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China's Unilateral Sanctions
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China's opposition to economic sanctions is legendary. Beijing has repeatedly leveraged its permanent seat in the United Nations Security Council to criticize, ameliorate, and on rare occasions—veto—UN economic sanctions against Libya, Iran, Myanmar, and North Korea. Unilateral sanctions by the United States come in for particular criticism. "China is against one country putting their domestic laws above international law and placing unilateral sanctions on another country," runs a common refrain from Beijing.

This familiar rhetoric masks a subtle but significant shift in China's own use of economic sanctions. Chinese strategists are exploring new ways to deploy their economic might for strategic benefit. With the world's largest capital surplus and its second largest economy, a highly coveted domestic market, and a currency with growing regional appeal, Chinese leaders enjoy a range of potential economic tools.

Since 1978, China has repeatedly used foreign policy tools to advance its economic interests. Beijing is now beginning to reverse this equation: deploying its vast economic wealth to support foreign policy goals. China is flexing its economic muscle more frequently and on a wider range of issues—often backed up by nationalist sentiments at home. In recent years, Beijing has mixed economic rewards and punishments to isolate the Dalai Lama, deter arms sales to Taiwan, eviscerate criticism of China's human rights policies, and defend its maritime claims.

China's use of unilateral economic pressure to advance its strategic and diplomatic objectives is hardly unique—countries have always sought to deploy economic tools for strategic advantage. Nor is China's use of economic pressure new. Since the founding of the People's Republic in 1949, Chinese leaders have repeatedly politicized economic relations, providing aid or refusing trade in support of broader strategic and ideological objectives. Yet given China's economic heft and political determination, Beijing's expanding use of unilateral sanctions holds significant policy implications for the United States and its allies.

While China is unlikely to deter Washington from its core policies in Asia, U.S. allies in Europe and Asia may be more vulnerable, particularly amidst the ongoing global economic crisis. The U.S. is likely to find itself more frequently alone in challenging China. U.S. companies may also become more wary of crossing Beijing's red lines. While China's capacity to deploy economic pressure should not be overestimated, neither can it be ignored.

Putting China's Sanctions in Perspective

Unlike U.S. sanctions, which are formalized through domestic law and/or presidential decisions, China rarely openly declares its economic sanctions. Instead, Beijing prefers to use vague threats, variation in leadership visits, selective purchases (or non-purchases), and other informal measures. The level at which these measures are announced indicates Beijing's seriousness. Such informal measures enhance the leadership's flexibility, since they can be removed without an embarrassing policy reversal. They also provide Chinese leaders with credible deniability (such as in the rare earths' case), thus minimizing diplomatic fallout.

Most international sanctions are designed to impose high costs upon the target country through sustained economic isolation. China's sanctions, in contrast, are more bark than bite. Beijing uses the specter of sanctions to signal its frustration—a warning that if the action is not reversed, stronger steps are forthcoming. China is also signaling that if other states take similar actions, they too will face economic costs.

Beijing's 'virtual sanctions' rely upon disproportionate leverage: combining highly focused, short-term economic threats with diplomatic pressure on a country or company over an issue of limited significance to the sanctions target—compared with its economic interests with China. Chinese sanctions also tend to be rather short-lived. For instance, countries whose leaders met with the Dalai Lama saw only a two-year drop in their exports to China. Such 'purchasing diplomacy' (*caigou waijiao*), in which Chinese state-owned enterprises make or forgo purchases of prominent commercial goods, is of relatively low cost for China.

Unlike U.S. efforts to justify its unilateral sanctions as upholding international norms such as human rights or non-proliferation, China simply points to its own national interests. Even when sanctions might be applied with reference to some international norm, such as defense of state sovereignty, Chinese leaders rarely offer such claims. However, Beijing has trod cautiously around international law. For instance, while the World Trade Organization generally prohibits the imposition of import restrictions as political maneuvers, WTO rules include a broad exception for national security. China's January 2010 statement threatening sanctions on U.S. companies was careful to claim that "U.S. arms sales [to Taiwan] damage China's national security," in an effort to mitigate China's exposure to potential WTO tribunals.

Instead of sanctioning entire countries, China often prefers to target individual companies through economic pressure, often receiving quick responses from corporations eager to sustain their position in the lucrative China market. As Professor Tan Kaijia, from the National Defense University, explains: "those [U.S.] companies are arms dealers, some of them make fortunes by doing business with both sides of the Taiwan Strait. Economic sanctions perhaps are the best way to make them choose between arms sale profit and the Chinese market." Underpinning this approach is Beijing's assumption that threatening market loss will compel these powerful companies to lobby their home governments. Since European and U.S. leaders regularly show up in Beijing with large groups of business leaders in tow, China's supposition appears quite reasonable.

The Chinese public is also part of the sanctions game. Consumer boycotts have been encouraged by Chinese officials—against Japanese goods in 2005 in response to Prime Minister Junichiro Koizumi's visits to the controversial Yasukuni Shrine in Japan; and again in 2008—against Carrefour, the French owned retail dealer in China, following protests of the Olympic torch relay in Paris. Chinese leaders exploit such public anger for diplomatic leverage. At home, propaganda and selective media reports feed nationalist sentiment, underpinning diplomats' claims that a certain action has 'hurt the feelings of the Chinese people' and so should be reversed. This calibrated strategy is a key tool in Beijing's use of public opinion in its foreign policy.

Ultimately, China uses sanctions for the same reason that other countries do: they are a relatively low-cost, low-risk way to signal dissatisfaction, increase the costs to those who take undesired actions, and satisfy domestic demands to do something. Sanctions can assuage domestic criticism while not undermining broader economic and diplomatic interests. For all these reasons, China has increasingly resorted to unilateral sanctions in recent years.

However, China's capacity to use economic pressure should not be overestimated. The majority of China's massive trade surplus is still in processing trade: importing intermediate materials and exporting finished products. Selective trading bans would disrupt these complex production chains, chasing investors to alternative manufacturing locations such as Vietnam. China's leaders can ill-afford to undermine their export-driven manufacturing sector amidst global economic uncertainty.

Sustaining informal, undeclared sanctions is also tricky, particularly when Chinese enterprises face significant economic costs; the entities that implement the sanctions are far from Beijing's central control; and sanctions extend over a long time or cover a broad range of products. The difficulty of enforcement may be one reason that China prefers to threaten sanctions rather than actually carry them out. The credibility of Beijing's bluffs will erode over time.

Unlike the United States, which generally has scant economic relations with the countries it wishes to sanction (Iran, Syria, North Korea), China is dependent upon market access, technological transfer, and capital provision from many of the wealthy nations in Europe and North America that it seeks to sanction. As such, Beijing is unwilling to implement costly measures. Even China's 'rogue allies' enjoy leverage vis-à-vis Beijing, constraining China's willingness to implement and sustain sanctions. Myanmar can reach out to India; North Korea can pursue its nuclear program.

Most importantly, China has struggled for decades to cultivate a reputation as a responsible member of the international economic system and sought to ease fears of a 'China threat,' particularly among its Asian neighbors. Beijing's well-honed rhetoric of non-interference risks being undermined by unilateral economic pressure. Despite these limitations, the political implications remain substantial.

Watching from Washington

For the U.S., often the initiator of sanctions, it may be unsettling to find itself the subject of unilateral sanctions from the world's second-largest economy. This is an emerging tool of China's economic statecraft, one to which U.S. policymakers should be more attentive. By raising the economic costs for U.S. allies, China can isolate the U.S. in its China policy. The most notable example is arms sales to Taiwan. Next up is the EU arms embargo on China, established following the 1989 suppression of the Tiananmen Square protests. Given the ongoing European debt crisis, China's combination of carrots and sticks may prove effective in pressuring EU members to lift the embargo—leaving the U.S. isolated in its arms embargo toward China.

China may also influence major U.S. corporations. Boeing, for instance, currently sells just over half of China's civilian aircraft. Its major rival, Airbus, accounts for 36 percent. Estimates of Chinese airplane purchases over next two decades are around 2,700. Given this growth potential, Boeing and other major U.S. firms will not wish to anger Beijing unnecessarily. Major Hollywood studios, for example, are now wary of angering Chinese censors and losing access to the world's second-largest moviegoing market. Google's wavering response to Beijing's Internet censorship highlights to the hard choices facing U.S. firms that seek to sustain access to China's burgeoning domestic market.

China also has substantial economic clout vis-à-vis its smaller Asian neighbors. In the South China Sea dispute with the Philippines, Beijing combined diplomatic pressure and shows of naval might with economic leverage in order to press for a speedy resolution of the dispute. As their trade and investment ties with China rise, U.S. allies and friends throughout the Asia Pacific will become more vulnerable to such tactics.

While significant constraints remain, given the scale of China's economy, the mounting use of unilateral economic sanctions represents an important trend in Chinese foreign policy—one that U.S. policymakers should take seriously.