



TAIWAN ARMS SALES: CHINESE SANCTIONS ON US FIRMS

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With the much-expected announcement on the latest US arms sales package to Taiwan, China retaliated with a vow to sanction US companies participating in the sales. This is not the first time that China threatened to do so. The extent to which Chinese vows of revenge are rhetorical or meaningful needs to be examined. Did Beijing truly sanction US firms and stop their business operations in China?

The first time that Beijing claimed that it would impose sanctions on US companies involved in arms sales to Taiwan was in February 2010 following a \$6.4 billion package approved by the Obama administration. That package included 114 *Patriot* missiles worth \$2.82 billion, 60 *Black Hawk* helicopters worth \$3.1 billion, communications equipment for Taiwan's *F-16* fleet, as well as *Harpoon* missiles and mine-hunting ships. The US vendors included Boeing, Raytheon, Lockheed Martin, Sikorsky Aircraft, and Rockwell Collins.

The second time that Beijing threatened sanctions was in December 2015, in response to a \$1.8 billion package that included \$375 million worth of Amphibious Assault Vehicles and two decommissioned Navy *Perry*-class frigates worth \$190 million, *Javelin* antitank missiles, 250 FIM-92 *Stinger* man-portable air defense systems (MANPADS), and an assortment of other weapons, including CIWS ("sea-whiz") anti-ship missile defense systems. The companies that were to be sanctioned, according to Chinese reports were Raytheon, Lockheed Martin, and FMC Corporation.

This time, the main items in the arms sales package include 108 M1A2 *Abrams* tanks manufactured by General Dynamics Corp, 254 *Stinger* missiles made by Raytheon, 14 M88A2 *Hercules* Armored Recovery Vehicle produced by BAE Corp, and 16 M1070A1 Army tank transporter tractors produced by Oshkosh Corporation. The Chinese Foreign Ministry announced July 12 that China will impose sanctions on all US companies involved.

Questions emerge. First, while anger and diplomatic protests are constant, China does not always threaten sanctions when the US sells arms to Taiwan. Beijing did not wave the sanctions stick after the Trump administration's \$1.4 billion arms sales package in 2017, or the \$330 million package in 2018. One factor that affects Beijing's reaction is the nature of the arms sold: do they include major advanced weapons systems? When sales are focused on updating older systems, Beijing's response is usually calmer. Another factor is the overall bilateral dynamics between Beijing and Washington. In 2010 and 2015 China was antagonistic to the Obama administration for its "rebalance to Asia" and consequently, the maritime disputes in the East and South China Seas. In comparison, in 2017 and 2018, China did not want to overreact to the Trump administration amidst a pending US-China trade war. Now, China's evident rejection of Trump's demands on trade and the expected stalemate over the trade negotiations gave China less to fear.

US defense companies are under strict restrictions regarding arms sales to China. For this reason, it is logical that the impact of Chinese sanctions on firms that do not do business in China will be small. That might be true for some, but not for all. Many of these firms have direct or indirect business interests in China. Boeing, which was involved in the 2010 arms sales, was identified as the one provider that had the largest operation and revenue from China in civil aviation. The biggest supplier in many of the arm packages to Taiwan – Lockheed Martin – is also operating in China directly. It signed an agreement with China's Reignwood Group in 2013 to build a power factory in Hainan using Ocean Thermal Energy Conversion technology. Also in 2013, Lockheed Martin and China's State Nuclear Power Automation

System Engineering Company signed an agreement to prototype, manufacture, and qualify nuclear power plant reactor protection systems for China's Generation III reactors. The resulting Nuclear Protection and Control system was formally approved and launched in 2017. Sikorsky Aircraft, whose parent company used to be United Technologies and has been Lockheed Martin since 2015, manufactures *Black Hawk* helicopters. In 2003, Sikorsky formed a joint venture, Shanghai Sikorsky Aircraft, that specializes in civilian helicopters for the Chinese market. Since 2017, Lockheed Martin's hybrid aircraft operator Straightline Aviation is specifically targeting the Chinese market.

For the current arms sales package, the maker of the *Abrams* tanks, General Dynamics Corp. also produced Gulfstream business jets, one of the two dominant brands in the mainland China market. Although the company has said [that it makes only single-digit sales to Chinese customers](#), its fleet in Greater China ([more than 190 aircraft](#)) makes up more than half its Asia-Pacific fleet. Its expanding service center in Beijing assists customers from the whole region. Raytheon opened a consulting operation focused on professional services in Shanghai in 1993. [Currently it has more than 80 professional consultants on the ground.](#)

Given all the operations of the involved firms in China, Beijing does not appear to have followed through on the threat of sanctions made in 2010 and 2015. Boeing has been selling more than 140 planes to China every year since Beijing first threatened sanctions on participating firms in 2010. Lockheed Martin has been working with Chinese entities even after Beijing's threat in 2015 that "Chinese government and companies will not have any cooperation or commercial relations with American firms participating in the arms sales to Taiwan." Meanwhile, Raytheon's professional services appear to continue to operate in China without interruption. With the growing popularity of Gulfstream business jets among rich Chinese entrepreneurs, it is hard to see how Beijing could/would completely shut them down or out of the Chinese market. It is possible that Beijing has differentiated between different subsidiaries of the defense firms that are responsible for the arms sales and for the Chinese civilian market. But that further

limits or eliminates its ability to impose sanctions on US manufacturers, rendering the threat empty.

China's frustration with and resentment of US arms sales to Taiwan is real. But its ability to change the US calculus is extremely limited – and that is especially true when bilateral relations are already strained by great power competition on the strategic level and a trade war in the near term. To threaten sanctions on US defense companies is an easy and sensational way to vent, although in reality, sanctions that have been implemented are hard to find, either because such firms only have limited operations in China or their products/technologies are hard to replace. China has imposed economic sanctions on smaller countries when they refuse to comply with Chinese demands. Prominent examples range from the boycott of Lotte for the THAAD deployment in South Korea to Canadian agricultural products for the detainment of Huawei's CFO. In the case of arms sales to Taiwan, the Chinese stick is unlikely to work, however.

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