

DEVELOP DETERRENCE AGAINST CHINESE ECONOMIC COERCION

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Context and background

Australia and the United States need to coordinate their efforts – bilaterally, and with like-minded partners – in responding to Chinese economic coercion.

In recent years, China has used trade sanctions to economically punish governments that contest its foreign policy manoeuvres. Several US allies, including Australia, have been subject to China's punitive trade measures. Despite engaging in its own trade dispute with China, the Trump administration failed to respond in support of affected allies and friends. As Australia mounts a World Trade Organization (WTO) challenge to Chinese trade sanctions in 2021, coordination with and support from the Biden administration will be critical in ensuring Australia's success, and reassuring third parties the United States will stand against Chinese trade coercion.

In recent years, China has deployed the use of trade sanctions to coerce governments that contest its foreign policy. This began in 2010 when it suspended rare earth minerals trade with Japan during a dispute over the Senkaku Islands. In subsequent years, seven more countries have been subject to similar trade sanctions (see Table 7). This tactic has been exclusively applied to small and medium economies, where size asym-

metries mean the target lacks the capability to retaliate effectively. They also routinely target US allies and friends, clearly selected as a proxy for sanctions against the United States itself.

Table 7. Targets of Chinese trade coercion, 2010-2020

Target	Year	Affected sectors
Japan	2010	Rare earth minerals
Norway	2011	Salmon
Philippines	2012	Bananas
Mongolia	2016	Minerals
Taiwan	2016	Tourism and education
Korea	2017	Tourism, autos, retail
Canada	2019	Canola, soy, pork, beef
Australia	2020	Barley, beef, coal, education, tourism, wine, cotton, timber, seafood, wool, wheat, copper, sugar

These Chinese trade sanctions serve dual purposes: domestic pressure and international deterrence. Domestically in the target country, they cause pain to important business sectors, in the expectation that affected companies will pressure their government to soften its stance toward China. Internationally to third parties, they telegraph that criticising certain Chinese policies will result in trade punishment, deterring further opposition.^{14.1}

The Biden administration

Despite frequently targeting US allies and friends, the Trump administration failed to substantively act on Chinese trade coercion. This partially reflects its 'America First' stance and a general failure to support allies during diplomatic crises. It also reflects the fact that the Trump administration itself used coercive trade threats – in several cases, against the very same allies.^{14.2} Whatever the cause, US inaction during the Trump administration left allies to fend for themselves in the face of Chinese economic coercion. It also sent a message to non-alliance partners in the Indo-Pacific that the United States would not intervene if they are affected in future, thereby amplifying China's deterrence effect.



The Biden administration has emphasised the importance of working with allies in response to Beijing but has so far said they are reviewing the Trump administration's policies before engaging in a new policy direction.

Australian interests

In 2020, Australia became China's newest target. Following the Australian Government's call for an independent international inquiry into the origins of COVID-19 in April, China applied an 80 per cent anti-dumping duty to barley exports, effectively ending the trade. In subsequent months more trade bans were applied, utilising both formal (anti-dumping) and informal (customs procedures) methods. By year-end, China had restricted the import of 13 different products and services from Australia.^{14.3} The affected industries exported \$54 billion to China in 2019,^{14.4} a serious economic blow coming atop the dislocations of COVID.

However, Australia stands out for its defiance of Chinese trade sanctions. The Australian Government has refused to offer any mea culpa, and in December 2020 referred Chinese tariffs on barley to the WTO dispute settlement mechanism. The dispute will be heard as case "DS598" in 2021.^{14.5} Flagging a departure from the Trump era, incoming US National Security Advisor-designate, Jake

Sullivan, indicated the Biden administration will “stand shoulder to shoulder” with Australia in the dispute.^{14.6} DS598 will prove a landmark test of China’s ability to use trade sanctions as a means of diplomatic coercion, as an Australian victory will enable retaliation through the WTO. Importantly, it also multilateralises a matter previously handled bilaterally, allowing Australia to pool resources with like-minded countries.

Coordination between Australia and the United States would greatly aid efforts to deter, and defend against, Chinese economic coercion. Due to size differentials, middle powers such as Australia, Canada and Korea cannot effectively respond to Chinese trade sanctions alone. Collective responses provide the best defence against economic coercion. US involvement will be critical to collective defence strategies. Its economic size – and thus scope for retaliation – is a powerful deterrent to further Chinese action. US support for such efforts will also provide reassurance to allies and partners when contesting Chinese foreign policy.

Policy recommendations

- › **The United States should coordinate with and provide third-party support to Australia’s WTO dispute with China.** Australia is the first country to challenge Chinese trade coercion at the WTO. But as an infrequent WTO litigator,^{14.7} Australia’s case would benefit from US support. This could include preparatory discussions between the Department of Foreign Affairs and Trade (DFAT) and the Office of the US Trade Representative as well as the United States directly participating in the DS598 process as a third party.
- › **The United States should review policies obstructing the normal functioning of the WTO Dispute Settlement Mechanism (DSM).** Due to US appointment vetoes, the WTO Appellate Body is presently inquorate.^{14.8} China may strategically use an appeal to the Appellate Body to indefinitely delay a resolution to DS598. Restoring normal function to the DSM by removing US appointment vetoes, and then promptly clearing an existing case backlog, will be essential to ensure a timely and successful resolution.
- › **The United States and Australia should explore beyond-the-WTO “collective defence” mechanisms with like-minded partners.** A collective defence mechanism that responds more promptly than the WTO is needed to deter Chinese economic coercion. Some type of “economic article five” mechanism involving the United States and its allies – similar but not identical to the collective defence provisions of NATO – will be the most effective means to do so. Australia and the United States should immediately consult with partners on the potential options with a view to establishing practical mechanisms in the medium term.