



## Statement before the House Committee on Rules

# *“Examining China’s Coercive Economic Tactics.”*

A Testimony by:

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**H313 Capitol**

Chairman Cole, Ranking Member McGovern, and distinguished Members of the Committee on Rules, thank you for inviting me to participate in today's hearing. It's an honor to be here. I commend the Committee for focusing on this urgent, important, and evolving challenge. My comments today are my own and should not be attributed to the Department of Defense, the Center for Strategic and International Studies, or Georgetown University.

China's economic coercion has become part and parcel of its foreign policy against many trading partners. Countries that interact with Taiwan, support democracy in Hong Kong, oppose genocide in Xinjiang or offend any other "core interests" of China face discriminatory, non-WTO-conforming sanctions and embargoes. Targets of this weaponization of trade since 2008 range widely. Eighteen Western and Asian countries, including Japan, Lithuania, Norway, and Australia, and over 123 private companies, including Walmart and the National Basketball Association, have been targeted precipitating tens of billions of dollars in economic damage.

From Beijing's perspective coercion works. After sanctioning South Korea's Lotte company in 2016 and embargoing imports of German pork in 2020, both countries remained silent when China passed the national security law in Hong Kong suppressing democracy.<sup>1</sup> Brazil did not exclude Huawei from its 5G auction for fear of losing billions in business.<sup>2</sup> In 2018 to preempt Chinese sanctions, The Gap clothing company issued a public apology and removed from sale a t-shirt design with a map of China that did not include Taiwan and Tibet.<sup>3</sup> Japanese fashion clothing retailer Uniqlo remained silent on human rights violations in Xinjiang. After a Chinese ban on Norwegian salmon in 2010, the country's leaders refused to meet with the Dalai Lama when he visited in 2015. China instituted a five-year ban on Columbia Tristar Pictures after it released "Seven Years in Tibet," starring Brad Pitt because the movie's portrayal of government suppression.<sup>4</sup> After Taiwan opened a representative office in Vilnius in 2021, Lithuania saw a 91 percent drop in exports to China.<sup>5</sup> China sanctioned online merchandising and game broadcasts of the NBA Houston Rockets because a team staff member tweeted support for Hong Kong democracy in 2019.<sup>6</sup> China seeks deference by routinely warning countries about what it can do to them. The remarks in New Zealand in 2022 by the Chinese ambassador are typical: "An

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<sup>1</sup> Chris Buckley, Keith Bradsher and Tiffany May, "New Security Law Gives China Sweeping Powers Over Hong Kong," *The New York Times*, June 29, 2020, <https://www.nytimes.com/2020/06/29/world/asia/china-hong-kong-security-law-rules.html?action=click&module=RelatedLinks&pgtype=Article>; "China Scolds Germany over Meeting with Hong Kong Activist," *Voice of America*, September 11, 2019 [https://www.voanews.com/a/east-asia-pacific\\_china-scolds-germany-over-meeting-hong-kong-activist/6175623.html](https://www.voanews.com/a/east-asia-pacific_china-scolds-germany-over-meeting-hong-kong-activist/6175623.html)

<sup>2</sup> See "Brazil's Bolsonaro to allow China's Huawei in 5G auctions: newspaper," *Reuters*, January 16, 2021, <https://www.reuters.com/article/us-brazil-huawei-tech/brazils-bolsonaro-to-allow-chinas-huawei-in-5g-auctions-newspaper-idUSKBN29L0JM>; "Brazil regulator approves 5G spectrum auction rules, no Huawei ban," *Reuters*, February 25, 2021, <https://www.reuters.com/business/media-telecom/brazil-regulator-approves-5g-spectrum-auction-rules-no-huawei-ban-2021-02-26/>

<sup>3</sup> "Gap Sorry for Selling T-Shirt with 'Incorrect' Map of China," *Guardian*, May 14, 2019 <https://www.theguardian.com/world/2018/may/15/gap-sorry-t-shirt-map-china>

<sup>4</sup> Sharon Waxman, "China Bans Work with Film Studios," *Washington Post* November 1, 1997.

<sup>5</sup> European Commission, "Statement by Executive Vice-President Valdis Dombrovskis on Launch of Case at World Trade Organization," January 27, 2022, [https://ec.europa.eu/commission/commissioners/2019-2024/dombrovskis/announcements/statement-executive-vice-president-valdis-dombrovskis-launch-0\\_en](https://ec.europa.eu/commission/commissioners/2019-2024/dombrovskis/announcements/statement-executive-vice-president-valdis-dombrovskis-launch-0_en)

<sup>6</sup> Victor Cha and Andy Lim, "Flagrant Foul: China's Predatory Liberalism and the NBA," *The Washington Quarterly*, 42:4, 23-42, <https://doi.org/10.1080/0163660X.2019.1694265>

economic relationship in which China buys nearly a third of the country's exports shouldn't be taken for granted."<sup>7</sup>

Dealing with China's weaponization of trade is a critical pre-requisite for the success of the Biden administration's strategic competition with China. The willingness of countries to sign up to supply chain coalitions or to support Taiwan's defense depends on how fearful they are of Chinese economic retaliation because no country can truly decouple from one of the largest economies in the world. What is needed is a peer competition strategy that can stop this behavior. The United States and like-minded partners need to consider a new "collective resilience" strategy to deter China's economic coercion.

### ***How Collective Resilience Works***

Most of the targets of Chinese economic coercion are asymmetrically trade dependent on it. But this should not obscure the reality that many of these countries also export items to China upon which the Chinese market is *highly dependent*, and in some cases *almost 100% dependent*. For example, China is over 90 percent dependent on the import of silver powder from Japan, which it uses to make solar panels. The next three suppliers of silver powder to China are the US and South Korea making up nearly 100 percent of their dependence on these countries. China is over 80 percent dependent on the import of Kentucky Bluegrass seed from the United States which it uses for its soccer pitches. The next largest exporter is Denmark again comprising almost 100 percent of its grass seed imports. It is nearly 100 percent dependent on whiskey from the UK and Japan, and fine brandies from France.

In some cases, China could make up for a loss of these imports with domestic production but not without significant cost. Indeed, the eighteen countries that are previous and current targets of Chinese economic coercion export over \$46 billion worth of goods to China upon which the country is more than 70 percent dependent as a proportion of its total imports of those goods, and over \$12 billion in goods upon which China is more than 90 percent dependent (see Appendix 1).

These states can band together and practice economic deterrence by promising collective retaliation on these high-dependence goods should China act against any one member of the collective. Forcing China to find a new supplier or pay a higher price for one item is, of course, not enough to change Beijing's behavior, thus operating alone against China would be foolhardy. However, joining together in an Article 5-type of collective economic defense framework could threaten enough inconvenience for Beijing that it might deter future predatory behavior. Collective resilience might sound too mercantilist for the ears of some liberals and globalists, but it's a necessary competitive strategy to protect the liberal international order.

### ***Current Anti-Coercion Measures are Not Enough***

The Biden administration's efforts to counter China's coercion deserve merit, but they are incomplete. One, the U.S. had encouraged countries to practice trade diversification, meaning that

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<sup>7</sup> Stephen Wright, "China Warns New Zealand Against Squandering Trade Ties," *Wall Street Journal* 2 June 2022. China has even leveraged its pandas as a tool of coercion. See <https://thediplomat.com/2020/02/sister-city-relations-and-identity-politics-the-case-of-prague-beijing-taipei-and-shanghai/>

when China imposes tariffs or an import embargo on a target state's goods, the target state finds alternative export markets for those same goods. For example, when China slapped tariffs on Australian barley, wine, and beef, Australia redirected these goods to rest of the world.<sup>8</sup>

The U.S. has also developed with like-minded partners networks of “re-shoring” and “friend-shoring,” moving key elements of the production chain out of China or places where China exercises inordinate influence. The supply chain is brought home or to trusted partner economies. Examples of this include the Quad (U.S.-Japan-Australia-India), with its growing concentration on building resilient supply chains for COVID-19 vaccines, semiconductors, emerging and critical technologies, as well as for clean energy and the Minerals Security Partnership (MSP) is another example. Launched in June 2022, this initiative is aimed at reinforcing critical mineral supply chains, such as those of nickel, lithium, and cobalt. Most recently, the U.S., Japan, South Korea, and Taiwan decided to form a “Chip 4” alliance to consolidate the semiconductor supply chain. Reshoring and supply chains raise production costs and lower efficiency gains, but that is the cost of protecting oneself against China's predatory practices.

These measures are undeniably important and necessary, but in the end, they are ultimately reactive and defensive in nature. They protect some supply chains from disruption, but they do nothing to deter the overall practice of economic coercion. Collective resilience complements a supply chain strategy.

### ***A G7 Proposal***

Garnering the political will among countries to support a collective economic deterrence strategy is not easy. Free-riding is likely. Smaller states would be worried China would target them as the weakest link. And companies might not be willing to participate. Rather than pulling together a random group of states targeted by Chinese bullying, collective resilience could be advocated by G7 countries plus Australia (G7 + A). These like-minded partners would be incentivized to counter China's coercion because they 1) identify their own self-interest with preserving the liberal order against Chinese coercion; 2) are medium-to-large players that cannot be easily picked off by China; 3) already participate in the anti-coercion efforts of the European Union, or have already stood up to Chinese bullying; and 4) have the capabilities to leverage China's vulnerability. G7+A countries have almost 400 items upon which China is 70 percent dependent with a trade value of over \$37 billion (2022) and almost 160 items valued at \$7.5 billion upon which China is 90 percent dependent (see Appendix 2). These like-minded countries could use the threat of multilateral action in the trade space to impose significant and unacceptable costs if China attempts to coerce others economically. Collective resilience focuses not on the use of economic punishment – that is, it is not advocating a trade war. Rather, it is the credible threat by a collective of states to carry out the punishment in unison if and when China acts against any one of the states in the collective.

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<sup>8</sup> For China's tariffs on Australian goods, see Su-Lin Tan, “Explainer | What happened over the first year of the China-Australia trade dispute?” *South China Morning Post*, October 28, 2020, <https://www.scmp.com/economy/china-economy/article/3107228/china-australia-relations-what-has-happened-over-last-six>; for data on Australian exports after Chinese actions, see Roland Rajah, “The big bark but small bite of China's trade coercion,” *The Interpreter*, *The Lowy Institute*, April 8, 2021, <https://www.loyyinstitute.org/the-interpreter/big-bark-small-bite-china-s-trade-coercion>

Globalists might find a strategy of collective resilience anathema to the very liberal order that they are trying to protect. But they must treat it as a peer competition strategy necessary to save that order. It's been over three decades since the United States engaged in great power peer competition, and some may have forgotten that high-stakes competition against another great power is not pretty and sometimes dirty, just as the United States had to countenance illiberal practices at times to protect the Western order during the Cold War. Hopefully, the threat of collective resilience would never have to be exercised. In that sense, it is like deterrence in the security realm. It requires both the capabilities and the political will of all involved to signal to Beijing that it can no longer use economic coercion as a tool of diplomacy that threatens the liberal international order.

**Appendix 1:**

China's High-Dependence Imports from its 18 Targets of Economic Coercion (2022)

<b>China's imports summary from 18 selected countries</b>		
	Total # of import items	Total value of imports
Up to 70% dependence	412	\$46,650,985,373
Up to 80% dependence	279	\$30,933,223,864
Up to 90% dependence	169	\$12,789,682,384

Source: UN Comtrade Data

**Appendix 2:**

China's High Dependence Imports from G7+A (Country breakdown) (2022)

<b>Country</b>	<b># of import items &gt;70%</b>	<b>Total value of imports (US\$)</b>
Japan	124	\$4,960,038,430
United States	87	\$11,548,305,886
Germany	64	\$827,620,276
Italy	55	\$1,211,888,481
France	27	\$2,490,927,512
Canada	18	\$5,090,898,875
Australia	14	\$10,562,817,896
United Kingdom	6	\$480,259,062
<b>Total # of Items</b>	<b>395</b>	<b>\$37,172,756,418</b>

Source: UN Comtrade Data