Despite the significance of the world’s second largest economy increasingly using its trade and connectivity as a weapon to advance its foreign- and security-policy aims, separating the myths from the realities of Chinese coercion is crucial in shaping appropriate policy responses and deterring China and others from such assertive behaviour.

China is far from alone in using its economic muscle to advance its foreign- and security-policy aims. For decades, the United States has weaponised trade, finance and technology, even against key allies, in pursuit of its broader geopolitical and economic aims. Washington has also imposed punishing economic sanctions on Sudan, Iran and other states it has branded as rogue. Outside of military invasion, trade, financial and diplomatic sanctions became the primary

**RECOMMENDATIONS**

- Beware of exaggerating the overall impact of Beijing’s economic coercion and recognize that China still is sensitive to the undermining of its own foreign trade and investment interests.

- Do not decouple from China. Pinpoint companies and industries with high dependencies and work to diversify these trade and investment links to alleviate vulnerabilities.

- Advance multiple policy platforms to build deterrence, such as World Trade Organization action, anti-coercion legislation, diversification strategies, political risk and credit insurance.
tools for America and its allies to coerce foreign leaders ‘to start behaving differently’ by disarming weapons programmes, ending support to international terrorist groups and ceasing widespread human-rights abuses.

Now China wants advanced democracies around the world to behave differently, too. Over the past decade, Beijing has engaged more frequently in economic coercion against both western countries and its East Asian neighbours.

In 2017, Beijing blocked Chinese tourists from visiting South Korean island getaways after Seoul deployed an American missile-defence system. Two years later, it detained two Canadians and placed trade restrictions on Canada’s agricultural exports to protest against the Canadian arrest of a high-profile Chinese executive. After Australia called for an international investigation into the outbreak of the COVID-19 pandemic last year, Beijing responded with a barrage of tariffs and restrictions on its exports. More and more, Beijing is doling out its own punishment to countries that cross its political redlines. The West is learning what it is like to be on the receiving end of economic coercion.

In the face of billions of losses from China’s trade measures, some may see the value in meeting Beijing’s demands to stay quiet on its activities regarding Tibet, Taiwan, Xinjiang and Hong Kong, and to stop blocking Chinese foreign investment deals in critical infrastructure, protesting at its military expansion in the South China Sea and scrutinizing the COVID-19 outbreak. But rather than accept a future under China’s thumb, there are ways to survive and even put a stop to Chinese coercive diplomacy. Disentangling myth from the realities of Chinese pressure is essential in managing and mitigating its detrimental impact.

The impact of China’s economic coercion is exaggerated

International reporting often overdramatizes the economic damage done by China by not weighing the relative value of restricted goods with the targeted country’s total trade. The reality is that, to date, Beijing applies only limited economic pressure.

Norway is a clear example. In 2010, after the Nobel committee in Oslo awarded the Peace Prize to Liu Xiaobo, a jailed Chinese intellectual and human-rights activist, Beijing placed a six-year diplomatic freeze on Norway and cut off salmon exports from the Scandinavian country.

Norway suffered an estimated decline of as much as $1.3 billion in its exports to China between 2011 and 2013. This was a lost opportunity for Norway’s fishing industry, but it only amounted to an annual drop of 0.3 percent in its total annual exports. Instead of experiencing economic hardship, Norway’s trade with China was paradoxically reaching new heights by 2015.

In response to the arrest of Huawei executive Meng Wanzhou on an American extradition warrant in late 2018, Beijing detained Canadians Michael Kovrig and Michael Spavor and imposed trade curbs on Canadian canola, soy, peas and pork exports. Canada’s exports to China fell by $3.5 billion in 2019, but the loss only represented a tiny fraction of Canada’s $447 billion in total exports that year.

Even for Australia, the damage done by China using trade as a weapon has so far been minor. Beijing placed bans and high tariffs on selected Australian beef producers and coal, barley, wine and other exports. Yet Australia has largely offset the loss of trade to China, as the fungible commodities targeted
by Beijing have been sold in other markets. For example, coal formerly shipped to China from Australia has gone to India, South Korea and Taiwan. Premiums have been lost, but a growing body of research in Australia demonstrates that the options for offsetting losses from Chinese coercion are greater than is commonly believed. China is a major consumer of many commodities, but even the Chinese market, which represents nearly 18% of the global economy, still leaves over 80% of the global economy to engage. As a result of diverting its trade to other markets, the Australian Treasurer Josh Frydenberg recently described the overall impact of China’s measures as ‘relatively modest’.

**China’s own trade and investment interests limit the extent of its coercion**

China’s sensitivities to upsetting its own trade and investment interests through coercion deserve recognition. Just as over two decades of American sanctions on Sudan exempted exports of gum arabic, essential in the production of Coca-Cola and other soft drinks, China also has trade and investments that it does not wish to upset through its economic coercion. Beijing did not stand in the way when ChemChina, a state-owned enterprise, made the $2 billion purchase of a high-grade Norwegian silicon producer during its freeze in relations with Norway. Nor did China hesitate to lift pork restrictions on Canada in late 2019 as swine fever decimated China’s pig population and domestic demand needed satisfying. Beijing has also shied away from blocking Australia’s iron ore and natural gas imports, needed to fuel its economic growth at home. As Australian researchers have meticulously detailed, bans placed on Australian goods by China are often partial and short-lived.

And similar to how Iraq circumvented international sanctions controlling its oil sales overseas, goods that China targets manage partly to find their way into the Chinese market place. Norway’s salmon was rerouted through Vietnam during its long-running dispute with Beijing, while Chinese importers used the United Arab Emirates as a backdoor to acquire Canadian vegetable oil.

**Psychological effects are often larger than the actual harm**

Beijing attempts to pull on industry and corporate levers in targeted countries to influence those countries’ foreign and security policies. So far, China’s economic coercion has inflicted more pain on individual companies and industries, such as South Korea’s supermarket chain Lotte or large Canadian canola exporters, than entire economies. Beijing knows that even minor trade curbs can create a media spectacle and have a psychological impact on advanced democracies that provokes large multinationals and business associations to lobby their governments for changes to foreign policy. However, it is important to bear in mind that China may just be getting started in employing economic coercion. To date, Beijing may have been exerting self-restraint as part of a Confucian approach to foreign relations, demonstrating its displeasure through limited restrictions, but not hitting too hard in order to preserve the long-term relationship. Nonetheless, under President Xi Jinping, China may move away from its current narrow approach to coercion. In the future, particularly if China is successful in its drive for economic self-sufficiency in critical industries, Beijing’s willingness to apply comprehensive pressure may increase.

**Diversify markets to reduce vulnerabilities**

The possibility of Beijing employing its trade weapon with greater force in the future demands that governments act to diversify any strong dependencies. Diversification does not entail decoupling from China, but pinpointing which industries are prone to Chinese

So far, China’s economic coercion has inflicted more pain on individual companies and industries than entire economies.
pressure, and encouraging trade and investment across developed and emerging markets to decrease such strategic vulnerabilities. This includes acquiring some critical industrial inputs where China is a dominant exporter. Japan's experience shows that lowering these selective dependencies on China, for example, to obtain rare earths, is feasible.

China is the largest growth engine in the global economy, but it is far from the only one. Diversification strategies can lay the groundwork for capitalizing on future growth in India, Indonesia, Vietnam and elsewhere. China's relative economic importance in the world received a boost due to its quick suppression of the coronavirus at home, but its share of the global economy will likely top out by the end of the decade, and others in Asia will boast the fastest growing markets in the world. Australia's experience demonstrates that even countries that are strongly dependent on trade with China have ample leeway in their foreign and security policy decision-making, despite Beijing's protests.

**Advance multilateral deterrence**

To protect vulnerable companies and industries from China's economic coercion, advanced democracies must find strength in numbers. They can support one another in cases against China in the WTO and push for reform of the international body to deter Beijing's use of its trade weapon. Since this is a time-consuming process, they can also offer political risk and credit insurance or explore other short-term fixes, such as creating a joint fund that compensates targeted companies and industries, thus mitigating the adverse effects of China's economic pressure.

In conclusion, China may come to learn from the American experience that, although economic coercion may be gratifying, it rarely produces the sought-after policy outcomes. Resisted by even the weakest of states for decades on end, American-led sanctions cause unnecessary human suffering and breed deep resentment.

Beijing may have hoped that punishing Norway in 2010 would serve as a warning to other advanced democracies to avoid crossing its political redlines. Some governments have made efforts to avoid upsetting Beijing's political sensitivities. Others, including South Korea, Canada and Australia, have not buckled when facing China's coercive diplomacy and demands for policy change. This can result in tarnished relations and temporary financial loss, but an independent foreign and security policy also has value.

China is also discovering that its targets are not all standing idly by in the face of its coercion. In early 2021, Canada launched a declaration against state-sponsored arbitrary detention. It received wide international backing, but still lacks the teeth of political sanctions. The WTO recently established an investigation into China's trade measures on Australian wine. Washington has not yet dropped its opposition to reviving the trade body's appeal court, thus hampering its activities, but the US Congress has put forward a bipartisan bill to establish an interagency task force to respond to China's economic coercion alongside its international allies and partners. The European Union is also designing an anti-coercion instrument to deter coercive acts against its member states.

Alone, these responses are insufficient, but collectively they represent the beginnings of a multilateral response to make China and others think twice before engaging in coercive diplomacy. Disentangling the myths from the realities of Chinese coercion is essential in further strengthening these policies and tools.

*This brief updates an article originally published in* *Foreign Policy.*