



**TOWARD A RESILIENT SUPPLY CHAIN  
TO COUNTER CHINESE ECONOMIC  
COERCION**

BY SU HYUN LEE

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On Aug. 3, 2022, following US House Speaker Nancy Pelosi's visit to Taiwan, Chinese customs suspended natural sand exports while blocking imports of citrus fruits, chilled white scallops, and frozen mackerel. Export bans are usually symbolic in Taiwan, as farming and fishery exports make up just a fraction of Taiwan's economy. However, some of the suspended products seem to target specific locales—fishermen, for example, traditionally represent an influential voting bloc in the coastal areas of Taiwan. Beijing may have hoped to turn them toward the relatively China-friendly Kuomintang, and against President Tsai Ing-wen's Democratic Progressive Party in the local election three months later.

Although China justified the bans by claiming Taiwanese exports violated food safety standards, the timing of this episode suggests Beijing had engaged in economic coercion to change another government's behavior—and not for the first time.

With China's rapid economic growth since the late 1970s and early 1980s—and especially after Beijing joined the World Trade Organization in 2001—China's ability to reward and penalize other countries economically has also grown. As China has increased its interdependence with other countries, it has frequently deployed economic coercion to increase its

leverage on issues such as territorial and maritime disputes, in retaliation for criticism over its human rights violations, or to protect its security interests.

Countries in Asia have responded differently toward Beijing's economic coercion, critically affecting their relations with the regional economic behemoth. Perhaps contrary to the PRC's expectations, such reactions have contributed to these countries' growing independence from Chinese coercion, and present an opportunity for the United States to build its regional influence.

### **Japan**

In September 2010, a Chinese trawler collided with two Japanese Coast Guard patrol ships near the Senkaku Islands, an uninhabited—yet disputed—archipelago in the East China Sea. After the Japanese government arrested the trawler captain and sought to put him on trial, China protested. Its expressions of disapproval included halting shipment of rare earth elements (REEs) key to producing hi-tech products like hybrid cars, wind turbines, and guided missiles. The 2010 fishing boat incident triggered Japan's concerns about dependence on China for processed rare earth materials, as Japan was the largest importer of China's REEs, and had no alternative supply sources at the time.

The crisis forced Japanese public and private economic actors to pursue multiple REE diversification projects. Notable efforts included increased REE recycling; seeking alternative sources of supply from the United States and Australia; intensifying undersea exploration; and increased use of other substitutes. Consequently, from 2008 to 2018, the share of Japanese rare earth imports from China fell from 91.3% to 58%. China's ban on rare earth elements showed the downside of “weaponization of interdependence,” by disturbing the global value chain and eventually causing China to lose much of the leverage it had as a key trading partner with Japan.

### **Australia**

The relationship between China and Australia has deteriorated in recent years amid a range of events,

starting with Australia banning Huawei from its 5G networks in 2018. The relationship soured further in 2020 as Australia called for an inquiry into China's response to the COVID-19 outbreak. In response, China imposed an 80.5% tariff on Australian barley and barred imports from Australia such as beef and coal, among other measures. Although Australia has found alternative markets for products such as beef, coal, and copper ore, other products such as lobster and timber continue to suffer compared to their 2019 trade levels.

The case of Australia shows another critical consequence of exercising economic coercion: Rational countries will make the choice not to trade with countries they perceive as aggressors based on the negative perceptions left over from economic coercion, even if this means paying a price economically. This once-close relationship, which took decades to build between the Australian sellers and Chinese buyers, was effectively destroyed by China's penalties.

### South Korea

In July 2016, the US Department of Defense and South Korean Ministry of National Defense announced in a joint statement the alliance's decision to deploy a US Terminal High Altitude Area Defense (THAAD) antimissile battery in South Korea to defend against the increasing North Korean missile threat. THAAD is a highly effective, combat-proven defense against short-, medium-, and intermediate-range ballistic missile threats. Beijing opposed THAAD in Korea based on the fear that the batteries weakened China's nuclear deterrent and signaled US intent to contain China.

In response, Chinese tourism to South Korea dropped by about 40% and Korea's consumer goods and cultural products were boycotted inside its giant neighbor. Estimates of the total cost to South Korea range between \$7.5 billion and \$15.6 billion. To normalize economic relations and remove informal economic sanctions, the South Korean government in 2017 announced its commitment to "three nos"—no additional deployment of THAAD batteries, no South Korean integration into a US-led regional missile

defense system, and no trilateral alliance with the United States and Japan. However, ordinary South Koreans' views of China deteriorated. According to research by the Asan Institute for Policy Studies, in the aftermath of the dispute South Koreans viewed China even less favorably than they view Japan, which colonized the Korean Peninsula from 1910-45 and had consistently been Koreans' least favored country (with the occasional exception of North Korea).

### Lessons of Chinese coercion

Chinese economic coercion poses a serious threat to international trade. Clearly, China has been imposing and administering export restrictions, which requires countries to conform to export duties, export quotas, and to meet minimum export price requirements, to achieve Chinese political goals. To halt such coercion, CSIS Senior Vice President for Asia Victor Cha has introduced the concept of "[collective resilience](#)" to counter Chinese economic coercion. Specifically, collective resilience is a concept where the United States organizes partners to build economic leverage and discourage Beijing from engaging in coercion in the first place. Members of Quadrilateral Security Dialogue, Indo-Pacific Economic Framework, and Chip4 Alliance are often regarded as key partners of the United States. US partners should cooperate with the Biden administration to establish an early warning system, map out critical supply chains, and diversify the resources for important goods to construct a resilient supply chain.

The United States and its allies and partners should build a bloc to deter China's acts of economic coercion. To build a robust supply chain that reduces China's role in supplying critical technologies, members of the bloc should first come to an agreement on ways to build fair and resilient economic order. However, the two massive bills passed by the US Congress—the Inflation Reduction Act (IRA) and the CHIPS and Science Act—pose a severe threat to this mission. Not only does the IRA provide subsidies to vehicles assembled only in North America, the latter bill provides \$52 billion for semiconductor companies constructing new high-end manufacturing plants in the United States. This could

undermine US credibility, as both can easily be seen as unfairly subsidizing its companies and violating the spirit, if not specific laws of, the World Trade Organization. At the same time, based on the regional proximity and the influence China has on the region, allies will feel pressure to enter a costly and prolonged subsidy war between the United States and China. Export controls on transfer of cutting-edge technologies to China and building a resilient supply chain in the Indo-Pacific won't work unless key allies and partners cooperate.

The Biden administration should therefore work with its partners to form economic security strategies on advanced technologies where innovations are spurred, while the commercial competitiveness of each country is protected. The US' Asian allies have already learned from their Chinese counterpart that the only way to avoid weaponizing the economy is to boost the competitiveness of one's industry, while reducing the economic dependence of the country exercising economic coercion.

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