Countering China’s Weaponization of Economic Interdependence

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China’s weaponization of trade is at the core of its building of an illiberal order. The Biden administration will need to think outside the box in deterring this practice.

While there is rampant speculation about whether Chinese president Xi Jinping will take military action against Taiwan by 2027, there is 100 percent certainty he will use economic coercion against unsuspecting governments and private companies. Over the past 15 years, China has used economic coercion against 18 countries and over 400 companies, causing tens of billions of dollars in damage, according to a unique dataset created at CSIS. This practice, in particular, has heightened under Xi. If Beijing does not like a neighbor’s statement about Taiwan or Xinjiang or wants to press on a territorial dispute, it will leverage its vast market to intimidate and punish. These actions are generally unannounced and not based in any universal trade rule or domestic law. And this bullying, in China’s eyes, has worked. Targeted countries and firms self-censor on issues like Taiwan, Hong Kong, and Xinjiang for fear of economic retaliation—threats which Beijing bandies about regularly like a mafia boss. As the Chinese ambassador to New Zealand noted, “An economic relationship in which China buys nearly a third of the country’s exports shouldn’t be taken for granted.”

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A recent case is the Xi regime’s enacting of controls on exports of gallium and germanium—two high-tech metals used for production of everything from semiconductor chips to electric vehicles to satellites. China accounts for almost 100 percent of the world’s production of gallium and almost 70 percent of the world’s refinery production of germanium. Gallium is a by-product of bauxite and zinc ores for which there is no substitute, and germanium is a metal used in the production of fiber optics, for which there are substitute materials like silicon, but they come at the expense of performance.

The world’s response to China’s weaponization of trade, however, has been to play defense. That is, countries respond by reducing supply chain dependence
Victor Cha has no alternative domestic supply. The United States, Canada, France, and Italy could even leverage luxury goods like lobster and champagne, where the four make up nearly 90–100 percent of China’s imports. These trade disruptions would impose costs on China absent large domestic production sources for these high-dependence items. Countries feel they must kowtow to China because of its massive market, but they have enough leverage as a group to shape Beijing’s behavior.

The key, of course, is herding enough partners for a commitment that credibly signals the threat of counter-coercion to China. This will not be easy. Free riding is likely as companies may not want to play ball with a government economic deterrence strategy and others might seek opportunistically backfilling of the Chinese market. But countries should be motivated to join the cause because (1) they no longer want to live under the eternal, brooding shadow of China’s economic predation and (2) they know they are better off dealing with China as a group than alone. G7 leaders appear to have gotten this message in Hiroshima, Japan, in May 2023 with their collective statements about organizing to counter Chinese economic coercion. Meeting in the city of one of China’s most recent targets, Vilnius, Lithuania, in July, NATO leaders—including Japan, South Korea, Australia, and New Zealand as part of the new “Asia-Pacific 4” appendage—made similar statements.

China’s predatory trade actions constitute a serious threat to the global order. Extreme times call for extreme measures. The purpose of a collective economic deterrence pact is not to burn down the liberal trading order through inciting trade wars but to try to salvage it from economic predation by one of its largest players. If China does not bully, then the threat of counter-coercion will never need to be exercised. Without a willingness to fight fire with fire, however, countries will forever be victimized by China’s weaponization of trade.

Together, the G7 countries plus Australia export 395 items with a trade value of over $37 billion to China, upon which Beijing is more than 70 percent dependent as a percentage of its total trade in those goods, and 153 items valued at $7.5 billion that China is over 90 percent dependent on (2022 figures), according to a unique data set compiled at CSIS. Moreover, the second- and third-largest exporters of these high-dependence goods are often like-minded partners. For example, to deter further Chinese economic coercion, Japan and the United States could threaten to curtail the export of silver powder (used for solar panel production) to China, where the two compose over 97 percent of China’s global supply. Australia and Canada could threaten action on exports of nickel powders (used for production of rechargeable batteries), where the two make up almost 80 percent of China’s global supply. Further, Japan and Germany could promise to control alloyed steel ingots to China (used for shipbuilding), as the two countries account for 82 percent of China’s imported supplies and China has no alternative domestic supply. The United States, Canada, France, and Italy could even leverage luxury goods like lobster and champagne, where the four make up nearly 90–100 percent of China’s imports. These trade disruptions would impose costs on China absent large domestic production sources for these high-dependence items. Countries feel they must kowtow to China because of its massive market, but they have enough leverage as a group to shape Beijing’s behavior.

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