banana exporters.

Chinese efforts have also been more effective when the coerced government shared some security interests. According to [Do](#) (2020), South Korea made some policy modifications to avoid blocking its dialogue with China as regards North Korea, over which it has significant influence. Economic coercion also seems to have had more leverage over the targeted state's decision-making when it coincided with other factors facing that country, such as an economic crisis.

While the affected companies and industries may eventually emerge on other markets and recover [most of their losses](#) resulting from foregone earnings on the Chinese market, in the shorter term, they experience a [significant](#) impact and their revenues plummet sharply.¹⁰ How all this affects the overall financial health of a company depends on its level of exposure to the Chinese market.

One unquantifiable but fundamental aspect of China's economic coercion is the deterrence effect it has. [Glaser](#) raises the point that 'China has likely been more successful in deterring some countries from taking actions that could damage Chinese interests than in compelling public policy reversals. In fact, the intended target of Chinese actions often may not be the offending country; instead, China often coerces one to [deter another](#)'. However, it seems that many countries with a history of being subjected to direct punishment tend to be [resilient to demonstrations](#) of such punishment administered to others.

While China's coercive measures have at best delivered some mixed results so far, there are views that China has been deploying them more broadly and less subtly and selectively in [recent times](#). This means that risks are on the rise and that, in a more uncertain future, the level of (un)effectiveness of sanctions could shift.

EU policy responses

As part of its pursuit of open strategic autonomy, the EU has been building its toolkit to counter economic coercion. Some adopted measures include the [Enforcement Regulation](#) (defending trade interests), the [International Procurement Instrument](#) (addressing asymmetric EU access to foreign

Private sector responses and supply chains

Individual companies bear the brunt of Chinese sanctions. To mitigate the risk of escalation, companies often choose to apologise for actions that irked Beijing, as a first step in 'quenched the fire'. The literature shows that companies' main longer-term response to coercion is diversification, be it as regards production or their customer base. As the global markets are quite fairly accessible to EU companies, rather than destroying a given export company, coercion most often helps it adjust so that its trade circumvents the barriers placed before it and starts flowing in another direction.

On the other hand, decoupling supply chains is challenging and costly. Nevertheless, a survey from June 2022 shows that one in four EU companies considers shifting its investments out of China. While the global supply chains are reconfiguring due to larger challenges connected with the pandemic and the war in Ukraine, the outcome of this process remains unclear. Experts estimate that if the global trading system was to split along the lines of the US-centric and China-centric blocs, global welfare would suffer, with the strongest effects being felt in the low-income regions.

procurement markets), and the [FDI screening framework](#) (identifying investments that pose a risk to EU security or public order).

The main EU tool being prepared to address these negative practices is the [Anti-Coercion Instrument](#). While not specifically aimed at China, it aims to help the EU to respond to challenges similar to the ones China poses on a global scale. The proposed [framework](#) is primarily designed to deter economic coercive action through dialogue and engagement, but it allows – as a last resort – to retaliate with countermeasures covering a wide range of restrictions related to trade, investment and funding. Once the proposal becomes law, the Commission would be able to investigate allegations of coercive practices on its own initiative or following information from other sources. If the existence of coercive practices is confirmed, the Commission would be open to engage on behalf of the EU with the third country concerned, to explore ways to end these practices through direct negotiations, mediation or international adjudication. It may also raise the matter in any relevant international forum or engage in international cooperation with other countries to find a multilateral solution. If no solution is found, the EU would be able to implement countermeasures affecting its trade with the respective country in terms of goods and services, intellectual property rights and foreign direct investments. Measures also include constraints on access to the EU markets of public procurement, capital, and authorisation of products under chemical and sanitary rules. The country identified as involved in coercion may also not be able to participate in the EU-funded research programmes. In October 2022, the decision of the European Parliament's Committee on International Trade (INTA) to enter into interinstitutional negotiations regarding the proposed Anti-Coercion Instrument was confirmed by the [plenary](#). At the stakeholders' insistence, the EU has also announced a possible amendment to its [Blocking Statute Regulation](#), to counteract the extraterritorial application of economic restrictions and sanctions imposed by third countries on EU operators.

Further actions considered by the EU include strengthening the [resilience of its economic and financial system](#). A 2021 [strategy](#) proposes to achieve this by promoting a stronger international role of the euro, developing the EU financial market infrastructure and improving its resilience (including towards the extraterritorial application of sanctions by third countries) and boosting the uniform implementation and enforcement of the EU's own sanctions.

European Parliament

During the legislative process on amending the [Enforcement Regulation](#) (concerning trade disputes), the Parliament insisted that the Commission propose an instrument allowing the EU to deter and counteract third countries' attempts to force policy choices on the EU. In its resolution on the situation in the [Strait of Taiwan](#), the Parliament firmly rejected China's economic coercion against Taiwan and other democracies in its region, as well as against EU Member States, and underlined that such practices breach the WTO rules, have a devastating effect on China's reputation and will lead to a further loss of trust in the country. It also called for developing a [toolbox of autonomous measures](#), including an anti-coercion instrument, to rebalance the EU's relation with China. The MEPs strongly [condemned coercion](#) exercised by the Chinese government against the companies that expressed concerns about the reports of [forced labour in Xinjiang](#). In a recent resolution on [foreign interference in all democratic processes in the EU](#), the MEPs highlighted risks arising due to the extraterritorial application of coercive measures stemming from China's new [Law on Countering Foreign Sanctions](#).

Several fundamental prerogatives of the EU, such as boosting its economic strength and supporting its industry through resilient supply chains (with initiatives such as the [Important Projects of Common European Interest](#), [critical raw materials](#) actions and the [European Chips Act](#)) – although not directly targeting coercion – can have a significant impact both by deterring it and making the EU more agile when coerced. Similarly, strategically advancing the trade policy can create a strong network of deep relations that would facilitate diversification. The [EU energy union](#) could help the EU expand its sources of energy and mitigate risks stemming from the weaponisation of energy exports. All these major EU policy goals help to avoid overdependence on foreign powers that could be leveraged for economic coercion.

The 2023 [Commission work programme](#) struck an assertive tone with its focus on the need to build

strategic trade and investment controls in order to strengthen EU economic security and work to diversify its value chains. A proposed [European critical raw materials act](#) looks particularly promising to that end and is reported to be aimed at lessening the EU's [dependency on China](#). The Commission's [Strategic Foresight Report 2021](#) explicitly mentioned the need for the EU 'to prepare for a future erosion of critical supply security due to major factors shaping the geopolitical environment: state fragility, economic coercion, and climate change'.

Finally, taking into account the importance of their transatlantic relationship, the EU and the US made coercion one of priorities of the joint [Trade and Technology Council](#) (TTC). The Paris-Saclay [statement](#) reads: 'The European Union and the United States intend to discuss potential coordinated or joint responses to economic coercion affecting trade or investment that is experienced by the European Union and the United States and our trading partners and allies'. Most of the TTC [working groups](#) are well-suited to take up this challenge: their tasks cover supply chains resilience, information and communication technology and services security, misuse of technology threatening security and human rights, export controls, investment screening and global trade challenges.

In a similar vein, the 2021 [EU strategy for cooperation in the Indo-Pacific](#) recognises that economic coercion is on the rise and envisages engagement with local partners 'to build more resilient and sustainable [global value chains](#) by diversifying trade and economic relations, and by developing technological standards and regulations that are in line with our values and principles'. It also commits the EU to 'cooperate with partners to strengthen rules to protect international trade against unfair practices, such as industrial subsidies, economic coercion, forced technology transfers and intellectual property theft'.

While the EU-China Comprehensive Agreement on Investment (CAI) – currently 'frozen' at the [European Parliament](#) due to Chinese sanctions – promises more reciprocity in trade and market access, some experts argue that it does not provide safeguards against [increasing the exposure](#) of EU companies to political influence in China.

Experts' views

The [European Council on Foreign Relations](#) (ECFR), which has written extensively on coercion, proposes that EU policymakers take additional steps. The first one would be creating a comprehensive architecture to respond to geopolitical risks, with a dedicated EU Resilience Office. Such a permanent entity would build new capacity and enhance coordination between Member States. Its mandate should also include strategic analysis and coordination on geo-economics and economic coercion across the Commission, as well as an early warning system based on the trends and strategies underlying third countries' unfriendly behaviour. It could also help in finding new markets for banned products and provide compensation for the damage incurred due to the

New legislative proposals in the US

The US legislature is considering a bipartisan proposal for the [Countering China Economic Coercion Act](#). Once adopted, the bill would establish an interagency task force to develop a strategy to counter economic coercion. It proposes to 'consult with US allies and partners on the feasibility and desirability of collectively identifying, assessing, and responding to China's coercive economic measures, as well as actions that could be taken to expand coordination with the goal of ensuring a consistent, coherent, and collective response'. It also envisages establishment of a process for regularly sharing relevant information on coercion with US partners and private sector, including classified information.

A complementary [Economic Statecraft for the Twenty-First Century Act](#) proposes to introduce a whole-of-government approach to Chinese coercion. It aims to boost coordination with allies and partners to implement export controls and secure critical supply chains including for semiconductors, critical minerals and pharmaceuticals. It also foresees introducing coordination with like-minded partners and allies on securing global supply chains and working together to reduce reliance on China.

Notably, some of President Biden's [key legislation](#), such as strengthened [Buy American Rule](#), [Infrastructure Investment and Jobs Act](#), [Inflation Reduction Act](#), [Chips and Science Act](#) and [export controls on semiconductors](#) all aim at boosting autonomy of the US industry and technology sectors and seek to significantly weaken US-China interdependencies.

coercion. The EU could also set up a permanent dialogue on geo-economics with the private sector, to always stay abreast of the developments. Secondly, the ECFR proposes to establish an EU export bank to improve the EU's ability to act in adverse economic environments and boost the resilience of payments channels.¹¹ Such a bank would enable the continuation of trade and the disbursement of aid when a third country has restricted EU companies' access to critical financial services. The ECFR sees this as particularly useful to hedge against future risks that may emerge in relation to Chinese payment systems and the digital renminbi. The export bank would assist EU exporters and increase transparency in payments channels, complicating coercive countries' attempts to punish EU companies.

The [Swedish National China Centre](#) (part of the Swedish Institute of International Affairs) argues that the EU should shift its focus from the countermeasures envisaged in the Anti-Coercion Instrument to responses that absorb the effects of coercion. These could entail facilitating the making of new supply chain connections, providing financial aid to cover costs incurred while changing the suppliers, and putting in place a solidarity mechanism under which 'Member States on a voluntary basis would agree to assist or to share some of the economic burden with the targeted country'. The centre believes switching to absorption would be a genuine deterrent.

The [Conseil d'analyse économique](#) underlines that dealing with China involves many policy areas, and that providing efficient and coherent answers to the challenges at hand requires considering an institutional adaptation. It proposes to set up an advisory research/intelligence support system dealing with EU economic security and being entrusted with assessing specific vulnerabilities and proposing resilience challenges, possibly under the guidance of one of the Commission's executive vice-presidents.

The US-based [Center for Strategic & International Studies](#) maintains that since Chinese coercion is a global and complex threat, coping with it requires building coalitions. One obvious forum where like-minded countries could [join forces](#) is the WTO. This could be [done](#) by uncovering more cases and bringing them out into the open, sharing information, and mutually supporting countries in WTO litigation. [Cambridge University](#) scholars consider certain drastic options, such as the modification of the existing WTO to incorporate new problems related to economic coercion, for example, by expanding the issue scope of the General Agreement on Tariffs and Trade (GATT).

Experts also mention the possibility of forging [formal alliances](#) to send a strong signal to China and deter it from employing coercive tactics. Former Danish Prime Minister and NATO Secretary General, Anders Fogh Rasmussen, has promoted the idea of bringing together the EU, the US and the rest of the free world behind an '[Economic Article 5](#)', modelled on NATO's famous Article 5, which states that an attack on one ally is an attack on all. Like-minded democracies could act similarly to blunt China's economic coercion by jointly supporting a state or business exposed to such pressure. However, many [trade experts](#) are sceptical about the potential of such a global alliance to work, as the private sector is quick in capitalising on the opportunities created by China's shutting down of its markets to competitors.

Finally, it remains to be seen how longer-term changes to China's economy and geopolitical role will affect its coercive practices. China's [dual circulation model](#) indicates that it plans to focus on substituting imports with [domestic production](#). There is however a [growing consensus](#) that due to China's [zero COVID strategy](#), which disturbed its economy and [weakened](#) domestic demand as well as the services sector, this model is now at risk. If it succeeds, however, China's focus on dual circulation means that it may be less able to wield coercive 'weapons' such as restricting foreign companies' access to its market. On the other hand, the resulting weakened interdependence with the EU and the US means that their [economic leverage and influence](#) over China may diminish further and lead to even more contentious behaviour on China's part in the future. In the nearer term, there are likely to be pressing challenges stemming from the unprecedented third term of Xi Jinping, whom the Atlantic Council describes as being '[committed to coercion](#)', and under whom, as widely agreed, China has '[become](#) more nationalist, authoritarian, and repressive'.

MAIN REFERENCES

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- Hanson F., Currey E., Beattie T., [The Chinese Communist Party's coercive diplomacy](#), Australian Strategic Policy Institute, 2020.

ENDNOTES

- ¹ While between 1945 and 1990 the [UN Security Council](#) authorised economic sanctions only in two cases (against Rhodesia in 1966 and South Africa in 1977), this number has risen [significantly](#) over the past two decades.
- ² For example, China's global [foreign aid expenditure](#) grew nearly fivefold between 2003 and 2020, from US\$631 million to US\$ 2.94 billion.
- ³ For instance, China's outward [foreign direct investment](#) increased eightfold between 2010 and 2021. The country has a permanent [trade surplus](#) and is at a centre of the [global supply chains](#).
- ⁴ The institute used a broad definition of 'coercive diplomacy', defined as 'non-militarised coercion' or 'the use of threats of negative actions to force the target state to change behaviour'. This definition also includes non-economic coercion methods such as arbitrary detention, forced disappearance or restrictions on official travel.
- ⁵ For instance, it threatened to impose economic sanctions on [Exxon Mobil](#) to deter it from planned cooperation with Vietnam with the aim to [explore for oil](#) in a land claimed by both China and Vietnam.
- ⁶ China is actively looking for substitutes of targeted goods. For example, the import share of Norwegian salmon in China stood at 95 % before the sanctions but plummeted to a mere 1.8 % once they kicked in. At the same time, China rapidly increased its imports of salmon from the Faroe Islands and the United Kingdom.
- ⁷ This does not automatically apply to US companies, as illustrated by the 2018 case of [Marriott](#), which had to apologise for listing regions such as Hong-Kong, Macau, Tibet and Taiwan as separate countries in a customer questionnaire.
- ⁸ According to the Dalai Lama's official website, [2018](#) was the last year in which he travelled outside of India, when he visited several EU countries. China also criticises his [travel](#) within India.
- ⁹ Following Huawei executive Meng Wanzhou's arrest in Vancouver, the [Chinese response](#) included [detention](#) of Canadians Michael Kovrig and Michael Spavor and the imposition of [trade curbs](#) on Canadian canola, soy, peas and pork exports. As a result, Canada's exports to China fell by US\$3.5 billion in 2019, but that loss was merely a fraction of its US\$447 billion in exports that year.
- ¹⁰ China has recently introduced a new type of sanctions – which can be described as [sweeping sanctions](#) – against Taiwan in the context of US House Speaker Nancy Pelosi's visit to the island in August 2022. In a move that may have macroeconomic implications, the China Customs Administration suspended imports of more than 2 000 from about 3 200 Taiwanese food products overall.
- ¹¹ Notably, in 1934 the US created the Export-Import Bank of the United States, [EXIM](#). Its mission includes facilitating export of US goods and services by providing financial tools and levelling the playing field for US businesses. It specifically assists companies with understanding the [illicit risks](#) related to exporting.

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