

China's Unilateral Sanctions

China's opposition to economic sanctions is legendary. Beijing has repeatedly leveraged its permanent seat in the UN Security Council to criticize, ameliorate, and on rare occasions veto UN economic sanctions such as against Myanmar (2007), Zimbabwe (2008), and Syria (2011 and 2012). Unilateral sanctions by the United States come in for particular criticism. Chinese Foreign Ministry spokesperson Hong Lei recently said that "China is against one country putting their domestic laws above international law and placing unilateral sanctions on another country."¹ This familiar rhetoric, however, masks a subtle but significant shift in China's own use of economic sanctions. With the world's largest capital surplus and its second largest economy, a highly coveted domestic market, and a currency with growing regional appeal, Chinese strategists are exploring new ways to deploy China's own economic might for strategic benefit.

China's use of unilateral economic pressure to advance its strategic and diplomatic objectives is hardly unique internationally—countries have always sought to deploy economic tools for strategic advantage. Nor is China's own use of economic pressure new. Since the founding of the People's Republic in 1949, Chinese leaders have repeatedly politicized economic relations, providing aid or refusing trade in support of broader strategic and ideological objectives.

Since 1978, China has repeatedly used foreign policy tools to advance its economic interests. Now, Beijing is also beginning to reverse this equation—deploying its vast economic wealth to support foreign policy goals. China is flexing its economic muscle more frequently and on a wider range of issues, often backed up by nationalist sentiments at home. In recent years, for example, Beijing has mixed economic rewards and punishments to deter arms sales to Taiwan, isolate the Dalai Lama, eviscerate criticism of China's human rights

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policies, and defend its maritime claims. Given China's economic heft and political determination, Beijing's expanding use of unilateral sanctions holds significant policy implications for the United States and its allies.

While China is unlikely to deter Washington, U.S. allies may be more vulnerable.

While China is unlikely to deter Washington from its core policies in Asia, U.S. allies in Europe and Asia may be more vulnerable, particularly amidst the ongoing global economic crisis. As a result, the United States may more frequently find itself alone in challenging China. U.S. companies may also become more wary of crossing Beijing's red lines. Supplying arms to

Taiwan, challenging Chinese censorship, or criticizing human rights violations might result in reduced access to the lucrative Chinese market, which would erode corporate profits in an era of global economic uncertainty. While China's capacity to deploy such economic pressure should not be overestimated, neither can it be ignored.

China's New Thinking on Sanctions

Over the past few years, Chinese experts have begun to clear some of the legal, moral, ideological, and practical hurdles to Beijing's use of unilateral sanctions. For decades, Beijing denounced sanctions as an immoral punishment of innocent, vulnerable populations. Although 'smart sanctions'—focused measures designed to hurt only the political leadership—were developed internationally and used in the 2000s against Iran and North Korea, among others, Chinese scholars were initially dismissive of these measures.² They have begun to reconsider: "The argument that economic sanctions bring about a humanitarian disaster is increasingly weak," explains Liu Wei, an influential Wuhan University expert. "This provides China with a new opportunity to implement economic sanctions."³

Chinese experts have also traditionally denounced sanctions as illegal, but recently they have begun to revisit this assumption, too. As legal scholar Jian Jisong argues:

As China increases its international economic influence, China should increase its use of unilateral economic sanctions in order to maintain its legal international interests and achieve its foreign policy objectives. China should liberate its thinking, and fully utilize the important tool of unilateral sanctions. In order to fully and effectively use this foreign policy and legal tool, China should also establish supportive domestic laws and regulations.⁴

Indeed, economic sanctions are a topic increasingly discussed in Chinese society. For example, calls for Beijing to establish a domestic “economic sanctions law” have garnered support in online chatrooms.⁵ Indicating its openness to such discussions, the government has funded national research projects exploring new

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approaches to sanctions. One resulting book questions how “peace-loving countries with a significant level of economic power [could] deploy economic sanctions.” The authors conclude, “Given our nation’s increasing economic power, we should prudently use economic sanctions against those countries that damage world peace and damage our country’s national interests.”⁶

China’s evolving approach is best understood by comparison with the United States, the world’s leader in using unilateral sanctions. Unlike U.S. sanctions, which are formalized through domestic law and/or presidential decisions, China rarely openly declares its economic sanctions. Instead, Beijing prefers to use vague threats, variation in leadership visits, selective purchases (or non-purchases), and other informal measures. Such informal measures enhance the leadership’s flexibility, since they can be removed without an embarrassing policy reversal. They also provide Chinese leaders with credible deniability, thus minimizing diplomatic fallout.

Most countries impose international sanctions to place high costs upon the target country through sustained economic isolation. China’s sanctions, in contrast, are more bark than bite. As can be seen from cases such as the ones discussed in a moment, Beijing uses the threat of sanctions to signal its frustration—a warning that if a country does not reverse a certain action, stronger repercussions will come. China’s threat of sanctions also signals that if other states take similar actions, they too will face economic costs.

Beijing’s ‘virtual sanctions’ rely upon disproportionate leverage: China combines highly focused, short-term economic threats with diplomatic pressure on a country or company to resolve an issue of limited significance to the sanctions target. In theory, the target will value its economic relationship with China more highly than the issue of limited significance. Chinese sanctions also tend to be rather short-lived. For instance, countries such as France, the United States, and Japan, whose leaders met with the Dalai Lama—something China reacts strongly against—on average saw only a two-year drop in their exports to China.⁷ Such ‘purchasing diplomacy,’ when Chinese state-owned enterprises buy or do not buy prominent commercial goods from another country, is of relatively low cost for China.⁸

China rarely openly declares its economic sanctions.

While the United States tries to justify its unilateral sanctions as upholding international issues like human rights or nonproliferation, China simply points to its own national interests. Even when Chinese sanctions might fall in line with some international norm, such as defense of state sovereignty, Chinese leaders

rarely offer such claims. Beijing does, however, tread cautiously around sanctions and international law. For instance, while the World Trade Organization (WTO) generally prohibits the imposition of import restrictions as political maneuvers, WTO rules include a broad exception for national security. China's January 2010 statement threatening sanctions on U.S. companies which would sell arms to Taiwan was careful to claim that the United States had "damaged China's national security," so that China might avoid exposure to potential WTO tribunals in retaliation.⁹

China's sanctions also often prefer to target individual companies—an approach consistent with the smart sanctions strategy. Eager to sustain their position in the lucrative China market, these corporations often respond quickly to sanctions. U.S. arms dealers are a prime example. Professor Tan Kaijia, from the National Defense University, explains that "some of [these dealers] make fortunes by doing business with both sides of the Taiwan Strait. Economic sanctions perhaps are the best way to make them choose between arms sale profit and the Chinese market."¹⁰ Beijing's strategy of economic pressure also assumes that threatening market loss will compel these powerful companies to lobby their home governments in a pro-China fashion. Since European and U.S. leaders regularly show up in Beijing with large groups of business leaders in tow, China's supposition appears quite reasonable.

The Chinese public is also part of the sanctions game. Chinese officials often encourage consumer boycotts—this occurred in 2005 against Japanese goods when Prime Minister Junichiro Koizumi's visited the controversial Yasukuni Shrine in Japan (a Shinto shrine dedicated to fallen Japanese soldiers, including fourteen Class-A war criminals), and again in 2008 against Carrefour, the French-owned retail chain, following protests along the Olympic torch relay in Paris that criticized China's policies in Tibet and its human rights policies. Chinese leaders exploit public anger to such events in order to gain diplomatic leverage. Propaganda and selective media reports feed nationalist sentiment, which allows diplomats to claim that a certain action has hurt the feelings of the Chinese people and should be reversed. This calibrated strategy is a key tool in Beijing's use of public opinion in its foreign policy.¹¹

Ultimately, China uses sanctions for the same reasons other countries do: they are a relatively low-cost, low-risk way to signal dissatisfaction, increase the costs to those who take undesired actions, and satisfy domestic demands to respond to those actions. Sanctions can assuage domestic criticism while not undermining broader economic and diplomatic interests. For all these reasons, China has increasingly resorted to unilateral sanctions in recent years on issues like Taiwan, Tibet, human rights, and maritime disputes.

China's sanctions are more bark than bite, signaling frustration.

Disarming Taiwan

Taiwan is the most sensitive issue in China's foreign relations. As such, Beijing's vociferous criticism of the United States' January 2010 arms sales to Taiwan was hardly unexpected. Worth an estimated \$6.4 billion, the United States sold Taiwan PAC-3 and Harpoon missiles, Black Hawk helicopters, and Osprey-class mine-hunting ships—though the deal did not include the controversial F-16 C/D fighter jets sought by Taiwan.

Chinese Vice-Foreign Minister He Yafei promptly informed U.S. ambassador Jon Huntsman that China would “impose sanctions against companies that will engage in arms deliveries to Taiwan.”¹² Chinese scholars openly speculated on the steps Beijing might take toward such corporations: China could halt technological cooperation, delay or cancel purchases of their products, limit their operational scope, prohibit new businesses, and/or put pressure on the Chinese partners of their joint ventures.¹³ In contrast, most U.S. scholars and officials dismissed China's threats as impractical and unrealistic.¹⁴ While correctly predicting that Beijing would not take such direct steps even as the U.S. arms sales went forward, these analysts missed the broader implications of China's threats. By openly declaring their determination to deploy economic sanctions, Chinese leaders had cleared a major ideological hurdle—they opened the path for more explicit use of sanctions in the future.

Indeed, China has already isolated the United States on Taiwan arms sales. Between 2000 and 2012, the United States accounted for 94 percent of all Taiwanese arms imports (\$3.1 billion). By comparison, arms sales to Taiwan by EU member states, namely France and Germany, only accounted for less than six percent (\$192 million). This is only a fraction of the \$1.6 billion of European de facto arms transfers to China that took place in the same decade (despite an EU arms embargo that has been in place since 1989).¹⁵ Indeed, the last major European arms sale to Taiwan was France's 1992 sale of Mirage fighter jets, an action which prompted Beijing to close the French consulate in Guangzhou and cost French companies the opportunity to help build the Guangzhou subway.¹⁶

Europeans have made a clear choice: they prefer secure access to China's domestic market over arms sales to Taiwan.

China's greatest economic leverage is over Taiwan itself. Beijing carefully structured the landmark 2010 Economic Cooperation Framework Agreement to provide greater market access for Taiwan's agricultural sector—a longstanding stronghold of independence movements in Taiwan's "green South." Taiwan's President Ma Ying-jeou's successful re-election in January 2012 hinged, in part, upon his pledges to secure even greater economic benefits from the mainland. While China has relied primarily on such positive economic incentives toward Taiwan, this could change. For example, Lee Kuan Yew, Singapore's founding Prime Minister, reportedly told a U.S. diplomat, "As in the case of Hong Kong, if necessary the tap could be turned off."¹⁷

This leverage is hardly lost on China's international relations experts, such as Xue Benhui and Wang Li. "If China refused all imports from Taiwan's steel products," they explained in 2006, "this would pose a serious threat to Taiwan's industry. If China stopped sending gravel to Taiwan, the construction and real estate markets would face a disaster." While acknowledging that such steps would dramatically reduce Taiwan's trade and investment with the mainland, Xue and Wang insist that if Taiwan turns decisively against Beijing, "it is not impossible for the mainland to consider undertaking economic sanctions."¹⁸

The Tibetan Freeze

While China has largely only threatened sanctions over U.S. arms sales to Taiwan, China *has* carried out repeated economic punishments over Tibet. In hopes of constraining unrest within Tibet and also weakening the Tibetan independence movement overseas, China often deploys economic pressure to dissuade foreign leaders from meeting the Dalai Lama. Italian Prime Minister Silvio Berlusconi admitted to the Dalai Lama in 1995 the dilemma this put him in: he was "caught between the importance of maintaining [Chinese] trade relations and protecting human rights."¹⁹

In another example, in 2009 after French officials announced that then-President Nicolas Sarkozy (who at the time also held the rotating EU Presidency) would meet the Dalai Lama, China postponed the 11th annual EU–China summit, to be held in Paris (the summit was later moved to Prague). China also froze an order for 150 planes from Airbus, a France-based aerospace company. Two Chinese trade delegations quickly crossed France off their travel agendas: the first delegation alone signed \$15 billion worth of trade deals in other European countries. Premier Wen Jiabao's tour of Europe in January 2009 similarly avoided France: "I looked at a map of Europe on the plane," Wen himself noted. "My trip goes around France . . . We all know why."²⁰ After the actual meeting with the Dalai Lama took place in December 2010, He Yafei

declared that Sarkozy had “sabotage[d] the political basis of China–France and China–EU relations,” and he warned of further “serious consequences.”²¹

Andreas Fuchs and Nils-Hendrik Klann, two German economists, found that from 2002–2008, a reception by a country’s political leader of the Dalai Lama resulted in an average 12.5 percent drop in exports to China for the following two years. The most significant and consistent effect was on machinery and transport equipment exports, goods commonly sold during state visits and trade missions.²²

But does it work? By increasing the cost of meeting the Dalai Lama, can China actually change the behavior of target countries? From 1959–2009, the Tibetan leader visited 62 countries on all continents. Europe accounts for about half of all official receptions, but the United States is the most frequent single host, having received the Dalai Lama sixteen times between 1991–2008. The Dalai Lama has met with the last four American presidents, numerous Congressional leaders, and has spent more days in the United States than in any other country (aside from India). Yet, even Washington has been cautious. In September 1995, for example, President Bill Clinton arranged for a cabinet member rather than himself to receive the Dalai Lama, but then he casually dropped in for a quick chat. A more official reception “would [have] cost us trade with the Chinese.”²³ Australia, which has permitted eight visits since 1982, has not seen a Prime Minister receive the Dalai Lama since 2007. Following his June 2011 visit to Canberra, during which Prime Minister Julia Gillard and Foreign Minister Rudd were both (rather conveniently) abroad, Green Party leader Bob Brown thundered, “[H]ere we have another Prime Minister kowtowing to the communist bosses in Beijing rather than standing up for this nation.”²⁴

The reluctance of leaders in the United States, Australia, and elsewhere to officially receive the Dalai Lama suggests that China’s economic threats have become more effective in recent years. One further indicator is the frequency with which countries feel compelled to offer diplomatic concessions in order to restore Beijing’s good graces. For instance, following the controversy over Sarkozy’s planned meeting with the Dalai Lama, Paris issued a strong statement recognizing Tibet as part of China’s integral territory. A scheduled visit by a Chinese trade delegation quickly followed. As a *China Daily* article chortled, “France Goes Back on China’s shopping list.”²⁵

China’s economic threats have become more effective in recent years.

Human Rights and Salmon Sales

China has also issued threats of unilateral economic sanctions to counter criticism of its human rights policy. This is clearly seen in the 2010 Nobel Peace

Prize incident. The prize went to Liu Xiabo, a Beijing author and intellectual who was sentenced to eleven years in prison for his role in writing Charter 08, an Internet manifesto calling for democracy in China. Before the decision was announced, a senior Chinese official privately warned the head of the Norwegian Nobel Institute, Geir Lundestad, that awarding the peace prize to Liu would undermine talks over a bilateral trade deal. After the award was announced, China promptly cancelled a ministerial trade delegation to Norway.²⁶ Sales of fresh Norwegian salmon to China fell by half over the first eight months of 2011. Yet aside from salmon exports, bilateral trade between China and Norway experienced “no Nobel effect,” according to Statistics Norway.²⁷

Having failed to dissuade the Nobel committee, Beijing began discouraging countries from attending the award ceremony. The Chinese diplomatic mission in Oslo wrote to every diplomatic mission in Norway urging them not to “do anything against Chinese interests,”²⁸ and Vice-Foreign Minister Cui Tiankai publicly warned that countries attending the ceremony would “have to bear the consequences.”²⁹ Beijing also dangled a carrot by signaling the economic benefits of cordial ties with China: a week before the Nobel announcement, President Hu Jintao was in Paris, putting the ink on \$20 billion worth of trade deals with leading French companies, including Airbus, Total, and Areva.

Did China’s pressure work? In this case, the answer is mixed. Sixty-five countries with an embassy in Norway were invited to the ceremony; forty-four accepted (68 percent). France, despite the large trade deals mentioned above, did attend the ceremony; though Saudi Arabia, the Philippines, Vietnam, and Egypt did not. In contrast, all invited countries sent representatives when Barak Obama was awarded the 2009 Nobel.³⁰ China’s pressure may also have encouraged countries to downplay the significance of the Nobel award. For instance, following the prize’s announcement, France issued a statement urging Liu’s release—but it was signed only by Foreign Minister Bernard Kouchner, rather than President Sarkozy.³¹

British Prime Minister David Cameron also declined to issue a statement on Liu’s award. Instead, two days after the Nobel was announced, Cameron traveled to Beijing. Accompanied by four Cabinet ministers and 50 business leaders, Cameron oversaw the signing of bilateral deals worth an estimated \$2.7 billion, including a \$1.2 billion deal for Rolls-Royce to provide jet engines for sixteen Airbus A330 aircraft. From China, Cameron urged the EU to acknowledge China’s market-economy status. He praised democracy when speaking with Chinese students, but refrained from raising human rights or Liu Xiaobo in his meetings with Chinese leaders. As the Chinese paper *Global Times* noted, on this trip, “Cameron means business.”³²

The Good Earth

China is also beginning to throw its economic weight into maritime disputes. Beijing threatened British Petroleum in 2007 and Exxon Mobil in 2008 with the loss of business opportunities if the companies did not end their joint ventures with Vietnam—ventures that took place in disputed territory in the South China Sea.³³ China has also invited international bids to develop oil and gas fields in the region's disputed waters.³⁴

One striking example of such economic leverage was the standoff over Japan's arrest and holding of a Chinese boat captain in September 2010. The ship travelled into a disputed maritime region, and then rammed a Japanese Coast Guard vessel that confronted it. Japan quickly released the crew, but held the ship's captain for eighteen days. As China's frustration over the captain's ongoing detention rose, on September 21 Japanese companies reported to Tokyo that Chinese customs officials had blocked all shipments of Rare Earth Elements (REE) to Japan. Japan released the captain three days later, but China continued its blockade of shipments. Subsequent reports suggested that REE shipments to the United States and Europe were also briefly affected, but soon resumed. Following a leaders' summit, Chinese officials quietly assured Japanese Trade Minister Akihiro Okato that rare earth exports to Japan would be accelerated. On November 20, the Japanese government reported that the REE shipments had finally resumed.³⁵

Even though Chinese officials denied using rare earth restrictions as an instrument for bargaining with Japan, it appears likely that central authorities informally instructed local customs officials to delay REE exports to Japan until the dispute was resolved.³⁶ While Beijing got its captain back, its sanctions seem to have backfired—China exacerbated fears over its near-monopoly on rare earths and sparked a broader trade dispute as the US, EU, and Japan later filed a WTO complaint, which is currently still pending.

China also brought economic pressure to bear on the Philippines in their spring 2012 territorial dispute over the Scarborough Shoal, also in the South China Sea. Sparked initially by Chinese fishing boats operating in an area claimed by both countries, as the dispute escalated and diplomacy stalled, Philippine banana exporters began to complain that tighter quarantine inspections were keeping their products from Chinese markets. Several days later, Chinese quarantine authorities announced still tighter measures on all Philippine fruit imports, but did not mention the maritime tussle. As Chinese naval vessels rushed to the area, Chinese tour companies began cancelling all visits to the Philippines.

Beijing carefully calculated its sanctions to exert domestic political pressure on the Philippine government. Agriculture makes up one-fifth of the Philippine economy and employs one-third of the population. Bananas are its second-largest

agricultural export. Given that nearly half of all Philippines' banana exports are now shipped to China, the effects of China's actions quickly reverberated among Philippine fruit exporters.³⁷ Beijing hoped to pressure Manila to resolve the maritime dispute quickly.

Beijing also could have limited consumer electronics imports, which make up 61 percent of all Philippine exports to China, or minerals (sixteen percent of all merchandise exports);³⁸ however, it did not. While signaling that Philippine exports to China, worth \$14.6 billion following a 21 percent rise in 2011, could be in jeopardy, Beijing sought to avoid damaging the broader economic relationship. China's restraint points to several factors limiting its use of unilateral sanctions.

Limited Leviathan

China's capacity to use economic pressure should not be overestimated. The majority of China's massive trade surplus still involves processing trade, or importing intermediate materials and exporting finished products. Selective trading bans would disrupt these complex production chains, chasing investors to alternative manufacturing locations such as Vietnam. China's leaders can ill afford to undermine their export-driven manufacturing sector amidst global economic uncertainty.

Sustaining informal, undeclared sanctions is also tricky, particularly if Chinese enterprises face significant economic costs, if the entities that implement the sanctions are far from Beijing's central control, and if sanctions extend over a long time or cover a broad range of products. The difficulty of enforcement may be one reason that China prefers to threaten sanctions rather than actually carry them out. Thus, the credibility of Beijing's bluffs risk eroding over time.

Unlike the United States, which generally has scant economic relations with the countries it wishes to sanction (Iran, Syria, North Korea), China is dependent upon market access, technological transfer, and capital provision from many of the wealthy nations in Europe and North America which it may seek to sanction. As such, Beijing is unwilling to implement measures which are too costly. Even China's poorer allies such as Myanmar (which can reach out to India) and North Korea (which can pursue its nuclear weapons program) enjoy leverage vis-à-vis Beijing, constraining China's willingness to implement and sustain sanctions.

Most importantly, China has struggled for decades to cultivate a reputation as a responsible member of the international economic system, and also sought to ease fears of a "China threat," particularly among its Asian neighbors. Beijing's unilateral economic pressure risks undermining its well-honed rhetoric of non-interference.

Watching from Washington

For the United States, often the initiator of sanctions, facing unilateral sanctions from the world's second-largest economy may be unsettling. This is an emerging tool of China's economic statecraft, one to which U.S. policymakers should pay more attention. By raising the economic costs for U.S. allies, China can isolate the United States in its China policy. The most notable example is arms sales to Taiwan. Next up is the EU arms embargo on China, established following the 1989 suppression of the Tiananmen Square protests. Given the ongoing European debt crisis, China's combination of carrots and sticks may prove effective in pressuring EU members to lift the embargo, leaving the United States isolated in its arms embargo toward China.

China may also influence major U.S. corporations. Boeing, for instance, currently sells just over half of China's civilian aircraft. Its major rival, Airbus, accounts for 36 percent.³⁹ Boeing expects China to be the largest market for new commercial airplanes over the next two decades, predicting that China will acquire 3,400 new planes worth \$340 million.⁴⁰ Given this growth potential, Boeing and other major U.S. firms will not wish to anger Beijing unnecessarily. Other U.S. firms which seek to sustain access to China's burgeoning domestic market face similar hard choices.

China also has substantial economic clout vis-à-vis its smaller Asian neighbors. In the South China Sea dispute with the Philippines, Beijing combined diplomatic pressure and shows of naval might with economic leverage in order to press for a speedy resolution. As trade and investment ties with China rise, U.S. allies and friends throughout the Asia Pacific will become more vulnerable to such tactics.

In the past, China often used foreign policy to advance economic policy. Now, we see a reversal: Beijing is using its economic policy to influence foreign policy. The scale of China's economy gives it significant economic muscle, a muscle that China is flexing more and more frequently. While significant constraints remain, the mounting use of unilateral economic sanctions represents an important trend in Chinese foreign policy—one that U.S. policymakers should take seriously.

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