



Countering PRC Economic Coercion: An Exploratory US-Japan Dialogue

Abstract

On Tuesday May 3, 2022, the US-Japan NEXT Alliance Initiative convened a bilateral dialogue on an emerging area of alliance interest: countering economic coercion measures applied by the People's Republic of China (PRC) against third countries. The discussion was attended by about two dozen policymakers and analysts including high-ranking parliamentarians of the ruling Liberal Democratic Party (LDP), Japanese scholars, US government officials, US Congressional staff members, and US scholars. The group considered ways in which the US and Japan could help support third countries that were being targeted by Chinese economic coercion tactics and what kinds of policy tools might be helpful in this regard.

Introductions

There are many examples of such PRC economic coercion in recent years including with rare earth metals against Japan in 2010, and later with bananas against the Philippines, pineapples against

Taiwan, coal and grain against Australia, and Chinese pressure on the Lotte company of South Korea over US missile defense deployments there.^{1 2 3 4 5} These countries persevered despite Chinese pressure, although not without some cost, and the toll on smaller economies can be even greater if multilateral support is not forthcoming. Moreover, a lack of effective multilateral support could have a chilling effect that makes countries unwilling to risk Chinese criticism in the first place. US policy makers have vowed to “do better next time” to support victims of economic coercion, and now Lithuania has come within China’s cross-hairs over the status of Taiwan’s embassy in Vilnius.⁶

In response to the Lithuania case, the European Commission published in December 2021 a proposal for an anti-coercion instrument (ACI) that can help defend member countries from economic coercion.⁷ The US government has also taken steps to assist Lithuania by trying to fill the economic gap left by China, although the toolkit of policy measures was never designed specifically for this kind situation.⁸ The US government and Congress are beginning to consider ways that administrations in the future could be better equipped to aid third countries and help deter economic coercion. If the United States, European Commission, and other like-minded countries like Japan can develop tools and strategies in harmony with each other, then they are all likely to be more effective in the end. This dialogue began to explore these opportunities.

Group Discussion

A. Framing the Challenge

¹ Bradsher, Keith. “Amid Tension, China Blocks Vital Exports to Japan.” *The New York Times*, 23 Sept. 2010, <https://www.nytimes.com/2010/09/23/business/global/23rare.html>.

² Higgins, Andrew. “In Philippines, Banana Growers Feel Effect of South China Sea Dispute.” *The Washington Post*, 10 June 2012, https://www.washingtonpost.com/world/asia_pacific/in-philippines-banana-growers-feel-effect-of-south-china-sea-dispute/2012/06/10/gJQA47WVTV_story.html.

³ Gorman, Lindsay. “Pineapple War Shows Taiwan Won't Be Bullied by Beijing.” *Foreign Policy*, 16 Mar. 2021, <https://foreignpolicy.com/2021/03/16/taiwan-china-pineapple-war-economic-bullying-democracies-boycott/>.

⁴ Person. “Australia Facing Economic Coercion from China - Treasurer.” *Reuters*, 17 Dec. 2021, <https://www.reuters.com/world/asia-pacific/australia-facing-economic-coercion-china-treasurer-2021-12-17/>.

⁵ Lim, Darren J. “Chinese Economic Coercion during the THAAD Dispute.” *The Asan Forum*, 20 July 2021, <https://theasanforum.org/chinese-economic-coercion-during-the-thaad-dispute/>.

⁶ “Lithuania Tests the EU's Resolve on Chinese Economic Coercion.” *Financial Times*, <https://www.ft.com/content/77adb343-6196-4d66-af84-995c05db7b6c>.

⁷ “EU Strengthens Protection Against Economic Coercion.” *European Commission: Press Corner*, https://ec.europa.eu/commission/presscorner/detail/en/ip_21_6642.

⁸ Ridgwell, Henry. “US Counters China's 'Economic Coercion' against Lithuania in Taiwan Dispute.” *VOA*, US Counters China's 'Economic Coercion' Against Lithuania in Taiwan Dispute, 4 Feb. 2022, <https://www.voanews.com/a/us-counters-china-s-economic-coercion-against-lithuania-in-taiwan-dispute-/6425655.html>.

A US State Department official helped open the discussion by providing some insights related to the Lithuania case. The official noted that when Lithuania allowed Taiwan to open a representative office (under the Taiwan name, rather than Taipei), Chinese action was swift. Beijing downgraded its diplomatic relationship with Lithuania and started to withhold trade and investment.⁹ The US approached Lithuania, inviting it to a forum to discuss potential concerns, but Lithuania was confident initially because only 2 percent of its economy relied on China directly. However, both the US and Lithuania underestimated Beijing's boldness and creativity, as China then pressed multinational companies to sever commercial ties with Lithuanian firms or face exclusion from China's market (i.e., a quick escalation to a secondary sanctions level). The European Union filed a World Trade Organization (WTO) complaint against China for its actions, but resolution of such a case can take years to process.¹⁰ In the meantime, the United States and others found ways quickly to provide trade financing and new commercial partners in the markets abandoned by China in an effort to relieve pressure.

Another participant noted that the speed and unity with which the international community supported Lithuania seemed to both surprise and concern Beijing. There are now between twenty and thirty lines of financial assistance to Lithuania from the United States totaling over \$600 million, with the US Export-Import Bank as the largest provider. Virtually all of this US taxpayer support comes back to US firms in the form of orders, making this a politically sustainable type of support if lines of credit and capable firms can be identified quickly enough to keep Lithuanian businesses viable. As one official said, "if China is okay leaving a good market like Lithuania, the US is happy to pick up that slack." Many in the group recommended stepped-up dialogue between the US Ex-Im Bank and the Japan Bank for International Cooperation (JBIC) to explore coordination opportunities in support of third countries responding to trade coercion.

An American participant highlighted the need to avoid "passive capture," or the idea that small countries become so aware of and concerned about their level of dependency on larger countries

⁹ Person, and Michael Martina Ben Blanchard. "Taiwan Has Not Been Asked to Change Name of Lithuania Office." *Reuters*, 26 Jan. 2022, <https://www.reuters.com/world/asia-pacific/taiwan-has-not-been-asked-change-name-lithuania-office-2022-01-26/#:~:text=Taiwan%2C%20the%20self%2Druled%20island,Taipei%20as%20is%20more%20common>.

¹⁰ Al Jazeera. "EU Files a WTO Case against China for Targeting Lithuania." *Trade War News | Al Jazeera*, 27 Jan. 2022, <https://www.aljazeera.com/news/2022/1/27/eu-launches-wto-action-against-chinese-curbs-on-lithuanian-import>.

like China that they will avoid policy conflict to protect themselves. A Japanese participant agreed and cited the Taiwan pineapple case, when several larger countries stepped in to buy the pineapples that China refused. He emphasized that big economies must help smaller ones to compensate for the inability of the WTO to respond to these challenges in a timely manner. He added that the US and Japan can also help smaller countries identify and alleviate dependence risk ahead of time, to help limit the attractiveness of trade coercion as a weapon for Beijing.

Another Japanese participant noted that it is hard for any country to avoid being somewhat vulnerable to either the United States or China if one of them chooses to use the sale of key resources they export or access to their huge markets as strategic weapons. But he added that if countries cannot avoid being somewhat beholden to the US or China, then they are better off choosing the United States. An additional Japanese group member highlighted that it can be more than goods or money that are used as a means of applying trade pressure, recalling times when the PRC government essentially turned off Chinese tourist access to certain countries as a way to inflict economic pain and indicate displeasure with that country's policies.

Another Japanese participant noted that companies often do not want to call attention to economic coercion at the firm level, for fear of escalating the situation. Often, they just "grin and bear it." He mentioned that our nations' companies will continue to invest in China, and our governments should show support for them in these endeavors to feel more confident about sharing information with US and Japanese officials. An American official added that although our governments cannot tell private companies what to do in most cases, they can provide incentives to reinforce positive behavior (in terms of supply chain diversification).

A central theme of discussion by participants was the importance of collective action. Several participants noted that no single nation can counter the economic power of Beijing, but working together can produce a wholly better outcome. An American participant noted that the Chinese strategy in Lithuania hinged on efforts to isolate Lithuania from the rest of the world, which has been unsuccessful so far due to a broad international response. In Ukraine, China is also witnessing the global response to egregious Russian military actions over the past few months. Participants suggested that the lock-step rhetoric and actions of the United States and its allies and partners,

especially outside the trans-Atlantic space, is integral in sending effective deterrent signals to China.

B. Tools and Legislative Action

The group also considered various tools at the allies' disposal for countering economic coercion, as well as possibly developing new tools through multilateral cooperation or domestic legislation. On the multilateral front, ideas included coordinating efforts to help reform WTO procedures to better address trade coercion and getting trade coercion on the agenda of such forums as the G7, G20, and OECD. These recommendations were also among several outlined in report entitled "Responding to Trade Coercion: A Growing Threat to the Global Trading System," published by the Asia Society Policy Institute (ASPI) along with the Perth USAsia Centre in December 2021.¹¹ The report was prepared by an international group of trade policy thought leaders and former trade negotiators (including one member of our bilateral dialogue), and it outlines a combination of national-level response, like-minded coalition response, and WTO-level response recommendations.

On the national-level response front, a Japanese lawmaker highlighted new economic security legislation in Japan that was soon to become law, which will provide financial support and new tools to enhance supply chain resiliency in certain industries and reduce Japanese vulnerability. Working together as an alliance and with like-minded countries in this area, the partners can develop greater knowledge about potential supply chain chokepoints and work to mitigate any vulnerabilities in advance. The legislation also requires Japanese companies providing essential infrastructure for the country to reduce trade coercion risks and prepare detailed plans to respond to potential disruptions.

In addition to government support with trade financing and finding new suppliers or customers for victims of trade coercion, as mentioned by US officials at the outset, other potential tools discussed at the dialogue echoed some of the recommendations from the ASPI report. These included improving information gathering and government-stakeholder coordination, coordinating

¹¹ 7th, December. "Responding to Trade Coercion: A Growing Threat to the Global Trading System." *Asia Society*, 7 Dec. 2021, <https://asiasociety.org/policy-institute/responding-trade-coercion-growing-threat-global-trading-system-0>.

diplomatic responses with like-minded countries, and temporarily suspending import restrictions in an MFN-consistent way. One Japanese participant wondered whether it might be possible to foster the development of mini-free trade agreements among countries in the Indo-Pacific that would include response measures for situations involving trade coercion.

A Congressional staff member described portions of the America COMPETES Act that focus on countering Chinese economic coercion.¹²¹³ Among many other provisions addressing supply chain resiliency, the House-passed version would require the President to establish a “Countering Economic Coercion Task Force” chaired by a National Security Council member selected by the President and composed of Assistant Secretary-level principles from relevant U.S. Departments and agencies. The legislation would also establish an annual reporting requirement that includes a review of economic coercion tools the PRC could employ in the future, a review of the economic and diplomatic tools the US could employ to respond, and an assessment of areas where US allies and partners are vulnerable to Beijing’s economic coercion. He emphasized the need to learn from past cases to get a better understanding of PRC tools and tactics.

The Senate version of this legislation, known as the US Innovation and Competition Act or USICA, contains some similar provisions as COMPETES, but the provisions on economic statecraft generally do not match.¹⁴ These two bills will have to be reconciled before one united version becomes law, but the final version is still likely to include provisions that expand the government’s ability to counter economic coercion, given the heavy emphasis on supply chain management in both bills.

An American participant noted that while there are many bipartisan disagreements in the US Congress, countering PRC economic coercion was not among them and that both parties are willing to cooperate with allies and partners to ensure that China is held accountable and kept within the confines of the rules based international system, both in the Indo-Pacific and beyond.

¹² “Rep. Bera Votes to Pass America COMPETES Act.” *Congressman Ami Bera*, 13 June 2022, <https://bera.house.gov/media-center/press-releases/rep-bera-votes-pass-america-competes-act>.

¹³ “Reps. Bera and Wagner Introduce Bipartisan Legislation to Counter Beijing’s Economic Coercion.” *Congressman Ami Bera*, 13 June 2022, <https://bera.house.gov/media-center/press-releases/bera-and-wagner-introduce-bipartisan-legislation-counter-beijings>.

¹⁴ “Division D of the America COMPETES Act versus Division C of the US Innovation and Competition Act” *Akin Gump: Strauss Hauer & Feld LLP*, <https://www.akingump.com/a/web/npXZYbf7Pzhm1zHfWEdHuM/akin-gump-competes-act-and-usica-division-d-side-by-side2.pdf>.

An American participant said that the United States is in possession of many tools but could use guidance in terms of which direction to move. Some steps could focus on trade support for the victim country including providing export credits or exempting from certain tariffs or “buy American” provisions. In some cases, new authorities for the president might need to be clarified, or just greater flexibility and discretion might be enough. For example, temporary waiving of export credit limits for a single country might be possible, as long as it is clear that multilateral support for that country is forthcoming. Other measures could focus on punishing or sanctioning the country that is trying to coerce another nation.

Either way, dialogue participants recognized the difficulty of creating a clear and uniform definition of economic coercion, because most nations use some sort of economic countermeasures as a tool for addressing legitimate trade disputes or even human rights concerns. Participants vowed to continue bilateral dialogue on the topic and to engage a wide range of stakeholders within the alliance to help build a solid foundation for coordination.

The US-Japan NEXT Alliance Initiative is a forum for bilateral dialogue, networking, and the development of joint recommendations involving a wide range of policy and technical specialists (in and out of government) to stimulate new alliance connections across foreign, security, and technology policy areas. Established by Sasakawa Peace Foundation USA with support from the Nippon Foundation, the goal is to help improve the alliance and how it serves shared interests, preparing it for emerging challenges within an increasingly complex and dynamic geostrategic environment. Launched in 2021, the Initiative includes two overlapping lines of effort: 1) Foreign & Security Policy, and 2) Technology & Innovation Connections. The Initiative is led by Sr. Director Jim Schoff.
