

Smart Bully – Explaining China’s Decisions to Impose Economic Sanctions

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Abstract: Why does China use economic sanctions against some countries but not other countries? Chinese foreign economic policy is understudied, especially in terms of how it is linked to China’s grand strategy and national security. Moreover, previous sanctions scholarship is western-centric and overlooks sanctions by authoritarian states rising in power. This paper fills these gaps by exploring when the rising China imposes economic sanctions for its national security. It argues that China stresses economic and geopolitical costs when making sanctions decisions. This “cost-consciousness” reflects China’s grand strategy of creating a favorable international environment for its development. Utilizing the most-similar case selection research design, the paper shows that China only imposes sanctions when it has a favorable trade asymmetry vis-à-vis the target state and the target cannot balance against China through alignments with other states. This qualitative study uses primary Chinese-language sources, such as interviews with well-connected Chinese scholars, and previously undiscovered memoirs and official chronologies of key Chinese leaders. My research highlights the connection between foreign economic policy and grand strategies. It also calls for attention to the use of economic statecraft by authoritarian rising powers for purposes of national security.

1. Introduction

*"We will never bully smaller countries, yet we will never accept unreasonable demands from smaller countries. On issues of territory and sovereignty, China's position is firm and clear."*¹

*"History tells us that sanctions cannot solve problems; confrontation may lead to conflicts."*²

*"There is no evidence that China does business on a basis any different from everyone else; it seeks the best product at the best price. The fact that it goes on hinting that friendship and compliance with Chinese positions can lead to big fat contracts is a tribute to Western (including American) gullibility."*³

The Chinese and British officials above paint a rather benign picture of China as a status-quo preserver that will not use economic leverage to coerce others. Yet the reality is mixed. On September 14, 1992, the United States decided to sell 150 F-16 A/B fighters to Taiwan, totaling \$5.8 billion.⁴ In December 1992, France sold 60 Mirage-2000 jet fighters to Taiwan. China construed both actions as threatening its sovereignty and reacted diplomatically. China, however, imposed economic sanctions only on France but not on the United States. In June 2007, Australian Prime Minister John Howard met with the Dalai Lama, the Tibetan spiritual leader. The Chinese Ministry of Foreign Affairs (MFA) expressed "strong dissatisfaction" (*qianglie buman*) and "resolute objection" (*jianjue fandui*).⁵ In September 2007, German Chancellor Angela Merkel met with the Dalai Lama. The Chinese Ambassador to Germany protested that Merkel set a "bad precedent" by being the first Chancellor to have met with the Dalai Lama since China and Germany established

¹ Chinese Foreign Minister Wang Yi during a press conference on March 8, 2014, http://www.fmprc.gov.cn/eng/zxxx/t1135385.shtml?utm_content=buffera4dd4&utm_medium=social&utm_source=twitter.com&utm_campaign=buffer, accessed March 9, 2014.

² "Zhongsheng" (i.e., voices from the center), "Yihe wenti, guanjian jieduan xuyao chengyi" (The key to the Iranian nuclear issue requires honesty), *People's Daily*, June 9, 2014. "Zhongsheng" is an editorial from the *People's Daily* that speaks on behalf of the official stance.

³ Chris Patten, *Cousins and Strangers, America, Britain, and Europe in a New Century* (New York: Times Books, 2006), p. 262-263. Patten was the last British governor of Hong Kong.

⁴ Shirley A. Kan, *Major U.S. Arms Sales Since 1990* (Washington D.C.: Congressional Research Service, November 29, 2012).

⁵ *People's Daily*, June 16, 2007, section 4.

diplomatic relations.⁶ The MFA was "strongly dissatisfied."⁷ In December 2008, French President Nicolas Sarkozy met with the Dalai Lama. The MFA again expressed "strong dissatisfaction."⁸ Yet China sanctioned France and Germany, but not Australia. China clearly uses economic pressure for political purposes, yet it does so selectively. China behaves as a "good and normal" trading partner towards some countries some of the time but flexes its economic muscle against others. Table 1 below is an overview of Chinese economic sanctions since 1990.

Table 1. Chinese Economic Sanctions since 1990⁹

Issue Area		Economic Sanctions Imposed	No Economic Sanctions
Core Interests	Arms Sales to Taiwan	France (1992): a two-year ban on French wheat exports to China; exclusion of French companies from commercial bids in China; France refrained from arms sales afterwards	United States (1992) and annually after 1992.
	Tibet (Visits by the Dalai Lama)	<p>Mongolia (2002): received by the Prime Minister (PM); a two-day closure of the Sino-Mongolian border that denied land-locked Mongolia of its copper exports; the PM subsequently refrained from meeting with the Dalai Lama</p> <p>Canada (2007): received by PM. A two-year delay in granting Canada the designated tourist destination status, which was discriminatory; as of now, no more official meetings with the Dalai Lama</p> <p>Germany (2007): received by the Chancellor in her official residence. A one-year reduction in Airbus sales to China; as of now, no more official meetings with the Dalai Lama</p> <p>France (2008): received by the President. A one-year 46% reduction in Airbus sales to China; as of now, no more official meetings with the Dalai</p>	<p>Received by highest-ranking officials (presidents and/or PM):</p> <p>US (almost annually) Norway (1991, 2000) Ireland (1991, 2000) Lithuania (1991, 2001) Bulgaria (1991, 2001) Poland (1991, 1993, 2000, 2008) UK (1991, 1999, 2008, 2012) Cambodia (1992) Argentina (1992) New Zealand (1992, 1996, 2002) Australia (1992, 1996, 2007) Chile (1992, 1999) India (1992, 2010) Austria (1993, 1994, 2007, 2012) Nicaragua (1994) South Africa (1996) Czech (1997, 2000, 2002, 2008) France (1998) Brazil (1999) Netherlands (1999) Italy (1999) Belgium (1999)</p>

⁶ Ma Canrong, "Xinshiji zhongde guanxi dequanmian fazhan" [The comprehensive development of Sino-German relations in the new century], in Gu Junli, ed. *Zhongde jianjiao sishinian, huigu yu zhanwang*, p. 78.

⁷ MFA Press Conference on September 25, 2007, at http://www.mfa.gov.cn/mfa_chn/fyrbt_602243/jzhsl_602247/t366489.shtml, accessed December 8, 2013.

⁸ MFA Press Conference on December 4, 2008, at http://www.fmprc.gov.cn/mfa_chn/fyrbt_602243/t524921.shtml, accessed December 8, 2013.

⁹ I have compiled these Chinese sanction cases because the existing sanction datasets do not reflect Chinese sanctions. The elaboration of the cases in table 1 is in the appendix. With regard to the Dalai Lama visits, I adopt a conservative coding rule: even if there is a reduction in exports to China following the Dalai Lama's visit, if there is no speech evidence indicating it is *government instruction*, I will code it as a non-sanction. This is the case for Mexico (2011) and Portugal (2007). I exclude Dalai Lama's visits that are non-official – i.e., not received by officials. Dalai Lama's reception by foreign officials can be found on his official website at <http://www.dalailamaworld.com/topic.php?t=198>, accessed April 12, 2014.

		Lama	Hungary (2000) Sweden (2000, 2005) Latvia (2001) Estonia (2001, 2011) Portugal (2001) Slovenia (2002) Croatia (2002) Denmark (2000, 2003, 2009) Canada (2004) Mexico (2011) Received by other officials: Sweden (1991, 1996) Switzerland (1991, 2001) Denmark (1991, 1996) Sweden (1991, 1996) UK (1993, 1996, 2004) Belgium (1994) Norway (1996) Germany (1996, 1999, 2003) EU (1996, 2001) France (2003) Japan (2003, 2012, 2013) Austria (1998, 2002) Israel (1999) New Zealand (2002, 2007) Portugal (2007) Spain (2007) Italy (2001, 2009) Netherlands (2009) Argentina (2011)
Territorial Disputes	South China Sea	The Philippines (2012): a one-month ban on banana exports to China	Vietnam , despite disputes in 2007, 2010, and 2012
	East China Sea	Japan (2010) , regarding the Senkaku island disputes: a two-month rare earth metals embargo to Japan	Japan in 2012 , despite the Senkaku disputes
Nuclear Non Proliferation		North Korea in 2006 and 2013: a one-month oil embargo, respectively	North Korea in 2009
Human Rights		Norway , for awarding the Nobel Peace Prize to Liu Xiaobo in 2010: an ongoing ban on Norwegian salmon exports to China	Spain , for accusing Chinese Presidents for genocide against Tibetans in 2013: threats made (?)

Chinese behavior thus raises a puzzle. What explains the variation in China's decisions to impose or not to impose economic sanctions? As a subset of this puzzle, why are Chinese sanctions surprisingly short in duration or mild in terms of damage? Compared to existing datasets, Chinese sanctions are relatively short in duration – most are lifted within two years, and some last for only one or two months or even a few days.¹⁰ If sanctions are a form of coercion and should therefore

¹⁰ For the dataset constructed by Gary Clyde Hufbauer, Jeffrey J. Schott, and Kimberly Ann Elliott (HSE), sanctions last for

credibly hurt the target, it is puzzling why Chinese sanctions "do not bite." Existing literature by and large ignores sanctions imposed by rising powers such as China. I argue that China adopts a cost-conscious logic, which reflects its grand strategy of creating a favorable international environment for economic development. China imposes sanctions for high-stake issues, but selects carefully which country to sanction. Specifically, China sanctions countries only when 1) it has a favorable trade asymmetry vis-à-vis the target, i.e., China has low-cost economic exit options but the target does not; and 2) sanctions will not incur geopolitical costs – the target cannot balance against China. This cost-conscious logic also explains why Chinese sanctions are mild, short, and selective.

The structure of the paper is as follows: the next section reviews the literature on economic sanctions. The subsequent section fleshes out the cost-conscious hypotheses, with attention to the discussion of Chinese grand strategy. To explain why geopolitical and economic factors better explain Chinese sanctions decisions, I then adopt a most-similar case selection research design to study the issue areas most critical for Chinese national security: arms sales to Taiwan, foreign leaders' acceptance of a visit by the Dalai Lama, and maritime disputes in the South China Sea. The final section concludes and discusses the policy implications of my findings.

2. Existing Literature

Studying China's sanctions decisions is important for both policy and intellectual reasons. This investigation could increase our understanding of China's foreign economic policies. In addition, it could unpack elusive concepts such as revisionism and grand strategy. More importantly to U.S. policy makers, understanding the circumstances leading to China's economic sanctions could help

an average of 6.4 years. See HSE, *Economic Sanctions Reconsidered* (Washington D.C.: Institute for International Economics, 1985), and their updated version in 2007. For a newer dataset – Threats and Imposition of Economic Sanctions (TIES) – sanctions last for an average of 2.43 years. See T. Clifton Morgan, Navin Bapat, and Yoshiharu Kobayashi, "Threat and Imposition of Economic Sanctions 1945–2005: Updating the TIES Dataset," *Conflict Management and Peace Science*, published online on February 28, 2014 DOI: 10.1177/0738894213520379. Their difference from the HSE dataset is because TIES includes trade disputes, which are not usually coded as sanctions. Chinese sanctions – with one exception of France (1992) – are not included in these datasets, because of language and publicity issues.

make more informed foreign policies, while dampening the hype about being beholden to the whims of authoritarian China.¹¹ Unfortunately, the current literature cannot explain the nature of Chinese sanctions or the selectivity.

Existing literature mostly evaluates the effectiveness of sanctions. The first wave of studies in the 1960s and 1970s concludes that sanctions are ineffective: they fail to induce policy changes in the target.¹² Subsequent scholars argue that sanctions send signals to both the target and the sender's allies and may therefore achieve goals other than inducing behavioral changes.¹³ Recent scholars specify when and why sanctions are ineffective.¹⁴

According to Michael Hiscox, one issue that the literature does not address is the question of why or when policymakers choose to apply sanctions in the first place.¹⁵ Apart from the finding that 78% of the sanctions in the past three decades were imposed on non-democracies for democracy promotion purposes, the literature does not further specify how sanctions decisions are made but focuses instead on the effectiveness of sanctioning authoritarian states.¹⁶ This fixation on "democratizing" sanctions overshadows the actual calculus states take into account when imposing

¹¹ As Drezner has pointed out, the popular media exaggerates the Chinese financial clout. See Daniel W. Drezner, "Bad Debts: Assessing China's Financial Influence in Great Power Politics," *International Security*, Vol. 34, No. 2 (Fall 2009), p. 7-45.

¹² See, for example, Margaret Doxey, "International Sanctions: A Framework for Analysis with Special Reference to the UN and Southern Africa," *International Organization*, Vol. 26, No. 3, (Summer 1972), p. 527-550; Peter Wallenstein, "Characteristics of Economic Sanctions," *Journal of Peace Research*, Vol. 5, No. 3 (1968), p. 248-267; Johan Galtung, "On the Effects of International Economic Sanctions, with Examples for the Case of Rhodesia," *World Politics*, Vol. 19, No. 3 (1967), p. 378-416.

¹³ See David A. Baldwin, *Economic Statecraft* (Princeton: Princeton University Press, 1985). Kim Richard Nossal argues that sanctions also serve irrational and expressive purposes. See Kim Richard Nossal, "International Sanctions as International Punishment," *International Organization*, Vol. 43, No. 2 (Spring 1989), p. 301-322.

¹⁴ Pape (1997) and Morgan and Schwebach (1997) argue that sanctions do not work and even if the target changed behavior after sanctions, it may not be caused by economic sanctions. See Robert A. Pape, "Why Economic Sanctions Do not Work," *International Security*, Vol. 22, No. 2 (Autumn 1997); T. Clifton Morgan and Valerie L. Schwebach, "Fools Suffer Gladly: the Use of Economic Sanctions in International Crises," *International Studies Quarterly*, Vol. 41, No. 1, (March 1997). Drezner (1999) argues that sanctions are rarely effective because they tend to involve adversaries. See Daniel W. Drezner, *The Sanctions Paradox: Economic Statecraft and International Relations*.

¹⁵ Michael J. Hiscox, "Balancing Act: The Political Economy of U.S. Trade Sanctions," *SSRN Abstract* (June 2009).

¹⁶ The figure 78% comes from Allen (2008a: 269), qtd. in Daniel W. Drezner, "Sanctions Sometimes Smart: Targeted Sanctions in Theory and Practice," *International Studies Review*, No. 13 (2011), p. 100. See also Christian von Soest and Michael Wahman, "Are Democratic Sanctions Really Counterproductive?" Published online: March 31, 2014, *Democratization*, DOI:10.1080/13510347.2014.888418. According to von Soest and Wahman, promoting democratization has been by far the most common goal of sanctions initiated by the United States, the European Union and the United Nations against authoritarian regimes in the post-Cold War period.

sanctions and fails to notice that authoritarian states such as a rising China also impose sanctions, albeit for very different purposes.

Among the few scholars who do discuss sanctions decisions, there are two approaches. The first adopts a cost-benefit framework and assumes that states are unitary actors. In this vein, David Baldwin stresses the cost-benefit analysis of sanctions vis-à-vis diplomatic and military measures. Baldwin argues that states choose economic sanctions over military actions because economic statecraft is an "appealing combination of costs that are high enough to be effective yet low enough to be bearable."¹⁷ Similarly, Daniel Drezner utilizes the cost-benefit framework to compare the costs to the sender vis-à-vis the target. According to Drezner's theory of conflict expectations, states are more likely to impose sanctions on adversaries. The sender will rationally impose sanctions if and only if there are concerns about relative gains and reputation effects, which are greatest when the two states anticipate political conflicts and view their relations as zero-sum (i.e., adversarial). Therefore, as conflict expectations increase, so does the concern for relative gains, making sanctions more likely.¹⁸

A second approach focuses on domestic factors. This line of reasoning holds that sanctions are disruptions of international trade and therefore have domestic distributional consequences. Hiscox argues that sanctions are influenced by lobby groups: U.S. Congress and presidents are more likely to impose trade sanctions when domestic producers face more competition from imports from the target and when these producers depend less on exports to the target.¹⁹ Alternatively, M.S. Daoudi and M.S. Dajani view sanctions as safety valves. Leaders impose sanctions to appease the

¹⁷ David Baldwin, *Economic Statecraft*, p. 108.

¹⁸ Daniel W. Drezner, *The Sanctions Paradox: Economic Statecraft and International Relations* (Cambridge: Cambridge University Press, 1999), p. 41.

¹⁹ Michael J. Hiscox, "Balancing Act: The Political Economy of U.S. Trade Sanctions." See also A. Cooper Drury, "Sanctions as Coercive Diplomacy: The U. S. President's Decision to Initiate Economic Sanctions," *Political Research Quarterly*, Vol. 54, No. 3 (September 2001), p. 485-508.

public when the target violates values the domestic audience holds dear.²⁰ This speaks to "democratizing" sanctions.

In investigating the puzzle of Chinese sanctions decisions, I adopt Baldwin and Drezner's state-centric view, conceptualizing the state as a unitary actor in pursuit of national security.²¹ There are two justifications for this view. First, high-stake issues involving national security are related to a state's core interests and tend to involve decisions at the central level, which is particularly the case for a strong authoritarian state such as China. Even scholars taking a domestic politics approach concede that for cases where concerns about national security are urgent and paramount, lobbying voices tend to be ignored.²² Second, a state-centric approach is a good starting point from which one can test the influence of societal interests on sanctions decisions. The state-centric approach is falsified if societal interests influence state decisions. Until then, it is reasonable to assume relative state autonomy. Therefore, I consider domestic politics as an alternative – sanctions may be a result of domestic actors lobbying for or against them.

Nevertheless, there are theoretical weaknesses in Baldwin and Drezner's analyses of sanctions. First, Drezner's conflict expectations approach focuses on the dichotomy of adversaries and allies. Drezner's theory is in essence about cost calculus, yet he uses alignment and "enduring rivalry" to measure conflict expectations and makes clear that whether two states are allies or adversaries is critical for his argument. In the post-Cold War era, however, one rarely sees strictly adversarial relationships. Moreover, Drezner's conflict expectations model, applied to the post-Cold War period, makes predictions about Chinese sanctions that are the opposite of the empirical record: due to the end of the Cold War and its rise in power, China expected more conflicts with the

²⁰ M.S. Daoudi and M.S. Dajani, *Economic Sanctions, Ideals and Experience* (London: Routledge & Kegan Paul, 1983).

²¹ For one, the unitary actor model is a good starting point for conceptualizing costs and benefits of sanctions. For another, it seems to be a relatively reasonable assumption in authoritarian settings, for example, China.

²² Hiscox, "Balancing Act: The Political Economy of U.S. Trade Sanctions."

United States, yet China did not sanction the United States. Instead, it sanctioned France, with whom there were lower conflict expectations.

Second and more importantly, Drezner and Baldwin underspecify the concept of costs. For Drezner, the sender has to believe that sanctions cost its adversary more than they do itself, but when applying his model, he finds that states impose sanctions when the model predicts that they should not (for example, U.S. sanctions on the Soviet Union for invading Afghanistan and sanctions on its ally, Western Europe, for non-compliance with sanctions on the Soviet Union). He explains this divergence with the sender's "misperceptions" regarding the costs: it is a mistake to sanction the Soviet Union and Western Europe, but *after* that mistake, states follow his model. It is surprising that Drezner uses irrationality to square his rationalist model with the reality. One reason why his model fails to predict sanctions decisions may be that he does not specify the cost calculus in his theoretical discussion. In the empirical cases, Drezner calculates the *economic costs* to the sender, but leaders may also consider other costs such as domestic audience cost. U.S. sanctions decisions might not be irrational mistakes, but a result of a differential emphasis on the specific costs involved. Baldwin is similarly vague as to the *content* of costs. Although he states that geography, image, and history matter and that sanctions are less costly than military action, it is unclear what costs sanctions generate or what matters more to states in reality. As such, it is necessary to repair the cost-benefit framework such that it 1) is not limited to the adversary-ally dichotomy, and 2) better specifies the costs of economic sanctions.

A final empirical concern is that the sanctions literature privileges Western democracies. Yet how authoritarian states and rising powers such as China use sanctions remains a puzzle. Few scholars have studied Chinese sanctions. Tong Zhao argues for China's unique preference for tactical sanctions over comprehensive embargoes because China experienced comprehensive sanctions in the past. Yet tactical sanctions are not that unique in light of the increasing use of

targeted sanctions in the West.²³ Andreas Fuchs and Nils-Hendrik Klann use the Dalai Lama's travel routes to estimate the trade reduction effects of foreign officials receiving the Dalai Lama, which China views as a threat to its sovereignty and national security.²⁴ They contend that there is a two-year reduction of exports to China following a Dalai Lama visit. Yet they do not explain why among countries that did receive the Dalai Lama, China sanctioned some but not others. Reilly provides an overview of Chinese sanctions, but mostly evaluates their effectiveness.²⁵ The theoretical and empirical weaknesses thus call for studying Chinese economic sanctions with a better-specified cost-benefit framework.

3. Definitions and The Cost-Conscious Logic

This section defines the dependent and independent variables. The dependent variable is economic sanctions measured as: no sanctions, threats of sanctions, or sanctions. A state may threaten but not impose sanctions either because the threat is effective in inducing behavioral change or the state does not have the ability to actually carry through sanctions. In line with the literature, I define economic sanctions as the *deliberate government-instructed withdrawal of customary trade or financial relations to coerce the target to change undesired foreign policies and/or to deter such policies in the future*.²⁶ This definition stresses first that since sanctions are means of statecraft, they should be imposed by the government, which excludes *popular* boycott. Secondly, it excludes trade retaliation, which is pure economic protection. Third, trade sanctions include embargos, boycotts, tariff increase or discrimination, withdrawal of "most-favored-nation" (MFN) status, quotas,

²³ See Tong Zhao, "Sanction Experience and Sanction Behavior: an Analysis of Chinese Perception and Behavior on Economic Sanctions, *Contemporary Politics*, Vol. 16, No. 3 (September 2010), p. 263–278. For U.S. targeted sanctions, see Kenneth A. Rodman, *Sanctions Beyond Border: Multinational Corporations and U.S. Economic Statecraft* (Lanham: Rowman & Littlefield, 2001); and O'Sullivan, *Shrewd Sanctions: Statecraft and State Sponsors of Terrorism* (Washington D.C.: Brookings Institution Press, 2003).

²⁴ Andreas Fuchs and Nils-Hendrik Klann, "Paying a Visit, the Dalai Lama Effect on International Trade," Number 113-Oct 2010, Center for European, Governance and Economic Development Research, Discussion papers.

²⁵ James Reilly, "China's Unilateral Sanctions," *The Washington Quarterly*, Vol. 35, No. 4 (2012), p. 121–133. See also Reilly's November 23, 2013 analysis for the Lowy Institute for International Policy at <http://lowyinstitute.org/publications/chinas-economic-statecraft-0>, accessed February 11, 2014.

²⁶ For a generic definition in the literature, see O'Sullivan, *Shrewd Sanctions: Statecraft and State Sponsors of Terrorism*, p. 12. For specification of the goals, see Baldwin, *Economic Sanctions*, p. 32.

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blacklist, license denial, and preclusive buying. Financial sanctions include freezing assets, aid suspension, expropriation, unfavorable taxation, and controls on capital import or export.²⁷ In my analysis, I focus on Chinese sanctions after 1990.²⁸

Issue Importance

Sanctions entail generic benefits. First, they are moderate – more escalatory than pure diplomatic "cheap talk" but less escalatory than military action. One analyst in the Chinese Academy of International Trade and Economic Cooperation (CAITEC), a research institute under the Chinese Ministry of Commerce, argues that economic sanctions are much milder than wars but can inflict costs on the target.²⁹ Second, sanctions are more credible signals than rhetorical measures. They communicate to the target state that the sender wants it to change policies and send deterrent signals to other states.

Despite these advantages, it is plausible to assume that China imposes sanctions only for issues most critical for the CCP. As seen in table 1, China imposes or threatens economic sanctions when the issue involves its "core interests," which includes both national security and internal regime stability. Chinese State Councilor Dai Bingguo laid out China's core interests: first, maintaining basic institutions (*jiben zhidu*, which implies domestic regime security) and national security; second, sovereignty and territorial integrity; and third, stable economic and social development.³⁰ The ten sanctions cases in Table 1 concern both national security and internal regime security of the CCP.

²⁷ Baldwin, *Economic Statecraft*, p. 41. I draw a distinction between government led boycott and popular boycott by looking at the case regarding the Senkaku island disputes, which is detailed in the appendix.

²⁸ China imposed sanctions twice prior to 1990 – on Albania and Vietnam – during the revolutionary period. Thus, the scope condition for these sanctions may be quite different from post-1990 sanctions.

²⁹ Mei Xinyu, "Dui ri jingji zhicai de xuanze, yuanze, yu zhuyi wenti" [Choices, principles, and issues when contemplating sanctions on Japan], *Zhongguo shichang* [Chinese Market], No. 42 (2012), p. 4.

³⁰ Li Jing and Wu Qingcai, *Xinhua News Agency*, July 28, 2009, <http://www.chinanews.com/gn/news/2009/07-29/1794984.shtml>, accessed April 13, 2014.

The Costs of Sanctions – China's Cost-Consciousness Grand Strategy

Issue importance dictates what issues China imposes economic sanctions over. But if issue importance were the only consideration, all else being equal, China should sanction all high profile cases. In reality, for the same issue and the same intensity of the cases (e.g., Dalai Lama's reception by highest-ranking officials), China sanctions some countries but not others. I argue below that this selectivity has to do with the cost-consciousness that China's grand strategy brings about.

Chinese scholars close to the central government characterize Chinese grand strategy as "peaceful development" (*heping fazhan*).³¹ That is, to actively get involved with the status quo international system and integrate the Chinese state with economic globalization, so as to create a favorable international environment for China's central goal of economic development. More specifically, *taoguang yanghui* (biding one's time and hiding one's strength), the guidelines articulated by Deng Xiaoping are still dominant.³² In other words, China's grand strategy holds that China should not make enemies or be confrontational. The reason, according to Evan Medeiros, is that China seeks to tailor its foreign policies towards domestic reform and development. Because of this domestic focus, China tries to reduce the ability or willingness of other nations, singularly or collectively, to contain or constrain China's revitalization.³³ In short, China's grand strategy centers on being non-confrontational and working within the international system so as to fully take advantage of the strategic opportunity period to develop its economy. We should expect to see this grand strategy to inform the cost calculus of Chinese sanctions behavior. In particular, Chinese economic sanctions should follow a logic of cost-consciousness, that is, to avoid sanctions that will cost China its strategic opportunity period and to strike a balance between stability and protection

³¹ Interview, Beijing, June 26, 2014.

³² Zhao Kejin, "Zhongguo jueqi yu duiwai zhanlue tiaozheng" [China's rise and its adjustment of foreign policy strategies], *Shehui kexue* [Social Science], No. 9 (2010).

³³ Evan S. Medeiros, "China's International Behavior: Activism, Opportunism, and Diversification," *Rand Project Air Force*, 2009, p. xviii, http://www.rand.org/content/dam/rand/pubs/monographs/2009/RAND_MG850.pdf, accessed April 17, 2014.

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of one's rights (*weiwen yu weiquan de pingheng*).³⁴

A cost-conscious logic has three implications. First, economic sanctions may generate geopolitical costs. By geopolitics, I mean concerns about balancing as expressed in Stephen Walt's balance of threat theory. Walt argues that states tend to balance against threats instead of bandwagoning and that larger states balance more than smaller ones.³⁵ The target state or its neighbors might interpret sanctions as threats. So if China is aware of this logic, it will be concerned about geopolitical backlash when imposing sanctions – the target might side with other states against China. Consequently, hypothesis one (H1) is: *On a given issue, if China believes that sanctions will incite a geopolitical backlash (alignment against China) from the target and other states, it will not impose sanctions; if the target will not invoke backlash, it will impose or threaten sanctions.* The observable implications lie in the speech evidence of Chinese officials and scholars. First, China should mostly sanction targets further away from its region, for fear of threatening its neighbors.³⁶ Second, China should sanction smaller powers more than larger ones, since larger powers tend to balance more than smaller ones.³⁷ Ideally, we should then observe Chinese officials and scholars saying that the target is not powerful enough to unite other states against China. Third, China should impose sanctions on states that are in competition with their neighbors. We should observe that Chinese scholars and officials discuss such competition before imposing sanctions. We should also see that in cases where China did not impose sanctions, Chinese officials and scholars state their worries about a geopolitical backlash.

Second, sanctions generate economic costs for both the sender and the target. Thus, their bilateral economic structure matters for whether sanctions are more costly to one or the other. Albert Hirschman argues that commerce can be an alternative to war only when the sender creates

³⁴ Interview, Beijing, June 30, 2014.

³⁵ See Stephen M. Walt, *The Origins of Alliances* (Ithaca: Cornell University Press, 1983).

³⁶ According to Walt, geographical proximity increases the threat one state poses.

³⁷ Walt, *The Origins of Alliances*.

a situation in which the target would do anything in order to retain the bilateral trade – i.e., it is "extremely difficult" for the target to dispense with trade with the sender and to replace the sender as a market and a source of supply with other countries.³⁸ Hirschman is essentially concerned with "exit options" – do states have alternatives that are less costly? If the sender does and the target does not, then the sender can use trade as a coercive tool. Building on this power dimension, vulnerability dependence indicates the "costliness of making effective adjustments to a changed environment."³⁹ Since sanctions will disrupt trade or capital flow between the sender and the target, they may generate adjustment costs to both. Hypothesis two (H2) is therefore: *On a given issue, China will impose or threaten sanctions when the economic structure is such that China has exit options but the target does not (or it is difficult for the target to seek alternatives); China will not impose sanctions if it is dependent on the target for markets and/or supply but the target has exit options.* The observable implications are two-fold. First, objective bilateral economic relations should indicate an asymmetry that is favorable to China when sanctions are imposed and unfavorable to China when there are no sanctions. Second, Chinese scholars and officials ought to talk about such asymmetry.

Third, since economic sanctions are disruptions of stable bilateral relations, a cost-conscious logic comes with it a corollary: sanctions should be small in terms of magnitude, with limited goals. That is, we should observe that Chinese sanctions are small in magnitude or short in duration and that the purposes of imposing economic sanctions should be signaling, deterrence, expressing dissatisfaction instead of coercion.

4. Explaining Variation in Issues of Equal Significance – the Cost Calculus

Research Design

³⁸ Albert O. Hirschman, *National Power and the Structure of Foreign Trade* (Berkeley: University of California Press, 1945), p. 17.

³⁹ Robert O. Keohane and Joseph S. Nye, *Power and Interdependence: World Politics in Transition* (Boston: Little Brown, 1977), p. 13.

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In order to locate the costs critical to Chinese leaders, I utilize two research strategies: a most-similar case selection and a temporal comparison. For the most-similar selection method, I conduct three cross-national comparisons where the only difference is the characteristics of the states that China sanctioned. Thus, I explore why China sanctioned France for arms sales to Taiwan, but not the United States; why it sanctioned France and Germany for the Dalai Lama visits, but not Australia; why it sanctioned the Philippines for territorial disputes, but not Vietnam.

I choose these cross-national comparisons for three reasons. First, case studies flesh out the specific decision-making processes and rationales of Chinese leaders. Second, in order to demonstrate that the United States is not unique (because it is the unipole) in China's sanctions decisions, I compare Australia with France and Germany to illustrate that geopolitical and economic costs apply also to non-U.S. cases. That is, the absence of sanctions is not a peculiar result of the unique Sino-U.S. relationship. Third, the three cases indicate a wide geographical dispersion that includes both neighboring and non-neighboring states. This way, I am able to show that the geopolitical argument is not particular to one region in the world and that China takes geopolitics into account in every regional context, be it in Europe, Southeast Asia, or the Asia-Pacific.

In the temporal comparison, I trace Chinese reactions to U.S. arms sales to Taiwan over time. A temporal investigation of Chinese economic relations with a single country is useful because unlike horizontal comparisons that focus on different bilateral relations in the same period, the vertical comparison holds China's bilateral relations constant. This allows for a dynamic view of Chinese power, which has obviously grown over the past twenty years. If China's power has increased but it remains moderate towards the United States, then there must be a cost calculation of some sort that impedes sanctions. The case of China sanctioning Japan in 2010 but not in 2012 also makes for interesting temporal comparisons, but because of space limitation, it is discussed in the appendix.

In terms of evidence, since objective balance of power is less important than the perception of Chinese leaders and scholars, I focus on primary Chinese language sources and interviews. I use two kinds of primary sources. First, I consider memoirs and official chronologies of Chinese leaders. The former are recollections of Chinese leaders and the latter are speeches made by the leaders when they were still in power. Despite being recollections, the memoirs of Chinese leaders are quite accurate, according to my validation of each against the others, and additional sources. Next I turn to writings of Chinese scholars and analysts in government-based institutes. These scholars tend to have close ties with the Chinese government. Even though they do not make policy decisions, they are important to the extent that central leaders take their analyses seriously. In addition, I conduct interviews with foreign officials as well as Chinese scholars specializing in foreign economic policies and the bilateral relations of my cases. These scholars are often involved with the Chinese MFA. Of these various forms of evidence, the speech evidence of Chinese leaders *prior to* sanctions decisions is the strongest evidence. Memoirs of key officials are also considered as strong evidence. Analyses of and interviews with Chinese scholars close to the government are weaker evidence of the decision making process, but can be highly indicative.⁴⁰ The following passages discuss first the case of arms sales, then the Dalai Lama visits, and finally maritime territorial disputes.

4.1. Arms Sales to Taiwan – Why Single Out the French?

China considers Taiwan to be its territory and has been very sensitive to any arms sales to Taiwan. Arms sales to Taiwan had been a predominant issue between China and the United States. Left unresolved when China and the United States normalized their relationship in 1979, the arms sale issue led to the "August 17 Communiqué" of 1982, in which the U.S. government stated that "arms sales to Taiwan will not exceed, either in qualitative or in quantitative terms, the level of those

⁴⁰ Michael Swaine has a useful discussion of what Chinese language sources are authoritative, quasi-authoritative, or non-authoritative. See Michael D. Swaine, "Chinese Leadership and Elite Responses to the U.S. Pacific Pivot," China Leadership Monitor 38, p. 1. http://carnegieendowment.org/files/Swaine_CLM_38_Final_Draft_pdf.pdf, accessed April 15, 2014.

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supplied in recent years" and that "it intends gradually to reduce its sale of arms to Taiwan."⁴¹ Throughout the 1980s, the United States kept the level of the arms sales acceptable to China. The 1992 sale, as discussed in the introduction, was a significant departure from the past, because the value of this sale was greater than that of the total U.S. sales to Taiwan from 1982 to 1991. It is thus fair for China to call it "unprecedented."

Roughly at the same time, France decided to sell 60 Mirage-2000 jet fighters to Taiwan. France had sold \$2.7 billion worth of frigates to Taiwan on June 6, 1991. Following this sale, China and France engaged in a heated diplomatic "struggle," reaching a minimal understanding (*zuidi xiandu de liangjie*) on June 25 that the frigates would not be equipped with weapons.⁴² This arms sale had already driven a wedge between the two countries. France, however, further escalated the situation. On January 31, 1992, French Foreign Minister Roland Dumas raised the issue of selling Mirage-2000 jet fighters to Taiwan when meeting with Chinese Foreign Minister Qian Qichen at the United Nations Security Council (UNSC) meeting.⁴³ Qian said that if France gave up on this deal, China could "do something significant to improve bilateral trade relations" – to address the trade imbalance between China and France.⁴⁴ France refused Qian's carrot and officially confirmed that it had approved this arms deal on December 22, 1992.⁴⁵

Chinese Reaction to the Arms Sales

These two arms sales were comparable – both were a significant breach of past agreements with

⁴¹ For the English version of this document, see "Joint Communiqué of the United States of America and the People's Republic of China, August 17, 1982" at <http://www.taiwandocuments.org/communique03.htm>, accessed December 7, 2013; for the Chinese version, see "Zhonghua renmin gongheguo he meilijian hezhongguo lianhegongbao (bayiqi gongbao)" at http://news.xinhuanet.com/ziliao/2002-01/28/content_257069.htm, accessed December 7, 2013.

⁴² Cai Fangbo, "Zouchu digu, quanmian hezuo: 1989-1997nian de zhongfa guanxi" [Walking out of the valley and cooperating comprehensively: A recap of Sino-French relations in 1989-1997], in *People's Daily*, January 16, 2004, section 7, <http://www.people.com.cn/GB/guoji/1031/2299413.html>, accessed December 7, 2013. Cai was the Chinese ambassador to France from 1990 to 1998. Cai's accounts can be further corroborated by former Chinese Foreign Minister Qian Qichen's memoir,

Waijiao Shiji [Ten episodes in foreign policy] (Beijing: Shijie zhishi chubanshe [World Knowledge Press], 2004). The sequence of the events below is based basically on Qian and Cai's recounts.

⁴³ Qian Qichen, *Waijiao Shiji*.

⁴⁴ *Ibid.*, p. 300-301.

⁴⁵ Cai Fangbo, "Zouchu digu, quanmian hezuo: 1989-1997nian de zhongfa guanxi."

China and they were of important military value to Taiwan, which could erode the cross-Strait military balance to China's disadvantage. The U.S. sale was even greater in magnitude than the French one. Thus, if China only considered the benefits of economic sanctions, it should have imposed harsher sanctions on the United States. As the most powerful state in the world, sanctioning the United States would have sent a deterrent signal to France (who approved the arms sale three months after the United States did) and other states that might consider arms sales (Germany, for example, was toying with the idea of submarine deals with Taiwan). China reacted to both sales with diplomatic measures, yet singled out France for economic sanctions.

Upon hearing President Bush's announcement of the sales on September 2, Chinese Vice Foreign Minister Liu Huaqiu lodged "the strongest protests."⁴⁶ Yet China's reaction was purely diplomatic: the spokesman for the MFA announced that U.S. arms sales to Taiwan "sabotaged" the purpose of the Arms Control Conference of the five permanent members of the UNSC and *as a result*, it would be difficult for China to participate in the conference.⁴⁷ China also severed Sino-U.S. military exchanges for two months.⁴⁸ This reaction, however, was moderate. To be sure, the Chinese Ministry of Agriculture "*strongly advocated*" in *People's Daily* that "if the United States insisted on selling F-16s to Taiwan, we should *immediately stop importing wheat from the United States*."⁴⁹ Yet China did not carry out this threat and continued to import wheat from the United States. Even more surprising was Foreign Minister Qian Qichen's remarks in Washington, D.C. Qian for the first time raised the phrase "responsible great power" (*fu zeren de daguo*), stating that "China as a responsible great power is working towards world peace and development" and that "Sino-U.S.

⁴⁶ *People's Daily*, September 4, 1992, section 1.

⁴⁷ *People's Daily*, September 4, 1992, section 4, emphasis added. Wu later confirmed on September 18 that China decided not to attend the Arms Control Conference. See *People's Daily*, September 18, 1992, section 1.

⁴⁸ *Zhongguo Waijiao Gailan: 1993* [Overview of the Chinese Foreign Policy in 1993] (Beijing: Shijie zhishi chubanshe [World Knowledge Press], 1993). This is the annual review from the Chinese MFA that summarizes Chinese diplomatic events in the previous year. The 1993 version summarizes Chinese foreign policy in 1992. The exchanges resumed in November 1992.

⁴⁹ *People's Daily*, September 11, 1992, 9, 11, section 1. Emphasis added. This statement was on the front page, indicating its importance. Yet it seems that the audience was domestic, and China did not communicate this threat to the United States.

exchange and cooperation is where the mutual interests of both sides lie."⁵⁰ He also emphasized that China had become "one of the largest buyers" of U.S. wheat, airplanes, computers, industrial mechanical appliances, and chemical fertilizers, and that "many famous U.S. firms" had gained "considerable profits and market shares" in China.⁵¹ Although Qian did touch on arms sales, his emphasis was Sino-U.S. cooperation. This speech was surprisingly conciliatory, given that it took place just 20 days after the arms deal.

France was not as lucky. On November 27, 1992, the spokesperson for the Chinese Ministry of Foreign Trade and Economic Cooperation (MOFTEC) stressed that from January to September 1992, Chinese imports from Europe had increased by 10.9% compared to last year, yet France had lagged behind *because of the arms sales to Taiwan* (i.e., the sales of the frigates in 1991).⁵² More serious sanctions started in 1993. The front page of the *People's Daily* on January 22, 1993 stated that *because of* the French decision to sell Mirage-2000 to Taiwan, bilateral trade and economic relations had been affected, including banning French wheat export and the French bid for a subway contract in Guangzhou.⁵³ In addition to confirming these sanctions, Qian announced that China had also stopped negotiating new trade projects with France.⁵⁴

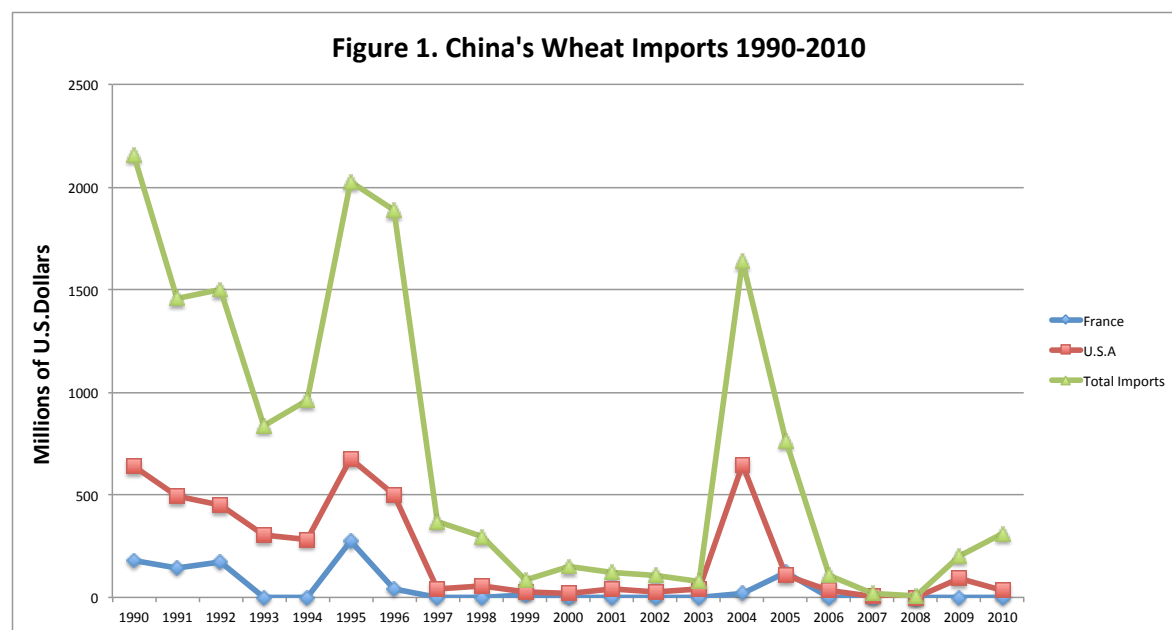
⁵⁰ *People's Daily*, September 24, 1992, section 6.

⁵¹ *Ibid.*

⁵² *People's Daily*, November 28, 1992, section 1. The MOFTEC later became the Chinese Ministry of Commerce. Emphasis added.

⁵³ *People's Daily*, January 22, 1993, section 1. Emphasis added.

⁵⁴ Qian Qichen, *Waijiao shiji*, p. 302.



Regarding wheat exports to China, Figure 1 above confirms the January 22, 1993 announcement in the *People's Daily*: China imposed sanctions on France by not importing any wheat at all in 1993 and 1994, following the arms sales.⁵⁵ In contrast, China did not ban U.S. wheat. Imports from the United States actually increased, as measured by the *proportion* of total wheat imports.⁵⁶ This increase took place despite decreasing Chinese need for wheat imports due to an increase in domestic production, as seen in the decrease of total wheat imports from 1990 to 1993.⁵⁷ Wheat exports to China constituted a significant amount of total French exports to China – roughly an average of 10% in previous years.⁵⁸ Similarly, U.S. wheat export to China in the early 1990s was approximately 5% of its total exports to China. Thus, whether China imposed sanctions made a difference to both countries, especially to the agricultural sectors that were staunch supporters of better trade relations with China. Although China mainly imported wheat from the United States and Australia, statistics regarding French total wheat exports indicated that when

⁵⁵ Data comes from *Zhongguo haiguan nianjian* [China Customs Statistics Yearbooks] from 1985 to 1995. The Chinese Customs General Administration (CGA) compiles these yearbooks. The reason why China did not import any wheat from France in 2000-2003 and 2006-2009 seems to be that total Chinese imports during those periods were very small.

⁵⁶ Data comes from *Zhongguo haiguan nianjian* [China Customs Statistics Yearbooks].

⁵⁷ *People's Daily*, September 11, 1992. 9. 11, section 1.

⁵⁸ Both percentages are calculated using the CGA data.

China imported wheat from France, China's need could constitute a significant portion of French wheat exports. For instance, French wheat exports to China in 1995 after the Chinese wheat ban was 64% of total French wheat exports; wheat exports to China in 2005 were 75% of total French wheat exports.⁵⁹ That is, French wheat exporters lost China as a profitable market for two years – 1993 and 1994.

Furthermore, China barred France from the bid to construct the subway in Guangzhou. Guangzhou had almost decided to use the French capital, but after the central government imposed sanctions on France, it gave the bid intentionally to Germany during Chancellor Helmut Kohl's 1993 visit to China.⁶⁰ France had since then been driven out of the Chinese subway market until 1998.⁶¹ Had China not banned French wheat exports and the subway bid, French wheat exporters would have earned \$310 million more (as calculated from the 1991-1992 level) and France would have gained \$1 billion from the subway contract.⁶² Barring the stagnation of on-going negotiations, these two sanctions alone amounted to a loss of \$1.3 billion on the French side, which was significant especially because they targeted sectors important to the French government – the agriculture and business communities.

China's two-year sanctions worked well: when a special envoy of the French Prime Minister visited China, the two sides signed a joint communiqué on January 12, 1994, in which the French stated, "due to concerns from China, the French government promises not to approve arms sales to

⁵⁹ Data comes from the Commodity Trade Statistics Database at the United Nations Statistics Division. The product is HS110100, i.e., wheat or meslin flour. Data prior to 1994 is not available, see http://data.un.org/Data.aspx?d=ComTrade&f=_11Code%3a12, accessed April 30, 2014.

⁶⁰ See Li Peng, *Heping fazhan hezuo: Li Peng waijiao riji* [Li Peng Foreign Affairs Journal] (Beijing: Xinhua Press, 2008), p. 473, for details about giving the contract to Germany. Li Peng was then Chinese premier.

⁶¹ Cai Fangbo, *Cong daigaole dao sakeqi*, p. 224.

⁶² Roger Cohen, "France Bars Taiwan Sales, Warming China Ties," *New York Times*, January 13, 1994, <http://www.nytimes.com/1994/01/13/world/france-bars-taiwan-sales-warming-china-ties.html>, accessed April 14, 2014.

Taiwan in the future."⁶³ In return, China declared that it "welcomes French companies to *equally compete in the market*,"⁶⁴ clearly linking the previous discrimination against French companies with the arms deal.

Why did China impose sanctions on France but not on the United States? The following passages illustrate that economic asymmetry was a baseline condition that China took into account and geopolitics also played a part. If the economic cost is an important concern, we should observe that Sino-French trade asymmetry was favorable to China. We should also observe Chinese officials and scholars stressing the need to stabilize Sino-U.S. economic relations.

Asymmetric Sino-French Trade Relations

Sino-French trade lent itself easily to Chinese sanctions. French businessman Jean-Pierre Desgeorges, then President of the France-China Committee, argued that French exports to China depended too much on large contracts from the energy, transportation, and telecommunication realms, and it would be better for medium and small-sized French firms to enter the Chinese market.⁶⁵ Indeed, both wheat exports and the subway bid fell under the category of large contracts, or "*les grand contracts*." French over-dependency on single large-scale contracts led to a strong politicization of Sino-French trade relations.⁶⁶ China, however, did not depend on France for exports: Chinese exports to France stabilized at around 1.5% of China's total exports after the early 1980s.⁶⁷ In addition, China had other import sources, all of which were more than willing to do business with China. For instance, China gave the Guangzhou subway bid to Germany, a long time

⁶³ Liu Haixing and Gao Feng eds., *Zhongfa jianjiao sishinian zhongyao wenxian huibian* [A compilation of important documents on Sino-French relations in the past 40 years] (Beijing: Shijie zhishi chubanshe [World Knowledge Press], 2004).

⁶⁴ *Ibid.*, emphasis added.

⁶⁵ Jean-Pierre Desgeorges, "Huifu fazhong zhengchang gongmao guanxi shi dangwu zhiji" [The main task now is to reestablish normal Sino-French trade relations], *Guoji maoyi* [International Trade], Issue 6 (1994), p. 31.

⁶⁶ Markus Taube, "Economic Relations between the PRC and the States of Europe," *The China Quarterly*, No. 169, Special Issue: China and Europe since 1978: A European Perspective (March 2002), p. 78-107.

⁶⁷ *Ibid.*

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competitor of France on Chinese subway contracts.⁶⁸ Ambassador Cai Fangbo stated clearly in his memoir that China *turned to Germany* to sanction France.⁶⁹ Thus, China was able to sanction France, because France depended on large-scale contracts whereas China had exit options.

Favorable Geopolitical Situation in Europe

The geopolitics in Europe was favorable to China. China seemed to believe that sanctioning France would not incite a backlash from Europe. It observed that France was in serious competition with other powers in Europe, Germany in particular. China was convinced that the French position in Europe was greatly weakened because of the end of the Cold War (i.e., it could not strike a balance between the Soviet Union and the United States) and German reunification, which made Germany the largest economy in Western Europe.⁷⁰ Furthermore, China reasoned that worsening Sino-French relations would not be disadvantageous to China, because it improved relations with Germany, Britain, Italy, and Spain.⁷¹ Germany was crucial: Sino-German relations improved significantly *before* China decided to sanction France. Qian Qichen visited Germany in March 1992 and met with Chancellor Kohl. On July 12, 1992, the Chinese "purchasing group" (*caigou tuan*) ended its trip to Germany with deals totaling \$500 million. On December 10, the German National Diet passed a bill to normalize relations with China (which had deteriorated after the 1989 Tiananmen massacre).⁷² The German Foreign Minister's statement that China was of "special significance to Germany and Europe" probably convinced China that sanctions on France would not incite a backlash and might even have deterrent effects.⁷³ That is, sanctioning France while

⁶⁸ This competition manifested itself already in 1988, when France competed with Germany and Britain for the bid to construct the largest subway in Shanghai. See Zhu Rongji, *Zhu Rongji Shanghai jianghua shilu* [Records of Zhu Rongji's Shanghai speeches] (Beijing: Renmin Chubanshe [People's Press], 2013), p. 130. Zhu was the former Chinese Premier who was a reformist.

⁶⁹ Cai Fangbo, *Cong daigaole dao sakeqi* [From De Gaulle to Sarkozy] (Shanghai: Shanghai cishu chubanshe [Shanghai Lexicographical Publishing House], 2007), p. 146.

⁷⁰ Zhong Zhicheng, *Weile shijie geng meihao: Jiang Zemin chufang jishi* [To make the world a better place: Records of Jiang Zemin's foreign visits] (Beijing: Shijie zhishi chubanshe [World Knowledge Press], 2006), p. 69, p. 124.

⁷¹ *Ibid.*, p. 69.

⁷² Chronology on Germany, <http://wenku.baidu.com/view/68a8c720bcd126fff7050b2c.html>, accessed December 7, 2013.

⁷³ For these two events, see *People's Daily* November 7, 1992, section 6; January 27, 1993, section 1.

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extending a carrot to Germany deterred the latter from contemplating arms sales to Taiwan. Germany in late 1992 also toyed with the idea of selling submarines to Taiwan. According to then Ambassador to Germany Mei Zhaorong, after three months of negotiations, Germany finally gave up on the idea.⁷⁴ European geopolitics was thus conducive to sanctioning France. If Germany, the largest power in Western Europe, were to unite with France on the arms sale issue, China probably would not have imposed sanctions, for fear of inviting balancing behavior from Europe. Chinese sanctions were effective. When the French arms industry wanted to sell missiles to Taiwan in 1995, President Jacques Chirac responded immediately that France would only do so with Chinese concurrence. France raised this issue again in November 1996. Ambassador Cai told France to consider the tradeoffs – the 1 billion-Franc sale to Taiwan versus a 20 billion-Franc deal to help China construct a nuclear power plant, which would guarantee 9,000 jobs for France as well. France gave up the arms sale and did not seem to suggest any further arms sales again.⁷⁵ Since then, no European states have sold arms to Taiwan.

Chinese Economic Dependence on the United States – Centrality of the MFN Status

In contrast, the Sino-U.S. trade structure created Chinese dependence on the United States, preventing China from imposing sanctions. Although China depended on the United States as an export market, the United States did not depend on China for its own exports. This asymmetrical dependence became more acute owing to the annual review of assigning MFN status to China without attaching human rights conditions. The timing of the arms sales was crucial. Shortly after the arms sales, President Bush was due to decide whether to veto the conditional extension of MFN status, and the Congress would vote on whether to overturn the veto. In addition, the 9th round of the Sino-U.S. market entry negotiations was scheduled to take place in Washington, D.C. This

⁷⁴ Mei Zhaorong, “Zhongde guanxi huigu, poxi, he zhanwang” [The analysis and prospects of Sino-German relations], in Gu Junli, ed. *Zhongde jianjiao sishinian, huigu yu zhanwang* [The forty years of Sino-German diplomatic relations: retrospect and prospect] (Beijing: Shehui kexue wenxian chubanshe [Social Science Literature Press], 2012), p. 48.

⁷⁵ For both accounts, see Cai Fangbo, *Cong daigaole dao sakeqi*, p. 190, p. 200-201.

context made China's economic response to arms sales especially important. When contemplating a proper response to U.S. arms sales in 1992, Deng Xiaoping endorsed the MFA report that "China needed to give priority to economic interests" and that if China retaliated with trade sanctions, "a cycle of mutual retaliation could unleash a trade war in which *China would lose most*." The report concluded that "China should *do everything it could to avoid the deterioration of Sino-U.S. economic relations*."⁷⁶ Although not stated explicitly, MFN status would probably be the most serious retaliation. An interview with a well-connected Chinese scholar suggests that Beijing was moderate despite U.S. arms sales because of concerns about MFN status and China's dependence on the U.S. market. In other words, China did not have many cards to play.⁷⁷ Chinese moderation brought good results – China was given unconditional extension of the MFN status for another year and the market entry negotiation in October relaxed restrictions on U.S. high-technology exports to China.⁷⁸

Although economic costs were the most urgent concern to Chinese leaders at that time, geopolitical costs also factored into Chinese decisions. One official Chinese CCP historian characterizes Deng Xiaoping's U.S. policy as conforming to the central aim of economic development (*yi jingji jianshe wei zhongxin*) and treating Sino-U.S. trade as a relationship stabilizer. More importantly, he argues that the core of Deng's U.S. policy was to handle Sino-U.S. relations from a "strategic height and long-term perspective," as manifested in the 16-character order Deng Xiaoping raised in the fall of 1991 – "increase trust, reduce trouble, cultivate cooperation, and avoid confrontation (*zengjia xinren, jianshao mafan, fazhan hezuo, bugao duikang*)."⁷⁹ Since then, this 16-character order has become an important guideline of China's U.S. policy. And its connotations are

⁷⁶ Tian Chen, "Foreign Ministry's Secret Report on Sino-U.S. Relations," *Zheng ming*, November 1, 1992, qtd. in John W. Garver, *Face Off: China, the United States, and Taiwan's Democratization* (Seattle: University of Washington Press, 1997), p. 54. Another source that corroborates this report was John Garver's personal communication with Hong Kong sources.

⁷⁷ Interview, Beijing, January 14, 2014.

⁷⁸ *Zhongguo waijiao gailan: 1993*, p. 378.

⁷⁹ "Bugao mafan" has been standardly translated as "avoid trouble." However, the more precise translation is to "not to initiate trouble or not to make trouble." This adds to China's status-quo orientation and indicates its cost-consciousness. The quote comes from Gong Li, *Deng Xiaoping yu meiguo* [Deng Xiaoping and the United States] (Beijing: Zhonggong dangshi chubanshe [CCP Party History Press], 2004), p. 7-13, p. 633. Gong is the deputy director at the International Strategy Institute of the Central Party School.

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not just economic, but also entail broader geopolitical concerns: China does not want to confront the United States for fear of U.S. counterbalancing.

The Domestic Alternative

Deng's endorsement of the MFA report made clear that sanction decisions were centralized at the highest level and that Deng had the final say. There is little evidence that import-competing sectors in China entered the calculus. Even if the Chinese Ministry of Agriculture (MOA) supported reducing wheat imports, it remains puzzling why it would support a French wheat ban but not a U.S. one. Evidence cited above suggests the MOA would have wanted to ban wheat imports from the United States as well, but Deng obviously vetoed that suggestion. Some argue that the Chinese military industry (along with the People's Liberation Army) had been gaining military technology from France and would have preferred less drastic measure against France.⁸⁰ The PLA indeed lobbied for harsher measures against the United States instead.⁸¹ From an elite-lobby perspective, one would expect to see China sanctioning the United States and showing moderation towards France. But the reality was the opposite, indicating the weakness of these elite lobbies. As stated, in line with his earlier 16-character order, Deng stood firm in the face of military pressure and endorsed the MFA report advocating for moderation towards the United States.⁸² Thus, domestic interests did not influence the final sanctions decisions. In sum, China sanctioned France because of low economic and geopolitical costs, but did not sanction the United States because of daunting economic and geopolitical costs.

4.2. Continuous U.S. Arms Sales – Why Has China Never Sanctioned the United States?

Why did China not impose sanctions after the extension of MFN status, when it established

⁸⁰ Qi Haotian raised this point during my presentation at the MIT Strategic Use of Force Working Group (SFWG) on April 8, 2014.

⁸¹ Garver, *Face Off*, p. 54-55.

⁸² *Ibid.*, p. 57.

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permanent normal trade relations with the United States in 2000 – MFN without the annual review?⁸³ Moreover, why did China not impose sanctions in the past 20 years at all?⁸⁴ The answer is a combination of high economic and geopolitical costs.

Continuous Chinese Economic Dependence

China acknowledges that its economic dependence on the United States persists. Chinese scholars use trade data to indicate that China's dependence on the U.S. market is much larger than the U.S. dependence on the Chinese market.⁸⁵ They focus particularly on the issue of "replaceability" – Chinese exports to the United States hinge on their price advantages but are not irreplaceable. The United States could afford to import from other countries. Yet when China wants to import high-technology strategic goods, no matter how much China is willing to pay, it is unable to import them if the United States places restrictions on their export and demands its allies do so as well.⁸⁶ In short, China cannot lose the U.S. market, nor does it have exit options for high-tech imports from the United States, leaving China essentially "toothless."

What about China's holding of U.S. treasury bonds? Chinese scholars view China's financial dependence on the United States much more serious than the other way around. They call this

⁸³ According to then Ambassador to the United States Li Zhaoxing, before 2000, the annual MFN renewal was an effective leverage on the U.S. part. See Li Zhaoxing, *Shuobujin de waijiao* [Endless words on diplomacy] (Beijing: Zhongxin Press, 2014).

⁸⁴ In response to U.S. arms sales to Taiwan in 2010, China postponed high-level military exchanges with the United States and stated that it would sanction U.S. companies selling arms to Taiwan. See the press conference of the MFA on February 2, 2010 at http://www.fmprc.gov.cn/mfa_chn/wjdt_611265/fyrbt_611275/t655470.shtml, accessed December 8, 2013. The "relevant" companies included Boeing. But China did not carry out the sanctions. It continued to order more aircrafts from Boeing in 2010, as seen from data on Boeing's website <http://active.boeing.com/commercial/orders/index.cfm?content=default.cfm&pageid=m25063>. Accessed December 8, 2013. U.S. total export to China continues to grow at a rapid rate.

⁸⁵ An Qi, "Fei duichen xianghu yilai guanxi duizhongmei jingmao de yingxiang ji zhongguo duice" [The effects of asymmetrical interdependence on Sino-U.S. trade relations and China's countermeasures], *Guoji maoyi yanjiu* [Research on International Trade], Issue 3 (2010); Chen Quangong and Cheng Xi, "Cong zhongmei maoyi kan meiguo yinsu dui zhongguo jingji de yingxiang" [The effects of Sino-U.S. trade on the Chinese economy], *Shijie jingji yu zhengzhi luntan* [Forum on World Economics and Politics], Issue 4 (2003); Zhou Rui, "Qianyi zhongmei maoyi de bu duichenxing yilai jiqi xingcheng jizhi" [Discussing the mechanisms leading to the asymmetry in Sino-U.S. trade relations], *Yatai Jingji* [Asia-Pacific Economics], Issue 3 (2011); Xiang Weixing and Wang Guannan, "Zhongmei jingji xianghu yilai guanxi zhongde minganxing he cuiruoxing – jiyu jinrong kongbu pingheng shijiao de fenxi" [The vulnerability and sensitive interdependence of Sino-U.S. economic relations], *Dang Dai Yatai* [Journal of Contemporary Asia-Pacific Studies], Issue 6 (2012).

⁸⁶ An Qi, "Fei duichen xianghu yilai guanxi duizhongmei jingmao de yingxiang ji zhongguo duice."

situation "over-dependence" (*guodu yilai*) on the dollar, U.S. financial market, and U.S. financial policies.⁸⁷ This over-dependence is due to China's export-oriented economy that accumulates large amounts of capital. Because of an underdeveloped domestic financial market and the need to maintain a stable *yuan* (China's currency), China *has to* buy dollars (i.e., treasury bonds) out of necessity.⁸⁸ One scholar cautions that China has been taken hostage by the United States through holding its treasury bonds.⁸⁹ For one, China's holding is merely 7% of total U.S. treasury bonds, most of which is long-term and cannot be sold rapidly. For another, if China "goes nuclear" by dumping the bonds, the dollar will depreciate, which means huge losses to China. Therefore, China cannot use its financial clout against the United States.

High Geopolitical Costs of Challenging the United States

The influence of Deng's 16-character order persists in current Chinese strategy. Shi Yinhong, a Chinese scholar close to the central government, summarizes China's grand strategy towards the United States: while upholding its interests and developing its capability, China *continuously avoids* provoking the United States unnecessarily, *prevents* the United States from feeling challenged, and *makes necessary compromises*, so as to elicit U.S. cooperation. These enable China to maintain and extend the *strategic opportunity period* for its rise, which means endeavoring to stay out of great power conflicts of interests while benefiting from the diffusion of technology.⁹⁰ Similarly, another scholar states that as the inferior side in the balance of power vis-à-vis the United States, China wants to maintain stable Sino-U.S. relations – its most important bilateral relationship – and sound

⁸⁷ Xiang Weixing and Wang Da, "Lun zhongmei jinrong xianghu yilai guanxi zhongde fei duichenxing" [Discussion of the asymmetrical aspect of Sino-U.S. financial relations], *Shijie jingji yanjiu* [Studies on World Economy], Issue 7 (2011).

⁸⁸ Wang Yong, *Zhongmei jingmao guanxi* [The Political Economy of China-U.S. Trade Relations] (Beijing: Zhongguo shichang chubanshe [China Market Press], 2007), p. 328.

⁸⁹ An Qi, "Fei duichen xianghu yilai guanxi duizhongmei jingmao de yingxiang ji zhongguo duice."

⁹⁰ Shi Yinhong, *Zhanlue wenti sanshi pian: zhongguo duiwai zhanlue de sikao* [Thirty studies on strategy: reflections on the external strategies of China] (Beijing: Renmin University Press, 2008), p. 258. Emphasis added. For the official document on the strategic opportunity period, see Yi Xingzhang, "Chongxin shenshi zhongguo de zhanlue jiyu qi" [Rethinking China's strategic opportunity period], <http://cpc.people.com.cn/GB/68742/187710/15913931.html>, accessed December 8, 2013.

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Sino-U.S. economic relations could serve as a positive factor.⁹¹ Speech evidence from Chinese leaders confirms scholarly opinions. For example, President Xi Jinping reaffirmed the need to build a new, non-confrontational great power relationship between China and the United States, particularly mentioning Sino-U.S. economic cooperation as the "promoter" of the relationship.⁹² China values its strategic opportunity period and therefore seeks to minimize backlash from the United States. Economic sanctions might provoke the United States, for they could signal China's type, a revisionist power challenging the United States, a perception China tries to avoid.⁹³

The Domestic Alternative

As with the 1992 case, Chinese domestic politics, especially protectionist voices (e.g., the agricultural sector), does not explain the absence of sanctions. Sino-U.S. economic relations are too important for protectionism to have an influence and top leaders intervene when protectionist voices surface. In Wang Yong's study of China's WTO accession process, despite reluctance from bureaucracies representing import-competing sectors, China was able to speed up the process (mostly negotiations with the United States) because of top leaders. President Jiang Zemin and Premier Zhu Rongji took over and determined what concessions China should offer.⁹⁴ Although Wang's study is not on sanctions, it indicates that decisions regarding Sino-U.S. economic relations are centralized at the highest level and top leaders want to maintain a sound relationship. High economic and geopolitical costs together explain the absence of sanctions against the United States. This calculus also explains why China does not sanction the United States for the Dalai Lama visits.

⁹¹ Interview, Beijing, January 14, 2014.

⁹² See news release from the Chinese MFA on December 4, 2013, at http://www.fmprc.gov.cn/mfa_chn/zyxw_602251/t1105681.shtml, accessed December 8, 2013; <http://china.caixin.com/2012-02-15/100356801.html>, accessed February 17, 2014. For other leaders, see http://www.chinanews.com/hb/2014/01-30/5800706_3.shtml, <http://gb.cri.cn/42071/2013/06/04/6611s4137253.htm>, and http://world.gmw.cn/2012-04/30/content_4062920.htm, respectively, accessed February 17, 2014.

⁹³ Fravel similarly argues that territorial expansion could signal China as an aggressive rising power. See M. Taylor Fravel, "International Relations Theory and China's Rise: Assessing China's Potential for Territorial Expansion," *International Studies Review* Issue 12 (2010), p. 510.

⁹⁴ Wang Yong, "China's Stakes in WTO Accession: The Internal Decision-making Process," in Heike Holbig and Robert Ash, eds., *China's Accession to the World Trade Organization* (London: Routledge, 2002), p. 26, 30.

4.3. The Dalai Lama Visits – Airbus Versus Strategic Resources

Despite similar diplomatic rhetoric to Dalai Lama's visits, China sanctioned France and Germany but not Australia. Variation in geopolitical and economic costs explains this selectivity. We should observe Chinese officials and scholars talking about favorable trade and geopolitical conditions regarding France and Germany. We should also see them stressing the geopolitical and economic significance of Australia.

Divide and Conquer with Airbus

After the Dalai Lama's visit to France, the Chinese MFA spokesperson was asked whether the visit would affect Sino-French trade and commercial orders from Airbus. He replied, "Sino-French trade relations are built on mutual interests and we hope the French side will create favorable conditions for cooperation."⁹⁵ Although the spokesperson did not say so explicitly, China did target France and Germany with Airbus.



In Figure 2,⁹⁶ the red line denotes imports from France and the blue from Germany, both of which

⁹⁵ MFA Press Conference on December 4, 2008.

⁹⁶ Data comes from the *China Customs Statistics Yearbooks*, compiled by the Chinese CGA. Note that the CGA Yearbooks do not specify companies and only list categories of the goods and countries of origin. So I assume here that Airbus and Boeing sales generally constitute the majority of aircraft exports to China from the respective countries.

are mainly from Airbus. Notably, overall aircraft sales from Airbus did not drop in the affected years (i.e., 2007-2009) in terms of total value and proportion in Chinese aircraft imports. Instead, what is suggestive is the value of aircrafts that China bought from Germany and France. Before 2007, aircraft sales from Germany and France grew at a similar rate. Yet when Chancellor Merkel received the Dalai Lama in early September 2007, German aircraft exports to China in the fourth quarter dropped by 34% compared to the last quarter and 40% compared to the fourth quarter of 2006.⁹⁷ The decline continued for a year until September 2008, when Germany reaffirmed that Tibet is part of Chinese territory and China deemed that Sino-German relations had "comprehensively recovered."⁹⁸ The decrease in aircraft imports from Germany was made up for by imports from France. Two months after the Dalai Lama's visit to Germany, China signed a contract to buy 160 Airbus from France.⁹⁹ In dollar terms, the decrease of German aircraft exports to China was not substantial: being China's largest trading partner in Europe, Germany exported mainly machineries and automobiles to China, and aircraft only constituted about 4% of German exports to China. Total German exports to China continued to decrease. This sanction episode is interesting, for it did not hurt the German economy seriously.

After this episode, however, France was sanctioned. The French President received the Dalai Lama in December 2008, and consequently French aircraft sales to China in 2009 dropped by 45.5% compared to 2008. Again, the timing was indicative: French aircraft exports to China immediately dropped by 68.2% in the first quarter of 2009 compared to that of 2008, and this

⁹⁷ Data comes from the Chinese Ministry of Commerce Country Report at http://countryreport.mofcom.gov.cn/record/index.asp?p_coun=%B5%C2%B9%FA, accessed February 17, 2014. German aircraft exports to China in the fourth quarter – from September to December – were \$465 million in 2005, 714 in 2006, 431 in 2007, 632 in 2008, 526 in 2009, 533 in 2010, and 942 in 2011, respectively.

⁹⁸ Zhao Ke and Lu Ruijun, "Jiangjiao sishinian laide zhongde zhengzhi guanxi" [Sino-German relations in the past 40 years], in Gu Junli, ed. *Zhongde jianjiao sishinian, huigu yu zhanwang*, p. 241.

⁹⁹ Tan Jingjing and Chang Lu, "Zhongguo jiang cong faguo goumai 160jia kongke feiji" [China will purchase 160 Airbus from France], November 26, 2007, *Xinhua News*, http://news.ifeng.com/mainland/200711/1126_17_311641.shtml, accessed December 8, 2013.

decline lasted for a year until the first quarter of 2010.¹⁰⁰ Meanwhile, aircraft sales from Germany picked up. The global financial downturn cannot explain this huge dip in French aircraft sales to China, since German aircraft sales to China were increasing. Interviews with Chinese scholars indicate that the Chinese government “froze” the orders from Airbus in France (*dongjie dingdan*).¹⁰¹ That is, China did not cancel the orders, yet it just simply did not carry through these orders, which means that France still could not get the payment (*xieyi qianding le, dan buzhexing*). Press reports also indicate that this dip was intentional. After the Dalai Lama’s visit, Chinese Premier Wen Jiabao visited countries such as Germany and Britain, yet avoided France, which the French media dubbed “tour de France” (*huanfa*).¹⁰² This avoidance had economic impacts. When Chinese Minister of Commerce Chen Deming led the “Chinese group of trade and investment promotion” (*zhongguo maoyi touzi cujintuan*) to Europe, with €17 billion, he also avoided France.¹⁰³ Unlike the “small-dose” sanction on Germany, Chinese sanctions on France were larger in scale and targeted specifically at aircrafts. French exports to China (France’s 9th largest export destination) dropped by 17% compared to 2008, with aircraft sales contributing to 91% of the drop. In dollar terms, the decrease of \$2.1 billion was not a small amount to the aviation industry, which usually constitutes about 30% of total French exports to China. From a comparative perspective, French aircraft exports to China constituted about 15% of total French aircraft exports in 2007 and 2008, and this proportion dropped to 7% in 2009.¹⁰⁴ The decrease in aircraft exports to China contributed to 66% of the total decrease of French aircraft exports. China indeed chose the right sector on which to impose targeted sanctions. French presidents subsequently refrained from meeting with the Dalai

¹⁰⁰ Data comes from the Chinese Ministry of Commerce Country Report at http://countryreport.mofcom.gov.cn/record/index.asp?p_coun=%B7%A8%B9%FA, accessed February 17, 2014.

¹⁰¹ Interview, Beijing, July 9, 2014.

¹⁰² “Zhongfa guanxi lengdong 90tian, faguo minzhong duihua taidu fuza” [Sino-France relations have been frozen for 90 days, the French public maintained complicated attitudes towards China], *Guoji xianqu daobao* [International Herald, a newspaper under China’s state news agency, Xinhua news], March 6, 2009, <http://www.chinaqw.com/news/200903/06/153882.shtml>, accessed December 8, 2013.

¹⁰³ *Ibid.*

¹⁰⁴ For data on French aircraft exports, see Commodity Trade Statistics Database at the United Nations Statistics Division. The HS codes are 880220, 880230, and 880240, available at http://data.un.org/Data.aspx?d=ComTrade&f=_11Code%3a88, accessed April 30, 2014.

Lama.

Favorable Trade Asymmetry

It is true that Airbus is a pan-European consortium, yet China can use the alternating purchase from France and Germany in two ways. First, some Chinese scholars stress that Airbus not only provides profits, but also employment. So whether China orders from France or Germany may make a difference in terms of local job creation at the respective manufacturing sites.¹⁰⁵ After all, Airbus manufacture sites in France and Germany are responsible for different types of Airbus aircrafts.¹⁰⁶ Therefore, Airbus orders can be politicized. Chinese decision-makers think that this is particularly the case for France. Former Chinese Ambassador to France Cai Fangbo writes that both Presidents Chirac and Sarkozy were concerned about Airbus sales to China. As early as 1997, before visiting China, President Chirac told Ambassador Cai that he hoped that China would order 50 instead of 10 Airbus aircraft *while he was visiting Beijing*.¹⁰⁷ If not, Chirac would postpone the visit. The two sides reached an agreement in which China ordered 30 Airbus and another 10 French aircraft. Chirac then visited China and signed the contract for 40 aircraft. Cai recalled that after the French media covered the agreement positively and intensively, Chirac said he was "very happy."¹⁰⁸ In fact, Chirac linked Airbus sales directly with job creation in France, stating that China's order would create 4,000 jobs that could last for three years.¹⁰⁹ Chirac had been consistent with his emphasis on Airbus deals. Chinese Foreign Minister Li Zhaoxing writes in his memoir: Chirac told President Hu Jintao in 2004 that the purchase of 21 Airbus aircraft "is a sensitive and political project and that my [Chirac's] Airbus issue is your [Hu's] Taiwan issue." Chirac hoped that China would *announce* the

¹⁰⁵ Interview, Beijing, January 14, 2014.

¹⁰⁶ See the Airbus company website at <http://www.airbus.com/company/aircraft-manufacture/how-is-an-aircraft-built/production/>, accessed February 17, 2014.

¹⁰⁷ Dai Changlan's interview with Cai Fangbo on September 22, 2008, http://news.xinhuanet.com/world/2008-09/22/content_10088938.htm, accessed February 17, 2014. Emphasis added.

¹⁰⁸ Cai Fangbo, *Cong daigaole dao sakeqi*, p. 204.

¹⁰⁹ *Ibid.*, p. 209.

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decision to purchase 21 Airbus aircraft, otherwise France would feel *disappointed* and *lose face*.¹¹⁰ President Sarkozy continued this emphasis, saying that he wanted to do better than Chirac and hoped that China would buy even more aircraft.¹¹¹ From the accounts of senior Chinese diplomats, it is clear that China understands that Airbus purchases are a salient political issue for France and can thus use the withholding of French Airbus orders to China's advantage, although Airbus itself is a consortium.

Second, Chinese scholars argue that while China's selective purchasing of Airbus may not cut into the profits of the country in question, it nonetheless sends a signal that China is dissatisfied with the country's behavior and more "sticks" will come if it does not change its policies.¹¹² For example, German aircraft exports to China only constitute about 4% of total exports to China. Although not purchasing aircraft from Germany did very little damage to Sino-German trade, it did send a clear message to Germany that China was upset about Merkel's meeting with the Dalai Lama. In addition, China engaged in a six-month "Cold War" with Germany by canceling a meeting with the German treasurer, terminating some large purchasing contracts, and stalling contracts still in negotiation.¹¹³ Of course, China's sanctions on Germany were much smaller compared to France, which was probably because German exports – intermediary machinery – were important for Chinese economic growth. China therefore sanctioned Germany as a political signal: due to the economic costs of sanctioning major German exports to China, China only sanctioned sectors not crucial to Sino-German trade. In short, the basic condition conducive to Chinese sanctions is that China has exit options. China can always maneuver between France and Germany. When sanctioning France, it could increase imports from Germany, and vice versa.

¹¹⁰ Li Zhaoxing, *Shuobujin de waijiao* [Endless words on diplomacy] (Beijing: Zhongxin Press, 2014), p. 87. Emphasis added.

¹¹¹ Li Jie's interview, "Qinli zhongfa guanxi 24ge chunqiu" [24 years of witnessing Sino-French relations], *Liaowang*, August 31, 2009, http://news.xinhuanet.com/world/2009-08/31/content_11971399_3.htm, accessed February 17, 2014.

¹¹² Interview, Beijing, December 30, 2013.

¹¹³ Interview by CCTV with Shi Yinhong, <http://opinion.cntv.cn/20120914/106608.shtml>, accessed April 16, 2014.

European Geopolitics

China believes that sanctioning either France or Germany will not incite a backlash from Europe. For example, two months after Chancellor Merkel met with the Dalai Lama in 2007, China noticed that German diplomats were worried that the Chinese reaction towards Germany would "leave the opportunities to France" and that Paris would "make use of" Germany's deteriorating relations with China.¹¹⁴ Five days later, China announced the decision to purchase Airbus aircraft from France.¹¹⁵ Then Foreign Minister Tang Jiaxuan summarized in his memoir the Chinese strategy towards Germany: "When Germany tried to meddle in China's internal affairs, we fought back on just grounds, *to our advantage and with restraint*."¹¹⁶ What did he mean by "to our advantage"? Tang immediately instructed the MFA to "press on with the German effort [to try to amend relationships] while continuing to apply proper pressure, [and] to handle relations with other major European powers well."¹¹⁷ While not stated explicitly, Tang's measures seemed to follow a "divide and conquer" strategy of indirect sanctions (*duomai bieren de, fen'er zhizhi, jianjie zhicai*), according to interviews with Chinese scholars.¹¹⁸ This strategy hinged on the belief that there was "advantage" to take in Europe by isolating Germany while improving relations with its neighbors, which also applies to Chinese sanctions against France. This strategy was made possible by the geopolitical situation in Europe: the director of European Studies Institute at the Chinese Academy of Social Sciences (CASS) argues that *unlike* the U.S. Congress, which can call for trade protectionism against China, the European Union finds it difficult to act in unison as its members derive different degrees

¹¹⁴ "Zhongguo biaoda fennu zhendong deguo" [China's anger shook Germany], November 21, 2007, *Global Times*, http://www.china.com.cn/news/txt/2007-11/21/content_9265995.htm, accessed December 8, 2013.

¹¹⁵ See fn. 103. The timing at least suggests that China knew the German worry and was convinced that instead of Germany balancing with France against China, it could play France against Germany by giving carrots to the former but sticks to the latter.

¹¹⁶ Tang, *Heavy Storm and Gentle Breeze*, p. 463. Emphasis added.

¹¹⁷ *Ibid.*, p. 486.

¹¹⁸ Interview, Beijing, July 9, 2014.

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of benefits from their trade relations with China.¹¹⁹ Yuan Peng, director of American studies at the China Institute of Contemporary International Relations (CICIR), states that there is no Western front line of containment among Germany, France, and Britain.¹²⁰ The reasoning of these government think tanks might reflect the calculation of Chinese leaders that due to interest differences, Germany, France, and Britain would not be able to unite to balance against China.

Australia – the Centrality of Energy Import and Geopolitics

Australia is similar to France and Germany in many respects. All three countries are advanced economies. In terms of power status, Australia is an important power in the Asia-Pacific region, just as France and Germany are influential in Europe. And the French President, German Chancellor, and Australian Prime Minister all received the Dalai Lama. It is thus puzzling why China sanctioned Germany and France, but not Australia. As shown below, China treated Australia differently because it views Australia as a source for energy diversification and a state that could help China in the regional balance of power.

Owing to the growing need for energy imports (China became a net importer of energy in 1993) and concerns about the stability of the Middle East, the Chinese government began to pursue a strategy of energy import diversification. On one hand, China continued to strengthen relationships with oil producing states in the Persian Gulf. On the other, it began to diversify import sources and types of energy. Zhou Dadi, head of the Institute of Energy Research under the Chinese National Development and Reform Commission (NDRC), expanded on China's diversification strategy. Zhou stated that China should increase the use of international gas and mineral resources, because "we would rather import more-than-adequate amount of oil and gas so as to increase

¹¹⁹ Zhou Hong, "Zhongguo yu ouzhou guanxi 60nian" [Sino-European relations in the past 60 years], in Zhang Yunling ed., *Zhongguo duiwai guanxi: huigu yu sikao (1949-2009)* [China's foreign relations: review and reflections (1949-2009)] (Beijing: Shehui kexue wenxian chubanshe [Social Science Literature Press], 2009), p. 62. Emphasis added.

¹²⁰ Yuan Peng, "Zhongguo waijiao xu jinfang dazhanlue shiwu" [China should avoid strategic mistakes], *Xiandai guoji guanxi* [Contemporary International Relations], No. 11 (2010), p. 13. The CICIR is a government think tank.

energy security."¹²¹ In line with Zhou, one internal document from China's Ministry of Finance indicated that in 2007, China would continue to use preferential tax policies to encourage natural resource related imports and to reduce energy exports. One observer noted that this policy aimed to expand energy imports while controlling energy exports.¹²² Australia is one important country in China's diversification strategy, because of its abundant energy resources and the relatively secure and short route for transportation.¹²³ Prior to 2005, China had struck several deals with Australia that secured Australian provision of liquid natural gas – one of the foci of the diversification strategy – to China's coastal provinces.¹²⁴ According to Sun Hui from the CICIR, China's growing need for mineral products led to a drastic increase in Australian mineral imports.¹²⁵ In 2006, such imports increased by 37.6 percentage points, constituting half of China's imports from Australia. And these imports continued to increase in 2007 and 2008 at even higher rates despite the Dalai Lama's visit.¹²⁶ In addition, Australia is rich in uranium, which is important for nuclear energy. In April 2006, Premier Wen Jiabao signed an agreement with Australia regarding the transfer of nuclear materials. The *People's Daily* interpreted this as an indication of economic complementarity

¹²¹ Zhou Dadi's address during the annual conference of "Energy Diversification and Investment Security" (*Nengyuan duoyuanhua yu touzi anquan*), October 2005. This document can be accessed at https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&ved=0CCoQFjAA&url=http%3A%2F%2Fwww.china5e.com%2Fuserfiles%2Ffile%2F1143510907.doc&ei=t8olU_7ELcug0gHs9oHoAg&usg=AFQjCNEW-A5aFvDAtoI2oLCpr7d5ILt2BA&sig2=Hbm3N_fv7nd0UUrnhu-R1g&bvm=bv.62922401,d.dmQ&cad=rjt, accessed March 16, 2014. The NDRC is one of China's most powerful bureaucracies. It wrote China's first Government white paper on energy policies. See the white paper at <http://www.scio.gov.cn/zfbps/ndhf/2007/Document/307873/307873.htm>, accessed March 16, 2014.

¹²² Wang Li, "Duoyuanhua zhanlue: jiang huajie zhongguo nengyuan jinkou fengxian wenti" [The diversification strategy will solve China's energy issues], *Jingji cankao bao* [Economic Reference], http://www.dss.gov.cn/Article_Print.asp?ArticleID=241340, accessed March 16, 2014.

¹²³ See Hou Minyue and Han Dongtao, "Zhong'e, zhong'ao nengyuan hezuo bijiao yanjiu" [A comparative study on Sino-Russian and Sino-Australian energy cooperation], *E'luosi yanjiu* [Russian Studies], Issue 1 (2012); Wu Chongbo, "Zhongguo yu aodaliya hezuo yinglai xinqiji" [New Opportunities in Sino-Australian economic cooperation], *Nanyang wenti yanjiu* [Southeast Asian Affairs], General 119, No. 3 (2004).

¹²⁴ Wu Chongbo, "Zhongguo yu aodaliya hezuo yinglai xinqiji."

¹²⁵ Sun Hui, "Hu Jintao fang wen aodaliya, zhongao qiutongcunyi huligongying" [President Hu visited Australia, China and Australia pursued a win-win relationship], September 6, 2007, http://www.china.com.cn/international/txt/2007-09/06/content_8829011.htm, accessed March 16, 2014.

¹²⁶ Data comes from the Ministry of Commerce at http://countryreport.mofcom.gov.cn/record/index.asp?p_coun=%B0%C4%B4%F3%C0%FB%D1%C7, accessed March 16, 2014.

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– China needs nuclear power plants and Australia is one of the main exporters of uranium.¹²⁷ In short, due to China's urgent need for energy resources, Australia has become an important source of energy imports, thus reducing China's incentive for disrupting Sino-Australian trade (half of which is energy-related). This explains why Chinese scholars argued that the basis for Sino-Australian friendship was trade and Chinese leaders kept stressing that China should improve Sino-Australian cooperation on energy and mineral resources.¹²⁸

Another factor leading to China's restraint is geopolitics. Chinese scholars state that Australia possesses immense strategic value to China, mostly because of its geographical location. They argue from a geopolitical standpoint that Australia is the front line for maritime nations wanting to contain land-based great powers (such as China). Therefore, it is critical for China's security that Australia (and New Zealand) remains friendly to China.¹²⁹ After all, Chinese scholars believe that ASEAN, Japan, and India are all trying to use Australia to increase their respective balance of power.¹³⁰ The geopolitical significance of Australia contributed to China's friendly tone: the *People's Daily* stresses that neither Australia nor China views each other as threats and the two countries should therefore focus their relationships on the positive sides.¹³¹ Despite the Dalai Lama's visit, President Hu Jintao paid a state visit to Australia in September 2007, stating that deepening Sino-Australian comprehensive cooperation (*quanmian hezuo*) is conducive to long-term and strategic interests on both sides and that China views the bilateral relationship from a

¹²⁷ Huang Qing (senior editor of the *People's Daily*), *Zhonggao youhao hezuo kancheng dianfan* [Sino-Australian cooperation as a model], *People's Daily Overseas Edition*, June 29, 2006, Section 1, http://paper.people.com.cn/rmrhwb/html/2006-06/29/content_7126539.htm, accessed March 16, 2014. According to the agreement, China will import 10,000 tons of Uranium from Australia annually.

¹²⁸ Sun Hui, "Hu Jintao fang wen aodaliya, zhonggao qiutongcunyi huligongying." Chinese leaders made such statements both before and after Dalai Lama's visit to Australia. See Wenjiabao's speech in *People's Daily*, January 16, 2007, section 3; Assistant Foreign Minister He Yafei's remarks on August 28, 2007, http://news.xinhuanet.com/newscenter/2007-08/28/content_6620541.htm, accessed March 16, 2014.

¹²⁹ For this line of reasoning, see Zhang Lu and Huang Ji, *Zhongguo zhoubian zhanlue zhong de aodaliya* [Australia in China's Regional Strategy], No. 2 (2007), *Xiandai guoji guanxi* [Contemporary International Relations].

¹³⁰ Zhai Kun, *Zhonggao hezuo lizai yatai* [Sino-Australian cooperation is beneficial to the Asia-Pacific], *People's Daily Overseas Edition*, September 4, 2007, section 1, http://paper.people.com.cn/rmrhwb/html/2007-09/04/content_18825505.htm, accessed March 16, 2014. Zhai is the director of Southeast Asian and Oceanian Studies at the CICIR

¹³¹ Huang Qing, *Zhonggao youhao hezuo kancheng dianfan*.

"strategic height."¹³² This indicates that geopolitics also played a restraining role.

The Domestic Alternative

Chinese domestic politics does not explain the variation. There were no Chinese import-competing firms in the French and German cases. The fact that decisions to import aircrafts and natural resources have been centralized at the state level further limits the influence of domestic interest groups. The Civil Aviation Administration of China (CAAC), a government agency, strictly controls all aircraft imports, which must be approved by the CAAC. Thus, the fluctuation in aircraft sales to China involves government decisions, not private interests. To summarize, in responding to foreign officials' reception of the Dalai Lama, China sanctioned France and Germany because the economic and geopolitical costs were low, but refrained from sanctioning Australia because such costs are high.

4.4. Maritime Disputes in the South China Sea – Finding the Right One to Bully

In the South China Sea, China has maritime territorial disputes with Vietnam, the Philippines, Brunei, and Malaysia, with Vietnam and the Philippines taking more confrontational stances. China and Vietnam have border issues on three dimensions, the land boundary, delimitation of the Beibu (Tonkin) Gulf, and ownership of the Nansha (Spratly) islands.¹³³ The two sides have generally resolved the first two issues. The remaining one is maritime disputes. A recent documentary from the Chinese State television channel revealed an intense clash between armed Vietnamese ships and Chinese maritime surveillance ships in 2007. On June 26, 2007, when surveying in the waters around the Spratly islands, Chinese research ships were harassed by armed Vietnamese ships and were forced to leave. The Chinese State Oceanic Administration immediately carried out

¹³² Lai Hailong, "Hujintao: zhonggao guanxi chengwei youhao huli dianfan" [Sino-Australian relations became a model for mutual friendship], September 4, 2007, <http://news.sina.com.cn/c/2007-09-04/224313816278.shtml>, accessed March 16, 2014; *People's Daily*, September 7, 2007, section 1.

¹³³ Tang Jiaxuan, *Heavy Storm and Gentle Breeze*, p. 283.

"Enforcement Action Code 626" on June 29, using maritime surveillance ships (*haijian chuan*) that were part of the civilian law enforcement. When armed Vietnamese ships closed in, Chinese *haijian* ships were ordered to ram them.¹³⁴

China's reaction in 2007 was an example of using administrative means to strengthen claims on maritime territory.¹³⁵ And it was only one episode among many maritime clashes between Vietnam and China from 2007 to 2011.¹³⁶ Yet as shown below, China reacted less strongly than it did towards the Philippines. First, the 2007 incident was not made public until early 2014 and China seemed inclined to downplay its many clashes with Vietnam. Second, despite one Vietnamese scholar's fear that "the Chinese could wreck the Vietnamese economy if they wanted,"¹³⁷ Sino-Vietnamese economic relations continue to grow, with China increasing imports from Vietnam.¹³⁸ China continued to show restraint when the Vietnamese Congress passed the "maritime law of Vietnam" in which both the Spratly islands and Paracels were included as Vietnamese territory and sphere of control, on June 21, 2012.¹³⁹ China did react by establishing the "Sansha" city to administer the Spratly and Paracels. Yet political and economic relations were sound: then Vice President Xi Jinping met with the Vietnamese Premier in September 2012 and

¹³⁴ *Haijian* No. 71 and No. 51 successfully ram the Vietnamese ships. This documentary is the eighth episode of the "blue water guards" series released by CCTV-4, access to the documentary is at <http://video.sina.com.cn/p/news/v/2014-01-04/114563336361.html>, accessed February 18, 2014.

¹³⁵ See M. Taylor Fravel, "China's Strategy in the South China Sea," *Contemporary Southeast Asia*, Vol. 33, No.3 (December 2011), p. 292-319.

¹³⁶ For other episodes, see "Yumin pinzao zhoubian weixie" [Fishermen frequently encounter threats], *Huanqiu Shibao* [Global times], April 4, 2010, qtd. in Fravel, "China's Strategy in the South China Sea," p. 305. In response, China confronted and expelled 135 and 147 foreign boats, respectively, in 2008 and 2009. See Nongyebu yuyeju [Ministry of Agriculture Bureau of Fisheries Administration], ed., *2009: Zhongguo Yuzheng Nianjian* [2009: China Fisheries Yearbook] (Beijing: Zhongguo yuye chubanshe, 2009), p. 147, and Nongyebu yuyeju, *2010: Zhongguo Yuzheng Nianjian*, p. 124, qtd. in *ibid.*, p. 305.

¹³⁷ International Crisis Group, "Stirring up the South China Sea (II): Regional Responses," July 24, 2012, p. 3. <http://www.crisisgroup.org/en/regions/asia/north-east-asia/china/229-stirring-up-the-south-china-sea-ii-regional-responses.aspx>, accessed December 8, 2013.

¹³⁸ Data comes from the China Customs Statistics Yearbooks, compiled by the CGA and the monthly data of the CGA online database at <http://www.customs.gov.cn/publish/portal0/tab49666/module175903/page49.htm>, accessed February 19, 2014.

¹³⁹ China Institute of International Studies (CIIS), *2013nian guoji xingshi he zhongguo waijiao lanpishu* [International situation and China's foreign affairs 2013] (Beijing: Shijie zhishi chubanshe [World Knowledge Press], 2013), p. 18.

Vietnamese exports to China increased by 46% in 2012.¹⁴⁰

China added an economic dimension to similar provocations from the Philippines. On April 10, 2012, a Philippine naval ship tried to arrest Chinese fishermen for illegal fishing around the disputed waters of the Scarborough (*Huangyan*) shoal. China immediately sent two surveillance vessels to block the Philippine ship and rescued the fishermen.¹⁴¹ Up to this point, China reacted in the same manner as it did towards Vietnam (of course, with much more publicity). Yet starting from May, China ratcheted up the pressure with economic sticks by quarantining Philippine bananas. By May 11, China blocked 1,500 containers of Philippine bananas for "pest infestation."¹⁴² It is true that China's General Administration of Quality Supervision, Inspection, and Quarantine released a warning on March 6 regarding Philippine bananas. Yet the warning itself asked only for more detailed inspections, not a ban on bananas.¹⁴³ Philippine media estimated that this ban led to the loss of one billion Philippine pesos (about \$23 million).¹⁴⁴ Finally, on May 22, Philippine media reported that China relaxed the banana ban by allowing around 30 to 40 containers of bananas into China.¹⁴⁵ Total Philippine fruit exports to China did not pick up again until August.¹⁴⁶

¹⁴⁰ Southeast Asian studies task force under the Chinese Ministry of Public Security and the Guangxi Academy of Social Sciences, "Zhongguo yu yuenan guanxi 2012-2013nian huigu yuzhanwang" [Sino-Vietnamese relations in 2012-2013: review and prospects], *Dongnanya zongheng* [Around Southeast Asia], Issue 1 (2013).

¹⁴¹ Patrick M. Cronin, "Muddy Waters," *New York Times*, April 24, 2012, http://www.nytimes.com/2012/04/25/opinion/the-philippines-china-and-the-us-meet-at-sea.html?_r=1&, accessed December 8, 2013.

¹⁴² The Chinese National Bureau for Tourism also suggested that Chinese tourists postpone travel to the Philippines, see "Feilvbin xiangjiaoshang: 3yue yilai yizai zhongguo sunshi yue 10yi bisuo" [Philippine banana sellers have lost about 1 billion pesos in China since March], May 14, 2012, *Qianjian Wanbao* [Qianjian Evening News], http://news.ifeng.com/mainland/special/nanhaizhengduan/content-3/detail_2012_05/14/14502214_0.shtml?_from_ralated, accessed December 8, 2013.

¹⁴³ "Zhijian zongju zanting jinkou feixiangjiao" [Bureau of Quality Inspection paused imports of Philippine bananas], May 10, 2012, *Fazhi wanbao* [Evening paper on legal affairs], <http://news.china.com/focus/nhcts/11101498/20120510/17190377.html>, accessed December 8, 2013.

¹⁴⁴ "Feixiangjiao sunshi yida 1.5yi renminbi, nongye guanyuan fanghua qiuqing" [The Philippine banana loss has reached 0.15 billion RMB, agricultural officials visited China for forgiveness], May 17, 2012, *Renmin Wang* [People's Net], http://news.ifeng.com/mainland/special/nanhaizhengduan/content-3/detail_2012_05/17/14608569_0.shtml?_from_ralated, accessed December 8, 2013. The People's net is the Internet complement of *People's Daily*.

¹⁴⁵ Li Zongze, "Feimei: feilvbin bufen xiangjiao yi chongxin huozhun jinru zhongguo" [Philippine media: some Philippine bananas are allowed into China again], *Guoji zaixian* [International Online], May 22, 2012, http://news.ifeng.com/mainland/special/nanhaizhengduan/content-3/detail_2012_05/22/14729419_0.shtml, accessed December 8, 2013.

What explains China's differential treatment? It is true that the boat clash in 2012 took place around a land feature, whereas the Sino-Vietnamese clashes took place mostly around disputed waters. And the Philippines arrested Chinese fishermen, which the Vietnamese did not do. Despite differential issue intensity to some extent, China has had real tensions with both countries and only added the economic dimension in the Philippine case. It used a combination of measures: diplomatic, administrative, and economic – termed as "a triple punch" (*zuhe quan*) by Chinese scholars.¹⁴⁷ The following section illustrates that the logic of cost calculus is still operating, but because the economic costs are low for sanctioning both countries, geopolitical costs explain the variation.

Asymmetric Trade Relations Favoring China

Being Philippines' third largest export destination, China has the advantage in the Sino-Philippine trade structure.¹⁴⁸ Chinese scholars have noted the dependence of ASEAN countries and China's economic importance to ASEAN long before sanctioning the Philippines.¹⁴⁹ According to Bai Ming, deputy director of CAITEC under the Chinese Ministry of Commerce, Sino-Philippine trade is asymmetrical. Bilateral trade constitutes 30% of total Philippine trade but only 0.89% for Chinese total trade.¹⁵⁰ Bai states that China could impose economic sanctions and isolate the Philippines, while strengthening economic relations with other ASEAN countries. More telling is that *prior to* the sanctions, Chinese scholars in government think tanks believed that the most practical countermeasure against Philippine assertiveness was economic: "it is one thing to sign trade

¹⁴⁶ See Chinese Customs data at <http://customs.caexpo.com/data/country/2012/10/15/3577988.html>, accessed February 18, 2014.

¹⁴⁷ Zhang Jie, "Huangyan dao duizhi yu zhongguo hashing anquan zhengce de zhuanxiang," [The Huangyan standoff and the policy shift regarding Chinese maritime security], Zhang Jie ed., *Zhongguo zhoubian anquan xingshi pinggu, 2013* [China's security situation around its neighbouring region, 2013 version] (Beijing: Shehui kexue chubanshe [Social Science Literature Press], 2013), p. 51. Zhang is a researcher at the CASS.

¹⁴⁸ Data at http://analysis.ec.com.cn/article/datamyfx/201305/1243142_1.html, accessed April 16, 2014.

¹⁴⁹ See He Shengda, "Dongmeng duihua guanxi de xianzhuang yu weilai" [The reality and future of Sino-ASEAN relations], in Zhang Yunling ed., *Zhongguo yu zhoubian guojia: goujian xinxing huoban guanxi* [China and neighboring countries: constructing new partnerships] (Beijing: Shehui kexue wenxian chubanshe [Social Science Literature Press], 2008), p. 92

¹⁵⁰ See news at the Chinese Ministry of Commerce at <http://chinawto.mofcom.gov.cn/article/e/s/201205/20120508122972.shtml>, accessed December 8, 2013.

agreements [with the Philippines], but another to execute them."¹⁵¹ This indicates that even before the boat clash in April, Chinese scholars had already talked about economic sanctions. CAITEC researcher Mei Xinyu laid out the strategy: the goods that China imports from the Philippines are highly replaceable and other ASEAN countries could benefit from the Sino-Philippine disputes [by exporting to China].¹⁵² Anecdotal evidence indicates that China indeed used the exit options provided by other ASEAN countries. In Chengdu, to fill in for Philippine bananas, fruit businesses increased their imports from Thailand and Vietnam.¹⁵³ Similarly, in Beijing, Philippine bananas were replaced by imports from Thailand.¹⁵⁴ Total banana imports were thus unaffected. As the second largest export destination of Philippine bananas, China could influence Philippine banana planters while avoiding any domestic impact. The honorary President of the Philippine Industrial and Commerce Association commented that "China had always been [the banana planters'] sole market, and they could not have found new markets overnight."¹⁵⁵

Sino-Vietnamese trade structure is equally conducive to economic sanctions. Exports to China constituted 11% of total Vietnamese exports in 2012, and in terms of individual countries, China was Vietnam's third largest export destination.¹⁵⁶ China was the largest importer of several goods important to the Vietnamese economy. For example, China imported about 60% of Vietnamese rubber, 78% of Vietnamese coal, and 90% of Vietnamese cassava.¹⁵⁷ Chinese scholars

¹⁵¹ Zhu Hao's remarks on January 21, 2012, at <http://www.zhige.net/html/2012/0121/34313.html>, accessed April 16, 2014. Zhu is a researcher at the CIR's Southeast Asia Institute. See also Remin University professor Jin Canrong's remarks on November 19, 2011, at http://news.ifeng.com/mil/2/detail_2011_11/19/10768673_4.shtml, accessed April 16, 2014.

¹⁵² Qtd. in Cheng Xin, "Zhongguo qiyong xianzhi xiangjiao jinkou deng jingjipai jie jue huangyandao wenti" [China uses economic cards such as banana restriction to solve the Huangyan island issue], May 23, 2012, *Zhengquan Shibao* [Securities Times], http://trade.ec.com.cn/article/tradezx/201205/1197827_1.html, accessed December 8, 2013.

¹⁵³ See: <http://www.chnbanana.com/2012/0515/4274.html>, accessed March 16, 2014.

¹⁵⁴ "Feilvbin xiangjiao beijiating xiaoshou, taiguo deny jinkou xiangjiao tianbu kongque" [With Philippine bananas banned, imports from Thailand filled the gap], *Fazhi wanbao* [Evening news regarding legal affairs], May 16, 2012, <http://finance.sina.com.cn/world/yzjj/20120516/154612078731.shtml>, accessed March 16, 2014.

¹⁵⁵ "Feixiangjiao sunshi yida 1.5yi renminbi, nongye guanyuan fanghua qiuqing."

¹⁵⁶ See data at the General Statistics Office of Vietnam at

http://www.gso.gov.vn/default_en.aspx?tabid=626&ItemID=13579, accessed April 16, 2014.

¹⁵⁷ See the Economic and Commercial Counselor's Office at the Chinese Embassy in Vietnam,

<http://vn.mofcom.gov.cn/article/zxhz/tjsj/201305/20130500116573.shtml>,

<http://vn.mofcom.gov.cn/article/jmxw/201111/20111107813143.shtml>, accessed December 8, 2013.

acknowledge that China has exit options from Vietnam. One cites a statement by the Vietnamese Ministry of Agriculture and Rural Development: the biggest challenge for Vietnamese agricultural exports to China is from other ASEAN countries – Thailand and the Philippines are competitors for fruits and vegetables, Thailand for rice, rubber for Indonesia and Malaysia, and pepper for Indonesia.¹⁵⁸ It is thus puzzling why China did not sanction Vietnam when it was economically capable.

Differential Geopolitical Costs

Geopolitics explains the differential treatment: China views Vietnam and the Philippines as having different levels of geopolitical significance. It is true that the Philippines is a long-time ally of the United States, but the United States has taken a neutral stance over the Sino-Philippine disputes. Unlike the U.S.-Japan defense treaty that covers the Senkaku islands, the U.S.-Philippine defense treaty does *not* cover the Huangyan Island. More importantly, China seemed to believe that imposing small-scale economic sanctions on the Philippines would not invoke balancing from other ASEAN countries and that it could actually capitalize on the interest differences among ASEAN countries. In addition to arguing that ASEAN countries would benefit economically from the Sino-Philippine standoff, Chinese scholars reason that because the South China Sea disputes involve only several countries, it is difficult for ASEAN as a whole "to take on China."¹⁵⁹ Both before and after the sanctions, government researchers consistently argued that there were differences among ASEAN countries: Malaysia, which has disputes with China regarding the South China Sea, has increased its cooperation with China; Brunei, a small country, only wants to get "oil profits" and has no intention of worsening relations with China; due to Sino-Indonesian economic relations, Indonesia does not

¹⁵⁸ Pan Jin'e, "Zhongyue maoyi: xianzhuang, qianjing, yu maoyishiheng de yuanyin fenxi," *Dongnanya zongheng* [Around Southeast Asia], No. 10 (2007), p. 49.

¹⁵⁹ "Zhongguo yu yuenan guanxi 2012-2013nian huigu yuzhanwang."

want China to be completely isolated.¹⁶⁰ This divergence manifested itself in the Huangyan standoff: Chinese scholars noted that because only China and the Philippines claim sovereignty rights over the Macclesfield Bank (*Zhongsha* islands) where the Huangyan island is located, ASEAN countries remained silent and did not publicly support the Philippines.¹⁶¹ As such, the geopolitical conditions were conducive to imposing sanctions on the Philippines. A year from the incident, China still believes that singling out the Philippines to bully is a good "card," because giving the Philippines the cold shoulder makes China's kindness to others more readily appreciated.¹⁶² Chinese scholars term this "divide and conquer" strategy as "strike one and embrace the other" (*yida yila*).¹⁶³

In contrast, China views Vietnam as too geopolitically important to apply economic pressure. As early as 2000, when the two sides signed the agreement on the delimitation of the territorial seas of the Beibu Gulf, China wanted to use this mode of dispute settlement as a model.¹⁶⁴ China has continued to emphasize the importance of Vietnam. A crucial factor for Chinese restraint is that unlike the Philippines – a staunch ally of the United States – Vietnam is still a borderline "swing state" (*ruoji ruoli*).¹⁶⁵ China knows that Vietnam could use the United States to balance China. It wants to prevent pushing Vietnam completely to the United States.¹⁶⁶ Aware that Vietnam is trying to deepen relations with the United States, Russia, Japan, and India, one study conducted by the Southeast Asian Institute of the Chinese Ministry of Public Security suggests that China

¹⁶⁰ The China Foundation of International Studies, *Guoji wenti yanjiu baogao 2012-2013* [International Issues Report 2012-2013] (Beijing: Shijie zhishi chubanshe [World Knowledge Press], 2013), p. 36. See also He Shengda, "Dongmeng duihua guanxi de xianzhuang yu weilai," p. 104.

¹⁶¹ Zhang Jie, "Huangyan dao dui zhi yu zhongguo hashing anquan zhengce de zhuanxiang," p. 50.

¹⁶² Ye Hailin, "Zhongguo zai dongnanya dachu sizhang haopai" [Four ingenious cards that China played in Southeast Asia], October 16, 2013, *Overseas Edition of People's Daily*, http://news.xinhuanet.com/world/2013-10/16/c_117732427.htm, accessed December 8, 2013. Ye is from the CASS.

¹⁶³ Interview, Beijing, July 9, 2014.

¹⁶⁴ Tang Jiaxuan, *Heavy Storm of Gentle Breeze*, p. 325.

¹⁶⁵ Interview, Beijing, January 14, 2014.

¹⁶⁶ Interview, Beijing, January 20, 2014. For scholars worrying about Vietnam balancing against China with the United States, see He Shengda, "Dongmeng duihua guanxi de xianzhuang yu weilai;" Yu Xiangdong, "Zhengchanghua yilai zhongyue guanxi de fazhan" [Sino-Vietnamese relations since normalization], in Zhang Jie ed., *Zhongguo zhoubian anquan xingshi pinggu, 2013*; Yu Xiangdong and Hao Xiaojing, "Guanyu nanshai zhengduan yuennan xuezhe de ruogan guandian pingxi" [Viewpoints from Vietnamese scholars regarding disputes in the South China Sea], *Heping yu fazhan* [Peace and Development], No. 3 (June 2012), p. 61; He Zhigong and An Xiaoping, "Nanshai zhengduan zhongde meiguo yinsu jiqi yingxiang" [The U.S. factor in maritime disputes in the South China Sea and its influence], *Dangdai Yatai* [Contemporary Asia-Pacific], No. 1 (2010).

should deepen trade relations with Vietnam to maintain a friendly and cooperative bilateral relationship. In particular, the study states that China should increase imports from Vietnam so as to address Vietnam's long-term deficit in Sino-Vietnamese trade.¹⁶⁷ Zhang Jie summarizes Chinese scholarly views on the Indochina (*zhongnan*) Peninsula: Indochina is the key to breaking U.S. strategies in the two oceans. Since Vietnam is an important part of Indochina, Zhang implies the geopolitical significance of Vietnam.¹⁶⁸

Official CCP propaganda also stresses Vietnam's importance. One article from *Guangming Daily*, a CCP newspaper, emphasizes that Sino-Vietnamese maritime issues are *different* from Sino-Philippine issues and that Vietnam is *unique* in China's ASEAN policies: "Vietnam is the second largest ASEAN state in terms of population and *its attitudes towards China have direct and significant influence on other ASEAN countries...* Under these circumstances, it is necessary to strengthen the strategic trust between Vietnam and China."¹⁶⁹ Indeed, while Sino-Philippine relations remain cold, China and Vietnam reached a consensus in October 2013 to establish three working groups – land, maritime, and financial – to settle disputes peacefully.¹⁷⁰

China's sanctions on the Philippines, however, were short in duration and less harsh, compared to China's other sanctions and average sanctions in the TIES dataset. In fact, Zhao Jianglin stated that China did not sanction the Philippines too hard (*xia henzhao*) and only punished it on a small scale (with bananas), given that electronics constituted the largest Philippine exports to China (about 75%).¹⁷¹ That is, if China were to ban Philippine electronics, it would have had a much more severe impact on the Philippine economy. From a coercion perspective, it is therefore puzzling why

¹⁶⁷ "Zhongguo yu yuenan guanxi 2012-2013nian huigu yuzhanwang."

¹⁶⁸ Forward by Zhang Jie, in *Zhongguo zhoubian anquan xingshi pinggu*, 2013. The two oceans seem to refer to the Indian and Pacific oceans.

¹⁶⁹ Xin Wen, "Zhongyue guanxi hezeliangli, ying bimian haishang wenti jiaoju" [Sound Sino-Vietnamese relations are mutually beneficial, we should avoid maritime issues to affect the relationship], October 15, 2013, *Guangming Daily*, <http://www.chinanews.com/gj/2013/10-15/5379648.shtml>, accessed December 8, 2013. Emphasis added.

¹⁷⁰ "Li Keqiang fangyue: sanxian bingjin, zhongyue huli gongying" [Premier Li Keqiang visits Vietnam: Win-win relationship between China and Vietnam], *Xinhua News*, October 14, 2013, http://news.xinhuanet.com/world/2013-10/14/c_125534513.htm, accessed February 19, 2014.

¹⁷¹ Qtd. in Cheng Xin, "Zhongguo qiyong xianzhi xiangjiao jinkou deng jingjipai jie jue huangyandao wenti."

China did not target the sector that would hurt the Philippines the most. The answer still seems to be geopolitical costs. Zhao Jianglin Zhao argued that the reason why China did not touch on the electronics was precisely because of the fear of backlash and doubt from others.¹⁷² Similarly, CASS researcher Zhang Jie cautioned that China should impose soft sanctions on the Philippines, which could have symbolic and suggestive effects [on the Philippines]. She continued that comprehensive economic sanctions on the Philippines would be counterproductive, because it would induce repulsion from neighboring countries and make them think that China was exercising hegemony.¹⁷³ Both scholars noted the negative geopolitical ramification of imposing harsher economic sanctions, indicating that geopolitical concerns played a role even in the *severity* of Chinese sanctions. That is, as long as sanctions were small in scale, they could reduce the potential geopolitical backlash that China feared from ASEAN countries.

The Domestic Alternative

Regarding Chinese domestic politics during Sino-Vietnamese maritime disputes, some argue that the China National Offshore Oil Corporation (CNOOC), a national oil company, wants China to take a hardline stance towards Vietnam, whereas state enterprises such as Sino Petroleum and the electrical power sector would not want any discord due to their investments in Vietnam.¹⁷⁴ It is dubious, however, how much influence the state owned enterprises and private firms are able to exert (or if they are relevant at all). Moreover, it is questionable if these enterprises have a clear preference in the first place. While CNOOC wants to drill oil in the disputed area, being hawkish does not necessarily get what it wants. If disputes with Vietnam escalate into an open conflict, it might disrupt CNOOC activities in the South China Sea. China's recent moderate stance towards Vietnam might indicate that CNOOC could benefit from cooperative exploration. As for the

¹⁷² *Ibid.*

¹⁷³ Zhang Jie, "Fei yao tuoxiaqu, Zhongguo ruanzhicai yao xiaoxin" [The disputes with the Philippines would drag on, China should use soft sanctions cautiously], May 17, 2012, <http://iaps.cass.cn/news/487785.htm>, accessed April 16, 2014.

¹⁷⁴ "Zhongyue nanhai zhengduan huotupo, zhongguo lalong yuenan guli feilvbin."

Philippine case, Chinese banana producers did not exert pressure – the market share of domestic bananas did not increase after sanctions. Retailers simply imported bananas from Thailand instead. China's differential treatment towards Vietnam and the Philippines is interesting in that the economic costs of sanctioning either country are low, yet geopolitical costs vary.

4.5. The Magnitude of Chinese Sanctions

As predicted by a cost-conscious logic that is guided by China's grand strategy, Chinese economic sanctions tend to be small in terms of magnitude. For example, even in China's sanctions against France in 2008 and 2009, China "froze" but did not cancel Airbus orders from France. Interviews with foreign officials and Chinese scholars close to the government indicate that the fact that Chinese economic sanctions "do not bite" reflect China's cost-conscious behavior and limited goals. That is, the goals of Chinese economic sanctions are symbolic and defensive.¹⁷⁵ For Chinese policy makers, Chinese economic sanctions should not server bilateral economic cooperation with the target state. In particular, these sanctions should not affect China's exports, which is why China tends to impose "indirect sanctions" by improving economic ties with the target's surrounding neighbors (*jianjie zhicai*).¹⁷⁶ Both foreign officials and Chinese scholars acknowledge that China's "mild" sanctions reflect the fact that China does not want to be confrontational and instead wants to continue to gain economic benefits for its domestic development.¹⁷⁷ To them, the purposes of Chinese sanctions are demonstrative: that is, to express dissatisfaction and to deter other states from impinging on China's core interests.

Of China's ten sanctions episodes in table 1, only the sanction episode against France in 1992 is larger in terms of magnitude, which is similar to the targeted or smart sanctions Western democracies use. They hurt elite supporters of the targeted regime and alter their material

¹⁷⁵ Interview, Beijing, July 9, 2014; interview, Beijing, June 26, 2014.

¹⁷⁶ *Ibid.*

¹⁷⁷ Interview, Beijing, July 9, 2014; interview, Beijing, June 12, 2014.

incentives so that elites will pressure the targeted state into making concessions.¹⁷⁸ This episode is not entirely consistent with a cost-conscious logic, since the magnitude of this sanction episode is larger compared to China's other economic sanctions. Nevertheless, overall Sino-French trade was still increasing even when China was imposing sanctions on France, which indicates that Chinese behavior was still conservative.

5. Conclusion and Implications

Table 2.1 Sanctions Outcomes of Arms Sales

	Geopolitical Cost	Economic Cost	Sanctions
France	Low	Low	Yes
U.S.	High	High	No

Table 2.2 Sanctions Outcomes of Dalai Lama Visits

	Geopolitical Cost	Economic Cost	Sanctions
France	Low	Low	Yes
Germany	Low	Relatively Low	Yes
Australia	High	High	No

Table 2.3 Sanctions Outcomes of Maritime Disputes

	Geopolitical Cost	Economic Cost	Sanctions
Philippines	Relatively Low	Low	Yes
Vietnam	High	High	No

Investigating Chinese economic sanctions and closely examining three particular cases, I conclude that China's sanctions follow a cost-conscious logic. China tends to impose sanctions in response to security issues that involve its core interests. Yet even for such issues, it imposes sanctions selectively. Tables 2.1, 2.2, and 2.3 above clearly indicate that China imposes sanctions only when it is convinced that it has low-cost economic exit options and when the target will not incite a geopolitical backlash.

This paper enriches our understanding of both Chinese foreign policy and economic sanctions. By studying economic sanctions, I bridge Chinese foreign economic policies and security

¹⁷⁸ Drezner, "Sanctions Sometimes Smart: Targeted Sanctions in Theory and Practice," p. 96.

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policies and provide a concrete illustration of Chinese grand strategy. China's sanctions behavior is restrained and cost-conscious. As a rising power, China is economizing its costs carefully. Unlike the logic of coercion in which the state demonstrates resolve to those who most credibly threaten its core interests, China does not sanction those who have the capability to threaten China's national security. Instead, China sanctions the weaker and secondary states, precisely because it does not have to pay much of a price. For China, the baseline is *no* economic sanctions, and it *only* imposes sanctions after careful calculation of the costs. Following Deng's *taoguang yanghui* policy, in 2004, China's National People's Congress affirmed a new overall arrangement for diplomacy (*waijiao zongti buju*): "great powers are the key, the periphery is the priority, developing countries are the foundation" (*daguo shi guanjian, zhoubian shi shouyao, fazhanzhong shi jichu*).¹⁷⁹ China's sanctions behavior is consistent with this clear rank-ordering of which countries China views important to have sound relationships with: it imposes sanctions on countries that are mostly small or middle powers that are not economically or geopolitically critical for China.

China's sanctions behavior is also in line with Alastair Iain Johnston's argument that China's supposedly new assertiveness after 2010 is nothing new.¹⁸⁰ The interesting question is under what conditions and to whom is China assertive. I argue that because of China's grand strategy, it cares about economic and geopolitical costs to its development and is only willing to sanction smaller powers (with small-dose punishment), not the ones that might have the ability to influence Taiwan or Tibet or to balance more broadly against China. To summarize, China is at present a conservative power and does not seek to challenge the United States. However, China is willing to use its economic clout on smaller powers.

¹⁷⁹ "Quanguo renda changweihui 2004 nian gongzuo yaodian" [Key Points for the Work of the NPC Standing Committee in 2004], *Zhongguo renda*, no. 7 (2004): p. 12, qtd. in M. Taylor Fravel, "China Views India's Rise: Deepening Cooperation, Managing Differences," in Ashley J. Tellis, Travis Tanner, and Jessica Keough eds., *Asia responds to its rising powers China and India* (Seattle: The National Bureau of Asian Research, 2011), p. 70.

¹⁸⁰ See Alastair Iain Johnston, "How New and Assertive Is China's New Assertiveness?," *International Security*, Vol. 37, Number 4 (Spring 2013), p. 7-48.

Regarding the theoretical literature on economic sanctions, this study unpacks the concept of costs and indicates that geopolitical and economic costs both factor into sanctions decisions. In this way, Chinese sanctions behavior – cost-conscious and security-oriented – differs from democratizing sanctions imposed by Western countries. Chinese economic sanctions may be illustrative of authoritarian states that are rising in power. In order to reduce counterbalancing from other great powers or their neighbors, rising powers have to calculate the costs of their foreign policy decisions carefully. As a rising power, China is aware of its geopolitical and economic conditions, using economic sanctions rationally with restraint: it adopts a divide and conquer strategy, using sticks on the target but carrots for the rest. This cost calculation may be even more pressing when the rising power is a non-democracy, for it could be viewed as even more threatening by others. It would be interesting to further study sanctions imposed by rising authoritarian states to see if the cost-consciousness is operative.

What measures might rein in Chinese sanctions, apart from the negative lesson of "don't mess with Chinese core interests"? The good news is that China is a smart and rational bully. However there are grounds to worry, especially when looking to the future: even voices within the Chinese Ministry of Commerce, who advocate restraint, indicate that as long as China further develops its national power, "*time is on our side*" – it will be able to use import ability (*jinkou li*) as a source of power and leverage.¹⁸¹

Two policy recommendations might be worth considering. First, those doing businesses with China could consider diversifying their exports and refraining from focusing on large-scale orders. To the extent possible, small and medium sized firms that do businesses with China might be less vulnerable, as their sheer number makes it difficult to impose selective sanctions. Second,

¹⁸¹ Mei Xinyu, "Dui ri jingji zhicai de sida xuanze" [Four choices on sanctioning Japan], September 18, 2012, *China Economics Weekly*, <http://www.ceweekly.cn/html/Article/2012091827463310.html>; Mei Xinyu, "Zhicai meiqi bubi zishang babai" [One does not have to hurt oneself badly to sanction U.S. companies], February 5, 2010, *Global Times*, <http://military.people.com.cn/GB/42969/58518/10938584.html>, accessed December 8, 2013. Emphasis added.

(Draft – Please contact author before citing)

economic countermeasures are not sufficient, as China develops its "import power" and moves up the value-added chain. Since geopolitical concerns – especially the United States – loom large in Chinese sanctions decisions, the United States has the responsibility to send signals that the use of negative economic statecraft is not constructive, which is especially crucial in maritime territorial disputes in the South and East China Sea. Although the United States does not take a stance in such cases, it should make clear that economic bullying is not conducive to regional peace. Even if some argue that U.S. military deployment should be reduced, the Asia Pacific region is better off if the United States does not completely pull out of the region. China will be more prudent in economic (and possibly military) realms if the United States maintains presence there – be it diplomatic or military.¹⁸² Relatedly, because image concerns are enmeshed with geopolitical costs, a healthy amount of "shaming" – rhetoric of China bullying the small – from the United States and China's neighbors may lead China to exercise restraint.

This study is preliminary and warrants further investigation. For one, in the absence of interviews with Chinese officials, the story is incomplete. So the next step is to try to conduct interviews with Chinese and foreign officials, and businesses dealing with China. For another, I have only looked at economic sanctions – the negative aspect of economic statecraft – but China also uses positive inducements. In the future, it would be interesting to look at the use of economic carrots and how carrots and sticks interact. Also, China sometimes uses economic sticks together with diplomatic sanctions and escalatory military presence – the relationship between them is also worth studying.

As a rising power and the second largest economy in the world, China is in the spotlight. Scholars and foreign policy makers are concerned about where China might be headed in the future

¹⁸² For the policy debate, see Stephen G. Brooks et al., "Don't Come Home, America: The Case against Retrenchment," *International Security* Vol. 37, No. 3 (Winter 2012/2013), p. 7–51; Barry R. Posen, "Pull Back, The Case for a Less Activist Foreign Policy," *Foreign Affairs* (January/February 2013).

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– a responsible stakeholder or a revisionist power? Understanding Chinese foreign economic policies is an important part of getting at this question. Most recently, the Chinese MFA convened a meeting on economic diplomacy on December 3, 2013. Foreign Minister Wang Yi stated that the MFA should actively engage in economic diplomacy: use China's advantages, coordinate between economics and politics, coordinate between the domestic and the international, and think holistically and strategically when tackling foreign economic and financial issues.¹⁸³ This statement indicates the weight that China places on its foreign economic policies and how economics is connected to politics. The study of Chinese economic statecraft is clearly part of understanding and engaging the rising China.

¹⁸³ MFA news, December 3, 2013, http://www.fmprc.gov.cn/mfa_chn/zyxw_602251/t1105278.shtml, accessed December 8, 2013. The notion “economic diplomacy” (*jingji waijiao*) was raised again in Wang Yi's summarizing speech of Chinese foreign policy in 2013 on December 16, 2013. It is listed as one of the five key “directions” Chinese foreign policy should head towards in 2014. See Wang Yi, “Kaiqi zhongguo waijiao xin zhengcheng” [Starting the new journey for Chinese foreign policy], December 16, 2013, http://www.fmprc.gov.cn/mfa_chn/zyxw_602251/t1109156.shtml, accessed December 16, 2013.

Appendix:

Table 2. Foreign Countries Receiving the Dalai Lama (DL)

Country	Date	Rank of the Officials Receiving the DL	China's Rhetorical Reaction (Public) ¹	Economic Sanctions
United States	Almost Annually	President, Congress	The <i>People's Daily</i> did not cite MFA criticism against the United States until 1995. After 1995, routinized criticism: Strong Dissatisfaction (<i>qianglie buman</i> , here after SD) and Firm Opposition (<i>jianjue fandui</i> , here after FO)	No
Switzerland	1991.8.19	Foreign Minister (FM)	None ²	No
	2001.5.6	Interior Minister	None	No
	2009.8	Parliament	Moderate rhetoric: "friendly countries" should be warned about DL's secessionist action	No
Norway	1991.12.8	Prime Minister (PM)	None	No
	2000.5.23	PM	None	No
	1996.5.28	FM	None	No
Lithuania	1991.9.30	PM	None	No
	2001.6.24	PM	None	No
Bulgaria	1991.10.5	President	None	No
	2001.10.24	President	None	No
Poland	1991.12.7	President	None	No
	1993.5.17	President	None	No
	2000.5.11	President	None	No
	2008.12.10	President	SD	No
UK	1991.12.2	PM	None	No
	1999.5.10	PM	None	No
	2008.5.23	PM	SD and FO	No
	2012.5. 14	PM	SD and FO; cancelled meeting	No
	1993.5.12	FM	None	No
	1996.7.17	FM	None	No
	2004.5.27	FM	SD ³	No
Cambodia	1992.5.4	PM	None	No
Argentina	1992.6.11	President	None	No
	2011.9.13	Parliament	None	No ⁴
New Zealand	1992.5.13	PM	None	No
	1996.9.11	PM	None	No
	2002.5.28	PM and FM	SD and FO	No
	2007.6.19	FM	None	No
Australia	1992.5.8	PM	None	No

¹ Made public by the MFA. Unless otherwise noted, data comes from a search of the word “达赖” on the website of the MFA Press Conference after 2001. For data before 2001, I look at MFA statements on the *People's Daily*. Only the United States and the EU were mentioned or criticized.

² There might have been private diplomatic channels, i.e., protests conveyed through Chinese embassies but not made public. By “none” here I mean no public MFA protests, as seen in *People's Daily* or the MFA press conference.

³ http://news.bbc.co.uk/chinese/simp/hi/newsid_3750000/newsid_3755600/3755655.stm

⁴ The decline in soy bean oil exports to China was not due to the DL visit, but China's trade disputes with Argentina, i.e., a trade retaliation against Argentine accusation of Chinese dumping, see <http://money.163.com/10/0505/17/65UFP6D000252G50.html>, <http://www.cnyouzh.com/Topic/SimpleTopic.aspx?TopicId=97>

	1996.9.14	PM	None	No
	2002	<i>PM deterred from meeting with DL due to Chinese Warning</i>	None	No; Australia rewarded with a 25-year Sino-Australia natural gas contract
	2007.6.12	PM	SD and FO	No
Chile	1992.6.12	President	None	No
	1999.4.13	President	None	No
India	1992.3.1	PM	None	No
	2010.8.11	PM	Protest through diplomatic channel, not through MFA press conference ⁵	No
Austria	1993.6.14	PM	None	No
	1994.6.6	PM	None	No
	2007.9.22	PM	SD and FO ⁶	No
	2012.5.26	PM	SD and FO	No
	1998.6.9	FM	None	No
	2002.10.13	FM	None	No
Nicaragua	1994.7.5	President	None	No
South Africa	1996.8.22	President	None	No
Germany	1996	FM	No MFA press conference mention; but dealt with through diplomatic channel	No
	1999.6.16	FM	None	No
	2003.5.30	FM	Chinese embassy in Germany lodged SD and FO ⁷	No
	2007.9	Chancellor	SD and FO; cancelled meeting with German Treasury Minister	Yes
EU	1996.10.23	"Leaders" of the European Parliament	Solemn Protests (<i>yanzheng kangyi</i>)	No
	2001.10.24	President of the European Parliament	None	No
Czech	1997.9.5	President	None	No
	2000.10.16	President	FO; stating also it might make Sino-Czech relations deteriorate ⁸	No
	2002.7.2	President	None	No
	2008.11.30	PM	CCP acknowledged the visit but directed its anger towards France; ⁹ relations with Czech became cold after the DL visit; The MFA deemed the relations warm again in April 2014, when Sino-Czech Press	No

⁵ http://www.bbc.co.uk/zhongwen/simp/china/2010/08/100821_dalai_singh.shtml

⁶ http://www.bbc.co.uk/zhongwen/simp/chinese_news/2012/05/120526_dalai_austria.shtml

⁷ <http://www.liaowangxizang.net/drupal-6.3/zh-hans/content/%E4%B8%AD%E5%9B%BD%E6%8C%87%E8%B4%A3%E5%BE%B7%E5%9B%BD%E5%A4%96%E9%95%BF%E4%B8%8E%E8%BE%BE%E8%B5%96%E5%96%87%E5%98%9B%E4%BC%9A%E9%9D%A2>

⁸ <http://m.voachinese.com/a/a-21-2009-09-11-voa40-60916987/1017104.html>

⁹ http://news.xinhuanet.com/world/2008-12/07/content_10469357.htm

			Communiqué was signed. Czech promised to uphold the one-China policy and to reject any form of Tibetan independence ¹⁰	
France	1998.12.8	President	None	No
	2007. 12	President	SD and FO; cancelling Sino-EU meeting in January 2009 while assigning blame to France	Yes
	2003.10.14	Parliament	None	No
Brazil	1999.4.7	President	None	No
Belgium	1999. 5.4	PM	None	No
	1994.6.7	FM	None	No
Netherlands	1999.10.18	PM	None	No
	2009.6.5	Parliament	FO	No
Italy	1999.10.26	PM	None	No
	2001.11.30	Agriculture Minister	None	No
	2009.2.9	Parliament	FO	No
Israel	1999.11.24	Parliament	None	No
Hungary	2000.10.11	PM	None	No
Ireland	1991. 3. 22	President	None	No
	2000.10.21	President	None	No
Sweden	2000.11.17	PM	SD	No
	2005.6	PM	Moderate rhetoric: expressed concern (<i>guanqie</i>)	No
	1991.12.4	FM	None	No
	1996.5.23	FM	None	No
	2000.5.21	PM	FO	No
Denmark	2003.6.6	PM	None	No
	2009.5.29	PM	SD and FO	No
	1991.12.5	FM	None	No
	1996.5.15	FM	None	No
	2001.6.21-23	President and PM	None ¹¹	No
Portugal	2001.11.28	President	SD and FO	No
	2007.9.11	Parliament	FO “relevant countries” (<i>youguan guojia</i>)	No
Estonia	2001.6.19	PM	None	No
	2011.8	PM	No MFA press mention; but Estonian Ambassador to China summoned; China cancelled meeting with Estonian Agriculture Minister ¹²	No
	1991.10.4	FM and Parliament	None	No
Mongolia	2002.11.7	PM	SD and FO	Yes
Slovenia	2002.7.5	PM and President	SD and lodged solemn representation	No

¹⁰ <http://www.chinanews.com/gn/2014/04-29/6119404.shtml>;

http://www.mfa.gov.cn/mfa_chn/fyrbt_602243/t1151564.shtml

¹¹ Relations seemed well even after the DL visit, see http://www.chinanews.com/gj/zlk/2014/01-16/444_2.shtml

¹² <http://www.voachinese.com/content/dalai-lama-visit-baltic-countries-20130914/1749775.html>;
http://blog.sina.com.cn/s/blog_53b1d03b0102dsj9.html

Croatia	2002.7.8	PM	None ¹³	No
Canada	2004.4.23	PM (in his private residency)	Warning before the DL visit; but no MFA press conference mention after	No
	2007.10	PM (official meeting with high publicity) ¹⁴	SD and FO	Yes
Spain	2003.10	Unofficial, <i>deterred from</i> meeting with PM due to Chinese pressure ¹⁵	Moderate rhetoric: MFA press conference stating that China hopes "friendly countries" will uphold the principle that Tibet is part of China ¹⁶	No
	2007	Local officials	None	No
Mexico	2011.9	President	SD and FO	No
Japan	2003.10.31	Unofficial	SD and FO ¹⁷	No
	2012.11.13	Parliament	Lodged solemn representation (<i>yanzheng jiaoshe</i>)	No
	2013.11.20	Parliament	MFA expressed dissatisfaction ¹⁸	No

DL Cases:

Mongolia: sanctions imposed. When the Dalai Lama visited Mongolia in November 2002, China imposed a swift but comprehensive two-day sanction by closing the Sino-Mongolian border and essentially cutting trade with Mongolia. The Dalai Lama visited Mongolia on Monday November 4. And according to the Mongolian Embassy in Beijing, on Tuesday morning, China closed parts of the roads and railways that connected the Sino-Mongolian border without warning, allowing only international passenger and cargo trains.¹⁹ This partial closure of the border lasted for two days and the railroad transportation resumed on Thursday morning. The Chinese MFA spokesperson denied that this closure had to do with the Dalai Lama and stated that some trains were halted because of "technical issues."²⁰ Yet the timing of this "technical issue" was interesting – it happened to take place *during* the visit by the Dalai Lama. And according to BBC reporters, one Chinese businessman in the copper mine industry told them that the Chinese government demanded that all import from Mongolia be stopped and that the Ministry of Railway stop [copper mine import from Mongolia].²¹ Copper mine constituted more than half of Mongolia's total export and China was among the largest export destinations of Mongolian copper. BBC stated that panic from Chinese metal retailers upon hearing the closure pushed the price of copper to its highest point in 16 weeks on Wednesday, which dropped back to normal after the resumption of the trade.

¹³ The MFA protested against Slovenia but did not seem to make public statements about Croatia, see http://news.bbc.co.uk/chinese/simp/hi/newsid_2110000/newsid_2114600/2114600.stm

¹⁴ http://www1.rfi.fr/actucn/articles/095/article_4396.asp

¹⁵ http://news.bbc.co.uk/chinese/simp/hi/newsid_3170000/newsid_3176200/3176212.stm

¹⁶ <http://paper.wenweipo.com/2003/10/10/CH0310100096.htm>

¹⁷ <http://www.chinanews.com/n/2003-10-31/26/363263.html>

¹⁸ <http://www.rfa.org/mandarin/yataibaodao/shaoshuminzu/nz-11212013141202.html>

¹⁹ Radio Free Asia, November 7, 2002, <http://www.rfa.org/cantonese/news/92679-20021107.html>, accessed December 10, 2013.

²⁰ MFA Press Conference, November 7, 2002, http://www.fmprc.gov.cn/mfa_chn/wjdt_611265/fyrbt_611275/t3509.shtml, accessed December 10, 2013.

²¹ See BBC Chinese, November 7, 2002, http://news.bbc.co.uk/chinese/simp/hi/newsid_2410000/newsid_2418000/2418025.stm, accessed December 10, 2013.

Belgium: not coded as a sanctions case, because no speech evidence indicates sanctions were imposed. After the Dalai Lama visited Belgium in early June 2006, there seemed to be a deliberate Chinese action to decrease the purchase of nuclear reactors, boilers, machinery and mechanical appliances from Belgium, which constitute the second largest Belgium export to China: in the first quarter of 2006, Belgium export of these appliances increased by about 8 percentage points compared to the previous year, yet this increase turned into a decrease afterwards, and the rates of decrease were greater in the last two quarters of 2006, leading to an overall 9 percentage points decrease compared to 2005. This decrease stopped in the first quarter of 2007, with export bouncing back to normal.²² The Dalai Lama cancelled his planned visit to Belgium in 2007, and when asked whether this was because of Chinese pressure, the MFA spokeswoman said ambiguously "we praise the Belgium effort to adhere to the one China policy."²³

Portugal: not coded as a sanctions case, because no speech evidence indicates sanctions were imposed. In early September 2007, the Dalai Lama visited Portugal and was received by the Portuguese parliament. The Chinese Ministry of Foreign Affairs (MFA) "strongly opposed" such actions and urged the country [Portugal] to refrain from providing opportunities for the "Dalai group" to engage in separatist activities.²⁴ The Portuguese export to China in the first three quarters of 2007 (i.e., from January to September) increased by 5.3 percentage points compared to the previous year, yet after the visit, the overall export to China in 2007 decreased by 8.9 percentage points compared to 2006.²⁵ Contributing most to the decline was the category of electrical machinery and equipment, which took up about 20% of the total Portuguese export to China. The decline in this category continued in 2008, even before the global financial crisis, which stood in contrast to increasing Portuguese export of the same category of goods to other countries. Although there is no definitive evidence indicating that this decline was caused by the Dalai Lama visit, the timing of the decline seems to indicate that China might be exerting pressure on Portugal by refraining from importing more machineries from the country.

Canada: sanctions imposed. China also picked on Canada when the Canadian Premier received the Dalai Lama in 2007 and awarded him the honorary citizenship status. China reacted by putting off the Canadian request for the Approved Tourist Destination status, which was somewhat like the MFN in the tourism realm. This status would allow Canada to benefit from the booming Chinese tourist market by enabling Chinese travel agents to easily organize tours to Canada. China had already granted the status to 134 countries, including the United States, which was why the Canadian International Trade Minister called the Chinese exclusion of Canada from this status "discriminatory."²⁶ When relations became better and when Premier Stephen Harper, the one who received the Dalai Lama, visited Beijing in December 2009, China finally granted Canada's 10-year bidding for this status, making Canada the last major developed country to gain such status and meaning Canada would expect many more Chinese travelers – who already had the longest average stay and spent the most in Canada.²⁷

Italy: not coded as a sanctions case, because no speech evidence indicates sanctions

²² For trade data see MOFCOM country reports,

http://countryreport.mofcom.gov.cn/record/view.asp?news_id=3704,

http://countryreport.mofcom.gov.cn/record/view.asp?news_id=4968, accessed December 10, 2013.

²³ See http://news.xinhuanet.com/politics/2007-05/11/content_6084612.htm, accessed December 10, 2013.

²⁴ See <http://blog.people.com.cn/article/1319009988712.html>, accessed December 10, 2013.

²⁵ For trade data see MOFCOM country reports,

http://countryreport.mofcom.gov.cn/record/view.asp?news_id=8652,

http://countryreport.mofcom.gov.cn/record/view.asp?news_id=7751, accessed December 10, 2013.

²⁶ Joy C. Shaw, "Oh Canada, Here Come the Chinese Tourists," December 4, 2009, *The Wall Street Journal*, <http://blogs.wsj.com/chinarealtime/2009/12/04/oh-canada-here-come-the-chinese-tourists/?mg=blogs-wsj&url=http%253A%252F%252Fblogs.wsj.com%252Fchinarealtime%252F2009%252F12%252F04%252Foh-canada-here-come-the-chinese-tourists>, accessed December 10, 2013.

²⁷ *Ibid.*

were imposed. The Dalai Lama visited Italy in February 2009 and was met by some members of the Italian parliament. He was also awarded the honorary citizen by the city of Rome. Sino-Italian trade did not seem to be affected by this visit. It is true that bilateral trade volume decreased, including Italian export to China. Yet this decrease was in line with the general decline of Italian export, due to the global financial crisis. In fact, in the first three quarters of 2009, the decrease of Italian export to China was much smaller in terms of magnitude in comparison to the decrease of Italian export in general (an average of 10 percentage points decrease in export to China compared to a 30 percentage-point decrease in general). By the end of 2009, Italian export to China only decreased by 2 percentage points compared to 2008, and picked up fairly soon in the first quarter of 2010. Thus, the Dalai Lama visit did not seem to have an effect on Sino-Italian trade.²⁸

Mexico: not coded as a sanctions case, because no speech evidence indicates sanctions were imposed. The Mexican President met with the Dalai Lama in September 2011, and there was a sharp decrease of mineral fuel export to China in the following year – 70 percentage points compared to the previous year – which contributed to the overall four percentage-point decrease of Mexican export to China, the first time the Mexican export to China decreased in five years. This decline stopped in the first quarter of 2013 and Mexico exported twice as much of mineral fuel as it did to China in the same quarter compared to 2012. And in June 2013, Mexican export to China went back to the mode of continuous increase.²⁹ To make up for the cooling relationship between China and Mexico after the previous Mexican President received the Dalai Lama, current Mexican president Pene Nieto met with Chinese president Xi Jinping in April 2013 to "strengthen" the bilateral relations and invited President Xi in June for a state visit, during which both sides upgraded the relationship to the level of "comprehensive strategic partnership."³⁰ And when the Dalai Lama visited Mexico this October, the Mexican Foreign Ministry stated that President Nieto "will not meet with the Dalai Lama" and Mexico's friendly relations with China hinged on adhering to the "one-China" policy.³¹ The overall increase is back to normal in 2013.

UK: not coded as a sanctions case. British Prime Minister David Cameron met with the Dalai Lama in May 2012, and China warned Britain that there would be "serious consequences." The Chinese cancelled several high level meetings that were originally planned.³² According to British newspaper the *Daily Telegraph*, China's sovereign wealth fund will not invest in originally-planned long-term British projects until a solution to the diplomatic stand-off, caused by David Cameron's meeting with the Dalai Lama last year, has been reached. The Beijing government believes that Britain needs to make amends before relations can return to normal. According to the *Daily Telegraph's* sources, "any good business relationship relies on a good political relationship for the long-term" and that "[f]avorable political conditions would help with that." The source continues, "China is very willing to participate in infrastructure projects,

²⁸ MOFCOM country reports, <http://countryreport.mofcom.gov.cn/record/index110209.asp>, accessed December 10, 2013.

²⁹ For trade data see MOFCOM country reports, <http://countryreport.mofcom.gov.cn/record/index.asp>, accessed December 10, 2013. Total exports to China: millions of U.S. dollars, http://countryreport.mofcom.gov.cn/record/view.asp?news_id=5994. 2005: 1134, 2006: 1690, 2007: 1895, 2008: 2047, 2009: 2216, 2010: 4198, 2011: 5965, 2012: 5721, a 4.1% decrease from last year, decrease come mostly from mineral products (HS 25-27)

³⁰ See *China Daily*, April 6, 2013, http://www.chinadaily.com.cn/hqgj/jryw/2013-04-06/content_8685577.html; see also *Nanfang Dushi* [Southern Metropolitan], June 6, 2013, <http://nandu.oooo.com/nis/201306/06/62503.html>, accessed December 10, 2013.

³¹ *BBC News*, October 12, 2013, http://www.bbc.co.uk/zhongwen/simp/china/2013/10/131012_mexico_dalailama.shtml, accessed December 10, 2013.

³² *BBC News*, September 26, 2013, http://www.bbc.co.uk/zhongwen/simp/china/2013/09/130926_china_uk_relationship.shtml, accessed December 10, 2013.

but to invest, there needs to be a strong relationship." The *Daily Telegraph* indicates that future projects such as the High Speed 2 rail network and the UK's nuclear investment program could be starved of capital from China Investment Corporation (CIC), its sovereign wealth fund.³³ However, interviews with Chinese scholars close to the Chinese government indicate that no sanctions were imposed on Britain and that the media reports were inaccurate.³⁴ According to the scholars, China did not have economic leverage vis-à-vis Britain.

Relationships started to improve this October 2013, with the two sides holding the fifth Sino-British economic and finance dialogues in Beijing.³⁵ From hindsight, one recent *Global Times* article states that Britain is very "replaceable" in China's EU diplomacy and is no longer "some great power."³⁶ This statement seems to indicate China's reasoning when sanctioning the UK for meeting with the Dalai Lama – the UK is not as geopolitically influential as it used to be. And this form of targeted financial sanction is also new in Chinese economic sanction measures.

Slovenia: not coded as a sanctions case, because no speech evidence indicates sanctions were imposed. The Dalai Lama visited Slovenia in July 2002, and was received by its President and Premier. China protested diplomatically.³⁷ Yet import from Slovenia did not get affected. China imported 30 million U.S. dollar worth of goods from Slovenia in 2002 and 36 million in 2003. Thus, there was an increase of import from Slovenia. China did not impose sanctions, probably because the base amount of Slovenian export to China was too small to have any significant impact anyways.³⁸

Sweden: not coded as a sanctions case, because no speech evidence indicates sanctions were imposed. The Dalai Lama visited Sweden on November 17, 2000 and was met by the Swedish Prime Minister. He visited Sweden again in June 2005.³⁹ Chinese import from Sweden did decrease in 2005 (\$3122 million as compared to 3340 in 2004), but picked up fairly quickly in 2006 (\$3449 million), after which export to China increased on a larger magnitude (\$4142 million in 2007 and 5038 in 2008).⁴⁰

Russia: not coded as a sanctions case, because no speech evidence indicates sanctions were imposed. The Dalai Lama visited one of the Russian republics in 2004. The Chinese MFA's response was relatively mild and did not impose sanctions on Russia. Russian export to China continued to increase. This was probably first because of the issue was not as salient – it was not the Russian president who met with the Dalai Lama. It was a visit to one of the sub-regions of Russia, not Moscow. Furthermore, in line with H3 and H4, Russia is geopolitically important for China and bilateral trade structure does not leave China with exit options – the main export to China was minerals, which were considered as strategically important by China.⁴¹

Spain: not coded as a sanctions case, because no speech evidence indicates sanctions were imposed. The Dalai Lama visited Spain in 2003. According to Chinese customs statistics,

³³ James Quinn and Malcolm Moore, "UK projects at risk after China funding threat," May 6, 2013, *The Daily Telegraph*, <http://www.telegraph.co.uk/finance/china-business/10040398/UK-projects-at-risk-after-China-funding-threat.html>, accessed December 10, 2013.

³⁴ Interview, Beijing, July 9, 2014.

³⁵ See the Chinese MFA, http://www.fmprc.gov.cn/mfa_chn/fyrbt_602243/t1089016.shtml, accessed December 10, 2013.

³⁶ "Yingguo buzaishi shenme daguo, bie yingpeng zhongguo."

³⁷ See http://news.xinhuanet.com/newscenter/2002-07/08/content_472821.htm, accessed December 10, 2013.

³⁸ For trade data see the Chinese Customs Statistics Yearbooks compiled by the CGA. See fn. 71.

³⁹ See http://news.xinhuanet.com/world/2005-06/14/content_3084404.htm,

http://www.fmprc.gov.cn/mfa_chn/wjdt_611265/fyrbt_611275/t4091.shtml, accessed December 10, 2013.

⁴⁰ For trade data see the Chinese Customs Statistics Yearbooks compiled by the CGA. Yet with the data right now, I am unable to locate when the decrease took place in 2005, that is, was it before June or after June? For the data around 2000, I have yet to obtain it. Thus, it is somewhat unclear if China actually imposed sanctions on Sweden at all.

⁴¹ For trade data see the Chinese Customs Statistics Yearbooks compiled by the CGA.

exports to China continued to increase and China did not seem to impose sanctions. The most important reason was probably the fact that Spanish officials did *not* receive the Dalai Lama, thus reducing the salience.⁴²

India: not coded as a sanctions case, because no speech evidence indicates sanctions were imposed. The Indian situation might be similar to the Australian case. When the Indian premier met with the Dalai Lama in August 2010, Indian export to China was not affected and continued to grow.⁴³

New Zealand: not coded as a sanctions case, because no speech evidence indicates sanctions were imposed. The Dalai Lama visited New Zealand in 2002 and June 2007 and was received by the Foreign Minister. Chinese customs data as well as the Ministry of Commerce country reports indicate that China did not impose sanctions in 2002 or 2007. New Zealand's export to China continued to increase, including virtually all categories of major exports.⁴⁴

Non DL-Cases:

Japan: both China and Japan claim the Senkaku islands in the East China Sea as their respective territory. On September 7, 2010, a Chinese trawler collided with a patrol boat of the Japanese Coast Guard around the disputed waters of the Senkaku islands. Japan subsequently detained the Chinese fishermen. China reacted by halting shipments of rare-earth materials to Japan for about two months. According to the *New York Times*, industry officials said that China's customs agency had notified companies that they were not allowed to ship to Japan – China's main buyer – any rare earth oxides, rare earth salts or pure rare earth metals, although these shipments are still allowed to go to Hong Kong, Singapore and other destinations.⁴⁵

In September 2012, when the Senkaku island dispute became more heated with the Japanese government nationalizing three of the five islands, however, China did not impose sanctions. It is true that scholars debate about whether China imposed sanctions or not in 2012,⁴⁶ yet according to the definition of economic sanctions, it is a form of *statecraft* and has to be *deliberate government actions*. Admittedly, the deputy Chinese Minister of Commerce stated on September 13th that the Chinese government understood (*lijie*) the stance and thoughts of the Chinese consumers [to boycott Japanese cars].⁴⁷ It is unclear, however, whether this is a deliberate government demand that the Chinese consumers should not buy Japanese cars. This decline in Japanese car sales to China could have resulted largely from the negative effects of the anti-Japan protests in August and September – Japanese cars were burned, damaged, and Japanese car owners were hurt physically. In the city of Shijiazhuang, for example, many who had previously ordered Japanese cars decided to return the orders in September.⁴⁸ While this consumer behavior might have similar effects to economic sanctions, one cannot argue that it is

⁴² See http://news.bbc.co.uk/chinese/simp/hi/newsid_3170000/newsid_3176200/3176212.stm, accessed December 10, 2013.

⁴³ See http://countryreport.mofcom.gov.cn/record/index.asp?p_coun=%D3%A1%B6%C8, accessed December 10, 2013. And in contrast to the Australian case, there was a decrease in iron export to China, which was more than compensated by the soaring increase in Indian copper export to China.

⁴⁴ See MOFCOM reports, http://countryreport.mofcom.gov.cn/record/view.asp?news_id=8796, accessed December 10, 2013.

⁴⁵ Keith Bradsher, "Amid Tension, China Blocks Vital Exports to Japan," September 22, 2010, *New York Times*, http://www.nytimes.com/2010/09/23/business/global/23rare.html?pagewanted=all&_r=2&, accessed December 10, 2013.

⁴⁶ Reilly, for example, believes that the popular boycott of Japanese cars constituted sanction efforts. See James Reilly, "China's Unilateral Sanctions."

⁴⁷ "Shangwubu: Zhongguo xiaofeizhe youquan dui goudao biaoda lichang" [Ministry of Commerce: Chinese Consumers have the rights to express their stance in response to Japan's purchase of the islands], September 14, 2012, <http://finance.people.com.cn/n/2012/0914/c1004-19005817.html>, accessed December 10, 2013.

⁴⁸ Gu Lieming, "Baodiao cuileng zhongri jingmao guanxi" [Defending the Diaoyu islands cooled Sino-Japan trade relations], *Zhongguo zhengquan qihuo* [Chinese Securities and Futures], 2012.10.

government action. According to the Japan External Trade Organization (JETRO), apart from automobile sales to China – which were affected by the island dispute – the decline in machinery exports to China had little to do with the dispute, but was related to the relative slow down of the Chinese economy.⁴⁹ It also points out that some categories of exports to China actually increased, including mechanical appliances to produce cellphones and appliances for processing metals, etc. As such, it did not seem like the Chinese government was behind the automobile boycott.

H1 and H2 seem to account for the variation. For one, the trade structure between China and Japan was not naturally conducive to economic sanctions, and what was feasible in 2010 was absent in 2012. Japan used to be dependent on China for rare earth materials and started to diversify its sources after 2010. Also, the direct reason for the absence of rare earth as a weapon in 2012 was that the Japanese demand for rare earth weakened due to the economic slow down – according to one Chinese rare earth exporter in Jiangxi, the prices for rare earth decline dramatically in 2011 and even China's export quota in 2011 had not been used up yet.⁵⁰ Relatedly, many Chinese analysts have pointed out that China was dependent on Japan for importing its intermediary products in the production chain, which China then used to produce its exports, and these constituted the majority of Japanese exports to China, not automobiles. Thus, as one analyst argues, before China can produce these intermediary products itself, it should be very prudent when playing the economic card with Japan.⁵¹ This might actually explain why imports of mechanical appliances for making cellphones and metals increased in 2012.

For another, the U.S. stance on the Senkaku disputes might have a restraining effect also, especially when the United States warned China that the Senkaku islands were covered by the Japan-U.S. Security Treaty.⁵² According to Mei Xinyu, the research associate in the think tank under the Chinese Ministry of Commerce, one principle when considering sanctions is to make sure that sanctions will not become an excuse of intervention by hegemons. And he is especially concerned whether sanctions on Japan would 1) make neighboring countries lean towards the United States, and 2) invoke U.S. involvement.⁵³

North Korea: According to the *New York Times*, China cut off oil exports to North Korea in September 2006 during the heightened tension over North Korea's nuclear programs. Chinese trade statistics show that China sold no crude oil at all to its neighbor in September 2006. North Korea depends on China for up to 90% of its oil supplies, much of which is sold on credit or for bartered goods, according to Chinese energy experts. According to the *New York Times*, any sustained reduction could cripple its isolated and struggling economy. The timing of this unannounced reduction was interesting – it was right between North Korea's missile tests in July and the nuclear test in October.⁵⁴

⁴⁹ JETRO, "2012nian zhongri maoyi" [Sino-Japan trade in 2012], February 19, 2013, <http://www.jetro.go.jp/china/data/trade/index.html/2012-new.pdf>, accessed December 10, 2013.

⁵⁰ Song Jing, "Zhongfang duiri jingjizhicai rengbaochi kezhi, Keneng xianxitu chukou" [China is still restrained on economic sanctions on Japan, it might restrict rare earth export], September 19, 2012, <http://finance.sina.com.cn/world/yzjj/20120919/023313174032.shtml>, accessed December 10, 2013.

⁵¹ See for example, Mei Xinyu, "Dui ri jingji zhicai dexuanze he yuanze" [Principles and choices for economic sanctions on Japan], September 14, 2012, *Global Times*, <http://opinion.huanqiu.com/1152/2012-09/3118702.html>, accessed December 10, 2013; Zhang Da, "Zhongguo nanyi duiriben jinyun xitu" [It is difficult for China to impose rare earth embargo on Japan], January 2013, <http://money.163.com/special/xitujinyun/>, accessed December 10, 2013.

⁵² Takashi Oshima and Kenji Minemura, "Panetta tells China that Senkakus under Japan-U.S. Security Treaty," September 21, 2012, *The Asahi Shimbun*, <http://ajw.asahi.com/article/asia/china/AJ201209210061>, accessed December 10, 2013.

⁵³ Mei Xinyu, "Dui ri jingji zhicai de xuanze, yuanze, he wenti" [Choices, principles, and issues of concerns with economic sanctions on Japan], *Zhongguo shichang* [Chinese Market], 705: 42 (2012).

⁵⁴ See http://www.nytimes.com/2006/10/31/world/asia/31korea.html?_r=2&, accessed December 10, 2013.

It is possible that this was a signal from China for its ally to behave. China might have imposed similar sanctions in February 2013, when oil export to North Korea was again zero, the first time ever since 2007.⁵⁵ Most recently, in late September 2013, the Chinese Ministry of Commerce publicly released a 236-page list of equipment and chemical substances it banned for export to North Korea, fearing that the North would use the items to speed up the development of an intercontinental ballistic missile with a nuclear bomb on top.⁵⁶ The front page of this document indicated that this export ban was in observance of the IAEA and Appendix 3 of the UNSC Resolution No. 2094.⁵⁷ Earlier in 2013, China did not give any "gift" (i.e., grain, petroleum, etc.) after Kim Jong Un's special envoy visited China, which China would have given previously.⁵⁸ In contrast, China does not seem to get on board with sanctions towards Iran.

Norway: China imposed sanctions on Norway after the Nobel Peace Prize was awarded to Chinese political dissident Liu Xiaobo, who has been imprisoned due to his activism. Immediately after the award, China cancelled exchange visits between the two sides, terminated trade negotiations, and froze the negotiation on free-trade treaties.⁵⁹ China also denied a visa by former Norwegian PM to visit China.⁶⁰ Despite the Norwegian government's explanation that the prize was independent of government decisions, China imposed sanctions on Norwegian Salmon export to China – Norway's market for fresh salmon in China fell from about 90% percent in 2010 to under 30% in the first half of 2013.⁶¹ In addition, China excluded Norway from the beneficiary of the policy of non-visa transit, starting from January 2013.⁶² The beneficiaries are able to travel in Beijing for up to 72 hours without a visa. All European countries were given this policy of non-visa transit except Norway. Officials in Beijing stated that these decisions were made by the MFA. Interviews indicate that the sanctions are still ongoing and that some state-owned and partially-state owned enterprises from Norway have had difficulty in operating in China, such as getting contracts in China (when they do have the areas of expertise and credential).⁶³

⁵⁵ See <http://blog.ifeng.com/article/24850676.html>, accessed December 10, 2013.

⁵⁶ See <http://www.nytimes.com/2013/09/30/world/asia/china-ban-on-items-for-nuclear-use-to-north-korea-may-stall-arms-bid.html>, accessed December 10, 2013.

⁵⁷ See <http://www.mofcom.gov.cn/article/b/c/201309/20130900317772.shtml>, accessed December 10, 2013.

⁵⁸ See http://www.bwchinese.com/article/1042485_3.html, and China's official Xinhua news agency also confirms this, see http://news.xinhuanet.com/cankao/2013-06/21/c_132474783.htm, accessed December 10, 2013.

⁵⁹ http://blog.sina.com.cn/s/blog_4ccad73e0102dvli.html

⁶⁰ http://www.360doc.com/content/12/0614/01/5646261_218019392.shtml

⁶¹ See <http://www.tnp.no/norway/economy/3936-salmon-norway-penetrates-china-blockage-through-vietnam>, accessed December 10, 2013.

⁶² <http://www.voachinese.com/content/beijing-to-allow-visa-free-transit-trips-20121206/1559981.html>

⁶³ Interview, Beijing, June 12, 2014.