Statement before the Congressional-Executive Commission on China
Hearing on How China Uses Economic Coercion to Silence Critics and Achieve its Political Aims Globally

Between Beijing and a Hard Place:
Responding to China's Economic Coercion

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Senator Merkley, Representative McGovern, and other distinguished Commission members, thank you for inviting me to testify before you today.

The topic of this hearing—how China uses economic coercion to silence critics and achieve its political aims globally—could not be more timely. Over the last few weeks, the world has watched as Beijing has attempted to silence one of China's brightest global stars. Peng Shuai's courage in coming forward with allegations of sexual assault perpetrated against her by a former vice premier stands in stark contrast to the Communist Party's efforts to muzzle her.[1] After Peng described her assault on social media, state censors quickly deleted the post and restricted searches for Peng's name. Shortly thereafter, Peng disappeared from public view, only to reappear several days later in materials circulated by state media purporting to show Peng safe and sound. Few were convinced, including the Women's Tennis Association, which has continued to advocate on Peng's behalf, despite the likely economic consequences.

Many around the world—including members of this Commission—have persistently brought attention to this case.[2] China's efforts to silence Peng remind many of Beijing's censorship and repression campaigns on a variety of other domestic issues, including Hong Kong, Tibet, and Xinjiang. But China's leaders have been active in silencing criticism abroad as well, often using a variety of economic tools. The Alliance for Securing Democracy, which I co-direct, collects data on economic coercion through our Authoritarian Interference Tracker.[3] We list 67 cases of economic coercion by China in the last decade alone. And at the moment, our database only tracks actions targeting the transatlantic community, so it does not capture the multitude of well-known cases of economic coercion against targets outside the United States and Europe.

<u>Examples of China's Economic Coercion to Silence Critics</u>

To better understand the approaches that Beijing tends to take—and how these tactics have shifted over time—it is helpful to scrutinize five cases of Chinese economic coercion. The cases below illustrate how China has sought to silence critics in U.S. partner countries (Norway and Mongolia), U.S. treaty allies (in Australia and Europe), and even in the United States itself. There are a number of similarities across cases, but they also suggest that Beijing is shifting its approach in three ways: China's economic coercion is becoming more frequent, targeted, and explicit.

- **Norway:** In 2010, the Norwegian Nobel Committee awarded the Nobel Peace Prize to Chinese dissident Liu Xiaobo. At the time, Liu was jailed in China for "inciting subversion of state power" by calling for political reforms. In response to the Nobel Prize award, the Chinese government instituted economic punishments against Norway.[4] Subsequently, the Norwegian Seafood Council claimed that Norway's share of the Chinese salmon market fell from 92% to 29%.[5] Furthermore, Beijing stopped negotiations with Oslo on a free trade agreement, and some Norwegian individuals were reportedly denied visas to China.[6] Relations between the two countries did not improve until 2016, when Chinese foreign minister Wang Yi stated, "Norway deeply reflected upon the reasons why bilateral mutual trust was harmed, and had conscientious, solemn consultations with China about how to improve bilateral relations."[7] A Norwegian scholar concluded, "the Chinese government can effectively use economic sanctions to affect the foreign policy positions of democratic governments... China has become too big to fault."[8]

- **Mongolia:** In 2016, the Dalai Lama traveled to Mongolia. One week after the Dalai Lama's visit, China began to impose fees on commodity imports from Mongolia. In addition, loan negotiations between Mongolia and China were suspended. Chinese foreign minister Wang Yi warned that "The Dalai Lama's furtive visit to Mongolia brought a negative economic impact to China-Mongolia relations."[9] Under growing economic pressure from its larger neighbor, the Mongolian government relented and promised to prevent future visits of the Dalai Lama.[10] Mongolian Foreign Minister Tsend Munkh-Orgil publicly stated, "Under this current government, the Dalai Lama will not be invited to Mongolia, even for religious reasons."[11] The Chinese government noted this commitment and stated that it hoped "Mongolia will truly learn lessons from this incident."[12] Similar patterns of economic punishment have been observed elsewhere, with researchers finding that visits by the Dalai Lama decreased exports to China by 12.5% over the following two years.[13]

- **European Union:** China has used economic leverage with individual European Union (EU) member countries to restrict statements on human rights and other contentious issues. In 2017, for example, the EU drafted language criticizing China for its human rights record. The statement was intended to be released at the United Nations Human Rights Council, but for the first time the EU failed to come to agreement on a public statement. Public reports suggested that Greece and Hungary led efforts to block the statement, with the Greek foreign minister opposing "unconstructive criticism of China."[14] Both countries took similar actions in 2016 to prevent issuance of an EU statement criticizing China's South China Sea policies. Chinese funding for the port of Piraeus in Greece and for railways in Hungary appears to have provided Beijing with leverage. After one Greek intervention, China's Foreign Ministry went so far as to publicly congratulate "the relevant EU country for sticking to the right position."[15] More recently, Beijing has sanctioned European experts, officials, and institutions that have spoken out on human rights issues. And in just the last few days, China has delisted Lithuania as a country of origin, effectively blocking all imports from or exports to Lithuania, amidst their ongoing political dispute.[16]

- **Australia:** In 2017, Chinese influence in Australia attracted substantial attention due to a series of disclosures about Chinese political donations.[17] Donations from individuals with close ties to Beijing appear to have been intended to alter Australian decision-making regarding China. In some cases, Chinese officials directly threatened Australian political leaders that they would suffer in elections if they went against Chinese wishes.[18] Tensions rose again when Australia called for an investigation into the origins of the pandemic, after which China placed restrictions on a variety of Australian exports to China. Chinese officials even provided a list of 14 grievances that they insisted be addressed, which included "unfriendly or antagonistic report[s] on China by media" in Australia.[19] Deep China-Australia economic ties gave China an "increased ability to threaten and use economic coercion in its relations with Australia."[20] Yet, despite this leverage and pressure, Australia has stood strong. Jeffrey Wilson concludes that, "Beijing's attempt to bully Canberra has been a spectacular failure."[21] Rory Medcalf notes, "perceptions of Australia's vulnerability to Chinese economic pressure are exaggerated."[22]

- **United States**: Although China has traditionally been reticent to target the United States with economic sanctions, Beijing has recently used economic tools to penalize American businesses and individuals for speaking out on various human rights issues.[23] In the best known case, the National Basketball Association lost substantial business in China after one of its general managers posted on social media about Chinese repression in Hong Kong.[24] American companies that do business in Taiwan have also faced various kinds of pressure to alter their labeling of Taipei.[25] And prominent athletes and actors have been warned to avoid criticizing China, lest they and their employers lose business.[26] Chinese officials have even gone so far as to warn U.S. businesses that they "cannot make a fortune in silence" – suggesting that they lobby the Biden administration to change it policies toward China.[27] Beijing has also sanctioned U.S. officials, experts, and institutions for speaking out, signaling a fundamental change in China's traditional approach.[28] Whereas the United States once appeared to be largely off-limits for Chinese economic coercion, U.S. companies and individuals are increasingly coming under direct pressure.

Trends in China's Use of Economic Coercion

These five cases demonstrate that the scope, scale, and severity of the challenge from China's economic coercion is expanding. In particular, China's economic coercion has become more frequent, more targeted, and more explicit in recent years. Going forward, policymakers should expect these trends to continue.[29]

- **More Frequent:** Beijing is far more willing today to use economic tools for foreign policy ends than it was a few years ago. Whereas there were only a handful of clear cases of economic coercion by China in the early 2010s, experts have identified dozens of incidents over the last few years.[30] This is true not only for negative penalties, but also positive inducements. Audrye Wong explains that China has provided "economic inducements in illicit and opaque ways," which she calls "subversive carrots."[31] Elaine Dezenski notes that despite promises to avoid "conditionality" in its overseas assistance, China prefers "closed bidding processes, non-transparent contracts, and a commitment to non-interference," making political influence easier.[32] These trends suggest that Chinese leaders feel more confident in using economic tools, despite the fact that many of these actions have had significant negative effects on China's standing abroad.[33]

- **More Targeted:** At the same time, China's leaders have become more targeted in their use of economic measures. This transition toward more targeted measures mirrors the longer-term shift toward more targeted sanctions by the United States and many of its allies and partners. Earlier pressure on Norway and Mongolia broadly targeted key economic sectors in each country, but much recent measures have been designed to isolate specific companies and individuals. Human rights activists, political leaders, and businesses have all come under pressure for making statements and taking actions that the Communist Party opposes. Even adhering to foreign laws can put companies at risk now that China's National People's Congress has passed an anti-sanctions law that permits a broad set of responses against entities that adhere to foreign sanctions which Beijing considers "arbitrary" or "unilateral."[34]

- **More Explicit:** Finally, China's economic statecraft is far more explicit and legalistic today than it was a decade ago. Beijing used to disguise most of its economic pressure, attempting to use ambiguity to avoid committing egregious World Trade Organization violations.[35] Thus, previous measures, such as restrictions on rare earth exports, were often described in public as simple trade disputes unconnected to foreign policy choices.[36] As William Norris has noted, there are a multitude of economic actors in China with different interests, which has often made it difficult to know the intent behind any specific Chinese economic action.[37] Today, however, China's leaders are more willing to be explicit when they use economic tools for coercive purposes, with few if any efforts made to disguise the behavior. For example, Beijing has threatened to blacklist companies by putting them on an "unreliable entity list" when they "endanger national sovereignty, security, or development interests in China, or violate normal market transaction principles by suspending normal transactions."[38]

Implications for Policymakers

These trends suggest that China is likely to increase the frequency, targeting, and explicitness of its economic coercion in the years ahead. To deter and defend against these actions, the United States and other like-minded countries will have to work together more closely.[39] Not only that, but China's growing willingness to target companies and individuals will mean that those actors will find themselves isolated unless they can find ways to coordinate among themselves and with their governments. With those objectives in mind, here are three steps that the United States and others should consider to better defend themselves, deter future bullying, and counter Beijing's economic coercion through collective action.

- **Defending through Active Diversification**: In a recent report, Darren Lim, Ashley Feng, and I argued that foreign actors will have to rely more on diversification to protect themselves against Chinese economic statecraft.[40] This is true not only of the United States and its allies and partners, but also of companies and individuals within those countries. Deep dependence on China allows Beijing to accumulate influence over time and then to deploy that leverage coercively when countries, companies, and individuals act against the Communist Party's interests. There is no way to avoid such pressures entirely, but these risks can be managed by diversifying export markets and production hubs. The administration and the Congress should therefore consider whether companies operating in the United States should have to disclose the material risks to their businesses from over-exposure to any single foreign market or production hub, particularly ones that engages in widespread censorship and disinformation. Doing so might spur corporate boards to insist on auditing procedures that could identify over-exposure to certain risky markets and thereby incentivize diversification.

- **Deterring through Strategic Recoupling**: Over the last few years, a number of countries have engaged in selective decoupling to reduce their dependence of China in certain sensitive areas. These steps will no doubt continue. In the long-term, however, it is also in the U.S. interest that China continues to be dependent on America and its allies and partners for a wide range of goods.[41] This is true both in high-technology areas, such as advanced semiconductors, but also in more basic but essential commodities such as agricultural products. One need look no further than Australia to see that imports like iron ore are critical to China, which gives foreign governments real leverage. Therefore, the offensive tool of strategic recoupling should be seen as a natural counterpart to defensively oriented selective decoupling. The United States should lead efforts with allies and partners to determine which areas China's dependence can be maintained, or even increased, to provide leverage for deterring future economic coercion campaigns.

- **Countering through Collective Action**: Defense and deterrence are two key elements, but ultimately the United States will have to work with key allies and partners to penalize China when it engages in economic coercion against their countries, companies, and individuals.[42] Doing so requires cooperation on what the European Commission is calling an anti-coercion instrument.[43] When certain steps are triggered, the European Union will be able to institute countermeasures against coercion from abroad. The current case of Chinese coercion against Lithuania may provide an early test of this approach. Collective action will be critical, since Beijing is hoping that it can use its large market to coerce smaller foreign actors. Effective responses to China's economic statecraft will require concerted action by a number of like-minded countries. Working together with the European Union and others on a mechanism to counter coercion should therefore be a top priority for U.S. lawmakers and policymakers. Although this effort is likely to take years, work toward this type of arrangement should begin in earnest immediately.

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