



China's Coercive Economic Diplomacy – A New and Worrying Trend by Bonnie S. Glaser

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When the 10 member nations of ASEAN failed to reach agreement on the wording of a joint communiqué for the first time in 45 years, most pundits blamed this year's ASEAN chair, Cambodia, for failing to forge a consensus. Behind Phnom Penh's passivity, however, was pressure from Beijing to keep any mention of the South China Sea, especially the recent faceoff between China and the Philippines in the Scarborough Shoal, out of the final statement. That the Chinese had sway over Cambodia should not come as a surprise. Beijing has provided over \$10 billion in aid to Cambodia. In 2011 alone the amount of foreign investment pledged to Phnom Penh by China was 10 times greater than that promised by the United States. Cambodia's economic dependence on Beijing is symbolized by the Peace Palace, which was built with Chinese funding, and served as the venue for the ASEAN summit.

For more than a decade, China has pursued a strategy in Southeast Asia that relied heavily on economic carrots to increase the stake of the Southeast Asian countries in maintaining good relations with China. The China-ASEAN FTA, Chinese foreign direct investment, foreign assistance, and trade have all been used to encourage countries to consider Beijing's interests when formulating policies and eschew actions that China would view as objectionable. In the past few years, however, China has directly used economic relations to compel target countries to alter their policies. And this growing trend is worrisome.

The most recent target of the employment of economic measures by China for coercive purposes was the Philippines, which on April 10 sent a navy frigate to investigate the sighting of eight Chinese fishing boats in the lagoon of Scarborough Shoal, just 124 nautical miles from Zambales province and well within the Philippines' 200-nautical mile Exclusive Economic Zone. After an armed boarding party discovered giant clams, coral, and live sharks aboard the boats, an attempt to arrest the fisherman was thwarted by two civilian China Maritime Surveillance vessels that arrived on the scene. The Philippines withdrew the frigate and replaced it with a Coast Guard Cutter. China dispatched an armed Fishery Law Enforcement Command ship to reinforce its sovereignty claim. The standoff continued for over a month.

Incensed by Manila's unwillingness to withdraw from the Shoal, China resorted to economic measures to punish the Philippines for encroaching on Chinese sovereignty. Chinese quarantine authorities reportedly blocked hundreds of container vans of Philippine bananas from entering Chinese ports, claiming that the fruit contained pests. The Chinese

decision to quarantine the bananas dealt a major blow to the Philippines which exports more than 30 percent of its bananas to China. Subsequently, China began slowing inspections of papayas, mangoes, coconuts, and pineapples from the Philippines. In addition, Chinese mainland travel agencies stopped sending tour groups to the Philippines, allegedly due to concerns for tourists' safety. In January, China had surpassed Japan to become the third-largest source of tourists for the Philippines. Filipino business leaders pressured the government to abandon its confrontational approach in the Scarborough Shoal, which was precisely the outcome that China hoped for. In early June, Beijing and Manila reached an agreement to simultaneously pull out all vessels in the lagoon. The Philippines abided by that agreement, and then withdrew all its vessels from the Shoal due to bad weather later that month. According to Manila, Chinese fishing vessels remain in the lagoon in violation of the agreement, and Chinese ships are now blocking the entrance of the lagoon, preventing any Philippine ships and fishing vessels from re-entering the area.

A more widely reported case of China using trade as a weapon to force a country to alter its policy occurred in September 2010 when Beijing blocked shipments of rare earth minerals to Japan. The action was taken in retaliation for Japan's detention of the captain of a Chinese fishing trawler in an incident near the Senkaku Islands, which are under Japanese control but are also claimed by China and Taiwan. China's customs agency notified companies that they were not permitted to ship to Japan any rare earth oxides, rare earth salts, or pure rare earth metals, although these shipments were still allowed to Hong Kong, Singapore, and other countries. The Chinese subsequently slowed rare earth shipments to the United States and countries in Europe as well, insisting they were attempting to clean up the rare earth mining industry, which has caused severe pollution in some places where the minerals are mined. Beijing's action alarmed Tokyo and was a major factor in the decision of the Japanese government to release the captain. The embargo was viewed by many experts as evidence of Chinese willingness to use economic leverage to have its way in an international dispute.

China doesn't just target Asian nations. A third example of China's use of economic coercion was triggered by the award of the 2010 Nobel Peace Prize to Chinese dissident Liu Xiaobo by the Norwegian Nobel Committee. After the announcement was made in October 2010, the Chinese foreign ministry warned that the decision would harm relations between Beijing and Oslo, despite the fact that the Nobel Committee is independent from the Norwegian government. China also warned foreign diplomats that sending representatives to the Nobel Peace Prize award ceremonies would have adverse consequences. Eighteen countries, mostly nations with poor human rights records of their own, opted to not attend.

In the ensuing months, China froze FTA negotiations with Norway and imposed new veterinary inspections on imports of Norwegian salmon that resulted in a severe cutback. The volume of salmon imports from Norway shrunk 60 percent in 2011, even as the Chinese salmon market grew by 30 percent. Requests by Norway's food safety authorities to contact their Chinese counterparts have gone unanswered. More than a year and a half after the Nobel Peace Prize ceremony, Chinese foreign ministry officials continue to refuse to meet representatives of Norway's government to discuss international developments. In June 2012, Beijing denied a visa to former Norwegian Prime Minister Kjell Magne Bondevik, who had been invited to attend and moderate a World Council of Churches meeting in Nanjing.

China has become a critically needed engine of growth for the global economy. In addition, China's economic largesse has provided benefits to many countries around the world. It is increasingly clear, however, that economic cooperation with China has inherent risks. Countries should be mindful of Beijing's increasing propensity to use economic means to compel target nations to alter their policies in line with Chinese interests. Excessive dependence on China may increase countries' vulnerability to such pressure.

In the Asia-Pacific region and beyond, nations are closely observing Chinese behavior as it reemerges as a great power. Most remain hopeful that as China rises it will adhere to international and regional norms and strengthen the prevailing international system from which it has benefited in recent decades. If such a positive scenario is to be realized, however, countries will have to push back against China's growing willingness to employ economic leverage to coerce countries to modify their policies in accordance with Beijing's wishes.

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