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**HOW CHINESE ECONOMIC COERCION  
IMPACTS U.S. SECURITY RELATIONS WITH  
AUSTRALIA AND SOUTH KOREA**

Do, Derrick Q.

Monterey, CA; Naval Postgraduate School

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**NAVAL  
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**MONTEREY, CALIFORNIA**

**THESIS**

**HOW CHINESE ECONOMIC COERCION IMPACTS  
U.S. SECURITY RELATIONS WITH AUSTRALIA  
AND SOUTH KOREA**

by

Derrick Q. Do

December 2020

Thesis Advisor:  
Second Reader:

Christopher P. Twomey  
Rachel L. Sigman

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**HOW CHINESE ECONOMIC COERCION IMPACTS U.S. SECURITY  
RELATIONS WITH AUSTRALIA AND SOUTH KOREA**

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Submitted in partial fulfillment of the  
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**MASTER OF ARTS IN SECURITY STUDIES  
(FAR EAST, SOUTHEAST ASIA, THE PACIFIC)**

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## **ABSTRACT**

Increasing economic power has driven China's global rise, providing China with immense influence and capabilities. China has used this power in pursuit of its strategic objectives especially in the Indo-Pacific. How has Chinese economic statecraft and coercion impacted South Korea's and Australia's security relations with the United States? This thesis conducts comparative case studies of South Korea and Australia and their economic relations with China and security relations with the United States. This research made use of multiple databases to examine 20 years' worth of records detailing bilateral relations and trade for instances of Chinese economic coercion to identify the core cases, and makes shorter assessments of other key cases. This thesis finds that China primarily uses informal economic coercive methods for a range of issues including territorial maritime disputes, human rights, and security interests. The tactics have become more active and sophisticated over time in being able to precisely and flexibly target industries. However, China's use of economic coercion has so far achieved mixed results as there seem to be no long-term concrete changes to the U.S. alliances and, in some cases, evidence that it has backfired. This thesis recommends that the United States increase its cooperation and establish new institutions with its allies, other countries and the private sector to limit and counter the effectiveness of Chinese economic coercive tactics.



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## **LIST OF ACRONYMS AND ABBREVIATIONS**

CCP	Chinese Communist Party
DPRK	Democratic People’s Republic of Korea
EI	economic interdependence
GPC	great power competition
ROK	Republic of Korea
SCS	South China Sea
THAAD	Terminal High Altitude Area Defense

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# I. INTRODUCTION

## A. MAJOR RESEARCH QUESTION

How does Chinese economic coercion impact South Korea's and Australia's security relations with the United States? Both Australia and the Republic of Korea (ROK) are robust democracies, advanced free market economies with highly educated populaces, and historically have had deep security arrangements with the United States. Both countries' strategic goals and economies are closely aligned and integrated with those of the United States. However, in the past few decades China has become both Australia's and ROK's most important economic partner. The large Chinese market is highly lucrative and important for Australian and Korean exports and services. This thesis investigates how China has used this new phenomenon for economic coercion directed against the U.S.-Australia and the U.S.-ROK strategic relationship.

China has reemerged as major global player that possesses immense economic power and influence. After a hundred years of being exploited and territorially carved up by foreign powers, and decades of failed socio-economic policies carried out by the Chinese Communist Party (CCP), China reopened its economy and diplomatic relations with the world with help from the United States. Since President Richard Nixon's engagement with Mao Zedong in 1972 and the official establishment of Sino-U.S. diplomatic relations in 1979, China has experienced immense economic growth and development. Hundreds of millions of Chinese were taken out of poverty over the course of a generation. In 2010, China overtook Japan as the world's second-largest economy. China is projected to surpass the U.S. economy in the future, and by some measures, it already has.

The Chinese economy has grown to become a central player of the world's economy. Known as the world's factory, production of goods and an export-oriented economy drove Chinese economic development. The Chinese economy is heavily integrated with other nations in a significantly globalized world. With a population of about 1.4 billion and an expanding middle class, China has become an attractive and lucrative



market for other countries' goods and services. However, foreign states and companies looking to do business in China are required to comply with Chinese laws and regulations that have been established and upheld by the CCP. Many of these laws are designed with the intent of preserving and advancing the CCP and China's power. China's shift from being primarily an export-oriented economy to domestic-consumption, and striving to become a leader in technology and innovation, will further challenge the dynamics in economic relations.

China is on a path to greater status, leadership and involvement in world affairs. In 2012, when Chinese President Xi Jinping took office he highlighted themes about the "Great National Rejuvenation" and achieving the "Chinese Dream." Making China great again requires the advancement of core CCP interests which are continuing China's economic development, maintaining internal stability and preserving its territorial sovereignty.<sup>1</sup> Senior Chinese leadership up to President Xi have determined that using economic coercion will be a part of its strategy to pursue and protect its core interests abroad.<sup>2</sup> Additionally, China has increased its economic influence by not only increasing its presence in current multilateral economic institutions (World Trade Organization, World Bank, International Monetary Fund, etc.), but also by establishing and becoming a central player in regional institutions (Asian Infrastructure Investment Bank, Regional Comprehensive Economic Partnership, Belt Road Initiative, etc.). No country in the world can ignore or completely separate itself from China's economy. Thus, understanding more about how and why China uses its newfound tools of statecraft is valuable.

## **B. SIGNIFICANCE OF THE RESEARCH QUESTION**

One may question the relevance of the sphere of economics to the field of national security affairs. Entering in an era of Great Power Competition (GPC), it is important to understand how strategic and defense efforts can be impacted by all levers of state power—

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<sup>1</sup> Fergus Hanson, Emilia Currey, and Tracy Beattie, "The Chinese Communist Party's Coercive Diplomacy," Policy Brief (Australian Strategic Policy Institute, 2020), 4, <https://www.aspi.org.au/report/chinese-communist-partys-coercive-diplomacy>.

<sup>2</sup> Peter Harrell, Elisabeth Rosenberg, and Edoardo Sarvalle, "China's Use of Coercive Economic Measures" (Washington, DC: Center for a New American Security, 2018).

including economic ones. Economic interdependence has improved state economies around the world, especially in the Asia-Pacific. However, economic relationships might be strained in an era of GPC as states look to challenge and compete with each other in order to protect and advance their interests.

China and the United States have entered a GPC era that is especially centered around the Asia-Pacific region. In 2011, President Obama spoke at the Australian Parliament and set of which is now deemed as the U.S. Pivot to Asia, “as a Pacific nation, the United States will play a larger and long-term role in shaping this region and its future, by upholding core principles and in close partnership with our allies and friends.”<sup>3</sup> The United States has historically enjoyed dominance in the region with its immense military, economic, diplomatic and informational power. The recent rise of China in the past 40 years has presented a challenge to U.S. dominance especially in regard to influencing regional states. In the past and currently, China has been using its greatest instrument of national power—economic power—to increasingly challenge the strength of U.S. security partnerships.

Australia and ROK will be important U.S. partners going forward in the GPC era, and are vital in Washington’s effort toward a free and open Indo-Pacific. Both countries are facing the challenge of balancing their security and economic priorities. Australian and South Korean policy makers, scholars, and commercial actors see China as critical to the growth and well-being of their economies, while they also see the United States as critical to their nation’s security. A rising China is expected to use its growing power and economic clout to pursue its strategic goals and development. Information derived from the research will inform U.S. policy makers, scholars, and the broader security community about what future challenges and opportunities will there be for U.S. engagement.

U.S. security commitments to Australia and ROK have been important drivers and foundations for its defense policy and engagement in the Asia-Pacific. In the past, it was the threat of communism during the Cold War that brought the United States together with

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<sup>3</sup> The White House, “Remarks By President Obama to the Australian Parliament,” [whitehouse.gov](https://obamawhitehouse.archives.gov/the-press-office/2011/11/17/remarks-president-obama-australian-parliament), November 17, 2011, <https://obamawhitehouse.archives.gov/the-press-office/2011/11/17/remarks-president-obama-australian-parliament>.

these countries. Since the Korean War began 1950, the United States and ROK have been treaty allies. Tens of thousands of U.S. forces still remain on the Korean Peninsula working alongside with ROK forces to watch over and prepare for threats from the Democratic People's Republic of Korea (DPRK). Farther south, since the establishment of the ANZUS Treaty in 1951, the United States and Australia have committed to each other's defense. Australia has fought with the United States in every major conflict since 1917. Both countries are members of the FIVE EYES group which encompasses close-intelligence sharing ties and efforts among the countries of Australia, Canada, New Zealand, United Kingdom, and United States.

### **C. LITERATURE REVIEW**

There is a great deal of literature and news articles about Chinese economic power and statecraft impacting Australia and ROK's foreign and domestic policies. Recent developments and news sources continue to highlight complex interactions between the countries. However, there has not been an in-depth study to compare the two countries' experiences with a rising China. The two countries, both important partners of the United States, face common challenges of balancing across their national security and economic priorities. The differences between the two countries—geospatial distance from China, culture, demographics—provide an opportunity to understand what factors influence how countries respond to these challenges.

The thesis' literature review will follow in five categories. First, the review will go over international relations theory and current scholarly work about the impact of economic relations between countries. Liberal theory, and more specifically theories of economic interdependence (EI), will be touched on to assess prior scholars' application of it in the Asia-Pacific region. Second, what are the concepts economic statecraft and coercion and how are they applied to states pursuing their strategic goals? EI usually increases prosperity and amity between countries, but it can also give a state more economic options for leverage. Third, there will be a more specific overview of Chinese economic statecraft and coercion. How China has used economic statecraft, primarily in the Asia-Pacific, to pursue its strategic goals. Fourth, the review will go into case studies and literature focusing

on ROK to examine how China has impacted ROK's security relations with the United States. Finally, case studies and literature focusing on Australia will examine how China has impacted Australia's security relations with the United States.

### 1. Liberal Theory: Economic Interdependence

Liberal scholars say the EI theory applies effectively to the Asia-Pacific, and explains why there has not been a major militarized conflict in the region since the end of the Cold-War. Bruce Russett, in "Triangulating Peace: Democracy, Interdependence, and International Organizations," explains how economic interdependence, along with democracy and international organizations, contributes to peace between states.<sup>4</sup> There is a general agreement among scholars working in this paradigm that China will be more likely to establish harmonious relations with neighboring powers in order to maintain its economic growth, trade, access to resources, and external and internal stability.<sup>5</sup>

Other scholarly works support the applicability of EI but with caveats. Goldsmith in "A Liberal Peace in Asia," says that EI is important in reducing conflict in Asia, but "the strong intra-Asian effect of trade interdependence does not translate into a robust pacific effect between Asian states and those outside the region."<sup>6</sup> China's rise may have increased competition between different regional orders in East Asia, but these orders can coexist.<sup>7</sup> Tønnesson argues that conflict can be mitigated between a rising China and the United States, if both sides are able to deter each other with conventional and nuclear forces, and avoid actions that reduce economic interdependence.<sup>8</sup> Additionally, third party countries,

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<sup>4</sup> Bruce M. Russett, *Triangulating Peace: Democracy, Interdependence, and International Organizations* (New York: Norton, 2001), 125.

<sup>5</sup> David Pak Yue Leon, "Economic Interdependence and International Conflict: Situating China's Economic and Military Rise," *Asian Politics & Policy* 9, no. 1 (2017): 9–30, <https://doi.org/10.1111/aspp.12300>; Erich Weede, "The Capitalist Peace and the Rise of China: Establishing Global Harmony by Economic Interdependence," *International Interactions* 36, no. 2 (May 24, 2010): 206–13, <https://doi.org/10.1080/03050621003785181>.

<sup>6</sup> Benjamin E. Goldsmith, "A Liberal Peace in Asia?," *Journal of Peace Research* 44, no. 1 (2007): 5, <https://doi.org/10.1177/0022343307072427>.

<sup>7</sup> Kai He, "Contested Regional Orders and Institutional Balancing in the Asia Pacific," *International Politics* 52, no. 2 (February 2015): 208–22, <https://doi.org/10.1057/ip.2014.46>.

<sup>8</sup> Stein Tønnesson, "Deterrence, Interdependence and Sino-US Peace," *International Area Studies Review* 18, no. 3 (September 1, 2015): 297–311, <https://doi.org/10.1177/2233865915596660>.

such as Japan, will be important in securing this peace as long as they remain under the U.S. nuclear umbrella, and tightly integrated into both the American and Chinese economies. As nuclear deterrence may reduce the likelihood of major war between powers, state competition is more likely to play out in the economic sphere. Finally, Copeland suggests that EI can both reduce the risk of war for states in the best of circumstances but lead them to conflict if they are cut off from critical resources/commerce.<sup>9</sup> Thus, EI is often thought to have broadly positive implications for relationships between countries, but there is another side to EI. When EI involves statecraft and coercion, it may lead to more conflictual relationships

## **2. Economic Statecraft and Coercion**

Norris defines economic statecraft as “state manipulation of international economic activities for strategic purposes.”<sup>10</sup> Economic coercion is a subset of economic statecraft. Drezner in 1999, defined economic coercion as “the threat or act by a nation-state or coalition of nation-states, called the sender, to disrupt economic exchange with another nation state, called the target, unless the targeted country acquiesces to an articulated political demand.”<sup>11</sup> Hanson provides a broader definition for coercion as “non-militarized coercion” or “the use of threats of negative actions to force the target state to change behavior.”<sup>12</sup>

When China applies economic coercive tactics, its political demands may not be very articulated or clear. Also, China is more inclined to coerce using informal methods versus more formal methods. Formal methods, for example, would be the United States announcing sanctions against a regime. According to Schrader,

Unlike sanctions levied by the United States and other democracies, Chinese coercive economic actions are not confined by a transparent legal regime and are not typically acknowledged by the Chinese government.

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<sup>9</sup> Dale C. Copeland, *Economic Interdependence and War* (Princeton University Press, 2014), 7.

<sup>10</sup> William J. Norris, *Chinese Economic Statecraft Commercial Actors, Grand Strategy, and State Control* (Ithaca, New York; Cornell University Press, 2016), 3.

<sup>11</sup> Daniel W. Drezner, *The Sanctions Paradox: Economic Statecraft and International Relations* (Cambridge: Cambridge University Press, 1999), 2.

<sup>12</sup> Hanson, Currey, and Beattie, “The Chinese Communist Party’s Coercive Diplomacy,” 4.

Both characteristics increase ambiguity about the means and ends of sanctions.<sup>13</sup>

There is an agreement among experts that specific economic coercive tactics against another state's commercial actors include popular boycotts, tourism restrictions, trade restrictions, restrictions on official travel, and enhanced restrictions or regulations.<sup>14</sup> The state applies economic coercion to pressure the targeted state's commercial actors who then pressure their own government to comply with the applying state's demands or interests. The more economic power a state has the more leverage it can apply against less economically powerful states and entities.

States' use of economic statecraft and coercion to pursue strategic goals have been going on for hundreds of years. After looking through global historical cases going back from 1790, Copeland found that high EI can help foster peace by giving states more tools to respond to the negative actions conducted by another state. Thus, having the option to use economic coercion can actually reduce the necessity or attractiveness of having to pursue more physically coercive actions such as use of force which can lead to further security misunderstandings and escalation. States that are dependent on trade and investment but still deliberately impose economic sanctions signal that they are "willing to suffer high costs to achieve their objectives. This should eliminate any underestimations of their resolve."<sup>15</sup>

There is an agreement among experts that a state's use of economic coercion can be effective in helping it achieve strategic goals if it is conducted under certain conditions. In 1985, Baldwin argued that academic literature largely neglected the study and potential of economic statecraft, and proposed the need for more data collection and analysis in order to better understand it and prepare against it. Drezner built on this need and in his research found that economic coercion would be more effective if certain conditions were met with

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<sup>13</sup> Matt Schrader, "A Framework for Understanding Chinese Political Interference in Democratic Countries," *Alliance for Securing Democracy*, April 2020, 5.

<sup>14</sup> David A. Baldwin, *Economic Statecraft* (Princeton, N.J.: Princeton University Press, 1985), 42; Drezner, *The Sanctions Paradox*, 2; Hanson, Currey, and Beattie, "The Chinese Communist Party's Coercive Diplomacy"; Harrell, Rosenberg, and Sarvalle, "China's Use of Coercive Economic Measures."

<sup>15</sup> Copeland, *Economic Interdependence and War*, 21.

the sender's signaling and with the target's domestic politics. The sender's sanctions would be more effective if it shows willingness to bear pain from enacting those sanctions, if military forces are threatened or used, and if the sender can gain international cooperation.<sup>16</sup> For the target's domestic conditions, the target regime must be domestically unstable and the sanctions must hurt the elites as much as the general population.

Norris concluded that in order for economic statecraft to be effective, state control and unity in the sender country is essential.<sup>17</sup> Economic coercion, particularly those that utilize informal methods, require close cooperation between state actors and commercial actors. State actors need to be unified themselves and have adequate influence and leverage over commercial actors in order to impact commercial relations with another state's commercial actors. Finally, Copeland argues that EI can help foster peace but if future trade expectations look poor and threatens a state's access to markets or critical resources, then actual physical conflict becomes increasingly likely.

### **3. Chinese Economic Statecraft and Coercion**

China is known to use its economic power against other countries to pursue its strategic goals. Various scholars describe Chinese economic statecraft, its variations and limitations, and how China uses it to signal other states to not engage in misbehavior.<sup>18</sup> China has varying levels of control over its commercial actors due to the existence of state-owned companies and CCP influence over the success of Chinese companies. These varying levels of control gives the United States some targeting avenues for leverage over China with the objective of mitigating conflict.<sup>19</sup>

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<sup>16</sup> Drezner, *The Sanctions Paradox*, 14.

<sup>17</sup> Norris, *Chinese Economic Statecraft Commercial Actors, Grand Strategy, and State Control*, 223.

<sup>18</sup> Evan A. Feigenbaum, "Is Coercion the New Normal in China's Economic Statecraft?," Carnegie Endowment for International Peace, July 2017, <https://carnegieendowment.org/2017/07/25/is-coercion-new-normal-in-china-s-economic-statecraft-pub-72632>; Norris, *Chinese Economic Statecraft Commercial Actors, Grand Strategy, and State Control*; James Reilly, "China's Unilateral Sanctions," *The Washington Quarterly* 35, no. 4 (October 2012): 121–33, <https://doi.org/10.1080/0163660X.2012.726428>; Schrader, "A Framework for Understanding Chinese Political Interference in Democratic Countries."

<sup>19</sup> Richard Nephew, "China and Economic Sanctions: Where Does Washington Have Leverage?," *Brookings* (blog), September 30, 2019, <https://www.brookings.edu/research/china-and-economic-sanctions-where-does-washington-have-leverage/>.

Feigenbaum categorized five types of economic leverage China employs to influence the targeted state's behavior: passive, active, exclusionary, coercive and latent.<sup>20</sup> Exclusionary is when the state grants or denies the targeted state access to its own market. This form of economic statecraft allows the state to pursue more informal channels and methods against the targeted state. State actions and intentions are more overt and official when applying formal tactics such as economic sanctions against the targeted entity. China is well suited to using exclusionary leverage due to its large economy and market. It also has influence over both state-owned enterprises and private companies. Chinese companies have to comply with Chinese state narratives and guidance in order to operate effectively within the country. This option provides the Chinese state more plausible deniability and can precede more distinct coercive action.

Many examples of this are visible.<sup>21</sup> China employs a multitude of economic statecraft tactics. First, it imposed import and export restrictions designed to pressure the target country's economy. For example, China restricted exports of rare earth metals to Japan over territorial disputes, import restrictions on Norwegian seafood after the Nobel Peace Prize being awarded to a Chinese dissident, and import restrictions on Filipino fruits during a maritime confrontation. Second, China urged popular boycotts to convince governments to act in line with Chinese demands. For example, again during territorial disputes with Japan, Chinese authorities encouraged boycotts of Japanese goods. Third, restrictions on tourism is a common Chinese economic coercive tactic. This was seen during confrontations with Japan, Philippines, and Taiwan. Fourth, China exerts pressure on corporate executives by threatening their business operations in China if they do not fall in line with CCP interests. For example, in Taiwan after the election of the Democratic Progressive Party candidate Tsai Ing-Wen, China pressured corporate executives to reaffirm the One China policy and deter calls for Taiwanese independence. Further analysis

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<sup>20</sup> Feigenbaum, "Is Coercion the New Normal in China's Economic Statecraft?"

<sup>21</sup> In order to provide further understanding about Chinese capabilities and intentions, this paragraph will heavily draw on Harrell's "China's Use of Coercive Economic Measures," and Hanson's "The Chinese Communist Party's Coercive Diplomacy," to go through other recent cases of Chinese economic coercion outside of Australia and ROK (Japan, Norway, Philippines, Taiwan, Mongolia). Hanson, Currey, and Beattie, "The Chinese Communist Party's Coercive Diplomacy"; Harrell, Rosenberg, and Sarvalle, "China's Use of Coercive Economic Measures."



of these cases will be conducted in Chapter II of the research and the broad studies on the large and growing universe of cases of Chinese coercion are discussed in the following section on research methodology.

#### **4. Sino-ROK Relations**

Chinese economic power has had an impact on ROK and its security relations with the United States. Kim in “South Korea’s Strategy toward a Rising China, Security Dynamics in East Asia, and International Relations Theory,” describes how ROK’s strategy and behavior towards China has been affected by the factors of EI, the U.S.-centered hub and spoke alliance model, North Korea, ROK’s domestic leadership changes, and perception of threat in the region.<sup>22</sup> Various scholars explain how ROK is deeply economically integrated with China—giving China more tools to influence the state.<sup>23</sup> Additionally, improving relations between ROK and China may complicate future ROK security relations with the United States. Further discussion about these components is in Chapter III.

#### **5. Sino-Australia Relations**

Finally, Chinese economic power has had an impact on Australia and its security relations with the United States. Australia-focused scholars argue that economics has played a significant role in increasingly forcing Australia into pursuing a “bifurcated foreign policy” with the U.S. and China.<sup>24</sup> One focusing on economic development while

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<sup>22</sup> M.-h. Kim, “South Korea’s Strategy toward a Rising China, Security Dynamics in East Asia, and International Relations Theory,” *Asian Survey* 56, no. 4 (August 1, 2016): 707–30, <https://doi.org/10.1525/as.2016.56.4.707>.

<sup>23</sup> Hugh White, *The China Choice: Why We Should Share Power* (Oxford: University Press, 2013); Ron Huisken, “CSCAP Regional Security Outlook” (Council for Security Cooperation in the Asia Pacific, 2019), <http://www.cscap.org/uploads/cscap%202020%20v3.pdf>; Schrader, “A Framework for Understanding Chinese Political Interference in Democratic Countries.”

<sup>24</sup> Nicholas Thomas, “The Economics of Power Transitions: Australia between China and the United States,” *Journal of Contemporary China* 24, no. 95 (September 3, 2015): 846–64, <https://doi.org/10.1080/10670564.2015.1013376>; J. D. Kenneth Boutin, “Beyond Interdependence: Economic Security and Sino-American-Australian Trilateralism,” *International Journal* 70, no. 3 (2015): 372–390, <https://doi.org/10.1177/0020702015586187>; J. Reilly, “Counting On China? Australia’s Strategic Response to Economic Interdependence,” *The Chinese Journal of International Politics* 5, no. 4 (December 1, 2012): 369–94, <https://doi.org/10.1093/cjip/pos016>.

the other focusing on security needs. Prominent Australian scholar and former defense minister Hugh White argues that the best way forward for everyone would be for the U.S. to share power with China in Asia.<sup>25</sup> The alternative is too risky, and Australia should strive for more independent military capability. Australia has growing fears about China's power and U.S. credibility for defense.<sup>26</sup> Searight and Schrader report on Chinese political and economic influence into Australian affairs, Australia's response, and subsequent Chinese responses. Further discussion about these components is in Chapter IV.

#### **D. RESEARCH DESIGN AND METHODOLOGY**

This thesis primarily conducts comparative case studies of ROK and Australia and their relations to China (primarily economic) and the United States (primarily security). Descriptive country case studies examine how Chinese economic interactions have impacted ROK's and Australia's political and security policies, particularly those connected to U.S. security objectives. For ROK, I examine the THAAD case focusing on China's use of economic statecraft and whether it caused ROK to diverge from U.S. security efforts against DPRK, military exercises, Trilateral Alliance, and China. For Australia, I examine how Chinese economic statecraft impacted Australia's participation in U.S. security efforts in regard to Taiwan, SCS, foreign interference, and the Huawei 5G ban. Each of these cases present a scenario where the targeted country pursued an action that immediately displeased China. China decided to respond with targeted economic measures to display its disapproval and to influence the country's future course of action. There is confidence in having sufficient data for the thesis research as the cases were extracted from the hundreds of cases recorded in the larger studies (ASPI, CNAS, Zhang). The cases were deemed as the most important examples for the thesis study due to their applicability of how China's use of economic coercion against U.S. allies may impact U.S. security relations. The thesis evaluated the possibility of doing a case-study on Japan as it is also a U.S. ally and a democracy with a developed economy. However, Japan was excluded from an in-depth case study for several reasons. First, the most recent cases of

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<sup>25</sup> White, *The China Choice*.

<sup>26</sup> Huiskens, "CSCAP Regional Security Outlook."

Chinese economic coercion being conducted against Australia and ROK, so there is more value to understand the most recent Chinese practices. Second, Japan is likely to be more able and willing to balance against China while Australia and ROK are more on the fence about either challenging or accommodating China. Thus, we learn more about Chinese capabilities in these “easier” cases for coercion, which is important since Chinese capabilities are likely to continue to rise.

For each case study, I investigate the targeted country’s interests, identify Chinese interests, how China applied economic coercion, impacts on the targeted country’s policymaking, and any effect on its alliance with the United States. The main objective is to identify if China was successful in changing or weakening Australia’s and ROK’s security alignment with the United States. Why or why not? Was Chinese economic statecraft the primary factor or could there have been other factors driving those countries’ strategic decision-making processes? An additional objective is to identify similarities and differences between China’s approach to each country and how those countries were able to respond to China. Lastly, toward the end of each case chapter there will be a consideration of future scenarios and cases where China may potentially use economic coercion to impact each country’s security relations with the United States.

The research incorporates both quantitative and qualitative data. Each case chapter starts off with an analysis of economic trends and data between China and the countries. Identifying and explaining economic factors is critical to understanding state intentions, interests and leverage towards one another. The quantitative evidence includes measuring the state actors’ level of bilateral trade and reliance on strategic exports and resources over a period of 20 years (2000–2020). The World Bank’s World Integrated Trade Solution (WITS) database is primarily used to measure economic data (total bilateral trade, share of country’s trade) while other scholarly sources are used to reference other economic activity (ex. foreign direct investment, tourism, foreign student revenue) and identify important resources (ex. energy).

In order to comprehensively collect data on all known accounts of Chinese economic coercion, three sources were primarily examined and used for aggregating cases the study. The Australian Strategic Policy Institute (ASPI) has a comprehensive report

examining 152 cases of Chinese economic coercion across 27 countries.<sup>27</sup> the Center for New American Security (CNAS) developed a similar study looking at 9 country cases since 2010.<sup>28</sup> Lastly, Ketian Zhang’s article “Cautious Bully: Reputation Resolve, and Beijing’s Use of Coercion in the South China Sea.”<sup>29</sup> Academia and policy researchers have investigated, documented and largely concluded them to be evidence of Chinese economic coercive tactics. Together, these reports provide a fairly comprehensive description of the universe of cases of China’s use of economic coercion in at least the past 10 years. Each of these sources is discussed in turn.

ASPI is an independent think-tank that provides the Australian government information on a range of issues. Their Chinese coercion report used both English and Chinese open-source information (news articles, academic research, business activities, social media posts, official government documents and statements, etc.) to create a database that was also peer reviewed by dozens of experts in different countries.<sup>30</sup> It focuses on acts of coercion with a clear link to state disputes and excludes cases where “measures were considered a normal or proportionate diplomatic response to state conduct” such as the US-China trade war.<sup>31</sup> The thesis heavily draws on ASPI’s methodology towards examining cases of Chinese coercion and its collection of quantitative and qualitative evidence. The ASPI report found that the most common coercive method used by China were state-issued threats, trade restrictions and tourism restrictions.<sup>32</sup> Additionally, Australia had the highest number of recorded cases of being subjected to Chinese coercion.

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<sup>27</sup> Hanson, Currey, and Beattie, “The Chinese Communist Party’s Coercive Diplomacy.”

<sup>28</sup> Harrell, Rosenberg, and Sarvalle, “China’s Use of Coercive Economic Measures.”

<sup>29</sup> Hanson, Currey, and Beattie, “The Chinese Communist Party’s Coercive Diplomacy”; Harrell, Rosenberg, and Sarvalle, “China’s Use of Coercive Economic Measures”; Ketian Zhang, “Cautious Bully: Reputation, Resolve, and Beijing’s Use of Coercion in the South China Sea,” *International Security* 44, no. 1 (August 5, 2019): 117–59.

<sup>30</sup> Hanson, Currey, and Beattie, “The Chinese Communist Party’s Coercive Diplomacy,” 6.

<sup>31</sup> Hanson, Currey, and Beattie, 7.

<sup>32</sup> Hanson, Currey, and Beattie, 11.

CNAS is a think tank that provides information about national security issues to the United States government. Similar to ASPI, CNAS draws on both English and Chinese open source information but focuses in-depth on nine country cases of Chinese economic coercion. The report was published in 2018 which predates significant documented analysis of a number of recent Chinese economic coercion cases against Australia. The report found that over time, China's coercive tactics are adapting and more sophisticated as they have become more precise in targeting, and are combined with other tools of statecraft including economic incentives and diplomatic engagement. The thesis also draws on the report's data primarily for ROK and five other country cases (Japan, Taiwan, Philippines, Norway, Mongolia).

Lastly, Ketian Zhang is a renown international relations and comparative politics scholar that researches in multiple fields including coercion, economic statecraft and maritime disputes. Her article focuses on China's use of coercion during South China Sea (SCS) disputes going back to 1990. She argues that China is likely to use coercion in SCS disputes when

the need to establish a reputation for resolve exceeds economic cost, China uses coercion. When the likelihood of a geopolitical backlash is high, it prefers to use nonmilitarized coercion. China believes that having capabilities but not demonstrating the willingness to use them may lead to deterrence failure. In a sense, China uses coercion for purposes of deterrence, blurring the line between the two.<sup>33</sup>

The thesis references her data and analysis of the 2012 China-Philippines Scarborough Shoal Incident but draws more on her conceptual analysis of China's decision-making calculus when it comes to using coercion. These three sources were primarily used to gather sufficient data on all known accounts of Chinese economic coercion in the past 10 years. They also provided conceptual analysis and methodology that heavily influenced this thesis research's analysis.

Chapter II starts out with a survey and a short history of recent Chinese economic coercion and how it was applied to other countries such as Japan, Norway, Philippines,

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<sup>33</sup> Zhang, "Cautious Bully," 157.

Taiwan and Mongolia. The purpose is to provide additional insight about Chinese economic coercion and possibly reinforce any themes or identify consistent tactics. Chapters III and IV are the country case studies of ROK and Australia. The 20-year research period was selected since prior to that period, China's status as a great power vying for regional leadership was not yet established. The thesis references 20-years of detailed bilateral relations records to determine what were instances of Chinese economic coercion against ROK and Australia.

## **E. MAIN FINDINGS**

The thesis research has five main findings that present mixed results regarding China's use of economic coercion to impact ROK's and Australia's security relations with the United States. First, Chinese economic coercive tactics has grown more active and sophisticated overtime and Beijing has become more inclined to use them. Second, while some short-term economic pain is experienced by the target country, generally overall long-term economic relations between the countries continued to prosper. Third, China's use of economic coercive tactics has been partially effective but has not create concrete and clear changes to ROK's and Australia's security relations with the United States. Fourth, China's economic coercion against the targeted countries seemed more effective if it aligned with the targeted countries' security interests. Finally, results suggest that China' use of economic coercion can be more harmful against its own regional interests in the long run. These findings will be expanded further throughout the research and in the conclusion.

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## **II. SURVEY OF CHINESE ECONOMIC COERCION, 2010–2020**

### **A. INTRODUCTION**

China has reemerged as a major power with massive economic power and influence. For the past 10 years, China has increasingly applied this economic power to respond to what it perceives as bad behavior from other states. Going forward especially in an era of great power competition, China will very likely continue to use its significant economic weight and capabilities as part of its statecraft toolbox to influence other states. In order to provide further understanding about Chinese capabilities and intentions, this chapter will go over key cases of Chinese economic coercion in the past 10 years. It will look at China's actions against: Japan over territorial disputes with the Senkaku/Diaoyu Islands, Norway for awarding the Nobel Peace Prize to a Chinese dissident, Scarborough Shoal dispute with the Philippines, Mongolia for allowing a visit from the Dalai Lama, and Taiwan's election of Tsai Ing-Wen. As briefly discussed in Chapter I, these cases were selected for study out of hundreds of other potential cases due to the nature of Chinese economic coercion being used as a response to another government's action which China perceived as a threat to its core interests. As China's economic power grows, its use of economic coercive measures has become more sophisticated and frequented as it looks to influence state behavior. It has shown that it is willing to use economic coercion for a range of issues including territorial disputes, human rights, and security interests.

### **B. JAPAN**

China applied exclusionary and coercive economic tactics against Japan during territorial disputes in the Senkaku/Diaoyu Islands. In September 2010, a Chinese fishing boat and a Japanese coast guard patrol boat crashed together near the island chain. The Japanese patrol then detained the Chinese captain. China was accused of responding to the incident by restricting exports of rare-earth metals to Japan. Rare-earth metals are critical to the Japanese technology sector and China is responsible for about 93% of the world's



mining of it.<sup>34</sup> Though the Chinese government before the incident had already talked about enacting quotas on exporting the metals, the timing of enacting the restrictions right after the incident was assessed by the Japanese government as politically motivated.<sup>35</sup> The disputed islands flared up again in 2012 when the Japanese government bought some of the islands from a private owner. Through state-controlled media, China responded encouraging boycotts of Japanese goods and companies including major names like Honda, Canon, Panasonic and Uniqlo.<sup>36</sup> There was vandalism and damage to Japanese businesses in China caused by Chinese protestors. China also warned its citizens of travelling to Japan causing a reported a 40% drop in Chinese tourism according to the Japanese National Tourism Organization.<sup>37</sup>

China's actions against Japan during the island disputes displayed two things: one, China was able to adapt its methods over time and two, Japan was able to respond and somewhat mitigate Chinese economic pressure. Restricting exports of rare-earth metals was seen by many countries to be a red flag of the threat of Chinese economic power. Japan collaborated with the United States and the European Union to bring a case against China to the World Trade Organization (WTO) and later won in 2014.<sup>38</sup> In 2012, China decided to pursue less risky and significant retaliation by encouraging popular boycotts and restricting tourism to Japan. These Chinese actions did cause Japan to begin seeking to diversify some of its supply chains away from the Chinese market.

### **C. NORWAY**

In 2010, China began applying exclusionary and coercive economic tactics against Norway in response to the Nobel Peace Prize being awarded to the Chinese dissident Liu Xiaobo. Despite Norway pleading to China that the Nobel Committee is independent of the Norwegian Government, China responded to the award decision with an array of

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<sup>34</sup> Hanson, Currey, and Beattie, "The Chinese Communist Party's Coercive Diplomacy," 37.

<sup>35</sup> Harrell, Rosenberg, and Sarvalle, "China's Use of Coercive Economic Measures," 9.

<sup>36</sup> Hanson, Currey, and Beattie, "The Chinese Communist Party's Coercive Diplomacy," 36.

<sup>37</sup> Hanson, Currey, and Beattie, 37.

<sup>38</sup> Harrell, Rosenberg, and Sarvalle, "China's Use of Coercive Economic Measures," 9.

actions. The Chinese government first issued a statement by saying the award decision was a “grave mistake that would have damaging consequences for Sino-Norwegian relations.”<sup>39</sup> Bilateral free trade discussions between the two countries were cancelled and would not resume until 7 years later after Norway apologized and reconfirmed the One-China policy.<sup>40</sup> China restricted Norwegian salmon exports by “applying more stringent inspection methods and changing customs practices” causing a 61.8% drop in sales of salmon in China.<sup>41</sup> In 2012, China excluded Norwegians from visa-free transits which was granted to other European countries.<sup>42</sup>

The Nobel Peace Prize incident revealed two more things about Chinese economic coercive tactics: one, China is willing to punish a government for the actions of an independent entity operating within its borders, and two, Chinese coercion became more complex. The Norwegian government tried to tell China that the Nobel Committee was not under its control but it did not stop Chinese retaliatory actions. China may not only look to punish private organizations for government actions but may also punish the government for private actions. Next, in this case China applied an array of economic and diplomatic issues. It used state threats along with threatening trade negotiations, tourism and exports. Finally, as we see in many other cases, the target (in this case Norway) was able to adapt and partially mitigate Chinese trade restrictions by looking to diversify its salmon exports elsewhere.<sup>43</sup>

#### **D. PHILIPPINES**

China applied military and exclusionary economic tactics against the Philippines in response to territorial disputes in the South China Sea (SCS). In 2012, Chinese and Filipino boats faced off in a disputed part of the SCS known as Scarborough Shoal. Militarily, originally between Chinese fishing boats and a Filipino Navy flagship, the Philippines

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<sup>39</sup> Hanson, Currey, and Beattie, “The Chinese Communist Party’s Coercive Diplomacy,” 18.

<sup>40</sup> Hanson, Currey, and Beattie, 18.

<sup>41</sup> Hanson, Currey, and Beattie, 39.

<sup>42</sup> Hanson, Currey, and Beattie, 18.

<sup>43</sup> Hanson, Currey, and Beattie, 39.

withdrew the flagship to deescalate tensions while China escalated the conflict by deploying two maritime surveillance ships and their most advanced and largest patrol vessel.<sup>44</sup> Economically, China instituted trade restrictions by restricting imports of Filipino bananas citing infestations of insects.<sup>45</sup> It also issued a travel warning for its citizens regarding travel to the Philippines citing extensive threats of violence. Chinese tourism to the Philippines fell from 18,479 in August 2012 to 7,000 in September 2012.<sup>46</sup>

Chinese economic coercion against the Philippines during the Scarborough Shoal Incident revealed two more things: one, China's willingness to incorporate gray-zone military tactics, and two, economic coercion can be used for deterrence purposes against other observing countries. China again displayed an array of tactics ranging from military, diplomatic to economic in order to achieve its strategic objectives. At the time, China was also having disputes with other SCS neighboring countries and its approach the Philippines would seemingly have a larger impact in affecting the region. Ketian Zhang stated that China uses coercion for the purposes of deterrence and establishing a reputation for resolve.<sup>47</sup> As with other countries, the Philippines was able to deescalate tensions with China when in 2016, Philippines President Rodrigo Duterte shifted his policy to be more approaching to China by entering high level talks with Chinese President Xi Jinping, playing into Beijing's narrative about China's constructive role in the region and America's disruptive role, and accepting new economic deals. According to Hanson, since then there has been no further recorded cases of Chinese economic and diplomatic coercion against the Philippines.<sup>48</sup>

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<sup>44</sup> Renato Cruz De Castro, "Facing Up to China's Realpolitik Approach in the South China Sea Dispute: The Case of the 2012 Scarborough Shoal Stand-off and Its Aftermath," *Journal of Asian Security and International Affairs* 3, no. 2 (2016): 158, <https://doi.org/10.1177/2347797016645452>.

<sup>45</sup> Hanson, Currey, and Beattie, "The Chinese Communist Party's Coercive Diplomacy," 41.

<sup>46</sup> Hanson, Currey, and Beattie, 40.

<sup>47</sup> Zhang, "Cautious Bully," 157.

<sup>48</sup> Hanson, Currey, and Beattie, "The Chinese Communist Party's Coercive Diplomacy," 12.

## **E. TAIWAN**

China applied exclusionary economic tactics against Taiwan in attempt to dissuade Taiwanese voters from supporting pro-independence Democratic Progressive Party (DPP) candidate Tsai Ing-Wen. China considers Taiwan a runaway province and has been applying influence and economic coercive tactics against it for decades in order to keep it from pursuing formal independence. Leading up to the 2016 elections, there were reports of China influencing candidates, restricting tourism, and leaning on certain Taiwanese businesses to pressure DPP candidate Tsai Ing-Wen.<sup>49</sup> Leading up to the 2016 election and after when President Tsai was elected, China cut tourism to the island. Chinese tourists account for about a quarter of Taiwan's overseas visitors and in 2017, an estimated 22% of fewer Chinese tourists travelled to Taiwan than the year prior.<sup>50</sup> This occurred again in 2019 leading up to the 2020 election where Taiwan saw 57% fewer tourism from China than the year prior.<sup>51</sup>

Chinese economic coercion against Taiwan reveals one more important thing—it can backfire. Despite Chinese pressure in both elections, Tsai Ing-Wen was victorious and rode on a platform of anti-mainland sentiment. More and more people in Taiwan are associating themselves with Taiwanese identity which is a major concern for the CCP who sees reuniting both territories as a core interest. Taiwan was able to partially mitigate tourism restrictions from China by engaging in a campaign to attract visitors from other countries such as those in Southeast Asia.<sup>52</sup>

## **F. MONGOLIA**

China applied exclusionary and coercive economic tactics against Mongolia in response to the Dalai Lama's visit in 2016. China considers the Dalai Lama a dangerous separatist and was outraged that Mongolia allowed him to attend and speak at public events in the country. 84% of Mongolia's exports goes to China making it the most China-

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<sup>49</sup> Harrell, Rosenberg, and Sarvalle, "China's Use of Coercive Economic Measures."

<sup>50</sup> Harrell, Rosenberg, and Sarvalle, 6.

<sup>51</sup> Hanson, Currey, and Beattie, "The Chinese Communist Party's Coercive Diplomacy," 44.

<sup>52</sup> Harrell, Rosenberg, and Sarvalle, "China's Use of Coercive Economic Measures," 6.

dependent country in the world.<sup>53</sup> As a response to the visit, China suspended bilateral talks over billions of dollars of infrastructure investments, and imposed additional fees on borders transits and mining commodities.<sup>54</sup> At the time, Mongolia was already facing a worsening economic situation and struggled to handle additional Chinese pressure. After standing up to China in the past and initially during this incident, Mongolian leaders relented by issuing a formal public apology and emphasizing that they would no longer host the Dalai Lama.<sup>55</sup>

Chinese actions against Mongolia revealed two things about the effectiveness of its use of economic coercion. First, Chinese economic coercion seemed to have more leverage over the target country's decision-making when it coincided with other factors challenging the target country. Mongolia was already facing an economic crisis and Chinese economic pressure seemed to have magnified the pain. This may be truer especially with the geographic position of Mongolia being landlocked and sharing a border with China. Second, despite Mongolia relenting to Chinese pressure, long term results of Chinese economic coercion are unclear. In 2017, the subsequent Mongolian president "expressed interest in reasserting Mongolian independence to invite the Dalai Lama."<sup>56</sup> This pattern of the target country resisting Chinese demands will be seen again in the case studies of ROK and Australia.

## **G. CONCLUSION**

China's growing economic power has allowed it to utilize economic coercive measures to influence the behavior of other states. These economic coercive measures have become increasingly used and sophisticated as they are integrated with other forms of statecraft to pursue Chinese strategic interests. The actions are measured and precise allowing the target country to recover economic and diplomatic relations with China if they cooperate. China has shown that it will use an array of measures to defend its territorial

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<sup>53</sup> Harrell, Rosenberg, and Sarvalle, 47.

<sup>54</sup> Hanson, Currey, and Beattie, "The Chinese Communist Party's Coercive Diplomacy," 38; Harrell, Rosenberg, and Sarvalle, "China's Use of Coercive Economic Measures," 47.

<sup>55</sup> Harrell, Rosenberg, and Sarvalle, "China's Use of Coercive Economic Measures," 47.

<sup>56</sup> Harrell, Rosenberg, and Sarvalle, 47.

sovereignty in the cases of Japan, the Philippines, and Taiwan. It will pressure governments, such as Norway and Mongolia, from hosting or abetting human rights accusations against it. However, Chinese economic coercive actions have achieved mixed results. As we have seen from these cases, every country was able to adapt to and partially mitigate Chinese measures by diversifying their supply chains and markets. While many of these countries have either issued apologies or entered some kind of talks with China, there seems to have been no concrete long-term changes to the status quo. China should be concerned about continuing to apply economic measures as public opinion in many of these countries turn against China.<sup>57</sup>

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<sup>57</sup> China Power Team, “How Are Global Views on China Trending?” (Center for Strategic and International Studies, February 15, 2016), <http://chinapower.csis.org/global-views/>.

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### III. SOUTH KOREA

#### A. INTRODUCTION

The Republic of Korea (ROK) is a longstanding treaty ally of the United States, but a rising China will progressively challenge the alliance's unity. Chung categorizes ROK as an active hedger (a state more proactive and savvy in hedging) as it looks to balance both economic interests with China and security relations with the United States.<sup>58</sup> The Democratic Republic of Korea (DPRK) remains ROK's top national security priority. This security challenge requires ROK to engage both China and the United States, with ROK perceiving China as having more options and influence over DPRK behavior.<sup>59</sup> Similar to the China-Australia relationship, China and ROK have had increasing economic interdependence (EI) over the past 20 years and ROK sees its economic future dependent on having good relations with China. EI has increased prosperity for both countries but has also given China more economic tools for leverage. How has China's use of economic coercion impacted ROK's security relations with the United States?

This chapter focuses on Sino-ROK relations by analyzing the Terminal High Altitude Area Defense (THAAD) crisis. After examining 20 years' worth of records detailing bilateral relations, this crisis stands out as the only time where China clearly utilized economic statecraft to impact ROK behavior and achieve its strategic objectives.<sup>60</sup> Prior to the THAAD crisis, China was likely more hesitant to utilize economic statecraft due to the lack of options it had with a growing economy and a desire to improve relations with a neighbor and economic power like ROK. The U.S.-ROK deployment of the THAAD was a clear and prominent case of Chinese economic coercion effectively influencing ROK security affairs and thus disrupting cohesion in the U.S.-ROK alliance.

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<sup>58</sup> Jae Ho Chung, "East Asia Responds to the Rise of China: Patterns and Variations," *Pacific Affairs* 82, no. 4 (December 1, 2009): 664, <https://doi.org/10.5509/2009824657>.

<sup>59</sup> Kim, "South Korea's Strategy toward a Rising China, Security Dynamics in East Asia, and International Relations Theory," 727.

<sup>60</sup> "China - Korea Archives," *PacForum*, accessed September 3, 2020, <http://cc.pacforum.org/relations/china-korea/>.



## B. ECONOMIC TRENDS AND DATA

Trade between ROK and China has consistently increased between 2000–2018 and ROK sees its economic future dependent on having good relations with China. In 2000, Chinese trade made up about \$12.8B or 8% of all ROK imports, and made up \$18.5B or 10.7% of all ROK exports.<sup>61</sup> By 2018, these numbers had significantly jumped up as Chinese trade made up \$106.5B or 20% of all ROK imports, and \$162B or 26.8% of all ROK exports.<sup>62</sup> China became both ROK’s largest export market and source of imports. On the other hand, ROK is also an important trading partner for China. In 2000, ROK trade made up about \$23B or 10.7% of all Chinese imports, and made up \$11.3B or 4.5% of all Chinese exports.<sup>63</sup> By 2018, trade proportionally stayed relatively stable but the value significantly increased as ROK trade made up \$205B or 10.3% of all Chinese imports, and \$109B or 4.4% of all Chinese exports.<sup>64</sup> ROK is China’s fourth-largest export market and its largest sources of imports (slightly larger than Japan).

While there has been significant increasing EI between both countries, it is also increasingly uneven. In 2014, ROK and China negotiated a free trade agreement (FTA), and in 2015 ROK joined the China-led Asian Infrastructure Investment Bank (AIIB), becoming its fifth-largest shareholder, and contributed hundreds of millions of dollars.<sup>65</sup> China played a huge role in helping ROK recover from the 1997 Asian Financial Crisis and has been a major source of ROK’s trade surplus.<sup>66</sup> In 2018, there was about \$6.3B foreign direct investment (FDI) flow from China to ROK, while about \$750 million FDI flow from ROK to China.<sup>67</sup> China accounts for ROK’s largest foreign student body in

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<sup>61</sup> “Country Analysis | WITS | Visualization,” accessed August 23, 2020, <http://wits.worldbank.org/visualization/country-analysis-visualization.html>.

<sup>62</sup> “Country Analysis | WITS | Visualization.”

<sup>63</sup> “Country Analysis | WITS | Visualization.”

<sup>64</sup> “Country Analysis | WITS | Visualization.”

<sup>65</sup> “China - Korea Archives,” no. May-Aug 2015.

<sup>66</sup> Kim, “South Korea’s Strategy toward a Rising China, Security Dynamics in East Asia, and International Relations Theory,” 720.

<sup>67</sup> “Foreign Direct Investment (FDI) - FDI Flows - OECD Data,” OECD, accessed June 7, 2020, <http://data.oecd.org/fdi/fdi-flows.htm>.

universities and schools, and hundreds of thousands of Chinese tourists visit ROK each month, making up about half of ROK's total tourist visits.<sup>68</sup> ROK semiconductors made up about 27% of all its exports to China in 2018.<sup>69</sup> China currently does not have a strong indigenous chip-making industry and relies on countries such as ROK to provide chips to feed its technology boom. Also, ROK FDI into Chinese chip-making has continued to dramatically increase over recent years.<sup>70</sup> Chinese tourism and investment altogether makes up about 11% of ROK GDP.<sup>71</sup> Overall, of the two countries, ROK is significantly more economically dependent on China. Kim observed that ROK's dependency ratio significantly rose from 2.8% in 1990 to 21% in 2010, while China's dependency ratio stayed relatively stable.<sup>72</sup> This both makes ROK significantly more vulnerable to pressure from China while giving China more economic options to leverage against ROK.

Tensions come into play between China and ROK when ROK acts in line with its long-standing security partner, the United States. According to Kim, Seoul will likely continue a "hedging strategy with China in the future due to growing economic dependence and an intensifying Sino-US strategic competition."<sup>73</sup> Moreover, EI is expected to make ROK less likely to balance against China, and more likely to engage it. The U.S. deployment of the THAAD system in ROK tested relations between ROK and China.

### C. THAAD CASE STUDY

In July 2016, ROK and the United States announced the deployment of the Terminal High Altitude Area Defense (THAAD) system in South Korea in order to address threats from DPRK. This sparked an immediate negative reaction from Beijing where it

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<sup>68</sup> Bates Gill and Linda Jakobson, *China Matters: Getting It Right for Australia* (Collingwood, AUSTRALIA: Schwartz Publishing Pty, Limited, 2017), 93, <http://ebookcentral.proquest.com/lib/ebook-nps/detail.action?docID=4741049>; Harrell, Rosenberg, and Sarvalle, "China's Use of Coercive Economic Measures," 17.

<sup>69</sup> "China - Korea Archives," no. Sep-Dec 2019.

<sup>70</sup> "China - Korea Archives," no. Sep-Dec 2019.

<sup>71</sup> Gill and Jakobson, *China Matters*, 93.

<sup>72</sup> Kim, "South Korea's Strategy toward a Rising China, Security Dynamics in East Asia, and International Relations Theory," 711.

<sup>73</sup> Kim, 726.

saw the deployment as a threat to China's strategic interests. The THAAD crisis presents a case where Chinese economic coercion had an impact on U.S.-ROK security relations. U.S.-ROK security relations will likely be further challenged going forward with growing Chinese power and Sino-ROK economic interdependence.

### **1. Identifying ROK Interests**

It is also important to note that ROK's security relations are not exclusive to the United States, nor are its economic relations exclusive to China. ROK's economic miracle in the 1970s and 1980s occurred in the context of a stable and secured environment supported by the United States. Also, Kim stated how, under the hub and spokes system in which bilateral alliances and relationships puts the United States at the center of a network of Asian security relations, U.S. security commitments have allowed ROK to directly engage and deepen economic ties with China.<sup>74</sup> ROK is also well aware of the potential threat China presents with its size, proximity, economic and military power and long history of having ROK as a tributary state under imperial Chinese influence.<sup>75</sup> ROK is able to effectively hedge China for economic benefits and opportunities because of the presence of the United States and its capabilities. At the same time, ROK perceives China as having more options than the United States in influencing DPRK behavior because of the economic and diplomatic pressure China can apply.<sup>76</sup> ROK's position can therefore be described as one in which it would prefer not to disrupt good relations with either side in order to avoid negatively impacting its economy and security environment. However, a growing Sino-U.S. competition and strategic rivalry will increasingly pressure it to do so.

The purpose of the THAAD was to defend the ROK people and alliance forces from DPRK nuclear and ballistic missile threats. Since the Korean War in 1950, the threat of DPRK invasion and regional instability have kept U.S. forces in the Korean Peninsula. U.S. security guarantees have helped mitigate the threat DPRK presents to ROK and Japan.

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<sup>74</sup> Kim, "South Korea's Strategy toward a Rising China, Security Dynamics in East Asia, and International Relations Theory."

<sup>75</sup> Ellen Kim and Victor Cha, "Between a Rock and a Hard Place: South Korea's Strategic Dilemmas with China and the United States," *Asia Policy*, no. 21 (2016): 105.

<sup>76</sup> Kim and Cha, 727.

The ROK and U.S. have been contemplating deploying the THAAD for years. A DPRK nuclear test in 2016 finally led to the United States and ROK announcing the THAAD deployment in the Korean Peninsula. The THAAD crisis is a part of a growing larger dilemma ROK faces—its ability to balance its desires of maintaining security relations with the United States while maintaining and growing economic ties with China.

## **2. Identifying China's Interests**

In order to promote its own development, economic objectives have been an important and consistent reason for China's engagement with ROK. Chinese leaders and scholars have cited that China's primary goals include developing through peaceful means, having harmonious engagement with other countries, and promoting globalization and free trade.<sup>77</sup> As China has grown stronger economically and militarily, it has also become more assertive in its foreign affairs and policy. While China prefers to pursue its interests without harming relations or trade, the THAAD crisis is an example where China did disrupt economic relations with an important partner in order to pursue what it perceives as a greater strategic objective.

China is against the THAAD deployment primarily due to the potential regional instability that would stem from the strategic military advantage it provides to the United States. In 2012, Luo Zhaohui, the Director-General of the Department of Asian Affairs within China's Ministry of Foreign Affairs, stated that "Building a missile defense system in the Asia-Pacific region will have negative effects on global and regional strategic stability, and go against the security needs of the countries in the Asia-Pacific region."<sup>78</sup> China believed that the THAAD radar range fell well into its territory and would provide a strategic advantage to the United States by providing a greater ability to detect and track China's missiles. Furthermore, Talmadge states that new missile defenses would provide the United States a "damage limitation capability that might tempt the United States to

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<sup>77</sup> "The Central Conference on Work Relating to Foreign Affairs," 2014; Information Office of the State Council, "China's Peaceful Development" (Beijing: The People's Republic of China, 2011); Zheng Bijian, "China's 'Peaceful Rise' to Great-Power Status," *Foreign Affairs*, 2005.

<sup>78</sup> Jianqun Teng, "Why Is China Unhappy with the Deployment of THAAD in the ROK?," accessed September 6, 2020, [http://www.ciiis.org.cn/english/2015-04/01/content\\_7793314.html](http://www.ciiis.org.cn/english/2015-04/01/content_7793314.html).

launch a nuclear first strike against China.”<sup>79</sup> In short, China fears the current regional strategic balance falling further in favor of the United States and thus threatening China’s national security.

China seeks to deter regional countries from deploying missile defenses in concert with the United States. Luo warned other countries in the region “to act prudently in cooperating with the U.S. on missile defense, and not develop or deploy missile defense systems that exceed the needs of its development.”<sup>80</sup> In ROK, the Chinese Ambassador stated that ties “could be destroyed in an instant” and “could take a long time to recover” if ROK went forward with the deployment.”<sup>81</sup> As ROK did go forward with the THAAD deployment, China perceived the action as a threat to its national security and in response executed economic statecraft to compel ROK behavior.

### **3. How China Applied Economic Coercion**

Instead of employing military measures or a security buildup in the region, China employed a range of economic measures to hurt ROK’s economy after it deployed the THAAD. The measures include cutting tourism to ROK, cutting ROK imports, promoting boycotts of ROK goods, and using regulatory measures to close down Korean-owned companies in China.<sup>82</sup> ROK’s tourism industry was hit the hardest. China’s National Tourism Administration discouraged trips to ROK by issuing travel warnings and informally banning the sale of ROK package tours.<sup>83</sup> Violating the ban would result in fines or license revocation.<sup>84</sup> The ban was enacted immediately across the country. Total tourism to ROK from China dropped about 50% from around 600,000 tourists per month

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<sup>79</sup> Caitlin Talmadge, “The US-China Nuclear Relationship: Why Competition Is Likely to Intensify,” *Brookings* (blog), September 30, 2019, 5, <https://www.brookings.edu/research/china-and-nuclear-weapons/>.

<sup>80</sup> Teng, “Why Is China Unhappy with the Deployment of THAAD in the ROK?”

<sup>81</sup> Gill and Jakobson, *China Matters*, 93.

<sup>82</sup> Feigenbaum; Gill and Jakobson, *China Matters*, 93; Harrell, Rosenberg, and Sarvalle, “China’s Use of Coercive Economic Measures,” 17.

<sup>83</sup> Darren J. Lim, “Chinese Economic Coercion during the THAAD Dispute | The Asan Forum,” accessed September 6, 2020, <http://www.theasanforum.org/chinese-economic-coercion-during-the-thaad-dispute/>.

<sup>84</sup> Lim.

in January 2017 to around 300,000 per month for the rest of the year. The drop in tourism also impacted ROK airline companies, the hospitality sector and duty-free industries.<sup>85</sup>

Chinese boycotts also targeted cuts in ROK imports in industries such as automobiles, cosmetics and popular music. Korean auto companies Hyundai and Kia saw their Chinese sales fall more than 30%, and their global sales dropped 8.7% that year.<sup>86</sup> Chinese consumers also boycotted Korean cosmetics and entertainment (popular music, television, movies). Lastly, Lotte, a Korean-owned market company that provided land for the THAAD deployment, experienced mass shutdowns in China for regulatory violations. According to multiple authors, China applied informal methods of stepping up selected regulatory measures to close almost 90 Lotte stores in China.<sup>87</sup>

Chinese economic statecraft was shown fully sharpened as it was able to precisely target ROK industries while avoiding significant pain for China's own economy. For example, China did not target many of ROK's semiconductor industries, which are critical to Chinese technology.<sup>88</sup> The value of ROK semiconductor exports still more than doubled during that year.<sup>89</sup> Lim also pointed out that if China targeted the ROK semiconductor industry, it would have also hurt millions of Chinese workers employed in factories assembling the parts. Also, by effectively targeting Korean consumer businesses such as groceries and cosmetics, the damage was much greater to those selected vulnerable Korean industries, due to the loss of sales from the massive Chinese market, than to Chinese consumers losing access to those Korean businesses.

#### **4. Impact on ROK Policymaking**

Chinese economic coercion had a visible impact on the ROK economy in the short-term but was negligible in the long-term. Harrell noted that during the episode, "The Bank

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<sup>85</sup> Feigenbaum, "Is Coercion the New Normal in China's Economic Statecraft?"

<sup>86</sup> Lim, "Chinese Economic Coercion during the THAAD Dispute | The Asan Forum."

<sup>87</sup> Hanson, Currey, and Beattie, "The Chinese Communist Party's Coercive Diplomacy," 21; Harrell, Rosenberg, and Sarvalle, "China's Use of Coercive Economic Measures."

<sup>88</sup> Harrell, Rosenberg, and Sarvalle, "China's Use of Coercive Economic Measures," 10.

<sup>89</sup> Lim, "Chinese Economic Coercion during the THAAD Dispute | The Asan Forum."

of Korea estimated the actions shaved almost half a percentage point off South Korean 2017 growth. A South Korean research institute estimated in September 2017 that the cost to South Korea of the tourism restrictions alone could be over \$15 billion.”<sup>90</sup> The THAAD crisis approximately cost the ROK economy \$7.5B in 2017 while the Chinese economy suffered a loss of \$880M.<sup>91</sup> However, since many other ROK industries, such as important semiconductors, remained undisrupted by China’s coercive actions, bilateral trade still actually increased by almost 15% in 2017.<sup>92</sup> ROK likely felt immediate economic pressure from Chinese coercion which urged them to enter talks with Chinese counterparts. However, in regard to long-term economic relations, trade between the two countries was not only later restored to pre-THAAD levels, but grew even stronger. Later in 2017, despite threatening to do so earlier, ROK decided not to go forward with a complaint to the World Trade Organization (WTO) regarding China’s economic coercive behavior. President Moon and business executives from top South Korean companies (ex. Samsung, Hyundai, Motor, LG, etc.) visited Beijing to discuss improving economic ties, strengthening cooperation and expanding cultural exchange.<sup>93</sup>

ROK was diplomatically sensitive to Chinese coercive activities, however, it did not stop them from continuing forward with the THAAD deployment. The main reason for this was due to continued overall economic and diplomatic interaction between the two countries. High-level diplomatic exchanges, continued bilateral investment, renewed commercial ties including increased Chinese tourism, and further negotiations on the China-ROK FTA improved overall economic relations.<sup>94</sup> These economic results revealed two things about China’s use of economic coercive actions: it displayed the flexibility of options China has to influence ROK behavior and the de-escalatory nature and recoverability of utilizing such actions. China likely avoided pursuing options that would

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<sup>90</sup> Harrell, Rosenberg, and Sarvalle, “China’s Use of Coercive Economic Measures,” 6.

<sup>91</sup> Bonnie S. Glaser and Lisa Collins, “China’s Rapprochement With South Korea,” November 28, 2017, <https://www.foreignaffairs.com/articles/china/2017-11-07/chinas-rapprochement-south-korea>.

<sup>92</sup> Lim, “Chinese Economic Coercion during the THAAD Dispute | The Asan Forum.”

<sup>93</sup> “China - Korea Archives,” no. Sep-Dec 2017.

<sup>94</sup> “China - Korea Archives,” no. Sep-Dec 2018.

have caused larger economic warfare or long-term economic damage between the two countries. China's coercive tactics were flexible enough where it could have scaled them back if ROK appeared to comply or cooperate with Chinese demands. ROK's decision not to go forward with the WTO complaint also "suggested South Korea's prioritization of diplomatic and economic cooperation with China."<sup>95</sup> Additionally, ROK likely feared losing China's cooperation on influencing DPRK behavior.<sup>96</sup> Separately, the THAAD crisis did cause ROK to look to diversify its trade in Southeast Asia in a likely attempt to reduce some of its dependency on the Chinese market.<sup>97</sup>

In the case of THAAD, EI did help mitigate the conflict without resorting to military force. In order to relieve Chinese economic pressure and tensions on the peninsula, ROK entered talks with China and came to an agreement on October 31, 2017 to normalize relations. They came to an agreement called the Three No's: no additional deployment of THAAD, no ROK integration into a U.S. regional missile defense system, and no trilateral alliance (United States and Japan).<sup>98</sup> Chinese President Xi and South Korean President Moon agreed that coordination between China and ROK was "very effective in stabilizing the Northeast Asian region" and that "the time is ripening for resolving issues on the Korean peninsula."<sup>99</sup> EI has given China additional tools to reach its long-term strategic objectives without increasing militarization in the region.

## **5. Effect on U.S. Security Alliance**

The THAAD deployment continued forward despite Chinese economic pressure but both China and ROK interpreted the end results differently. ROK refused to remove the THAAD from the country but in order to relieve Chinese economic pressure it came to an agreement with China on the Three No's. Glaser analyzed statements in Oct 2017 from the Chinese Foreign Ministry who suggested that Seoul "caved to Chinese pressure" and

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<sup>95</sup> "China - Korea Archives," no. Sep-Dec 2017.

<sup>96</sup> Harrell, Rosenberg, and Sarvalle, "China's Use of Coercive Economic Measures," 10.

<sup>97</sup> "China - Korea Archives," no. Sep-Dec 2018.

<sup>98</sup> Harrell, Rosenberg, and Sarvalle, "China's Use of Coercive Economic Measures."

<sup>99</sup> "China - Korea Archives," no. Sep-Dec 2018.



committed to the agreement. On the other hand, the ROK Foreign Minister explained the Three No's as "not a promise made to China but, rather a statement of South Korea's long-standing position."<sup>100</sup> ROK wanted to publicly make sure that it did not appear sacrificing its national security and sovereignty with the negotiations. China also likely wanted to appear strong to its domestic constituents by displaying how it acted strongly in addressing a national security threat and was successful.

Despite not achieving its tactical objective in removing the THAAD, it appears China was partially successful in achieving its strategic objective of complicating the integrity of the ROK-U.S. alliance. Even though the Sino-ROK agreement on the Three No's was vague, future ROK-U.S. cooperation on missile defense and other security matters will likely be constrained. Years later, ROK is still scarred by the crisis which has created a feeling of vulnerability in the country.<sup>101</sup> It will be more hesitant on taking action that may offend China even if that action aligns with its national security goals. This relationship dynamic has been exacerbated by the fact that the Sino-ROK economies have still been increasingly integrating since the crisis. This may complicate future ROK-U.S. cooperation and plans on deploying another THAAD missile system or U.S. efforts to place intermediate range missiles in ROK.<sup>102</sup>

Increased South Korean support for security relations with the United States while decreased favorability for China are interesting trends to look out for. Some have suggested that the South Korean people felt betrayed by the United States due to the lack of economic help provided during the crisis.<sup>103</sup> However, in a 2018 poll, two-thirds of South Koreans polled chose relations with the United States over China in the context of a Sino-U.S. rivalry.<sup>104</sup> Another survey found that South Korean favorable views of China fell from

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<sup>100</sup> Glaser and Collins, "China's Rapprochement With South Korea."

<sup>101</sup> Brad Glosserman, "Seoul Draws Wrong THAAD Lessons," *The Japan Times*, January 27, 2020, <https://www.japantimes.co.jp/opinion/2020/01/27/commentary/japan-commentary/seoul-draws-wrong-thaad-lessons/>.

<sup>102</sup> Harrell, Rosenberg, and Sarvalle, "China's Use of Coercive Economic Measures," 29; "China - Korea Archives," May-Aug 2019.

<sup>103</sup> Glosserman, "Seoul Draws Wrong THAAD Lessons."

<sup>104</sup> "China - Korea Archives," no. Sep-Dec 2018.

61% in 2015 (pre-THAAD crisis) to 34% in 2017.<sup>105</sup> Seoul will be in the middle of facing increased pressure from Beijing on one side, and increased pressure from its domestic constituents and Washington on the other.

Lastly, another effect of the THAAD crisis may be further complication to the trilateral US-ROK-Japan alliance. The Three No's itself further complicates ROK's role in the alliance and in a missile defense system with the United States and Japan. However, deteriorating ROK-Japan relations have been an ongoing trend. Historical grievances and fears of Japanese rearmament (supported by the United States) are issues ROK and China happen to both agree on and are concerned about.<sup>106</sup> With issues such as ROK withdrawing from the General Security of Military Information Agreement (GSOMIA) with Japan, the United States will continue to have a difficult time keeping the alliance together. The THAAD crisis likely exacerbated an already ongoing deterioration of relations between ROK and Japan.

#### **D. LOOKING FORWARD**

China will likely consider using economic statecraft against ROK when it involves U.S. security cooperation especially when there are opportunities to protect Chinese strategic interests and weaken the alliance. China could use a range of economic tactics to influence ROK ranging from incentives to coercion. First, ongoing issues between ROK and the U.S. about the cost of stationing U.S. forces in ROK may be a strategic opportunity for China. One of China's strategic goals is to reduce the presence and capabilities of U.S. military forces in the region. China could also persuade ROK to not continue or at least diminish joint military exercises with the United States in guise of or in accordance with committing to DPRK negotiations. Second, if a Taiwan conflict should arise in the future, China would look to diminish the U.S. ability to use ROK as a stationing site for operations. China would also want to deter ROK from supporting U.S. operations in the Indo-Pacific.

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<sup>105</sup> Harrell, Rosenberg, and Sarvalle, "China's Use of Coercive Economic Measures," 26.

<sup>106</sup> Kim and Cha, "Between a Rock and a Hard Place," 115; Kim, "South Korea's Strategy toward a Rising China, Security Dynamics in East Asia, and International Relations Theory," 728.

Lastly, China would likely desire ROK to not join the U.S. position on Huawei/ZTE 5G spying concerns and lockout.

Human rights is another area wherein China is likely to utilize economic statecraft to influence ROK's position. In 2000, due to Chinese and South Korean political pressure, ROK prevented a planned visit by the Dalai Lama. ROK did so in order in preparation of a visit by the Chinese premier at the time and in hopes of improving economic relations between the two countries.<sup>107</sup> There has been no visit by Dalai Lama to the ROK for the past 20 years. This case was not analyzed in-depth for the thesis due to the lack of economic coercion and statecraft enacted by China. The lack of options it had at the time was mostly due to the Chinese economy's smaller size (China needed ROK more than) and lack of EI with ROK. As we have seen with China's use of economic statecraft against Norway and Mongolia in regard to controversial human rights issues, China could influence ROK from engaging in criticizing China's handling of Tibet, Xinjiang and Hong Kong.

## **E. CONCLUSION**

The THAAD crisis presents a case where Chinese economic coercion had an impact and disrupted U.S.-ROK security relations. China responded to the THAAD deployment by using exclusionary economic leverage to influence ROK behavior. These informal methods included popular boycotts, tourism restrictions, import restrictions, and increased regulatory measures. China was able to precisely targeted Korean industries that would hurt ROK more than China. These actions were not too damaging to either side's economy and left a path for recovery if relations were to normalize. Despite agreeing to the Three No's, the bedrock of the U.S.-ROK alliance still seems to remain intact as ROK provided vague commitments to China while allowing the THAAD to remain deployed. U.S.-ROK security relations will be further challenged going forward with growing Chinese power and Sino-ROK EI. The next chapter will examine how Chinese economic coercion impacted another Pacific country's security relations with the United States, Australia.

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<sup>107</sup> "China - Korea Archives," no. Jul-Sep 2000.

## **IV. AUSTRALIA**

### **A. INTRODUCTION**

The continued rise of China in global and Asia-Pacific affairs has complicated and challenged the direction of Australian policy. Australia is considered to be an advanced developed state and middle power. It has been a longstanding U.S. ally and understanding its actions and mindset will be important going forward in working towards achieving a free and open Indo-Pacific. In the past 20 years, Australia's response to a rising China has shifted from accommodating to challenging as it has strived to balance its economic and security interests. Economically, similar to ROK, China and Australia have had increasing economic interdependence and Australia sees its economic future dependent on having good relations with China. EI has increased prosperity between both countries but has also given China more economic tools for leverage. How has China's use of economic coercive tools impacted Australia, and more importantly for the United States, its security relations with the United States?

This chapter discusses how, in the past 20 years, China has applied economic coercion in multiple instances against Australia to challenge the cohesion of the U.S.-Australia alliance to undermine security commitments related to Taiwan, South China Sea operations, and the banning of Huawei from national 5G networks. Its economic coercive tactics became more active and sophisticated over time due to the precise and flexible targeting. Towards the end of the chapter, the research examines a notable case where China did not utilize economic coercion against Australia—the U.S. continuous deployment of marines at Darwin. Australia accepting the deployment is against Chinese interests, caused a negative public reaction from the Chinese state, and has obvious U.S.-Australia security implications. Overall, the study finds that Chinese economic coercion has not detrimentally impacted the strength of the U.S.-Australia alliance and may have actually increased Australian resistance to Chinese demands.

## B. ECONOMIC TRENDS AND DATA

Trade between Australia and China has consistently increased between 2000–2018, and Australia sees its economic future dependent on having good relations with China. In 2000, Chinese trade made up about \$5.5B or 7.75% of all Australian imports, and made up \$3B or 4.64% of all Australian exports.<sup>108</sup> By 2018, these numbers had significantly jumped as Chinese trade made up \$57.5B or 24.57% of all Australian imports, and \$87.7B or 34.71% of all Australian exports.<sup>109</sup> China became both Australia’s largest export market and source of imports. According to the Australia China Business Council, “the average Australian household generates an additional \$3,400ASD a year from trade with China.”<sup>110</sup> Gill and Jakobson noted that Australia’s exports to China are worth more than its exports to the United States, Germany, South Korea, France, Canada and all of Southeast Asia combined.<sup>111</sup>

While China is a strong trading partner for Australia, Australia is not quite as central to Beijing. In 2000, Australian trade made up about \$5B or 2.05% of all Chinese imports, and made up \$3.4B or 1.38% of all Chinese exports.<sup>112</sup> By 2018, trade numbers modestly rose and value significantly increased as Australian trade made up about \$105B or 5.28% of all Chinese imports, and made up \$47.5B or 1.91% of all Chinese exports.<sup>113</sup> Australia is China’s 13<sup>th</sup> largest export market and 6<sup>th</sup> largest source of imports. In the agricultural sector, however, Australia’s importance to China may be growing: China’s growing middle class means an increasing demand for meat. The “average Chinese diet is already very rich and meat-intensive” creating a boom for Australian agriculture.<sup>114</sup> Also, between 2013 and 2016, Australia’s export of services to China went up 50%.<sup>115</sup>

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<sup>108</sup> “Country Analysis | WITS | Visualization.”

<sup>109</sup> “Country Analysis | WITS | Visualization.”

<sup>110</sup> Reilly, “Counting On China?,” 375.

<sup>111</sup> Gill and Jakobson, *China Matters*, 11.

<sup>112</sup> “Country Analysis | WITS | Visualization.”

<sup>113</sup> “Country Analysis | WITS | Visualization.”

<sup>114</sup> Gill and Jakobson, *China Matters*, 56.

<sup>115</sup> Gill and Jakobson, 104.

In 2007, China overtook Japan as Australia's largest trading partner and, in 2009, it became Australia's largest export market.<sup>116</sup> China also sends large numbers of tourists and students to Australia.. Chinese tourists spend about \$11B ASD per year in Australia.<sup>117</sup> Education-wise, Chinese students are almost 40% of foreign enrollees into Australia's universities, and provide almost a third of the revenue overall.<sup>118</sup>

Increased Chinese demand for energy has helped propel a mining boom in Australia. Thomas noted that, "by 2012, the three largest component trades were iron ore, coal and gold. Trade in these three components accounted for 37.2% of all [Australian] exports."<sup>119</sup> Iron ore is critical to fueling China's massive domestic and overseas infrastructure construction and steel industry. Additionally, Australia's uranium and natural gas reserves have become progressively attractive to China.

Investment between both countries continue to occur, and although fears of overwhelming Chinese investment into the Australian economy are mostly overblown, public perception of this issue is challenging the relationship. From 2006–2016, China accounted for only 6% of total foreign investment into Australia.<sup>120</sup> The United States and United Kingdom are larger sources of foreign investment into the country.<sup>121</sup> In 2013, 95% of Chinese investment was mostly in metals and energy but by 2015, that dropped to 30% and investment was diversified into real estate, agriculture, transport, tourism and health.<sup>122</sup> Gill noted that the vast majority of Chinese investment into Australia are reviewed and approved by the Foreign Investment Review Board. However, a few high-profile cases have provoked Australian concerns about Chinese investment. In a 2012

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<sup>116</sup> "Economic and Trade Relations," Australian Embassy in China, accessed June 7, 2020, <https://china.embassy.gov.au/bjng/130716ecoandtrade.html>.

<sup>117</sup> Amy Searight, "Countering China's Influence Operations: Lessons from Australia" (Center for Strategic and International Studies, May 2020), <https://www.csis.org/analysis/countering-chinas-influence-operations-lessons-australia>.

<sup>118</sup> Harrell, Rosenberg, and Sarvalle, "China's Use of Coercive Economic Measures," 10.

<sup>119</sup> Thomas, "The Economics of Power Transitions," 855.

<sup>120</sup> Gill and Jakobson, *China Matters*, 59.

<sup>121</sup> Gill and Jakobson, 855.

<sup>122</sup> Gill and Jakobson, 105.

Lowy Institute poll, 54% of Australians polled agreed that China seeking to buy Australian mining and agricultural companies was not desirable and the industries should be kept in Australian hands.<sup>123</sup> With the Belt Road Initiative, Chinese demand for steel is insatiable and China has also been increasingly exporting telecommunications and tech equipment to Australia.

EI is clear and prominent between the two countries, but overall, China is much more important to the Australian economy than the other way around. Australia's EI and trade with China was a major factor behind its ability to go through the devastating effects of the 2008 global financial crisis while the West struggled.<sup>124</sup> According to a 2012 Lowy Institute poll, 70% of Australians polled agreed that Chinese economic ties were critical for Australia beating the 2008 crisis.<sup>125</sup> While Australia's economic prosperity and future is heavily dependent on China, this dependency dynamic also makes it uncomfortable. This trade dynamic will heavily influence Australia's relationship with China and its accommodating approach to Chinese issues.

### **C. IDENTIFYING AUSTRALIA'S INTERESTS**

While economic factors are the primary reasons why Australia has sought friendly relations with China, diplomatic and security interests also play a significant role in Australian policymaking calculus. Diplomatically, Australia's objective is that China becomes an important and responsible stakeholder and supporter of the standing international rules-based order. During 2007 to 2010, then Australian Prime Minister Kevin Rudd wanted to "encourage China's active participation in efforts to maintain, develop and become integrally engaged in global and regional institutions, structures and norms."<sup>126</sup> The objective was to deter a rising China from pursuing revisionist and disruptive behavior and have it more inclined to respect and primarily solve disputes through international

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<sup>123</sup> Thomas, "The Economics of Power Transitions," 857.

<sup>124</sup> Thomas, "The Economics of Power Transitions."

<sup>125</sup> Thomas, 857.

<sup>126</sup> Baogang He, "Politics of Accommodation of the Rise of China: The Case of Australia," *Journal of Contemporary China* 21, no. 73 (January 2012): 67, <https://doi.org/10.1080/10670564.2012.627666>.

forums. Ideally, this would have also increased transparency and reduced uncertainty and illegitimacy of Chinese actions.

Security concerns have complicated Sino-Australian economic relations as Australia is also concerned about maintaining its security relations with the United States. Thomas, Boutin, and Reilly argue that economics has played a significant role in increasingly forcing Australia into pursuing a “bifurcated foreign policy” with the United States and China.<sup>127</sup> One focuses on economic development while the other focuses on security needs. Australia sees its security heavily dependent on maintaining relations with the United States but also has growing fears about China’s power and U.S. credibility for defense.<sup>128</sup> Additionally, while China may seek to reduce Australia’s access and influence in the SCS, Australia is looking to increase them.<sup>129</sup>

#### **D. IDENTIFYING CHINA’S INTERESTS**

As with ROK, in order to promote its own development, economic objectives have been an important and consistent reason for China’s engagement with Australia. Since China’s reopening to the world in the 1970s, it has been seeking to promote its economic development and prosperity by expanding trade relations around the world. The engine of China’s economic development is fueled by its significant demand for energy. In 2010, almost 40% of China’s \$80B worth of iron ore was imported from Australia.<sup>130</sup> Australian businesses and universities provide another avenue for technology transfers, a high priority for China as it tries to overcome the middle-income trap. Joint ventures between Australian and Chinese businesses advance developments in technology.<sup>131</sup> Finally, Australia is a part of China’s major global infrastructure project known as the Belt Road Initiative (BRI).

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<sup>127</sup> Kenneth Boutin, “Beyond Interdependence”; Reilly, “Counting On China?”

<sup>128</sup> Huisken, “CSCAP Regional Security Outlook.”

<sup>129</sup> “The Diplomat | Asia Geopolitics: The Origins and Drivers of Australia’s 2020 Defense Strategic Update on Apple Podcasts,” Apple Podcasts, accessed July 14, 2020, <https://podcasts.apple.com/us/podcast/origins-drivers-australias-2020-defense-strategic-update/id852773346?i=1000484277519>.

<sup>130</sup> Reilly, “Counting On China?,” 376.

<sup>131</sup> Rory Medcalf, “Australia And China: Understanding the Reality Check,” *Australian Journal of International Affairs* 73, no. 2 (March 4, 2019): 110, <https://doi.org/10.1080/10357718.2018.1538315>.



China has sought to build and invest in infrastructure in Australia's Northern Territory in order to have it be a part of the maritime silk road.

China has become significantly more prominent in global affairs and multilateral institutions and has sought to increase its influence over regional countries such as Australia. In the past, China has approached international relations with the mindset of promoting good-neighbor relations, which creates a favorable environment for its development.<sup>132</sup> By engaging more in multilateral and regional institutions such as the Association of Southeast Asian Nations (ASEAN) and the Asia-Pacific Economic Cooperation (APEC), China can promote and secure its interests abroad. According to Medcalf, Australia "is an outspoken and independent power in the Indo-Pacific, whose criticism and solidarity-building resistance to Chinese power is noted and potentially followed by others."<sup>133</sup> By closely engaging Australia through multilateral institutions and bilateral discussions, China could look to attain its support or at least its passiveness in international affairs.

Finally, security objectives are important factors in China's policy decision-making calculus towards Australia who is an important U.S. ally. China's 2019 Defense White Paper mentioned apprehensively "Australia continues to strengthen its military alliance with the United States and its military engagement in the Asia-Pacific, seeking a bigger role in security affairs."<sup>134</sup> Moreover, Australia and the United States have a close military and intelligence sharing relationship. They are both concerned about and are preparing to meet a rising China. China perceives these actions as threats and does not want to be surrounded by hostile neighbors that are aligned with a hostile United States.<sup>135</sup> China

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<sup>132</sup> Qimao Chen, "New Approaches in China's Foreign Policy: The Post-Cold War Era," *Asian Survey* 33, no. 3 (March 1, 1993): 243, <https://doi.org/10.2307/2645249>; Feng Zhang, "Chinese Visions of the Asian Political-Security Order," *Asia Policy* 25, no. 2 (2018): 13–18, <https://doi.org/10.1353/asp.2018.0017>; Zhang Yunling and Tang Shiping, "China's Regional Strategy," in *Power Shift: China and Asia's New Dynamics* (Berkeley, UNITED STATES: University of California Press, 2019), 48, <https://doi.org/10.1525/9780520939028-006>.

<sup>133</sup> Medcalf, "Australia And China," 110.

<sup>134</sup> State Council Information Office of the People's Republic of China, *China's National Defense in the New Era*, First, 2019, 4, <http://www.chinadaily.com.cn/specials/whitepaperonnationaldefenseinnewera.pdf>.

<sup>135</sup> Zhang, "Chinese Visions of the Asian Political-Security Order."

would like to drive a wedge between the U.S.-Australia alliance. Also, territorial claims in the SCS are important to China. While Australia does not have a territorial claim in the waters, China would rather limit Australia's access and influence in the region in order to reduce any unified or substantial resistance to its own claims.<sup>136</sup> In short, China looks to expand its trade relations and influence over countries in the region which includes Australia. The next three sections will cover cases of China's use of economic coercion against Australia that have also challenged U.S.-Australia security relations.

## **E. TAIWAN CASE STUDY, 2003–2005**

This section will cover China applying economic coercion against Australia to influence its position on Taiwan during the mid-2000s. The first part will cover how China applied economic coercion against Australia and followed by its impact on Australian policymaking. Finally, there will be analysis section to see if the economic coercive actions had any effect on Australia's security relations with the United States.

### **1. How China Applied Economic Coercion**

China used the backdrop of negotiations for a China-Australia Free Trade Agreement (CHAFTA) to influence Australia into pursuing actions that placated to Beijing's position on Taiwan. In October 2003, Chinese President Hu Jintao visited Australia and signed an agreement to begin studying the prospect of an FTA. During Hu's address to Australia's Parliament, he "urged Australia to play a constructive role in the peaceful reunification of China and Taiwan, stressing the threat to regional peace came from pro-independence elements on the island."<sup>137</sup> Taiwan is a highly sensitive issue for Beijing, considering it to be a runaway province and a domestic issue that should not involve foreign parties. Both Harrell and Feigenbaum would categorize China dangling the prospect of a trade agreement fitting under "attractive economic measures" and "passive

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<sup>136</sup> "The Diplomat | Asia Geopolitics."

<sup>137</sup> Joel Atkinson, *Australia and Taiwan: Bilateral Relations, China, the United States, and the South Pacific* (Leiden: BRILL, 2012), 78.

economic leverage” in China’s economic statecraft playbook.<sup>138</sup> Australia would have benefitted immensely if an FTA could be established between the two countries, giving Australian mineral and agricultural exports even greater access to the large Chinese market. Australia backing China on Taiwan or at least being silent or unsupportive of the U.S. position on the matter, would significantly challenge the U.S.-Australian alliance. In the event of a conflict in the Taiwan strait, a lack of Australian material, diplomatic and military support would weaken U.S. efforts to counter China and damage U.S.-Australian relations.

## **2. Impact on Australian Policymaking**

Later in August 2004, Australian Foreign Minister Alexander Downer visited Beijing to discuss the FTA, at which time he made public responses that placated Beijing regarding its position on Taiwan. He downplayed the Chinese military threat calling it a “disincentive for Taiwan to declare independence,” while putting more blame on Taipei potentially threatening stability by declaring independence.<sup>139</sup> Australia, as requested by Beijing, criticized then-Taiwan’s President Chen Shui-bian for his push for more independence.<sup>140</sup> When pressed if Australia would support the U.S. defense of Taiwan under the ANZUS treaty, Downer shied away from committing to that prospect. Downer stated that the treaty would be “invoked in the event of one our two countries, Australia or the United States, being attacked. So, some military activity elsewhere in the world, be it in Iraq or anywhere else for that matter does not automatically invoke the ANZUS Treaty.”<sup>141</sup>

After experiencing immediate negative reactions from its allies, the Australian government had to retrace its steps and resolidify its defense commitments. The United States found Downer’s remarks as “puzzling” while Taiwan found them “lacking moral

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<sup>138</sup> Feigenbaum, “Is Coercion the New Normal in China’s Economic Statecraft?”; Harrell, Rosenberg, and Sarvalle, “China’s Use of Coercive Economic Measures,” 6.

<sup>139</sup> Atkinson, *Australia and Taiwan*, 82.

<sup>140</sup> He, “Politics of Accommodation of the Rise of China.”

<sup>141</sup> Atkinson, *Australia and Taiwan*, 82; He, “Politics of Accommodation of the Rise of China,” 64.

courage.”<sup>142</sup> Prime Minister Howard later reclarified Australia’s position by stating Australia and the United States “must come to each other’s aid when under attack or involved in a conflict.”<sup>143</sup> In 2005, China received strong objections from the United States and Taiwan after it enacted the Anti-Secession Law which authorized China to use non-peaceful means against a Taiwan independence movement.<sup>144</sup> With upcoming visits to Beijing by the Prime Minister and Trade Minister to discuss a FTA, Australia tried to avoid discussing the possibility of cross-strait conflict and made ambiguous remarks about Australia committing to the conflict.<sup>145</sup>

### **3. Effect on U.S. Security Alliance**

Australia’s contradictory and ambiguous remarks about its commitment to the ANZUS Treaty in a Taiwan-conflict scenario confused the United States. In 2005, a senior Bush Administration official told a news reporter that China was using “its economic relationship with Australia as leverage on political and strategic issues” and “Australia wasn’t getting American policy on China.”<sup>146</sup> However, it is likely Australia’s tepid position with the United States on Taiwan during this period was meant to help facilitate FTA negotiations with China while avoiding any concrete changes to the U.S.-Australian alliance. A senior official in China’s Ministry of Foreign Affairs demanded the Australian government review ANZUS in regard to a Taiwan-conflict but Downer responded “Australia was very satisfied with the Treaty,” reconfirming Australia’s commitment to the alliance without directly speaking to the issue of its application to a conflict over Taiwan.<sup>147</sup> This case revealed an early scenario where China used economic statecraft in an attempt to influence a U.S. ally’s decision making in regard to security matters. While Australia’s position to support the United States in an event of a Taiwan conflict seemed

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<sup>142</sup> Atkinson, *Australia and Taiwan*, 84.

<sup>143</sup> Atkinson, 84.

<sup>144</sup> Atkinson, 87.

<sup>145</sup> Atkinson, 88; He, “Politics of Accommodation of the Rise of China.”

<sup>146</sup> Atkinson, *Australia and Taiwan*, 93.

<sup>147</sup> Atkinson, 87.

vague at times, Australia publicly reconfirmed the alliance and there appeared to be no long-term changes to the alliance. China's use of economic coercion in this case seemed ineffective.

## **F. AUSTRALIA'S TOUGHER STANCE, 2016–2020: FOREIGN INTERFERENCE AND SOUTH CHINA SEA CASE STUDY**

This section will cover China applying economic coercion against Australia in regard to Australia's more assertive responses to recent Chinese activities. These activities pertain to Chinese interference in Australia's domestic politics and the South China Sea. It is in the interest of the United States that one of its strongest allies in the region remain independent and resistant of foreign influence, and that they are both on the same page on regional security issues. The first part will cover how China applied economic coercion against Australia and followed by its impact on Australian policymaking. Finally, there will be analysis section to see if the economic coercive actions had any effect on Australia's security relations with the United States.

### **1. How China Applied Economic Coercion**

Australia's tougher stance against China in the second half of the decade included attention to China's militarization of the South China Sea (SCS) and interference in Australian politics. From 2006–2016, Australia saw a persistent rise in Chinese donations to Australian political parties.<sup>148</sup> A famous case in 2016, where a Chinese billionaire property developer was caught providing donations to Australian politicians and parties, and threatened to cancel donations if they did not soften their stance on the SCS.<sup>149</sup> At the time, such donations were legal. In 2018, Australia passed its "Foreign Interference Laws" to combat primarily Chinese interference in Australian politics. These laws characterized foreign interference as covert, coercive or corrupt means to shape Australian politics, and led to policy responses including banning foreign donations, increasing transparency of working behalf of foreign governments, and toughening sanctions and enforcement.<sup>150</sup>

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<sup>148</sup> Medcalf, "Australia And China," 113.

<sup>149</sup> Searight, "Countering China's Influence Operations."

<sup>150</sup> Medcalf, "Australia And China," 110; Searight, "Countering China's Influence Operations."

Additionally, Australia started backing away from its previous hesitancy on calling out China for its disruptive SCS activities including island building and use of military gray-zone tactics.

China responded to Australia's tougher stance with coercive economic measures that included trade and tourism restrictions. In September 2016, likely in response to Australia's criticism of China's activities in the SCS, China restricted Australian pasteurized milk imports.<sup>151</sup> In 2018, likely in response to the recently enacted foreign interference laws and new warnings against Chinese behavior in the SCS, Chinese regulation held up Australian wine and beef exports leading to a halt of hundreds of millions of dollars in trade.<sup>152</sup> Australian wine, beef and barely exports make up about \$4.4B or roughly 10% of all Australian exports to China.<sup>153</sup> It is difficult to quantify the impact of Chinese trade restrictions on Australia as the disputes are ongoing. Interruptions to exports are inconsistent and Australian industries have somewhat been able to adapt (ex. Australian barely being sold in other markets outside of China).<sup>154</sup> Later in 2018, the Chinese government restricted travel for Australian journalists and officials.<sup>155</sup> Additionally, the Chinese Foreign Ministry has warned Chinese students to be cautious when in Australia—likely also an attempt to threaten and hurt the Australian university system.<sup>156</sup> Australian education of Chinese students is about \$12.1B or roughly 25% of all Australian exports to China.<sup>157</sup> At the time, Chinese enrollment in Australian universities seemed consistent despite the warnings, however, this is expected to change significantly due to the effects of COVID-19 and further disputes between the two nations.

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<sup>151</sup> Hanson, Currey, and Beattie, "The Chinese Communist Party's Coercive Diplomacy," 31.

<sup>152</sup> Hanson, Currey, and Beattie, 30.

<sup>153</sup> "Country Analysis | WITS | Visualization"; Daniel Hurst, "How Much Is China's Trade War Really Costing Australia?," *The Guardian*, October 28, 2020, sec. Australia news, <https://www.theguardian.com/australia-news/2020/oct/28/how-much-is-chinas-trade-war-really-costing-australia>.

<sup>154</sup> Hurst, "How Much Is China's Trade War Really Costing Australia?"

<sup>155</sup> Hanson, Currey, and Beattie, "The Chinese Communist Party's Coercive Diplomacy," 29.

<sup>156</sup> Harrell, Rosenberg, and Sarvalle, "China's Use of Coercive Economic Measures," 110.

<sup>157</sup> "Country Analysis | WITS | Visualization"; Hurst, "How Much Is China's Trade War Really Costing Australia?"

## **2. Impact on Australian Policymaking**

Australia's tougher stance on China has undoubtedly increased tension between the two countries. Chinese economic coercion has been an important factor in Canberra's policymaking calculus. In 2019, the Australian government was cautious about publicly attributing the source of a cyberattack on parliament and an "internal investigation of the incident reportedly recommended against public disclosure out of concern that it would upset trade ties with China."<sup>158</sup> Still, Australia has currently maintained its stance on both the foreign interference laws and in the SCS. Recently in June 2020, Prime Minister Morrison affirmed that Australia won't be intimidated by CCP threats and won't give up its values.<sup>159</sup> Despite toughening and more frequent use of economic coercion by China, Australia so far is still pressing forward with protecting its own sovereignty and strategic interests in the region.

## **3. Effect on U.S. Security Alliance**

Chinese economic coercion has not significantly impacted Australia's security alliance with the United States. In actuality, after previously being hesitant on calling out China for its activities and militarization of the SCS, Australia changed its tone and joined the United States. In July 2020, Chinese state-run media issued a threat to Australia after it released a joint statement with the United States condemning China's maritime claims in the SCS.<sup>160</sup> Australia taking stronger action to maintain its sovereignty against Chinese interference in effect strengthens the alliance. An Australia that is more resilient from Chinese influence means it will be able to act more independently and ideally side with the United States in pursuit of common interests in the region such as maintaining norms and an international rules-based order.

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<sup>158</sup> Schrader, "A Framework for Understanding Chinese Political Interference in Democratic Countries," 5.

<sup>159</sup> Hanson, Currey, and Beattie, "The Chinese Communist Party's Coercive Diplomacy," 24.

<sup>160</sup> Hanson, Currey, and Beattie, 27.

## **G. HUAWEI 5G CASE STUDY**

This section will cover China applying economic coercion against Australia as a response to Australia's banning of the Chinese tech giant Huawei from developing its 5G network. The first part will cover how China applied economic coercion against Australia and followed by its impact on Australian policymaking. Finally, there will be analysis section to see if the economic coercive actions had any effect on Australia's security relations with the United States.

### **1. How China Applied Economic Coercion**

Due to fears of espionage and privacy concerns from the Chinese government, Australia banned Chinese telecommunication giants Huawei and ZTE from its 5G network. 5G is considered to be a disruptive technology that will significantly improve the performance and efficiency of information communication infrastructure. Chinese companies Huawei and ZTE have made significant developments in the field of 5G. Australia would have benefitted from them greatly if they were allowed to develop and maintain Australia's 5G network. However, the 2017 Chinese National Security Law requires companies in China to comply with Chinese intelligence services. Western intelligence agencies including from the FIVE EYES community, that comprises of Australia, New Zealand, Canada, United Kingdom and the United States, warned their governments about risks associated with Huawei and ZTE. The Australian government was the first FIVE EYES member to ban the Chinese companies from its 5G network taking the lead in highlighting the threat of Chinese interference and intelligence collection.

China responded to the ban with an array of actions including detention of Australian citizens, issuing strong statements, a diplomatic freeze and trade restrictions. In March 2017, the Chinese government prevented a 2-year-old Australian citizen and his Australian-visa carrying mother from leaving Xinjiang Province. The Australian Strategic Policy Institute (ASPI) cited multiple academic and human rights experts who believe their detention was used for "hostage diplomacy in response to diplomatic tensions over a range of issues, including Australia's Huawei ban and criticism of China's exploitation of Uyghur



minority in Xinjiang.”<sup>161</sup> In August 2018, the Chinese Ministry of Commerce stated it was the wrong decision for Australia to ban Huawei and warned that “if Sino-Australian economic ties are hurt, Australia is the one that will bear more losses, not China.”<sup>162</sup> Later in February 2019, it was reported that Australian coal imports were experiencing significant delays entering China.<sup>163</sup> Coal makes up about \$13.8B or roughly 29% of all Australian exports to China.<sup>164</sup> There came multiple reports of delays and cancelled purchases from Chinese companies of Australian coal.<sup>165</sup> The Australian government is still assessing the impact of Chinese economic coercive actions, however, so far it seems that Australian coal exports to China are continuing and have even slightly increased in the first half of 2020.<sup>166</sup>

## **2. Impact on Australian Policymaking**

Chinese coercive responses to the ban actually strengthened Australian support for it. According to Searight, China’s coercive actions not only failed to weaken public support for Australia’s tough stance, it actually backfired and swung public opinion against China.<sup>167</sup> Delays in developing a 5G network clearly works against improving the Australian economy, however, here was another case in Australia where strategic interests took precedent over economic interests. Having strong public opinion will strengthen the resolve of the Australian government to continue enforcing the ban, however, China continuing to make vast strides ahead of others in 5G development and lay out may further pressure the Australian economy and state.

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<sup>161</sup> Hanson, Currey, and Beattie, 30.

<sup>162</sup> Hanson, Currey, and Beattie, 30.

<sup>163</sup> Hanson, Currey, and Beattie, 29; Searight, “Countering China’s Influence Operations.”

<sup>164</sup> “Country Analysis | WITS | Visualization”; Hurst, “How Much Is China’s Trade War Really Costing Australia?”

<sup>165</sup> Hanson, Currey, and Beattie, “The Chinese Communist Party’s Coercive Diplomacy,” 29; Hurst, “How Much Is China’s Trade War Really Costing Australia?”

<sup>166</sup> Hurst, “How Much Is China’s Trade War Really Costing Australia?”

<sup>167</sup> Searight, “Countering China’s Influence Operations.”

### **3. Effect on U.S. Security Alliance**

The United States supports Australia's 5G ban on Huawei and ZTE and later followed suit in implementing its own ban. While Australia's ban of the Chinese companies was primarily aimed at protecting its national sovereignty, Australia also likely considered the impact the ban would have on its security relationships with its closest allies. As part of the FIVE EYES community, Australia and the United States have a close intelligence-sharing relationship that also requires having connected and interoperable IT infrastructure. If Australia or any member of FIVE EYES allowed Chinese companies to work on and gain access to their IT infrastructure, this would challenge the integrity and confidence of the intelligence-sharing relationship. At the time of the writing of this thesis, New Zealand and recently the United Kingdom has also banned Huawei from its 5G network with Canada expected to follow. Australia's actions in this case have strengthened or at least maintained the integrity of the alliance.

#### **H. NOTABLE CASE WHERE CHINA DID NOT UTILIZE ECONOMIC COERCION AGAINST AUSTRALIA: DARWIN**

In 2011, China expressed dismay at Australia for allowing the United States to continuously deploy marines at Darwin but ultimately did not pursue major repercussions against Australia. Since President Obama's visit to Australia in 2011, about 1,200 U.S. marines have been deployed to the Australian northern city of Darwin as a part of the U.S. pivot to Asia. Australian businesses, former government officials, former diplomats, retired military officers, and foreign policy analysts outspokenly questioned the government's decision in allowing the visit and deployment of U.S. troops.<sup>168</sup> The Chinese Foreign Ministry spokesman stated "the global economy was in a rocky state and questioned whether now was a smart time for Australia to make a new agreement with the United States."<sup>169</sup> China perceived the renewed U.S. attention in the region as a response or check to its global rise. More specifically, China sees the expansion of American military forces

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<sup>168</sup> Gill and Jakobson, *China Matters*, 99.

<sup>169</sup> Stephan McDonnell and Helen Brown, "China, Indonesia Wary of US Troops in Darwin," ABC News, November 16, 2011, <https://www.abc.net.au/news/2011-11-17/china-indonesia-wary-of-us-troops-in-darwin/3675866>.

operating in the region as a threat to its interests and efforts. Chinese state-run media, including the Global Times, suggested Australia could be caught in a “cross-fire” and should be cautious with allowing bases for the United States to use against China.<sup>170</sup>

Despite this rhetoric from China, no known follow up actions were taken against Australia. Even later in 2013, Prime Minister Julia Gillard visited China and announced a new strategic partnership and established an annual leadership dialogue with China. Eighteen months later, both countries established CHAFTA after Australia satisfied Beijing’s desire by joining the Asian Infrastructure Investment Bank (AIIB).<sup>171</sup> It is possible that China did not want to scrap CHAFTA and waste a decade of negotiations. Also, China saw how the benefits of further EI with Australia could outweigh the benefits of punishing Australia or risk pushing Australia closer into the arms of the United States. Finally, China likely did not want to risk the potential of escalating tensions with the United States if it took action to punish Australia. The United States could have interpreted such Chinese actions as aggressive and threatening, thus justifying its renewed focus in the region.

## I. LOOKING FORWARD

There are two areas where China’s application of economic coercion could impact U.S.-Australian security relations: COVID-19 and human rights. First, recently with COVID-19, both Australia and the United States have been calling for an independent inquiry into the origins of the virus. The Chinese ambassador to Australia warned Australia of China boycotting Australian services and agricultural goods if they continue to push for the investigation. China later backed up the threats by imposing an 80% import tax on Australian barley and suspending some beef imports.<sup>172</sup> This case was not included in the

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<sup>170</sup> Jackie Calmes, “A U.S. Marine Base for Australia Irritates China,” *The New York Times*, November 16, 2011, sec. World, <https://www.nytimes.com/2011/11/17/world/asia/obama-and-gillard-expand-us-australia-military-ties.html>.

<sup>171</sup> Salvatore Barones, “Bullied by Beijing, America’s Closest Allies Regret Saying ‘Yes’ to China,” *Foreign Policy* (blog), accessed July 14, 2020, <https://foreignpolicy.com/2020/06/27/china-bullying-australia-new-zealand-canada-britain-trump/>.

<sup>172</sup> Lai-Hai Chan, “Can Australia Flatten the Curve of Its Economic Dependence on China?,” accessed August 26, 2020, <https://thediplomat.com/2020/05/can-australia-flatten-the-curve-of-its-economic-dependence-on-china/>.

thesis because it did not have a direct connection to impacting U.S.-Australian security relations. However, that may change if the United States and Australia take a stronger stance together on pushing for an independent inquiry and if it has further security implications.

Second, China could initiate greater coercive actions, including economic, against Australia if it continues to challenge China's human rights record particularly in Xinjiang, Hong Kong and Tibet. The Australian government in the past generally avoided criticizing China's human rights violations and accommodated its narrative particularly in regard to the Dalai Lama and Tibet. Recently, Australia has aligned with the United States in calling out Chinese violations in Xinjiang and Hong Kong.<sup>173</sup> China has responded with diplomatic restrictions and strong statements. However, this may later include economic coercive tactics as alluded to by the Director of the Australian Studies Centre at East China Normal University who warned that, "Although China would prefer not to use trade exchanges as leverage, strained China-Australia ties and rising anti-China sentiment in Australia would discourage economic exchanges."<sup>174</sup>

Chinese economic coercion so far has seemingly done little to deter Australia from pursuing interests that are contrary to China's. China may have underestimated Australian resistance to Chinese economic incentives and coercion. Additionally, China may have overplayed its hand with economic coercive tactics as it has sharply increased Australian public suspicion and unfavorable views against it. China's greatest economic leverage over Australia is iron ore but China cannot threaten the export without hurting its own economic engine or BRI. Australian political leaders have stated that an "eyes wide open approach" is necessary going forward in future engagements with China.<sup>175</sup> In June 2020, the Morrison Administration announced \$186B in defense spending for the next 10 years which is a 40% increase from the previous budget allocated for that time period.<sup>176</sup> In a

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<sup>173</sup> Barones, "Bullied by Beijing, America's Closest Allies Regret Saying 'Yes' to China."

<sup>174</sup> Hanson, Currey, and Beattie, "The Chinese Communist Party's Coercive Diplomacy," 27.

<sup>175</sup> Barones, "Bullied by Beijing, America's Closest Allies Regret Saying 'Yes' to China."

<sup>176</sup> Chan, "Can Australia Flatten the Curve of Its Economic Dependence on China?"

July 2020 speech, Prime Minister Morrison stated that his country “must face the reality that we have moved into a new and less benign strategic era.”

## **J. CONCLUSION**

In multiple instances, China’s use of economic coercion against Australia has challenged the U.S.-Australia alliance’s cohesion, however, no long-term clear changes were achieved by China and it appears the actions have only exacerbated Sino-Australian tensions. Its economic coercive tactics became more active and sophisticated over time as it challenged Australia’s security commitment to the United States in event of a Taiwan conflict, its toughening stance against China in the SCS and foreign interference, and Huawei 5G ban. For the past 20 years, Australia has attempted to balance its economic and security interests with a rising China by shifting its foreign policy approach from accommodating to challenging Beijing. Economic dependency and prosperity are the major drivers behind Australia’s open and placating approach to China. The relationship has been complicated by Australia’s security concerns with China’s growing assertiveness and use of economic coercion, political interference, regional territorial disputes, human rights violations and health concerns. Going forward, Australia will be increasingly strained in being able to challenge disruptive Chinese actions while avoiding significant damage onto its own economy.

## V. CONCLUSION

### A. SUMMARY OF MAIN FINDINGS

This thesis has five main findings that present mixed results regarding the impacts of China's recent use of economic coercion. These conclusions are the result of detailed study of cases of coercive policies against the ROK and Australia, and an assessment of their effect on security relations with the United States. The research has also analyzed and referenced other cases of Chinese economic coercion in the past 10 years to contrast and compare trends and tactics. Previously, China may have avoided using economic coercion as a viable tactic due to its lack of options and its own dependence on trade. Later, as China reopened to the world, Beijing was primarily focused on improving relations and trade in order to promote economic development. Most recently, as China's power has grown, it appears to have become more willing to accept modest costs in forgone trade for strategic reasons. The thesis' core findings are as follows.

First, Chinese economic coercive tactics have grown more active and sophisticated overtime, and Beijing is more inclined to use them. The sophistication of China's options went from using attractive and passive measures (e.g. economic incentives such as a free trade agreement) to more active measures incorporating more direct state involvement and integrating with other forms of statecraft (diplomatic and military). After China received a global negative reaction for restricting exports of rare-earth metals to Japan in 2010, Chinese economic targeting became more measured. China's array of economic options and tactics include popular boycotts, tourism restrictions, imports restrictions, and regulatory measures. Many of these options uses informal methods to influence commercial actors to act in favor of the Chinese state. This gives the state plausible deniability and avoids direct responsibility. China is likely to continue using economic coercive tactics due to its deterrence value, other states' higher dependency on the Chinese market, and ability to avoid more escalatory measures such as use of military force.

Second, while some short-term economic pain is experienced for both the target country and China (to a lesser extent), generally overall long-term economic relations

between the two continue to prosper. Chinese economic coercive tactics have grown to become more precise. That is, they are able to swiftly target specific industries rather than conduct a broad-brush economic attack. The tactics are also designed in a way where the damage is greater to the targeted state than to China. For example, China did not target ROK semiconductors and avoided heavy targeting of Australia's iron ore industry as both are critical to the Chinese economy. The attacks also do not reach a threshold of no-return. As we have seen in the cases with ROK, Australia, Philippines, Norway and Mongolia, the informal nature and flexibility of China's coercive actions also allows the targeted country to recover economic relations if they begin to cooperate with China. China wants to maintain the economic relationships with the states for its own economic development and to maintain its leverage over the state. In both ROK and Australia, their overall trade with China continued to grow despite the crises.

Third, China's use of economic coercive tactics was partially effective but did not create concrete and clear changes to ROK's and Australia's security relations with the United States. In ROK and Australia, leaders provided vague commitments or statements regarding their negotiations with China. They later re-clarified and reconfirmed their security commitments to the United States. Australia even committed to more U.S.-led efforts in many cases in response to Chinese coercion. However, Chinese coercion will increasingly complicate the alliances' integrity in the future if China's economic might, technological advances and economic interdependence with the countries continue to grow. ROK's and Australia's trade dependency with China will make it more difficult for them to hedge against it especially if the United States is not engaged. Increasing competition between China and the United States may pressure both ROK and Australia to decide which power they will have to more heavily lean on.

Fourth, China's economic coercion against the targeted countries seemed more effective if it aligned with the targeted countries' security interests. ROK officials were more likely impacted by worsening relations with China not only for economic reasons but also because of concerns about a third party, the DPRK. The ROK did not want to lose China's support and influence over DPRK behavior. Growing rifts in ROK-Japan relations, while favoring Chinese interests, have also been ongoing separate Chinese economic

pressure. In regards to Taiwan policy, Australia likely received Chinese economic coercion more strongly due to Canberra's hesitancy in being engaged in a hypothetical cross-Strait conflict. In contrast, when China conducted disruptive activities in the SCS and in Australian politics, Australia saw them as threats to its national security and was more resilient and sterner against Chinese economic coercion. When it comes to impacting security relations, Chinese economic coercion seems to amplify preexisting trends.

Finally, results suggest that China using economic coercion can be harmful against its own regional interests in the long-run. Chinese use of economic coercion has sharply raised ROK's and Australia's public opinion against it. As we have seen in the case chapters, both South Korean and Australian populations were polled following China's use of economic coercion and saw a significant spike in unfavorable views against China. Other polls also showed that their populations had strong support for their countries' security relations with the United States. Both ROK and Australia have looked to diversify their trade elsewhere (ex. Southeast Asia) to lessen their dependency on China. During the crises, they both have publicly stated that they will not sacrifice their countries' national security over negotiations with China. Australia has recently dedicated more attention and spending towards its military and self-defense capabilities.

The study has also found some important differences between ROK's and Australia's response to Chinese economic coercion. From 2010-2020, Australia took on a more challenging approach to China while ROK's approach has been more accommodating. This may be due to differences in both countries' strategic alignment with China. ROK's top strategic concern is mitigating threats and disruption from DPRK. China shares this strategic interest with ROK. ROK requires Beijing's cooperation and influence in managing DPRK behavior and may scale back its security cooperation with the United States in order to acquire it. On the other hand, Australia's strategic interests have not aligned with China's. Both want a stable Asia-Pacific region but have different visions and approaches in getting there. Australia aligning with the United States in supporting a free and open Indo-Pacific, and condemning Chinese SCS activities and human rights violations, is being perceived by Beijing as threats to its core interests.



## B. POLICY RECOMMENDATIONS

The United States should support ROK's and Australia's sovereignty and ability to act independently by working together and firmly responding to all Chinese coercive activities—including economic. The United States have enjoyed the protections, leverage and freedoms associated with the largest economy in the world and are more resilient of Chinese economic coercion, however, its allies do not have the same advantages and are more vulnerable. The integrity and strength of U.S. security relations with these countries are at risk and thus so is American strategic interests. The United States cannot be effective and successful in preserving its interests in the Asia-Pacific without its allies. The following are policy recommendations the United States can pursue to reinforce its regional alliances and strategic interests.

- **The United States should join with other countries to increase global awareness about economic coercion and create international norms about the use of sanctions.** Economic coercion is not as emphasized as security or diplomatic coercion in meetings and hearings at higher levels of government and multilateral institutions. Bringing this topic forward and featuring it will increase global awareness and understanding. Also, working with and involving other countries, including China, to establish international norms for the use of sanctions would better attribute bad behavior and dissuade the use of informal methods that provide plausible deniability. This will be difficult and complicated for the United States as it has heavily relied on using targeted sanctions to pursue its own strategic goals. However, it will be in the best interest of the United States going forward as U.S. economic competitiveness is met or possibly surpassed by China's. The risks can also be mitigated by making use of established and recognized international institutions in the conduct of such sanctions (rather than recourse to unilateral sanctions, which are less likely to be effective in any event). Countries will be less likely and effective at applying informal economic coercion when there are clear punishments enforced collectively by a larger community

- **Increase support to allies immediately affected by Chinese economic coercion.** The United States should consider providing economic relief to its allies when they are targeted by Chinese economic coercion especially when it involves U.S. security interests. This will relieve pressure from the allied countries and help them not give in to Chinese demands. Additionally, it will increase U.S. credibility amongst the eyes of the ally's government and population. As we have seen in the THAAD crisis, many South Koreans saw the lack of U.S. support as a betrayal. The United States needs to win the hearts and minds of its allied populations if it wants the support of their governments
- **Create an allied arrangement that focuses on identifying and collectively responding to Chinese economic coercive activities.** The United States already has a close security and intelligence partnership with Australia and ROK. The United States should similarly extend the nature of this security commitment to the economic sphere. When an allied member is under economic attack by China, the alliance should come together to prepare an appropriate and comprehensive joint response
- **Increase public-private cooperation to build resiliency against Chinese economic coercion.** The United States should foster closer cooperation with American businesses and should encourage ROK and Australia to do the same with their businesses. First, private businesses should diversify their markets and supply chains where they can and be prepared for disruption to their commercial operations in case of another economic episode occurring with China. Similar to the mechanisms of information sharing and cooperation when a private entity is cyber-attacked by a foreign entity, there should be mechanisms to increase information sharing and support when a foreign entity conducts economic coercion against private entities.

- **Advance U.S. technological superiority.** The country that will dominate the 21st century will be the one who has the edge in advance technologies. The U.S. needs to do what it can, whether through protecting intellectual property or funding projects, to make sure its technology sector is superior in areas such as artificial intelligence, 5G, quantum computing, blockchain, etc. They clearly not only have important security implications but economic ones as well. China dominating in these areas will increase the attraction and strength of the Chinese economy and will make it increasingly difficult for countries and businesses to resist. Thus, it is imperative for the U.S. to remain (regain) the lead in these sorts of key technologies, both to enable the use of U.S. advantage in its own (multilateral) economic sanctions policies, but also to deny China the ability to do the same in its (unilateral) approach

### **C. OUTLOOK**

Looking ahead, without the mitigating responses discussed above, the United States and its allies should be concerned because U.S. dominance in the economic sphere is slowly ceding to China. China is on track to surpass the U.S. economy in overall size in the future and the United States will increasingly find it difficult to check Chinese actions. For over one hundred years, the United States has always had the economic advantage over its adversaries. This same dynamic cannot be assured going forward. China will likely have more economic power and will increasingly use it to pursue its strategic objectives. There will be more uncertainty about economic, security and diplomatic relations in the region between China, the United States and its allied countries. This could lead to further degradation of U.S. credibility and countries being less inclined to align with U.S. efforts. American efforts that are at stake include a rules-based order that promotes regional stability, freedom of navigation, protection of sovereignty for the people of Taiwan, Central and South Asia, and broad norms protecting human rights.

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